Decision No. 42120

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the application)
of Leon R. Meeks, doing business)
as POMONA VALLEY MILK TRANSPORT,)
for authority to increase rates.)

Application No. 29507

ORIGINAL

Appearances

C. G. Anthony, for applicant.

J. J. Deuel, for California Farm Bureau Federation, interested party.

OPINION

Leon R. Meeks, an individual doing business as Pomona Valley Milk Transport, seeks authority to increase his rates for the transportation of milk and cream from dairies located in the Pomona Valley, and in the vicinity of Riverside, Colton, San Bernardino and Redlands, to processing plants in the metropolitan Los Angeles area.

A public hearing was had before Examiner Bryant at Los Angeles on September 1, 1948, at which time the matter was submitted for decision.

Applicant is engaged principally in the transportation of milk and cream in ten-gallon cans and in bottles in cases. In addition to operating as a highway common carrier, he performs contract services which consist of transporting cans and cases of bottled milk and handling bulk milk in a tank truck. Revenue received from the contract services was less than 20 per cent of the total revenue earned during the twelve months ending June 30, 1948.

Meeks testified that his rates have not been increased since June, 1946; that wages of his employees were increased substantially in June, 1947, and again in June, 1948; and that other operating expenses have also advanced, including particularly those for fuel, repair parts and supplies. He stated that every effort had been made to reduce operating costs to the lowest economical level consistent with the maintenance of adequate service standards, and declared that he would be unable to continue operations unless he is afforded relief by an increase in his rates.

Applicant's tariff rates are stated in cents per ten-gallon can or per case, and include return of the empty containers. Virtually all of the common carrier traffic moves in cans. Applicant currently assesses rates of 18 cents and 22 cents per can on his principal traffic, according to the points of origin and destination. His request herein, as modified at the hearing, is that each of the tariff rates be increased by two cents.[1] He said that his contract charges are comparable to those applied on the common carrier traffic, and will be increased voluntarily by amounts no less than may be authorized herein in the common carrier rates.[2]

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[1] It appears from applicant's tariff that the 22-cent rate was increased to 25 cents on June 10, 1946. The latter rate was authorized by Decision No. 39004 of May 21, 1946, in Case No. 4808, but apparently Meeks was not familiar with the contents of his tariff. He testified that the 22-cent rate has been applied continuously, and that he now wishes to change it to 24 cents. The tariff also names rates for the transportation of dairy feed and supplies. The record shows that none of this traffic is being handled, and that applicant intends to cancel these rates. In this connection it appears that Meeks' common carrier tariffs are unnecessarily complex, and do not conform strictly with the Commission's tariff requirements. The tariff irregularities should be corrected promptly.

[2] As an exception, it does not appear that an increase is contemplated in the contract charges for movement of bulk milk in the tank truck. However, this traffic accounts for less than one per cent of the total revenue.

A consulting engineer employed by applicant introduced an exhibit consisting of balance sheets, operating statements, cost analyses and other operating statistics. The witness explained that in his calculations he had undertaken to determine the amount of rate increases necessary to recover recent wage and fuel increases and produce an operating ratio of 93 per cent. According to an actual and modified income schedule in the exhibit, applicant experienced an operating ratio for the year 1947 of 94.24 per cent, 100.69 per cent for the first six months of 1948, and an average of 96.31 per cent for the full eighteen months. Had current wages and fuel expenses prevailed throughout the periods, it appears that the operating ratios, after minor adjustments, would have been approximately 99 per cent for the year 1947, 102 per cent for the first six months of 1948, and 100 per cent for the full eighteen months. On the basis of his computations, the witness concluded that a rate increase of approximately 1.6 cents a can would have produced an operating ratio of 93 per cent at the present level of wage and fuel costs.

Similar financial data were included in an exhibit introduced by a transportation engineer of the Commission's staff. This exhibit contains a report on the investment, revenue and expenses of applicant's operations for the year ending June 30, 1948.[3] It indicates that the carrier experienced an operating ratio of 99.5 per cent for the twelve-month period. According to the exhibit, the operating ratio would have been 101.5 per cent

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[3] Operating ratios submitted by the engineers, and so stated herein, are before the consideration of income taxes as an expense item. Net operating revenues 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:

	Net Operating Revenue	Operating Ratio
1945	$ 4,575	96.6%
1946	9,830	93.8%
1947	11,111	92.6%

if the expenses for wages, fuel costs and vehicle fees were adjusted to their current levels. The witness indicated in his calculations that, at current expense levels, a rate advance of about 1.7 cents a can would have been sufficient to produce an operating ratio of 93 per cent. An operating ratio of 95 per cent would have been developed under rates increased by about 1.3 cents a can.

The following table, based upon and developed from figures of the two engineers, indicates estimated operating results under present and proposed rates. For purposes of this table, contract carrier revenues were increased proportionately to the increase in common carrier rates.

	Commission Engineer (12 months ending June 30, 1948)		Applicant's Engineer (18 months ending June 30, 1948)	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Revenues:				
Common Carrier	$119,679	$132,850	$187,573	$208,606
Other	22,509	24,986	35,403	39,372
Total Revenues	$142,188	$157,836	$222,976	$247,978
(a)Expenses:	$144,376	$144,885	$222,919	$223,732
Net Operating Revenues:	$ (2,188)	$ 12,951	$ 57	$ 24,246
Income Taxes:	$	$ 3,218	$ 14	$ 6,180
Net Revenues After Tax:	$ (2,188)	$ 9,733	$ 43	$ 18,066
(b)Operating Ratio:	101.54%	93.83%	99.98%	92.71%

(a) Expenses include modifications made to reflect current wage and fuel costs and to correct an erroneous charge for rent; the net additions to expenses were $2,896 made by the Commission engineer, and $8,160 made by applicant's engineer.

(b) After state and federal income taxes (computed at corporation rates).

(____) Indicates Loss.

A representative of the California Farm Bureau Federation participated in cross-examination of the witnesses. No one specifically opposed the granting of this application.

The evidence of record is clear that applicant's operations are now being conducted at a loss. Applicant asserts that he has made all possible economies. If his services are to be placed on a basis of financial stability, there appears to be no reasonable alternative to an increase in his rates. However, the record indicates that the sought increase of 2 cents a can, if accompanied by a corresponding adjustment in the contract charges as contemplated, would produce revenues somewhat greater than necessary to sustain the services adequately. A rate increase of 1-1/2 cents a can or case, applied to both the common carrier and contract carrier services, would, according to the evidence, enable Meeks to meet the full cost of performing the services and earn a net annual revenue, after income taxes, of from $7,000 to $9,000. After taxes, the operating ratio would be between 94.4 and 95.5 per cent. The estimated results are developed more fully in the following table:

TABLE SHOWING ESTIMATED OPERATING RESULTS
IF RATES ARE INCREASED BY 1.5 CENTS A CAN

	Based Upon Figures of Commission Engineer for 12 months Ending June 30, 1948	Based Upon Figures of Applicant's Engineer for 18 months Ending June 30, 1948
Revenues:		
Common Carrier	$129,557	$203,347
Other	24,366	38,380
Total Revenues	$153,923	$241,727
(a) Expenses:	$144,757	$223,528
Net Operating Revenues:	$ 9,166	$ 18,199
Income Taxes:	2,248	4,562
Net Revenues After Tax	$ 6,918	$ 13,637
(b) Operating Ratio:	95.51%	94.36%

(a) Expense figures include modifications as set forth in connection with the preceding table.
(b) After state and federal income taxes (computed at corporation rates).
Figures were calculated from the exhibits by increasing revenues 1.5 cents a can. "Other" revenue was adjusted proportionately to the percentage increase in common carrier revenues.

Upon careful consideration of all of the facts and circumstances of record in this proceeding, the Commission is of the opinion and finds as a fact that a rate increase in the amount of 1-1/2 cents per ten-gallon can or per case of fluid milk or cream is justified.[4] 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 Leon R. Meeks be and he is hereby authorized to establish, on not less than five (5) days' notice to the Commission and to the public, increased rates in the amount of one and one-half (1-1/2) cents for each ten-gallon can or case of fluid milk or cream, subject to the condition

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4 In the instance where applicant's tariff names a rate greater than the rate being observed (see footnote 1), it is to be understood that the increase herein authorized applies to the rate which has been assessed and not to the tariff rate.

specified in footnote 4 of the opinion which precedes this order.

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

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

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

Dated at San Francisco, California, this 11th day of October, 1948.

R. E. Mitchell
Justus F. Craemer
Harold P. Hulo
Kenneth Potter

Commissioners