

Decision No. 47000

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Establishment)
of rates, rules, classifications and)
regulations for the transportation of)
property within the City and County)
of San Francisco.)

Case No. 4084

Appearances

- Edward M. Berol, Russell Bevans and George J. Kasch,
for Draymen's Association of San Francisco,
petitioner.
- J. A. Clark, Jr., John M. Hannigan, A.C. Harris,
Don Haslett, Edward J. Hubber, William J. Keane,
James B. Mahoney, George T. Patton, R. I. Prosser,
L. B. Raymond, Joseph Robertson and A. W. Savage,
for various carriers in support of petitioner.
- Laurence E. Binsacca, Jack M. Clodfelter, A. J.
Giardo, Glenn T. Gleason, Peter N. Kujachich,
Theodore J. Label, Leon P. Matthews, Milton
O'Donnell, Walter A. Rohde, James L. Roney, Harry
J. Scherer and A.F. Schumacher, for various
shippers and interested parties.
- Daniel W. Baker, for the Draymen's Association of
Alameda County and Jefferson H. Myers for Board
of State Harbor Commissioners and for the Port of
San Francisco, interested parties.
- J. L. Pearson, for Engineering Division, Transportation
Department, Public Utilities Commission.

O P I N I O N

By Decision No. 45944 of July 10, 1951, in the above-en-
titled case, the minimum rates and charges established for the trans-
portation of property within San Francisco were increased by 10
percent.¹ The increase became effective July 25, 1951. It was the
outgrowth of a petition filed by the Draymen's Association of San
Francisco seeking an increase of 25 percent. In the instant phase
of this proceeding, the Association seeks a further increase of 15
percent on an interim basis, and requests that the Commission

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The San Francisco drayage rates are set forth in City Carriers'
Tariff No. 1-A (Appendix "A" of Decision No. 41363, as amended).

institute an investigation into the entire San Francisco drayage rate structure.²

Public hearing was held at San Francisco on February 26, 1952, before Examiner Lake.

In Decision No. 45944, supra, the Commission found that petitioner's showing, in support of the sought 25 percent increase, was deficient in many respects. The nature of the deficiencies and the extent thereof are summarized as follows:³

1. Petitioner's revenue showings included 31 percent of revenues derived from sources not covered by the proposed rate increase and without any segregation or allocation of expenses to the particular operations involved.
2. Although petitioner intended to increase nontariff rates by the same percentage as tariff rates, the record indicated that the nontariff services would need a greater increase.
3. The revenues for transbay and line-haul highway operations were not adjusted to levels reflecting the current rates for those operations.
4. There was no showing of the investments, the rate bases or the rates of return.
5. The evidence on some of the claimed increased costs was on an indefinite basis.
6. Petitioner's total costs reflected numerous book figure adjustments without adequate explanation thereof and justification therefor.

In support of the rates herein sought, petitioner alleges that since the July rate adjustment further increases have been experienced in the costs of labor and equipment and in the costs of

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No increase is sought in rates for handling pool shipments in monthly vehicle unit rates nor in rates for shipments weighing 25 pounds or less. Petitioner stated that due to the competitive situation surrounding pool shipments and the competition of nonregulated truck rental agencies no adjustment is sought for these services. With respect to shipments weighing 25 pounds and less, it pointed out that such rates were under consideration by the Commission.

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For greater detail, see Decision No. 45944, supra.

materials and supplies. It contends that the 10 percent increase authorized by Decision No. 45944, supra, was inadequate and that the minimum rates still fail to provide revenues sufficient to enable its members to derive the costs of performing the services.

A certified public accountant, employed by petitioner, submitted exhibits showing, for the year 1951, the operating results of 21 carriers engaged principally in drayage operations within San Francisco. They include the results for city operations and other for-hire carrier services which the draymen performed for two six-month periods.⁴ Assertedly, the revenues of these carriers account for a substantial percentage of the total revenues earned by members of the Association and the operations of these carriers are typical of average city carrier operations within the drayage area.⁵

For the first six months of 1951 the exhibits indicate that the combined operating results of the 21 carriers studied produced an operating ratio, after income taxes, of 98.78 percent. For the last six months, which included nearly all of the period in 1951 during which the higher rates were effective, the operating ratio, after income taxes, is indicated to be 100.77 percent.⁶ To show estimated results for the future under present rates the witness adjusted the operating results for the latter period to reflect (a) the 10 percent increase in rates for the entire period, (b) increased expenses in

⁴ In addition to performing service under City Carriers' Tariff No. 1-A, the majority of the draymen perform nontariff services and are engaged in the handling of transbay and other highway traffic. The percentages of revenues for each of these services were shown to be 70, 17, 6 and 7 percents, respectively.

⁵ According to the record, the members of the Association handle between 90 and 95 percent of the for-hire drayage in San Francisco.

⁶ Eleven of the carriers had operating ratios ranging from 99.67 to 112.10 percent. Seven of them had operating ratios ranging from 95.31 to 98.99. The remaining three carriers had operating ratios of 94.85, 93.11 and 89.80. The last results were for a carrier who had only \$28,145 in revenues for the six-month period.

wages which become effective February 1, 1952, (c) elimination of non-carrier revenues and expenses and the addition of unrecorded revenues, and (d) salaries for owners.⁷ With these adjustments, the anticipated operating ratios for the carriers studied would be as follows:

TABLE NO. 1

<u>Carrier Number</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Net Profit or (Loss) Before Income Taxes</u>	<u>Net Profit or (Loss) After Income Taxes</u>	<u>Operating Ratio After Income Taxes</u>
2	\$ 83,773	\$ 78,021	\$ 5,752	\$ 3,934	95.30%
4	25,843	25,144	699	478	93.15
7	21,435	21,947	(512)	(512)	102.39
8	86,956	78,371	8,085	5,530	93.64
9	30,242	31,580	(1,338)	(1,338)	104.42
10	75,492	85,892	(10,400)	(10,400)	113.78
12	463,469	486,058	(22,589)	(22,589)	104.87
14	83,696	83,325	371	254	99.70
15	100,525	99,762	763	522	99.48
17	306,620	299,655	6,965	4,764	98.45
18	18,247	18,188	59	40	99.78
20	657,736	664,240	(6,504)	(6,504)	100.99
22	193,167	201,520	(8,353)	(8,353)	104.32
23	80,549	78,121	2,428	1,661	97.94
24	179,201	196,005	(16,804)	(16,804)	109.38
25	156,987	172,309	(15,322)	(15,322)	109.76
26	81,828	79,870	1,958	1,339	98.36
29	270,319	273,021	(2,702)	(2,702)	101.00
31	374,807	352,028	22,779	13,385	96.43
32	28,478	24,415	4,063	2,779	90.24
33	27,710	27,802	(92)	(92)	100.33
Totals	<u>\$3,347,080</u>	<u>\$3,377,774</u>	<u>(\$30,694)</u>	<u>(\$49,930)</u>	<u>101.49%</u>

⁷ The witness testified that he did not make provision for all increases in the cost of operation which have become effective since the last rate increase. He stated that fuel, parts and other materials and supplies had been subjected to horizontal increases but the effect thereof was not included in the study.

For the most part, the adjustments made followed recognized accounting practices. Salary adjustments, the witness explained, were made in those instances where the carrier was an individual or partnership and where no provision was made in the carrier's books for such expenses. He stated that the expense adjustments for salaries were arrived at upon consideration of the time devoted to the business and upon a study of the various duties performed.

In order to show the full significance of the effect upon the carrier's operating ratios, under the proposed rates, the witness introduced a study of the estimated revenues of the 21 carriers. The revenues were segregated as to drayage and nontariff traffic handled within San Francisco and as to transbay and other highway traffic.⁸ In addition, the carriers were grouped into two classes, one representing carriers who engage in general drayage services and the others that specialize in a limited number of commodities or for a small number of shippers. The revenues for the second six-month period of 1951 for the San Francisco drayage operations subject to City Carriers' Tariff No. 1-A were increased, except as indicated below, by 15 percent. In addition the revenues for transbay and highway operations were

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The nontariff traffic generally comprises shipments picked up and delivered for common carriers. This traffic is exempt from minimum rates and is usually performed under contract between the draymen and the common carriers.

adjusted to show the impact of a 12 percent increase which is sought in another proceeding.⁹

No adjustment was made in the revenues for the services of handling pool shipments, in the monthly truck rental charges, or in the charges for small shipments because, as heretofore stated, no increase is sought herein for these services. Likewise, the revenues derived from nontariff drayage operations were not adjusted. In this respect, the witness explained that since July rates for the nontariff services had been, on the average, increased 16 percent. He further testified that prior studies he had made indicated that the average shipment handled under the drayage tariff was subject to third class rates and that it was fair to assume that the traffic handled under pickup and delivery contracts was similar in nature. He pointed out that the third class minimum rates for transportation within a single zone range from 36 cents for any-quantity shipments to 15 cents for shipments weighing 20,000 pounds or more as compared with the average pickup and delivery rate of 20 cents per 100 pounds. Petitioner stated that it would negotiate with the common carriers for further increases.

The operating results giving effect to the foregoing adjustments are set forth in Table No. 2.

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The witness explained that the revenues for transbay and line-haul operations were adjusted 12 percent, based on a petition filed by the Common Carrier Conference of the Truck Owners Association of California and the Pacific Motor Tariff Bureau, filed January 15, 1952, seeking an increase of that amount in Highway Carriers' Tariff No. 2 rates, for transportation of general commodities in northern California in less-than-truckload quantities.

TABLE NO. 2

Carrier No.	Expanded Revenues	Expanded Expenses	Net Profit or (Loss) Before Income Taxes	Net Profit or (Loss) After Income Taxes	Operating Ratio After Income Taxes
<u>CARRIERS ENGAGED IN GENERAL CITY CARRIER ACTIVITIES</u>					
9	\$ 34,461	\$ 31,580	\$ 2,881	\$ 1,936	94.38%
10	86,481	85,892	589	396	79.54
12	521,479	486,058	35,421	16,266	96.88
14	94,975	83,325	11,650	7,829	91.76
15	114,324	99,762	14,562	9,350	91.82
17	349,764	299,655	50,109	25,730	92.64
20	754,819	664,240	90,579	44,379	94.12
22	218,957	201,520	17,437	10,675	95.12
24	204,874	196,005	8,869	5,960	97.09
25	177,168	172,309	4,859	3,265	98.16
26	93,688	79,870	13,818	9,007	90.39
29	310,545	273,021	37,524	19,931	93.58
31	425,767	352,028	73,739	36,619	91.40
33	<u>31,867</u>	<u>27,802</u>	<u>4,065</u>	<u>2,732</u>	<u>91.43</u>
Total	\$3,419,169	\$3,053,067	\$ 366,102	\$194,075	94.32%
<u>CARRIERS ENGAGED IN SPECIALIZED CITY CARRIER ACTIVITIES</u>					
2	\$ 95,976	\$ 78,021	\$ 17,955	\$ 10,913	88.63%
4	29,681	25,144	4,537	3,049	89.73
7	24,459	21,947	2,512	1,688	93.10
8	99,197	78,871	20,326	12,006	87.90
18	20,984	18,188	2,796	1,879	91.05
23	91,798	78,121	13,677	8,942	90.26
32	<u>32,252</u>	<u>24,415</u>	<u>7,737</u>	<u>5,199</u>	<u>83.83</u>
Total	\$ 394,247	\$ 324,707	\$ 69,540	\$ 43,676	88.92%
Totals	\$3,813,416	\$3,377,774	\$ 435,642	\$237,751	93.77%

It is to be noted that in the development of the results of operations indicated in the foregoing table no segregation was made with respect to the expenses for the various transportation services that the carriers perform. The accountant alleged that such a segregation was practically impossible, particularly with respect to the transbay and drayage operations. He explained that the same equipment is used in both operations and that no separate account of the expenses is made and that no uniform method of allocating them is feasible.

The witness was of the opinion that the carriers would not fully realize the favorable results as shown in the foregoing table due to the inflationary trend and to unforeseen expenses.¹⁰

Petitioner did not submit rate bases upon which could be calculated the rates of return under the proposed rates. It alleged that the investments of the carriers involved were relatively small and that the bulk of the investment was in equipment of comparatively short lives which had rapid depreciation and obsolescence. In addition, he said, some of the facilities were owned, others were rented, and that it would be difficult to secure data relating to historical or appraised costs. For these reasons, petitioner contended that a rate base would not serve as a sound basis upon which to determine a reasonable rate level and that the operating ratio method was a better guide to determine the reasonableness of the sought adjustment. Petitioner's counsel cited County Board of Arlington County, Virginia, et al., vs. United States, et al., Fed. Supp. 328 (1951), wherein the use of the operating ratio method was found to be proper for determining the reasonableness of certain

¹⁰ He pointed out that the July adjustment of 10 percent fell short by 5 percent of attaining the estimated operating results.

passenger bus fares. This Commission, however, in Pasadena City Line, Inc., Decision No. 46452 of November 20, 1951, in Application No. 32320 (51 Cal.P.U.C. 248), said "Operating ratios and rate bases are both valuable indexes of earning requirements. 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. In reaching its conclusion, this Commission considers all available data, without limitation or restriction to any single formula."

Representatives of shippers and of the San Francisco Chamber of Commerce offered testimony in opposition to the proposed increases. The traffic manager for the Chamber of Commerce opposed the granting of further horizontal or percentage increases in minimum rates unless it was urgently needed and no other means of according such relief appeared. He urged that, if the Commission was to grant a horizontal increase, it be subject to an expiration date and that in the interim a thorough investigation be undertaken for the purpose of determining the adequacy of the individual rates and charges of the drayage industry. Other shipper witnesses testified in opposition to the higher transportation costs resulting from the sought increases in connection with their products. No probative evidence, however, was offered in support of their contentions.

In this phase of the proceeding petitioner has, except for segregation of expenses between drayage and highway operations and for development of rate bases and rates of return, overcome the deficiencies in evidence received at the prior hearing.

Assertedly, the segregation of expenses incurred in drayage and highway services is complex and involved. It has not been demonstrated, however, that such an undertaking is insurmountable.

This deficiency, however, has been partially offset by petitioner's showing of the effect upon the for-hire operations of the proposed rates for drayage operations and pending adjustments sought to be applied on other traffic and by reason of the fact that drayage operations under rates named in City Carriers' Tariff No. 1-A account for 70 percent of the total revenues.

The evidence as a whole is convincing that the draymen are in need of immediate relief. The operating results for the second six months of 1951 under present rates, modified to reflect the increased wages which became effective February 1, 1952 and to give effect, for the entire period, to increases in rates which became effective July 25, 1951, show that the 21 carriers as a group would experience an operating ratio of 101.49 percent after provision for income taxes.¹¹ Under the rates sought in this proceeding and the 12 percent proposal the operating ratio would be 93.77 percent after income taxes.¹² The 14 general drayage carriers would experience, under the latter basis, an operating ratio of 94.32 percent. The 7 so-called specialized carriers would experience an operating ratio of 88.92 percent. Although the specialized operators would have an exceedingly favorable operating ratio it is to be noted that these carriers account for only approximately 10 percent of the total revenues earned by all the carriers involved. Therefore, the determination of the reasonableness of the sought adjustment should not be predicated upon their showing alone but should rest upon the operating results of the group. It is apparent from the foregoing discussion of the evidence that the likelihood of the carriers obtaining the operating results shown is extremely doubtful in view of the intangible nature of the estimated increased

¹¹ See Table No. 1.

¹² See Table No. 2.

revenues for the services other than drayage. Upon this record, however, the carriers' earnings as a group would not be greater than those indicated in the accountant's studies.

In the absence of rate bases upon which the earnings could be measured as rates of return, we believe that petitioner has failed to justify an increase greater than the amount necessary to provide a margin between revenues and expenses sufficient to enable its members to render an adequate service and to meet the risks involved in this type of business. For these purposes, we are of the opinion, and hereby find, that an increase in the drayage rates of 12 percent would be sufficient. This increase will be authorized. Based upon expenses indicated and the volume of traffic handled during the second period of 1951 an increase of this amount in the drayage rates would produce for the future an operating ratio for the group of 95.74 percent after income taxes.¹³ More than 61 percent of the over-all revenues would be earned by carriers having an operating ratio in excess of 95 percent.

Apparently, the variance in the operating results of the several carriers studied is caused to a large extent by the application of percentage or horizontal increases on all of the rates involved, rather than adjustments in the rates for particular traffic. The time has come, we believe, when the entire rate structure for San Francisco drayage operations should be thoroughly reviewed. We will, therefore, adopt the recommendations of the petitioner and the San Francisco Chamber of Commerce for an investigation into the rates, rules, classifications, regulations, charges, allowances and practices of all city carriers engaged in the transportation of property within the City and County of San Francisco.

¹³ This increase when included with the other indicated adjustment of 12 percent in highway operations, would produce an over-all operating ratio of 95.15 percent after income taxes.

There remains to be discussed the form in which the increases herein found justified should be stated. Petitioner requested that the increase be established as a surcharge to be applied to the charges resulting from the present rates. The traffic manager of the Chamber of Commerce requested that any increase authorized be for only a temporary period pending the developments of the investigation. These requests appear to be reasonable in light of the record. They will be adopted. The rates herein authorized will be established for a one-year period unless otherwise ordered by the Commission.

The evidence upon which our conclusions are based, while it is convincing that the draymen are in immediate need of additional revenues, does not show conclusively the extent to which the present rates in City Carriers' Tariff No. 1-A may be deficient as reasonable minimum rates. The increases involved were proposed as, and they are being established as, temporary or interim increases. The rates hereinafter established are not intended to provide a basis for further modification.

In Decision No. 45944, supra, contract carriers were exempted from the increased rates established therein to the extent that they may be precluded from assessing such rates under the requirements of the Office of Price Stabilization promulgated under the Defense Production Act of 1950. The order herein will likewise provide such exemption. Should further action on our part be required, an appropriate petition may be filed.

Upon consideration of all the facts and circumstances of record, we are of the opinion and hereby find that modification of the existing rates, rules and regulations is justified to the extent hereinbefore indicated and as provided by the order herein.

O R D E R

Based on the evidence of record and on the conclusions and findings set forth in the preceding opinion,

IT IS HEREBY ORDERED that City Carriers' Tariff No. 1-A (Appendix "A" of Decision No. 41363, as amended) be and it is hereby further amended by incorporating therein to become effective May 15, 1952, Supplement No. 3 cancels Supplement No. 2, attached hereto and by this reference made a part hereof.

IT IS HEREBY FURTHER ORDERED that carriers subject to the increased charges provided for in the preceding ordering paragraph that are also motor carriers other than common carriers and therefore precluded from charging the higher charges provided for by that paragraph under requirements of the Office of Price Stabilization be and they are hereby exempted to that extent from observance of the aforesaid higher charges.

SPECIAL INCREASE SUPPLEMENT

SUPPLEMENT NO. 3
(Cancels Supplement No. 2)

(Supplement No. 3 Contains All Changes)

TO

CITY CARRIERS' TARIFF No. 1-A

NAMING

MINIMUM RATES, RULES AND REGULATIONS

FOR THE

TRANSPORTATION OF PROPERTY OVER

THE PUBLIC HIGHWAYS

OF THE

CITY AND COUNTY OF SAN FRANCISCO

BY

CITY CARRIERS

(1) ◇ APPLICATION OF SURCHARGE

(a) Except as provided in paragraph (b) below, compute the amount of charges in accordance with the rates, rules and regulations of the tariff. Increase the amount so computed by twelve (12) per cent, disposing of fractions as provided in paragraph (c) below.

(b) The provisions of paragraph (a) will not apply to rates and charges computed in accordance with Items Nos. 220, 222, 425, 570 and 580 series.

(c) Fractions of less than one-half cent shall be dropped; fractions of one-half cent or greater shall be increased to one cent.

◇ Increase, Decision No. ~~47000~~

(1) Expires with May 14, 1953, unless sooner canceled, changed or extended.

EFFECTIVE MAY 15, 1952

Issued by the
Public Utilities Commission of the State of California
State Building, Civic Center
San Francisco, California

IT IS HEREBY FURTHER ORDERED that, except to the extent provided for in the preceding ordering paragraphs, the petition of the Draymen's Association of San Francisco, filed December 13, 1951, in this proceeding, be and it is hereby denied.

The effective date of this order shall be twenty (20) days after the date hereof.

Dated at San Francisco, California, this 14th day of April, 1952.

President

Justus F. Crocker

Harold P. Kula

Henrietta Potter

Edw. E. McNeill

Commissioners