ORIGINAL

Decision No. 48311

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. 33909

Appearances

Frank Loughran, for applicants.
A. L. Russell, for Sears Roebuck & Co., interested party.
G. L. Malquist, for the Commission's staff.

O P I N I O N

N. J. Radunich and Ben F. Hawes, partners, doing business as Red Line Carriers, operate as a highway common carrier. They are engaged in the delivery of general commodities from retail stores in San Jose to customers situated in the territory extending from the San Francisco Bay area on the north to Hollister, Salinas and Carmel on the south. In addition, they conduct a for-hire carrier operation under a highway contract carrier permit and also an appliance installation business and a storage service.[1] By this application they seek authority to increase their common carrier rates by 14 percent on less than statutory notice.[2]

A public hearing of the application was held at San Jose on January 28, 1953, before Commissioner Mitchell and Examiner Jacopi.

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1 The appliance installation business and the storage service were described as nonutility operations.

2 The application was filed with the Commission on November 29, 1952.

Decision No. 46725 of February 5, 1952, in Application No. 32913, authorized applicants to increase their common carrier rates by 6 percent. The authorized rates have been in effect since March 1, 1952. It is alleged that the revenue from the present rates is insufficient to cover the cost of the common carrier service by reason of increases experienced in wages and other expenses and that the proposed rates are needed to provide a reasonable margin between the revenues and the expenses. It is estimated that the proposed rates will produce additional revenue of $25,387 per year.

The financial results of operations under the present rates and those anticipated under the proposed rates were portrayed in a series of exhibits introduced by applicants' accountant and by a transportation engineer of the Commission's staff. The exhibits included the combined operating results for the common carrier, contract carrier and nonutility services and also the separate results for each of them.[3] It was explained that applicants maintain book segregations of revenues and expenses for each of these services. Assertedly, this is possible because different operating equipment and personnel are employed in the operations. Most of the expenses are assigned on the books directly to the services for which they

[3] The over-all operating results under the present rates as set forth below for the periods indicated were taken from the exhibits in question.

	Applicants' Exhibits 7 Months March 1 to September 30, 1952	Commission Engineer 12 Months Ended September 30, 1952
Revenues	$151,859	$255,722
Operating Expenses	141,756	242,427
Net Operating Revenue(1)	$ 10,103	$ 13,295
Operating Ratio(1)	93.3%	94.8%

(1) Before provision for income taxes.

are incurred. Administrative and general expenses and a few other costs which are commonly incurred for all operations are apportioned on the basis of the ratio of the direct expenses for each service.

The separate operating results for the common and contract carrier services under the present rates submitted by applicants' accountant and those for the common carrier operations introduced by the staff engineer are summarized in Table No. 1.

Table No. 1

Revenues and Expenses for Applicants' Carrier Operations Under the Present Rates For The Periods Shown. (See Note.)

	Applicants' Accountant 7 Months March 1 to Sept. 30, 1952			Commission Engineer
	Common Carrier	Contract Carrier	Combined Operations	Common Carrier 12 Months Ended September 30, 1952
Revenues	$101,319	$43,168	$144,487	(2) $181,337
Operating Expenses	$ 98,556	$35,445	$134,001	$174,794
Net Operating Revenues(1)	$ 2,763	$ 7,723	$ 10,486	$ 6,543
Operating Ratio(1)	97.3%	82.1%	92.7%	96.4%

(1) Before provision for income taxes.

(2) The actual revenue for the 12-month period in question amounted to $176,807. The engineer adjusted the revenue to $181,337 as shown to reflect the effect throughout the 12-month period of the 6 percent increase in rates that took effect March 1, 1952. The increased rates were in effect during all of the period used by the accountant.

Note: The nonutility services were conducted at operating losses aggregating $500.41. The operating ratio was 106.9 percent.

It was pointed out, however, that advances in wages and the establishment of an employee welfare plan which occurred soon after the operating periods shown in Table No. 1 had resulted in substantial increases in the cost of operation.[4] According to the accountant's calculations, the results of operation of the common carrier service under the present rates would have shown a loss of $2,620 if the increased costs had been in effect during the 7-month period covered by his figures in the above table. The operating ratio would have been 102.6 percent. Similarly, the staff engineer calculated that the operating results developed by him in the table would have shown a loss of $2,380 and an operating ratio of 101.3 percent under the higher costs in question.

Estimates of the results of operation of the common carrier service anticipated under the proposed rates also were shown in the exhibits presented by the two witnesses. The estimates were based upon the common carrier operations for the periods dealt with in Table No. 1 as adjusted to reflect the additional revenue anticipated from the sought rates and all known increases in the operating expenses. The estimated operating results under the proposed rates are shown in Table No. 2.

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[4] The record shows that the resulting increases in expenses amounted to 8.537 percent for drivers and helpers and 8.5 percent for office employees effective October 1, 1952, and to 5.618 percent for shop personnel effective October 15, 1952.

Table No. 2

Estimated Revenues And Expenses For Applicants' Common Carrier Operations Under The Proposed Rates Based Upon The Operations For The Periods Shown Below.

	Applicants' Accountant 7 Months March 1 to September 30, 1952	Commission Engineer 12 Months Ended September 30, 1952
Revenue	$ 115,489	$ 206,724
Operating Expenses	103,940	184,167
Net Before Income Taxes	$ 11,549	$ 22,557
Income Taxes	(1)	(2) 6,592
Net Income	(1)	$ 15,695
Estimated Rate Base	$ 68,805	$ 73,198
Rate of Return	(1)	21.8%
Operating Ratio After Income Taxes	(1)	92.3%

(1) Not furnished by applicants.

(2) Estimated on the basis of current income tax rates applicable to individuals.

The operating results shown in Tables Nos. 1 and 2 are not entirely comparable because of the different periods covered thereby. A number of differences, however, require discussion. Depreciation expense on vehicle equipment was calculated by applicants' accountant on the basis of a 4-year service life as provided in the book depreciation schedule. In addition, the undepreciated value of the equipment is reflected on this basis in the accountant's rate base figure. The staff engineer, however, developed that applicants were experiencing service lives ranging from 4 years to 8 years, depending upon whether the equipment was purchased new or used. He extended the book service life on these bases for equipment not fully depreciated and he calculated the depreciation expense accordingly. The effect of the longer lives is reflected also in his rate base figure. The accountant and the engineer included allowances for working cash capital in the rate base equal to the average operating expenses for one month, exclusive of depreciation charges.[5] The accountant explained that bills for transportation charges are sent to the shippers at 7-day intervals with a request for payment within 7 days thereafter. Assertedly, the payments generally are not received until from 2 weeks to 3 weeks after the issuance of the freight bills.

The operating results in Tables Nos. 1 and 2 submitted by the staff engineer are based upon a more representative period of time and, through the adjustments above indicated, portray more realistically the operating conditions being experienced. His figures will be used for the determinations to be made in this proceeding. The Commission finds the estimated rate base of $73,198 developed by the engineer to be reasonably representative of the value of the property devoted to the common carrier operations.

We turn now to the position taken at the hearing by representatives of two of the retail store shippers served by applicants. They testified that applicants probably were entitled to some increase in their rates but they maintained that the amount of the advance sought was too great. Assertedly, applicants provide a satisfactory service and its continuance is essential.

Conclusions

The record shows that the revenues derived from the present rates are insufficient to cover the cost of performing the common

[5] The accountant allowed $13,400 and the engineer used a figure of $14,840. The variation is due to the use of different operating periods for the estimates.

carrier service under current cost levels. The rates sought by applicants, however, would result in earnings, as shown by the staff engineer's estimate in Table No. 2, that are greater than necessary to sustain the operations. Exhibits presented by the staff engineer in connection with an alternate rate structure show that an increase of 8.5 percent in applicants' present rates would produce annual net income of $9,840, an operating ratio of 95.0 percent after provision for income taxes and a rate of return of 13.4 percent on a rate base of $73,198.

In appraising the reasonableness of earnings, the Commission considers all data of record without limitation or restriction to any single formula. It is clear that the rate base constructed from applicants' books with certain adjustments is largely depreciated and does not represent the true operating condition of the properties. On the books, 18 of 26 vehicles operated in the common carrier service have been fully depreciated.[6] The fact is, however, that applicants are performing a satisfactory service to the public with the equipment in question. It is apparent, therefore, that because of this understatement of the rate base the true rate of return is correspondingly less than that above indicated. Under these circumstances, the Commission finds that the rate of return of 13.4 percent, when considered in connection with the rate base of $73,198, the net income of $9,840 and the operating ratio of 95.0 percent after provision for income taxes, is not unreasonable.

Upon consideration of all of the evidence of record, the Commission is of the opinion and hereby finds that an increase of 8.5 percent in applicants' present rates is reasonable and justified.

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6 The depreciated value of the 8 vehicles not fully depreciated amounts to only 25.4 percent of the original book value of the fleet of 26 vehicles.

To this extent, the application will be granted. In all other respects, it will be denied.

In this proceeding, consideration has been given to applicants' over-all revenue requirements and no study has been made of each or any of the rates or charges. In authorizing the increase in rates the Commission does not make a finding of fact of the reasonableness of any particular rate or charge as so increased.

O R D E R

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, on not less than five days' notice to the Commission and to the public, an increase of 8.5 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 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 days after the date hereof.

Dated at San Francisco, California, this 24th day of February, 1953.

R. T. [illegible]
President

Justus F. Craemer

Harold P. Hulse

Kenneth Potter

Peter E. Mitchell
Commissioners