ORIGINAL

Decision No. 46725

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of N. J. RADUNICH and BEN F. HAWES, partners, doing business as RED LINE CARRIERS, for authority to increase rates.

Application No. 32913

Appearance

Frank Loughran, for applicants.

O P I N I O N

Applicants operate as a highway common carrier of general commodities from retail stores in San Jose to their customers in an area embracing from the San Francisco Bay Region on the north to Carmel and Hollister on the south. In addition, they conduct a for-hire carrier operation under a contract carrier permit.[1] By this application, as amended, they seek authority to increase their common carrier rates by 9.15 percent.[2]

Public hearing was held at San Francisco on January 10, 1952, before Examiner Lake.

In support of the authority sought, applicants allege that because of increased operating costs their present rates will not yield a return for the service performed sufficient to produce an operating ratio of 90.5 percent before provision for income taxes. Exhibits were submitted showing the separate financial results of the common carrier, contract carrier and nonutility services for a 10-month

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[1] They also conduct a nonutility warehouse operation and an appliance installation business.

[2] Rates for their contract carrier services and for their nonutility operations are not involved in this proceeding.

period ending September 30, 1951. For applicants' common carrier operations, the exhibits also show the effect of certain increased operating costs under both the present and proposed rates. The data set forth in the tabulations which follow were taken from these exhibits.

Table No. 1

Revenues and Expenses from common and contract carrier operations under present rates for the period January 1, 1951 to September 30, 1951.

	Common Carrier	Contract Carrier	Combined Carrier Operations
Revenues	$135,459.74	$27,151.22	(1)$162,687.94
Expenses	125,464.06	20,994.60	146,458.66
Net Income	9,995.68	6,156.62	16,229.28
Operating Ratio(2)	92.62%	77.32%	90.02%

(1) Includes $76.98 of miscellaneous operating income.

(2) Before income taxes. The exhibits show the operating ratios after income taxes, determined upon the rates for the partners on an individual joint return basis, to be 94.66 percent for the common carrier operations. Like information was not submitted for the contract or combined operations. The operating ratios after income taxes calculated on a corporation basis would be 95.04 percent, 84.76 percent and 93.30 percent for the respective operations.

For the nonutility services, the exhibits show for the 10-month period referred to above a profit before provision for income taxes slightly in excess of $4,000.

According to the testimony of applicants' accountant, drivers' wages increased 10.87 percent, effective October 1, 1951. Also salary increases of 10 percent were accorded office employees. In addition, fuel taxes, effective November 1, 1951, increased the cost of fuel by approximately 2.59 percent. The witness pointed out that had these increased expenses been in effect during the 10-month period referred to above the operating ratio for the common carrier operation, under the present rates, would have been adjusted from 92.62 to 98.78 percent before provision for income taxes.

The exhibits indicate revenue and expenses for the common carrier operations, for the period January 1, 1951 to September 30, 1951, under the proposed rates and current operating condition as follows:

Table No. 2

	Common Carrier Operations
Revenues	$147,857.31
Expenses(1)	133,810.87
Net Income(2)	14,046.44
Operating Ratio(2)	90.5%

(1) Includes wage and fuel increases for the entire period.

(2) Provision for income taxes was not included in the exhibits. Income taxes calculated on a corporation basis would reduce the net income to $9,439.21 and would adjust the operating ratio to 93.62 percent.

The accountant further testified that in determining the expenses of the separate operations he had assigned the direct expenses to the particular operation in which these expenses were incurred. The general expenses, he said, were distributed according to the revenue earned by each department. This method, he stated, accorded the common carrier operation a percentage of the indirect expenses slightly less than would have prevailed had the allocation been made on the percentage ratio of direct expenses to total expenses.

The record shows that applicants notified all of their customers of their proposal to establish increased rates. In addition, notices were sent by the Commission's secretary to persons believed to be interested. No one appeared at the hearing in opposition to the granting of the application.

Applicants did not submit a rate base upon which could be determined the rate of return under the proposed rates. In support of the reasonableness of the sought adjustment they rely upon the revenue need as measured by the operating ratio method. For their common carrier operations they seek an operating ratio of 90.5 percent before income taxes. Such a ratio may or may not be reasonable when considered in conjunction with the rate of return based upon the depreciated value of the operating plant. In the absence of rate of return data, applicants have not established the reasonableness or propriety of the full increase herein sought.

It is apparent, however, that an operating ratio of almost 99 percent before provision for income taxes, the result which would prevail under the present rates and existing conditions, would fall short of being a sufficient margin between revenues and expenses. Clearly some relief should be accorded. An increase of 6 percent would produce a net income of $9,776 and an operating ratio of 93.19 percent before income taxes and would approximately offset the recent increases in the cost of operation. The operating ratio after income taxes, calculated on a corporation basis, would be 95.42 percent. The record is sufficient to justify a 6 percent increase but no more.

As this proceeding has only considered applicants' over-all revenue requirements, no study has been made of individual rates or charges. In authorizing applicants to increase their present rates and charges by a given percentage the Commission does not make a finding of fact of the reasonableness of any particular rate or charge.

Upon consideration of all of the facts and circumstances of record, we are of the opinion and hereby find that applicants have justified a 6 percent rate increase and that, in all other respects, applicants' showing has failed to justify the sought relief.

A.32913 IB

ORDER

Public hearing having been held in the above-entitled proceeding and based upon the evidence of record and upon the conclusions and findings set forth in the preceding opinion,

IT IS HEREBY ORDERED that N. J. Radunich and Ben F. Hawes, partners, doing business as Red Line Carriers, be and they are hereby authorized to establish increases in the amount of 6 percent in the rates and charges published in their Local Freight Tariff No. 1, Cal.P.U.C. No. 1; and that in computing the increased rates and charges herein authorized fractions of less than one-half cent shall be dropped and fractions of one-half cent or over shall be increased to the next whole cent.

IT IS HEREBY FURTHER ORDERED that the authority herein granted is subject to the express condition that applicants will never urge before this Commission in any proceeding under Section 734 of the Public Utilities Code, or in any other proceeding, that the opinion and order herein constitute a finding of fact of the reasonableness of any particular rate or charge, and that the filing of rates and charges pursuant to the authority herein granted will be construed as consent to this condition.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall expire unless exercised within sixty (60) days after 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 after the date hereof.

Dated at San Francisco, California, this 5th day of February, 1952.

President

Commissioners