

Decision No. 47086

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)	
of Direct Delivery System, Ltd.)	Application No. 25585
for authority to assess less than)	7th Supplemental
minimum rates.)	

Appearances

H. J. Bischoff, for applicant.

M. S. Baum, for Rate Division, Transportation
Department, Public Utilities Commission
of the State of California.

SUPPLEMENTAL OPINION

By prior orders in this proceeding Direct Delivery System, Ltd. has been authorized to charge lesser rates than those applicable as minima in connection with the transportation of diatomaceous earth and sacks between the plant of The Great Lakes Carbon Corporation, near Torrance, and points within that city. The present authority will expire with May 17, 1952. Applicant seeks extension of the authority for a year.

Public hearing of the matter was held before Examiner Abernathy at Los Angeles on March 28, 1952.

Applicant's president testified to the effect that the present rates are sufficiently profitable. Revenue and expense figures which he submitted to show the results of the operations

involved during 1951 are as follows:

<u>Operating Revenues</u>		\$18,781
<u>Operating Expenses</u>		
Maintenance	\$3,396	
Transportation	7,446	
Terminal	80	
Traffic	-	
Insurance and Safety	658	
Administration and General	3,400	
Depreciation	-	
Operating Licenses and Taxes	932	
Rent	410	
		<u>\$16,322</u>
Total Operating Expenses		
Net Operating Revenues (a)		\$ 2,459
Operating Ratio (a) (b)		86.9%

(a) Before allowance for income taxes.
Income taxes were not computed.

(b) As computed by Commission staff.

These figures, the witness stated, for the most part represent the actual revenues and expenses directly assignable to the operations. In some respects the expense figures are the result of allocation of expenses incurred jointly in the performance of other transportation services provided by applicant or by affiliated companies. Assertedly, where allocations were made the resultant divisions of expenses amongst the several operations were fair and appropriate to the operation and, if anything, they tended to assign to the services involved herein a greater amount of expense than was actually incurred.

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At the hearing it was developed that the method of allocations which was used resulted in an understatement of administrative and general expenses chargeable to the services involved herein. By an exhibit received subsequent to the hearing applicant undertook to submit corrected data. The foregoing figures reflect the correction.

The rate authority which applicant seeks for the coming year is virtually the same as that which was granted originally in this proceeding in 1944. Applicant's president attributed the continued profitableness of the rates heretofore authorized largely to the fact that the service is such that old, fully depreciated vehicles which would be unsuitable for other operations can be used to advantage without excessive repair costs. He said also that the shipper cooperates closely with his company to achieve efficient handling of the property involved. Moreover, the quantity of property which has been offered for transportation has been substantial during the past year.

With respect to future operations applicant's president anticipated a continuation of the present margin between revenues and expenses. With one exception, he foresaw no likelihood of any material increase in present expenses. With respect to that exception, he said that his company's contract with The Great Lakes Carbon Corporation provides for compensating adjustments in the transportation rates in issue herein.

The western traffic manager for The Great Lakes Carbon Corporation submitted testimony in support of the application. He stated that his company's operations are materially affected by the nation's defense activities and that in recent months the company's plant near Torrance has been operating at capacity.

With respect to future operations he was unwilling to predict how long the present rate of production would continue. However, he indicated that a lessening in production may be expected. Although he said he was unable to state quantitatively the amount of the expected decline, he was of the opinion that it would not be so great as to reduce applicant's operations below an efficient level.

No one appeared at the hearing in opposition to granting of the application.

The evidence is convincing that the rates which applicant has assessed and which it proposes to assess during the coming year have been adequately compensatory. As has been noted hereinbefore the profitableness of the rates was attributed by applicant's president to three principal factors: (a) operating efficiencies, (b) close cooperation of the shipper, and (c) the substantial amount of the property which was transported during the year. Of these three factors it appears that the first two have been characteristic of the operations for the past several years but that the third is an abnormal condition which is limited by the length of time that The Great Lakes Carbon Corporation will find it advantageous to operate its Torrance plant at peak or near peak capacity. It appears that the degree of the sufficiency of applicant's earnings from the rates involved herein is related quite closely to the extent that The Great Lakes Carbon Corporation maintains or approaches plant capacity production. From statements filed in an earlier phase of this proceeding it is noted that during the first six months of 1951 applicant realized approximately \$600 in net earnings from gross revenues of \$8,200. During the latter half of the year applicant earned in excess of \$1,800 from gross revenues of

about \$10,600. Thus an increase of \$2,400 in gross revenues during the second half of the year resulted in an increase of \$1,200 in applicant's net revenues.² It is clear that where a carrier's profit potential is closely related to the maintenance of above-normal operations by the shipper, as appears to be the case here, a prospective reduction in volume of shipper operations may have a substantial effect upon the carrier's earnings. In view of the lack of definiteness with respect to the volume of traffic which The Great Lakes Carbon Corporation will tender applicant for shipment during the coming year, it must be concluded that there is considerable uncertainty with respect to the volume of earnings which applicant may attain.

Another uncertainty pertaining to volume of applicant's net earnings for the coming year relates to the effect upon those earnings of such increases in costs as applicant may experience. Applicant's president relied upon the terms of his company's contract with The Great Lakes Carbon Corporation for establishing adjustments in the rates so as to compensate for certain increased expense. However, it is noted that the terms of the contract are subject to the proviso that no adjustment in the rates shall be made if other factors compensate for the increase. It appears that for the purposes of this proceeding the contractual provisions are to indefinite to permit such ready adjustment of the rates as may be necessary as a result of a cost increase. Moreover, it is noted that the contract will not become effective until Commission approval is obtained by

² These figures reflect the correction made by applicant's president in the general and administrative expense allocated to this operation.

applicant to transport diatomaceous earth at lesser rates than minimum from the plant of The Great Lakes Carbon Corporation to Harbor City. No proposal by applicant to perform the transportation as described to Harbor City is before the Commission and it is not known when or if such a proposal will be submitted for the Commission's approval. Under the circumstances it is apparent that very little if any weight can be given to the terms of the contract.

Despite the infirmities of the record the evidence is persuasive that for the next several months applicant will be able to continue to attain sufficient net earnings from performance of the transportation in question at the sought rates. Accordingly, the Commission is of the opinion and it hereby finds that the sought rates are reasonable and that the authority heretofore granted should be extended for the ensuing six-month period unless sooner cancelled, changed or extended by appropriate order of the Commission. Any extension of the sought authority beyond six months has not been shown on this record to be warranted. To prevent lapse of applicant's present authority the authorization hereinafter granted will be made effective May 18, 1952.

O R D E R

Public hearing of the above-entitled supplemental application having been held, the evidence received therein having been carefully considered, and good cause appearing,

IT IS HEREBY ORDERED that the expiration date of the authority granted to Direct Delivery System, Ltd. by Decision No. 41920 of August 3, 1948, as amended, in this proceeding be and it is

hereby extended to November 18, 1952, inclusive, unless sooner changed or further extended by order of the Commission.

This order shall become effective on May 18, 1952.

Dated at San Francisco, California, this 29th day of April, 1952.

R. J. [Signature]
President

Harold P. Heale

Frederick Patten

John E. Mitchell

Commissioners

Commissioner Justus E. Cramer, being necessarily absent, did not participate in the disposition of this proceeding.