

ORIGINAL

Decision No. 46937

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
Southern California Freight Lines, a
corporation, and Southern California
Freight Forwarders, a corporation,
for authority to increase their rates
of charges.

Application No. 33042

In the Matter of the Application of
Pacific Freight Lines, a corporation,
and Pacific Freight Lines Express, a
corporation for authority to increase
rates.

Application No. 33052

Appearances

- H. J. Bischoff, for Southern California Freight Lines
and Southern California Freight Forwarders,
applicants.
Warren H. Biscailuz, for Pacific Freight Lines and
Pacific Freight Lines Express, applicants.
T. R. Phillips, for Western Growers' Association,
interested party.
Reginald F. Walker, for Spreckels Sugar Company,
interested party.
Emmet W. Nelson, for Almar Sales and thirty-four other
Southern California shippers, protestants.
J. C. Kaspar, for California Motor Transport Associa-
tion, interested party.
John Power, for the staff of the Public Utilities
Commission of the State of California.

O P I N I O N

The applicants in these proceedings seek authority under
Section 454 of the Public Utilities Code to increase their rates and
charges, with some exceptions, by 6 percent. The applications were
heard on a consolidated record before Examiner Bryant at Los Angeles
on February 27, 1952. .

Applicants allege that the costs of rendering their services have increased materially as a result of increases in the prices of materials and supplies, increases in the wages and salaries paid to employees, and reduced performance of personnel occasioned by the necessity of employing relatively untrained labor. Applicants declare that their present rates no longer provide sufficient revenues, and that the increased rates herein proposed would return little more than the cost of performing the services.

The principal witnesses were the president of Southern California Freight Lines and Southern California Freight Forwarders, and the general manager of Pacific Freight Lines and Pacific Freight Lines Express. These witnesses introduced statistical data and explained various phases of the operations of their companies. They described the difficulties of retaining experienced employees in competition with expanding defense activities, and explained various ways in which these difficulties had created operating burdens and additional expense. Added costs to which the witnesses testified included the direct expense of recruiting and training replacement drivers and other employees, the indirect losses in performance efficiency, and the cost of overtime penalty wages¹ paid voluntarily in an endeavor to retain trained personnel.

¹ The director of safety and personnel for Southern California Freight Lines and Southern California Freight Forwarders developed in detail the estimated cost of replacing drivers in recruiting and training expense and in performance loss. Those companies, with an average of 850 regular employees, had 443 employee terminations during 1951. Pacific Freight Lines and Pacific Freight Lines Express, with an average of 1601 regular employees, had 1211 terminations during the year. These figures are exclusive of casual (as distinguished from regular) employees.

The witnesses testified also concerning various wage increases and other employee benefits granted by their companies during the year 1951, and concerning the increased costs of materials, supplies, taxes and other items of operating expense. Pacific Freight Lines and Pacific Freight Lines Express also supplied data concerning annual fuel consumption in relation to a recent increase in fuel taxes. Both witnesses declared that higher costs are anticipated for the future.

The applicants introduced for their respective companies various balance sheets and operating statements including the revenues and expenses for 1951 by quarterly periods. The 1951 operating statements are set forth in Tables 1 and 2 which follow:

TABLE No. 1

SOUTHERN CALIFORNIA FREIGHT LINES AND
SOUTHERN CALIFORNIA FREIGHT FORWARDERSOPERATING STATEMENT
FOR CALENDAR YEAR 1951

	<u>1st</u> <u>QUARTER</u>	<u>2nd</u> <u>QUARTER</u>	<u>3rd</u> <u>QUARTER</u>	<u>4th</u> <u>QUARTER</u>	<u>TOTAL</u> <u>YEAR 1951</u>
<u>REVENUE</u>					
Operating Revenue	\$1,563,873	\$1,571,788	\$1,547,959	\$1,715,075	\$6,398,695
Storage Revenue	989	789	590	982	3,350
Total Revenues	\$1,564,862	\$1,572,577	\$1,548,549	\$1,716,057	\$6,402,045
<u>EXPENSES</u>					
Maint. & Garage Exp.	\$ 134,430	\$ 138,819	\$ 133,824	\$ 151,486	\$ 558,559
Transportation Exp.	753,792	744,637	761,122	843,029	3,102,580
Terminal Exp.	336,130	338,344	366,417	400,153	1,441,044
Traffic Exp.	25,880	26,252	28,957	32,897	113,986
Insurance & Safety Exp.	62,280	63,712	62,083	71,991	260,066
Admin. & General Exp.	64,948	74,865	78,162	73,789	291,764
Depreciation Exp.	34,269	34,270	23,871	40,317	132,727
Oper. Licenses & Taxes	91,643	92,061	87,549	80,392	351,645
Rent Exp.	12,526	13,548	8,962	13,005	48,041
Total Expenses	\$1,515,898	\$1,526,508	\$1,550,947	\$1,707,059	\$6,300,412
Net Carrier Oper. Profit	\$ 48,964	\$ 46,069	\$ (2,398)	\$ 8,998	\$ 101,633
<u>OTHER INCOME</u>					
Income from Serv. Sta.	\$ 23,274	\$ 26,727	\$ 25,064	\$ 27,915	\$ 102,980
Other Non-Oper. Income	2,623	(1,491)	2	4,537	5,671
Total Other Income	\$ 25,897	\$ 25,236	\$ 25,066	\$ 32,452	\$ 108,651
Gross Profit	\$ 74,861	\$ 71,305	\$ 22,668	\$ 41,450	\$ 210,284
<u>INCOME DEDUCTIONS</u>					
Exp. of Serv. Station	\$ 23,411	\$ 26,283	\$ 25,456	\$ 27,273	\$ 102,423
Int. on Long Term Oblig.	4,865	5,974	7,266	7,592	25,697
Other Interest Expense	-	-	1	-	1
Non-Operating Expense	-	-	143	(49)	94
Total Income Deduc.	\$ 28,276	\$ 32,257	\$ 32,866	\$ 34,816	\$ 128,215
Profit from Operations	\$ 46,585	\$ 39,048	\$ (10,198)	\$ 6,634	\$ 82,069
Earned Surplus Adj.					
Prior Year	\$ (10,185)	\$ 516	\$ 90,318	-	\$ 50,649
Total Profit before Fed. Income Taxes	\$ 6,400	\$ 39,564	\$ 80,120	\$ 6,634	\$ 132,718
() - Loss					

Note: This table is taken directly from applicants' Exhibit No. 1.
Minor adjustments have been made to eliminate odd cents.

TABLE No. 2

PACIFIC FREIGHT LINES AND
PACIFIC FREIGHT LINES EXPRESSOPERATING STATEMENT
FOR CALENDAR YEAR 1951

	1st QUARTER	2nd QUARTER	3rd QUARTER	4th QUARTER	TOTAL YEAR 1951
<u>REVENUE</u>					
Frt. Rev.-Intercity- Common Carrier	\$2,000,193	\$1,968,473	\$2,012,233	\$2,058,114	\$8,039,013
Frt. Rev-Local Cartge.	48,383	48,048	35,881	45,262	177,574
Other Oper. Revenue	16,159	19,391	17,467	23,693	76,710
Total Revenues	\$2,064,735	\$2,035,912	\$2,065,581	\$2,127,099	\$8,293,327
<u>EXPENSES</u>					
Equipment Maint.	\$ 275,452	\$ 247,539	\$ 230,133	\$ 243,803	\$ 996,927
Transportation Exp.	683,121	683,945	733,981	1,009,511	3,110,558
Terminal Exp.	621,224	588,251	572,479	587,912	2,368,866
Traffic Exp.	40,382	39,839	44,038	40,423	164,682
Ins. & Safety Exp.	126,651	120,902	69,555	151,395	468,503
Administrative & Gen.	108,371	109,481	111,339	173,445	502,636
Depreciation Exp.	90,101	74,023	95,228	98,234	357,586
Op. Taxes & Licenses	157,330	140,272	147,993	166,320	611,915
Operating Rents-Net	7,752	(527)	1,779	(263,009)	(254,005)
Total Expenses	\$2,110,384	\$2,003,725	\$2,005,525	\$2,208,034	\$8,327,668
Net Operating Revenue	\$ (45,649)	\$ 32,187	\$ 60,056	\$ (80,935)	\$ (34,341)
Other Income	\$ 15,219	\$ 17,017	\$ 13,495	\$ 13,473	\$ 59,204
Other Deductions	\$ 17,127	\$ 17,088	\$ 16,736	\$ 22,118	\$ 73,069
Net Income Before Income Taxes	\$ (47,557)	\$ 32,116	\$ 56,815	\$ (89,580)	\$ (48,206)

() - Loss

Note: This table is taken directly from applicants' Exhibit No. 3. Minor adjustments have been made to eliminate odd cents.

Applicants did not offer detailed estimates of operating results for the future under the present rates or the proposed rates, such as are ordinarily submitted in proceedings of this nature. The witnesses declared that future wages, material costs and other items of operating expense are too uncertain to permit of reasonable forecast. The president of Southern California Freight Lines and Southern California Freight Forwarders suggested that for purposes of the present application the revenue needs of his companies might be estimated by reference to their operating experience for the last six months

of 1951. He said that this period, for the most part, would reflect present wages and material costs. For these reasons this witness did not submit an estimate of revenues under the proposed rates, and suggested no adjustment of the expenses to reflect current or future conditions. He said that about 90 percent of the revenue would be affected by the proposed rate increases. The general manager of Pacific Freight Lines and Pacific Freight Lines Express estimated that the proposed rates would produce for his companies an annual revenue increase of about \$170,000. He said that this was primarily a judgment figure, reached after exclusion of interstate and other traffic on which no rate increase was contemplated.² This witness supplied data from which the 1951 expenses might be modified to reflect fuel taxes established in the latter part of the year.

Applicants did not submit rate base data nor information from which rate bases might reasonably be determined. Their witnesses took the position that the revenue needs of these companies should be determined solely by reference to the operating ratios, and that the rate of return on the rate base should not be considered in a "service" industry such as theirs.

A representative of 35 southern California shippers appeared as a protestant to the granting of any rate increase to the applicant companies. This witness suggested that the establishment of increased rates by these applicants would create a precedent and cause other carriers to seek the same levels regardless of need. He also compared applicants' existing rates with those of other carriers applicable from, to and within other states. He declared that the applicants have overextended their services, and he stated

² According to the evidence, intrastate traffic accounts for approximately 93 percent of the revenues of Southern California Freight Lines and Southern California Freight Forwarders, and 80 percent of the revenues of Pacific Freight Lines and Pacific Freight Lines Express.

that the chief reason for their need of additional revenue is inefficient operation and not increased operating costs. This witness did not substantiate his contention or indicate his experience qualifications.

No one else opposed the granting of these applications. Representatives of Western Growers' Association, Spreckels Sugar Company, and California Motor Transport Association appeared as interested parties. Counsel for the Commission's staff assisted in the development of the record.

Section 454 of the Public Utilities Code provides that no public utility shall raise any rate except upon a showing before the Commission and a finding by the Commission that such increase is justified. When public utilities seek a general increase in their rates it is axiomatic that a principal question is whether the proposed rates will return reasonable or excessive revenues. It is incumbent upon the utilities in such cases to supply data from which a reasonable determination of the question can be made. In rate proceedings the applicants should develop as much information as practicable in order that the Commission may determine properly what revenues are necessary and reasonable under the particular circumstances. The applicants in the present proceedings submitted much information concerning cost increases and operating difficulties. It is not sufficient to permit precise determinations of future operating revenues and expenses although it is apparent on this record applicants are in need of additional revenues. Moreover, they are in error in assuming that rate base data are not desired. Operating ratios and rate bases are both valuable indexes of earning requirements. Erroneous conclusions may follow from reliance on any single formula. In reaching its conclusions this Commission considers all available data without limitation or restriction to any

single index.³ Applicants are put on notice that in future rate proceedings they will be expected to submit rate base data as well as information regarding future operating revenues and expenses.

From the information submitted by the applicants an approximation of their future operating results under the present and proposed rates can be calculated. Using as a starting point the 1951 operating results, the revenues may be estimated by applying a 6 percent increase to all of the intrastate traffic.⁴ This method probably overstates the revenue to be expected under the proposed increased rates.⁵ The expenses may be taken, as suggested by the witnesses, on the basis of the latest available six months experience of Southern California Freight Lines and Southern California Freight Forwarders, and the full 1951 experience of Pacific Freight Lines and Pacific Freight Lines Express, with an adjustment for the fuel taxes of the latter companies. This method reflects the average expenses for the past periods and not the higher expense levels prevailing currently. To that extent it understates the future expenses. Upon these general bases the estimated operating results, under the present and proposed rates, would be as set forth in the following Table No. 3:

³ See Decision No. 46452 of November 20, 1951, in Application No. 32320, Pasadena City Lines, Inc. (51 Cal. P.U.C. 248).

⁴ Except that the bulk petroleum traffic of Pacific Freight Lines is not involved in these proceedings.

⁵ Applicants seek authority in general to increase all of their intrastate rates except those for the transportation of bulk petroleum products and uncrated new furniture, and certain joint rates maintained with other carriers not parties to these proceedings. The witnesses testified, however, that the sought authority probably would not be exercised insofar as Los Angeles-San Francisco traffic is concerned, and that other exceptions might be made between highly competitive points. Southern California Freight Lines and Southern California Freight Forwarders operate generally throughout the six most southerly counties and between those counties and the San Francisco Bay area. Pacific Freight Lines and Pacific Freight Lines Express operate generally throughout the territory southerly of Fresno and San Luis Obispo, and between that territory and the San Francisco Bay area, Stockton and Sacramento.

Table No. 3

ESTIMATED OPERATING RESULTS
UNDER PRESENT AND PROPOSED RATES

SOUTHERN CALIFORNIA FREIGHT LINES
SOUTHERN CALIFORNIA FREIGHT FORWARDERS

	<u>Last Six Months 1951, Actual</u>	<u>Present Rates (Annual Basis)</u>	<u>Proposed Rates (Annual Basis)</u>
Operating Revenues	\$3,264,606	\$6,529,212	\$6,893,542
Operating Expenses	<u>3,258,006</u>	<u>6,516,012</u>	<u>6,516,012</u>
Net Operating Revenue	\$ 6,600	\$ 13,200	\$ 377,530
Income Tax	(1)	(1)	198,064(2)
Net Revenue After Tax	\$ 6,600	\$ 13,200	\$ 179,466
Operating Ratio*	99.8%	99.8%	97.4%

PACIFIC FREIGHT LINES
PACIFIC FREIGHT LINES EXPRESS

	<u>Year 1951, Actual</u>	<u>Present Rates (Year 1951, Adjusted)</u>	<u>Proposed Rates (Year 1951, Adjusted)</u>
Operating Revenues	\$8,293,327	\$8,293,327	\$8,691,407
Operating Expenses	<u>8,327,668</u>	<u>8,366,951(3)</u>	<u>8,366,951(3)</u>
Net Operating Revenue	\$ (34,341)	\$ (73,624)	\$ 324,456
Income Tax	-	-	\$ 169,446(2)
Net Revenue After Tax	\$ (34,341)	\$ (73,624)	\$ 155,010
Operating Ratio*	100.4%	100.9%	98.2%

- (1) No taxable net revenue would remain after provision for the deduction of interest.
- (2) Approximated at current tax rates, considering only normal tax and surtax, without regard to excess-profit-tax provisions. Applicants did not supply data sufficient to permit more accurate estimate of the income taxes.
- (3) Adjusted to include \$39,283 additional fuel taxes which would have accrued had present fuel taxes applied throughout the year.

* After provision for income taxes.

() - Loss

As shown in Table No. 3, the proposed rates would result in operating ratios after income taxes of 97.4 percent for Southern California Freight Lines and Southern California Freight Forwarders and 98.2 percent for Pacific Freight Lines and Pacific Freight Lines Express. The future operating results must be expected to be even less favorable than indicated by the table, inasmuch as, as hereinbefore shown, it appears that the operating revenues will be lower and the operating expenses and income taxes higher than set forth in the table. Upon this record, therefore, the conclusion is inescapable that applicants' present rates are insufficient to provide reasonable earnings at current expense levels and that the rates which they have proposed will not produce excessive revenues. Under these circumstances the rate increases will be authorized.

Aside from the matter of the over-all revenues, consideration must be given to the form of the increases proposed. Applicants asked that they be authorized to establish the increases in the form of tariff supplements which would provide for a 6-percent surcharge. The witnesses advocated the surcharge method because it would, they said, provide materially greater revenues than would a direct 6-percent increase in the several rates and charges. No plausible reason appears, however, why one method should produce greater revenues than the other. It is concluded that tariff supplements containing direct increase tables would provide a satisfactory and suitable method of establishing the increases promptly and economically. In the interest of tariff simplification, the applicants will be directed to cancel the supplements and incorporate the increases directly into their tariffs within a six-month period.

Inasmuch as these proceedings involve the applicants' over-all revenue requirements, no study has been made of individual rates or charges. In authorizing an increase in the 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.

The applicants did not seek authority to establish any rates or charges higher for shorter than for longer distances over the same line or route in the same direction. Should they encounter instances in which they consider such departures from the prohibitions of Section 460 of the Public Utilities Code to be necessary and justified, they may make application to the Commission for the necessary authority in accordance with the provisions of that section.

Upon careful consideration of all of the facts and circumstances of record the Commission finds as a fact that the increases proposed by the applicants in these proceedings are justified to the extent specified in the order which follows.

O R D E R

Public hearing having been held in the above-entitled proceedings, the evidence having been fully considered, and good cause appearing,

IT IS HEREBY ORDERED that Southern California Freight Lines, Southern California Freight Forwarders, Pacific Freight Lines and Pacific Freight Lines Express be, and they are hereby authorized to establish, on not less than ten (10) days' notice to the Commission and to the public, an increase of six (6) percent in all rates and charges in the following tariffs, except that no increase shall be

made in joint rates in which carriers other than applicants participate:

Southern California Freight Lines, Local Joint and Proportional Freight Tariff No. 6, Cal. P.U.C. No. 6.
Southern California Freight Lines, Local Freight Tariff No. 10, Cal. P.U.C. No. 4 (Series of Dale C. Ramsey, d.b.a. Valley Truck Company).
Southern California Freight Forwarders, Local and Joint Express Tariff No. 4, Cal. P.U.C. No. 4.
Southern California Freight Forwarders, Joint Express Tariff No. 5, Cal. P.U.C. No. 5.
Pacific Freight Lines (General Transfer Division), Local Freight Tariff No. 1, Cal. P.U.C. No. 1.
Pacific Freight Lines and Pacific Freight Lines Express, Local and Joint Freight Tariff No. 7, Cal. P.U.C. No. 2 (Series of C. G. Anthony, Agt.).
Pacific Freight Lines and Pacific Freight Lines Express, Local and Joint Commodity Tariff No. 19, Cal. P.U.C. No. 15.

IT IS HEREBY FURTHER ORDERED that the applicants may establish the increased rates and charges by increase tables to be set forth in supplements to the tariffs, subject to the condition that within 180 days after the effective date of such supplements the increased rates and charges shall be incorporated into the tariffs and said supplements canceled. In connection with rates based upon a multiple, portion or percentage of another rate (such as one and one-half times 1st class, one-half of 4th class or 120 percent of Class E) the increases herein authorized will be applied to the basic rate. In computing the increased rates and charges the following will govern in the disposition of fractions:

Where present rates or charges are $10\frac{1}{2}$ cents or less:

Fractions of less than $\frac{1}{4}$ or .25 of a cent omit.
Fractions of $\frac{1}{4}$ or .25 of a cent or greater but less than $\frac{3}{4}$ or .75 of a cent will be stated as $\frac{1}{2}$ or .50 of a cent.
Fractions of $\frac{3}{4}$ or .75 of a cent or greater, increase to next whole figure.

where present rates or charges are over $10\frac{1}{2}$ cents:

Fractions of less than $\frac{1}{2}$ or .50 of a cent omit.
Fractions of $\frac{1}{2}$ or .50 of a cent or greater, increase to next whole figure.

IT IS HEREBY FURTHER ORDERED that the authority herein granted is subject to the express condition that applicants herein 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.

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

Dated at San Francisco, California, this 1st day of April, 1952.

W. J. [Signature]
President
Justice F. [Signature]
Harold P. [Signature]

Commissioners