

Decision No. 42088

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Applica-)
tion of CALIFORNIA MILK)
TRANSPORT, INC. for Authoriza-)
tion to Increase Rates.)

Application No. 29469

Appearances

Charles C. Stratton, for applicant.

J. J. Deuel and Edson Abel, for California
Farm Bureau Federation, protestant.

O P I N I O N

California Milk Transport, Inc. is engaged in the business of transporting milk and dairy products from various dairies in the Los Angeles basin to distribution and processing plants in the Los Angeles metropolitan area. By this application it seeks authority to increase its rates, and to make the increases effective on less than statutory notice.

The application was submitted at a public hearing held before Examiner Bryant at Los Angeles on August 17, 1948.

The business of California Milk Transport, Inc. consists almost entirely of the transportation, as a highway common carrier, of fluid milk in milk shipping cans, and the incidental return of the empty cans to the dairies. Other operations, which include the movement of milk in tank vehicles, of bottled milk in cases, and of occasional dairy supplies and other commodities, contributed less than two per cent of its revenues in 1947.

The present rates are stated in cents per ten-gallon shipping can, and range from 13 cents to 28 cents according to the points of origin and destination. These rates have been in effect without change since June 1, 1946. Applicant's request in this

proceeding is that each of the rates be increased by an amount of 1.2 cents, so that the resulting rates would range from 14.2 to 29.2 cents a can.¹ Applicant alleges that the higher rates are now made necessary by reason of increases in operating costs, particularly in the expense items of labor wages, fuel, and fuel taxes. Recent wage increases and adjustments alone assertedly have added approximately \$50,000 to applicant's yearly operating expenses.

A consulting transportation engineer, testifying in support of the application, introduced exhibits consisting of balance sheets, operating statements, other operating statistics, estimates, and calculations of the rate increases necessary to recover wage and fuel increases and to produce an operating ratio of 93 per cent. The exhibits show that California Milk Transport, Inc. experienced an operating ratio of about 93 per cent for the year 1947, and 94.5 per cent for the first six months of 1948. Had current wages and fuel expenses prevailed throughout the periods, however, it appears that the operating ratios, after minor adjustments, would have been 100.83 per cent for the year 1947, and 99.2 per cent for the first six months of 1948. The witness showed that, on the basis of his studies, a revenue increase of approximately one cent a can would have equaled

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It was testified that all charges are paid monthly by the processing plants, and that the fractional form of the proposed rates would present no serious billing or accounting difficulties. Applicant's original proposal, prior to modification at the hearing, was for a percentage increase in the amount of 11.5 per cent. The original proposal would have resulted in rate increases ranging from 1.5 cents to 3.2 cents per can.

the wage and fuel increases, and a rate increase of about 1.2 cents a can would have produced an operating ratio of 93 per cent at the present level of wages and fuel costs.

A separate operating study was introduced by a transportation engineer of the Commission's research staff. This exhibit includes a report on the investment, operating revenue, and operating expenses of California Milk Transport, Inc. for the twelve-month period ending May 31, 1948. According to this study, the company experienced an operating ratio of 94.3 per cent for the period, It appears, however, that the operating ratio would have been 101.36 per cent if expenses were adjusted for current levels of wages, fuel costs, and vehicle fees. This witness calculated that, at current expense levels, an operating ratio of 93 per cent would have been produced by a rate increase of 1.28 cents a can; and an operating ratio of 95 per cent would have been developed by a rate increase of slightly less than one cent a can.

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Net operating revenues for this period and for prior calendar years, as taken from the books of the company and set forth in the exhibit of the Commission engineer, were as follows:

	<u>Net Operat- ing Revenue</u>	<u>Operating Ratio</u>
1945.....	\$(31,561) Loss	105%
1946.....	\$ 39,623	94%
1947.....	\$ 52,456	93%
12 Months Ending May 31, 1948.....	\$ 43,345	94%

The basic figures submitted by the two engineers are summarized in the following table:

	Applicant Engineer		Commission Engineer	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates
<u>Revenues:</u>	\$788,398	\$858,105	\$765,753	\$832,486
<u>Expenses:</u>				
Expenses Unmodified	\$735,948	\$738,213	\$722,408	\$724,577
Expense Modifications	59,019	59,019	53,774	53,774
Modified Expenses	<u>\$794,967</u>	<u>\$797,232</u>	<u>\$776,182</u>	<u>\$778,351</u>
<u>Net Operating Revenues:</u>	\$ (6,569)	\$ 60,873	\$ (10,429)	\$ 54,135
Income Taxes	--	24,415	--	21,713
Net Revenues After Tax	\$ (6,569)	\$ 36,458	\$ (10,429)	\$ 32,422
Operating Ratio (per cent)	100.83	92.91	101.36	93.50

Explanation:

Operating ratios are before state and federal income taxes.

Figures under the headings "Proposed Rates" were not submitted directly by the engineers, but were calculated from their exhibits by increasing revenues at the rate of 1.2 cents a can and adjusting expenses for the resulting difference in gross-revenue taxes.

() Indicates loss.

The California Farm Bureau Federation appeared as a protestant to the granting of this application, and its representative participated in development of the record through examination of the witnesses. There were no other appearances or representations.

The evidence is clear that, although applicant's operations have been remunerative in the recent past, the company is now faced with the prospect of operating losses. Recent wage revisions, in

particular, have increased operating expenses by an amount which will be not less than \$50,000 a year. If the operations of this company are to be maintained on a sound basis, it appears that there is no reasonable alternative to an increase in its rates. The sought increase of 1.2 cents a can, however, is apparently somewhat greater than necessary. A rate increase of one cent a can would, according to the evidence, permit California Milk Transport, Inc. to meet the full cost of performing the service and earn a net annual revenue, after income taxes, of about \$28,000 to \$30,000. The operating ratio would be less than 95 per cent, as developed in the following table:

TABLE SHOWING ESTIMATED OPERATING RESULTS
IF RATES ARE INCREASED BY ONE CENT A CAN

	<u>Based Upon Figures of Applicant Engineer for Calendar Year 1947</u>	<u>Based Upon Figures of Commission Engineer for Year Ending May 31, 1948</u>
<u>Revenues:</u>	\$846,487	\$821,364
<u>Expenses:</u>		
Expenses Unmodified	\$737,836	\$724,215
Expense Modifications	59,019	53,774
Modified Expenses	<u>\$796,855</u>	<u>\$777,989</u>
<u>Net Operating Revenues:</u>	\$ 49,632	\$ 43,375
Income Taxes	<u>19,598</u>	<u>16,182</u>
Net Revenues After Tax	\$ 30,034	\$ 27,193
Operating Ratio (per cent)	94.14	94.72

Explanation:

Operating ratios are before state and federal income taxes.

Figures in this table were calculated from the exhibits by increasing revenues at the rate of one cent a can and adjusting expenses for the resulting difference in gross-revenue taxes.

Upon careful consideration of all of the facts and circumstances of record we conclude and find as a fact that a rate increase in the amount of one cent per ten-gallon can or per case of bottled milk has been shown to be fully justified. To this extent the application will be granted. In other respects it will be denied.

O R D E R

The above-entitled application having been duly heard and submitted, full consideration of the matters and things involved having been had, and the Commission now being fully advised,

IT IS HEREBY ORDERED that California Milk Transport, Inc. be and it is hereby authorized to establish, on not less than five (5) days' notice to the Commission and to the public, an increase in its rates for the transportation of milk and cream, in the amount of one cent per ten-gallon can and per standard case of bottled milk.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall expire ninety (90) days from the effective date of this order.

IT IS HEREBY FURTHER ORDERED that in all other respects the above-entitled application be and it is hereby denied.

This order shall become effective twenty (20) days from the date hereof.

Dated at San Francisco, California, this 28th day of September, 1948.

B. E. Zimmerman
Justus F. Galloway
Joseph F. Farrell
Harold P. Hale
Harold P. Potter
Commissioners