ORIGINAL

Decision No. 42612

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Paul Ludolph Company for an order authorizing various proposed rate increases.	Application No. 29906

Appearances

Athearn, Chandler & Farmer by Walter Hoffman and T. P. Lambros, for applicant.
J. J. Deuel and Edson Abel, for California Farm Bureau Federation, and Frank J. Welch, for North Bay Dairymen's Association, protestants.
L. H. Wolters, for Golden State Co., Ltd., H. G. Claudius, for Consolidated Milk Producers Association, and Lynn Bramkamp, for Associated Dairymen, interested parties.

O P I N I O N

Applicant is engaged in the business of transporting milk and dairy products from points in the San Joaquin Valley and in Marin and Sonoma Counties to points in the San Francisco Bay area. By this application, as amended, it seeks authority to increase its rates, and to make the increases effective on less than statutory notice.

A public hearing was had at San Francisco on January 28, 1949, before Examiner Jacopi.

Applicant operates principally as a highway common carrier transporting milk, cream, ice cream mix, and other dairy products in shipping cans. In addition to these operations, it performs contract services consisting of the transportation of milk and other dairy products in cans and of bulk milk in a tank truck. Revenue received from the contract services amounted to about 13 per cent of the total revenue for the year 1948.

The present common carrier rates on milk and dairy products are stated in cents per 10-gallon shipping can and include return of the empty containers. The 5-gallon can rates are on the basis of 50 per cent of those for 10-gallon cans. Applicant proposes to increase certain of these rates by varying amounts. Milk and cream rates from points in Marin and Sonoma Counties would be advanced by 20 per cent. This would result in increases ranging from 4 cents to 6 cents per 10-gallon can. Rates on ice cream mix in lots of less than 150 gallons from San Joaquin Valley points would be increased by 20 cents per 10-gallon can. On milk from Modesto the proposed increase amounts to 2 cents and 3 cents per 10-gallon can to San Francisco and Oakland, respectively.[1] Applicant's proposals are expected to increase the annual revenue by about 12½ per cent.

The rates involved herein were last adjusted on March 10, 1948, when they were increased by 12 per cent.[2] Applicant's president testified that higher rates are now necessary by reason of advances in operating expenses, particularly wages, fuel, maintenance and insurance; that substantial operating losses have been experienced under the present rates; and that the company's financial condition is such that operations cannot be continued unless additional revenue is obtained.

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[1] It is also proposed to establish a minimum charge on shipments of 150 gallons or more of ice cream mix, to increase the 5-gallon can rates on ice cream mix from the basis of 50 per cent to that of 75 per cent of the 10-gallon can rates, and to cancel certain rates on milk from Marin County and rates on skimmed milk from San Joaquin Valley points.

[2] The increase was authorized by special permission G.C. 80-21-2440 of February 24, 1948. The increased rates became effective on the date shown above.

The president introduced and explained exhibits consisting of balance sheets, operating statements, depreciation tables, and other operating data for the company's over-all operations consisting of common and contract carrier and noncarrier services, and of operating statements for the common carrier operations here involved.[3] The exhibits submitted by the president show that the company experienced an operating ratio of 105.62 on its over-all operations for the year 1948. The ratio reflects operating losses of $14,460 and $5,121 on the common and contract carrier services, respectively, and the beneficial effect of a profit of $5,130 on the noncarrier services. The exhibits also indicate that, under present rates and current costs, the operating ratio for 1949 would be 115.42 for the over-all operations and 116.17 for the common carrier service. It was estimated that the sought increase would provide $24,870 additional common carrier revenue per year. The exhibits indicate that this amount would not fully offset the estimated 1949 common carrier deficit.

A separate operating study was introduced by a transportation engineer of the Commission's staff. The exhibit included a report for the year 1948 on the company's investment, depreciation

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[3] The noncarrier service consists of a milk bottle exchange where bottles that become separated from the service of their owners are segregated and returned to the respective owners. With respect to the common carrier operations, the record shows that actual operating expenses therefor were not separately maintained in the carrier's records and that estimated expenses were developed by applicant through allocation of the over-all expenses. Under the method of allocation used, the actual amounts involved for wages, bridge tolls, and cargo insurance were charged directly to the operations where they accrued. Other running and fixed expenses, including taxes and licenses, insurance, and depreciation charges, were allocated on the basis of truck miles. Office expenses and administrative salaries were allocated equally to the various operations. When the volume of revenue involved in the various operations is considered, the allocation of office expenses and administrative salaries on an equal basis appears to charge the common carrier service with a lesser proportion thereof than it should bear.

schedules, and operating revenues and expenses, and similar operating data for the year 1949. The engineer stated that he found separation of the expenses involved in the common and contract carrier operations impracticable because they were so intermingled in the company's records. Accordingly, his exhibit showed that, for the year 1948, the company experienced operating ratios of 105.73 on the over-all operations and 107.64 on the common and contract carrier services. The engineer calculated that an increase of 32.2 per cent would be necessary in the common and contract carrier rates to produce an operating ratio of 90.0, and that an increase of 25.0 per cent would be required to produce an operating ratio of 95.0, for the year 1949 before provision for income taxes.[4] The engineer developed that the rate of return under an increase of 32.2 per cent would amount to 19.8 per cent and that under a 25.0 per cent increase it would amount to 10.0 per cent, on a depreciated rate base of $106,983, exclusive of noncarrier property.[5]

The following table, based upon and developed from figures submitted by the two witnesses, indicates the estimated operating results for the year 1949 under the present and proposed rates.

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[4] The percentage increases shown are adjusted figures after revision of the engineer's estimate of 1949 revenue to reflect a decrease of $14,670 per year, which applicant's president testified was involved in certain common carrier hauls recently lost to proprietary operations. It was indicated that the traffic cannot be recovered by applicant.

[5] As previously indicated, the increases sought by applicant average 12½ per cent.

Over-all Operations

	Applicant's Estimates		Engineer's Estimates	
	Present Rates (a)	Proposed Rates (a)	Present Rates (a)	Proposed Rates (a)
Revenues	$242,116	$266,985	$233,008	$257,877
Expenses	279,442	279,442	270,065	270,065
Net Operating Revenue (Loss)	($37,326)	($12,457)	($37,057)	($12,188)
Operating Ratio	115.42	104.67	115.90	104.73

Common Carrier Operations

	Applicant's Estimates	
	Present Rates	Proposed Rates
Revenues	$195,759	$220,628
Expenses	(b) 225,115	(b) 225,115
Net Operating Revenue (Loss)	($29,356)	($4,487)
Operating Ratio	114.99	102.03

(a) The differences between the amounts of the revenues and expenses shown by the two witnesses is due to applicant's figures including the full amounts of revenues and expenses involved in non-carrier operations, whereas the engineer used the net revenue therefrom. The engineer's revenue figures have been adjusted to reflect recent loss of hauls involving revenue of $14,670 per year, as shown by the record.

(b) Adjusted figures after elimination of $2,297 covering a wage increase for drivers on Marin and Sonoma County operations. The wage increase was under negotiation at the time of the hearing and no commitment thereon had yet been made by applicant.

In regard to the proposals to increase the rates by varying amounts, applicant's president testified that the principal increases were based upon estimated operating losses for the individual common carrier routes involved. It appears from the record that operation of the Marin-Sonoma service in 1949 under the present rates would result in a deficit of $15,048. The additional revenue under the sought 20 per cent increase in these rates would amount to about $1100 less than the indicated loss. The president testified that the proposed increase was as great as the traffic in question could stand. On the ice cream mix from San Joaquin Valley points, the record indicates that the average cost of this service amounts to $4.00 per delivery as compared with average revenue under the present rates of $1.24 per delivery. It was shown that the bulk of this traffic consists of shipments in quantities of less than 150 gallons, that such shipments involve numerous deliveries in small quantities, and that the rates are insufficient to cover the cost of the service.[6] On the other hand, it was shown that shipments in quantities of 150 gallons or more involve substantially less service and that the existing rates therefor were compensatory. The record indicates that, under the sought increase, 1949 revenues from these operations would exceed the expenses by about $1900.

With respect to the proposed increases of 2 cents and 3 cents per 10-gallon can in the milk rates from Modesto to San Francisco and Oakland, respectively, the president testified that these adjustments were necessary to bring such rates into conformity with applicant's rates from competing points involving like service for comparable distances. The record also shows that cancellation of certain rates on milk and skimmed milk was proposed because there had been no

6 It was also indicated that there was little if any difference in the cost of transporting ice cream mix and other commodities in 5-gallon and 10-gallon cans.

movement thereunder for the past five years. In regard to the proposal to make no change in milk rates from San Joaquin Valley points, the president testified that any increase in such rates at this time would result in serious loss of traffic to competing highway contract carriers.[7] He urged that loss of this traffic would require applicant to cease operations.

Applicant's president further testified that all operations had been carefully reviewed for the purpose of taking steps to improve the company's financial position. He asserted that all economies possible without impairing the service had been made. In this connection, the witness pointed out that his salary had been substantially reduced and that the position of general manager had been abolished.[8] He also testified that, in addition to the increases proposed herein, he was negotiating with shippers for an advance in the company's present contract carrier rates.

The granting of the application was opposed by the California Farm Bureau Federation and North Bay Dairymen's Association. The Federation's representative participated in development of the record through examination of the witnesses. The manager of the Association testified that the members thereof were now enjoying lower rates than proposed herein under an agreement with a contract carrier. He admitted that the members of the Association do not use applicant's service, but he felt that the sought increase, if granted, would result in a like advance in the rates of competing contract carriers.

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7 Minimum rates have not been established for the transportation of milk in milk shipping cans, in bottles in cases or crates, or in bulk in tanks, by radial highway common and highway contract carriers.

8 The president's salary was reduced effective February 1, 1948, and the position of general manager was abolished effective July 15, 1948. The aggregate saving amounts to $8400 per year. Both applicant and the Commission engineer gave effect to these salary adjustments in the estimated operating results submitted by them.

Representatives of Consolidated Milk Producers Association and Associated Dairymen also testified but did not specifically oppose the granting of the application. The witnesses explained the bases for the returns to producers of milk, including the effect thereon of the transportation charges. They likewise felt that competing contract carriers would advance their rates to the extent of any increase granted applicant.

The evidence of record shows that applicant's operations are being conducted at a substantial loss and that the company's financial condition is critical. It also shows that the sought rate increases are insufficient to place the 1949 operations on a compensatory basis. Exhibits of record indicate that an operating loss of about $4,500 would be experienced in the common carrier service under the proposed rates. Revenue deficiencies for the various operations involved appear to be generally reflected in the increases sought by applicant. The force of competition has been shown to require applicant to refrain from seeking other increases which it otherwise would have deemed essential. In the circumstances, the varying increases sought appear necessary in order to enable applicant to continue to provide service.

Upon careful consideration of all of the facts and circumstances of record, the Commission finds as a fact that the increases in rates and charges proposed by applicant in this proceeding, as set forth in the application as amended, are justified; and that their publication on less than statutory notice should be authorized.

O R D E R

A public hearing having been had in the above-entitled application, as amended, and based upon the evidence received at the hearing and upon the conclusions and findings set forth in the preceding opinion,

IT IS HEREBY ORDERED that Paul Ludolph Company be and it is hereby authorized to establish, on not less than five (5) days' notice to the Commission and to the public, the increases and changes in rates and charges proposed in the above-entitled application, as amended.

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 after the date hereof.

Dated at San Francisco, California, this 15th day of March, 1949.

R. E. Mitchell

Justus F. Craemer

Geo. H. Powell

Harold P. Huls

Commissioners