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Decision No. 49475

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. 34832

Frank Loughran, for applicants.
George C. Peacock, for Merchants Association of San Jose, protestant.
A. L. Russell, for Sears, Roebuck & Co.; Elroy Shank, for Robinson & Sons; R. L. Hagan, for Montgomery Ward & Co.; James M. Rush, for Dohrmann's; George E. Ronco, for L. Hart & Son Co., Inc.; George E. Bullen, for Hale's; Phil Kauffman, for Roos Bros., protestants.
William C. Bricca and Grant 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 in the territory extending from San Francisco and Berkeley on the north to Salinas and Carmel on the south. In addition, they conduct a contract carrier operation and also an appliance installation business and a storage service.[1] By this application, filed October 29, 1953, they seek authority to increase their common carrier rates by 11.8 per cent on less than statutory notice.

A public hearing of the application was held at San Jose on December 1, 1953, before Examiner Jacopi.

[1] The appliance installation business and the storage service are described as nonutility operations.

The present rates charged by applicants for their common carrier parcel delivery services have been in effect since March 25, 1953.[2] The revenues produced by the present rates, it is alleged, are insufficient to cover the cost of performing the service in question as a result of further substantial advances experienced in the operating expenses since the rates last were adjusted.

Detailed studies of the results of the operations under the present rates and those which are anticipated under the proposed rates were presented by applicants' accountant and by a transportation engineer of the Commission's staff. The studies included the combined operating results for applicants' over-all operations and also the separate results for each of them.[3] It was explained that it was feasible for applicants to maintain in their books segregations of the revenues and expenses because different operating equipment and personnel were employed in the various services. In maintaining the book records, most of the expenses are assigned directly to the operations for which they were incurred. Administrative and general expenses and a few other costs commonly incurred for all operations are apportioned in accordance with the ratio of the direct expenses incurred for each service.

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2 The present rates were established pursuant to authority granted by Decision No. 48311 of February 24, 1953, in Application No. 33909, which authorized an increase of 8.5 per cent in the rates then in effect.

3 Applicants' book records show that the over-all operations, including the common carrier service, earned net operating revenue of $14,519, before provision for income taxes, under the present rates in the 12-month period ended September 30, 1953. The corresponding operating ratio was 95.3 per cent. For the contract carrier portion of the over-all operations, the operating ratio before taxes was 89.5 per cent, for the storage service 50.0 per cent and for the appliance installation service 101.0 per cent. The loss experienced in the latter operations amounted to $102. As hereinafter discussed, the operating ratio before taxes for the common carrier service was 98.9 per cent.

According to the accountant's exhibits, applicants' common carrier operations earned net operating revenue amounting to $2,099 before provision for income taxes in the 12-month period ended September 30, 1953. The corresponding operating ratio was 98.9 per cent. The revenue for the period amounted to $187,324 and the operating expenses were $185,224. It was pointed out that these figures were derived from the book records and reflected increases in expenses only to the extent that they were in effect during the period covered. It was shown that substantial further advances in the operating expenses occurred since the end of the 12-month period in question.[4] To show the full effect of the higher costs on an annual basis, applicants' accountant and the staff engineer submitted estimates of what the results of operation would have been with the present rates and all known advances in costs in effect. In addition, they submitted estimates of the earnings anticipated under the proposed rates. These estimates, based upon the operations in 12-month period ended September 30,1953,

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4 The record shows that the cost of fuel and of public liability insurance was increased on March 1, 1953, fuel tax on July 1, 1953, wages of drivers and helpers and supervisory and clerical employees on October 1, 1953, and wages of mechanics on October 16, 1953. The record shows also that on January 1, 1954, increases will become effective in State highway-user taxes and in Federal social security tax.

are summarized from the exhibits of record in the tabulation which follows.

Estimated Annual Revenues and Operating Expenses for Applicants' Common Carrier Operations Under the Present and Proposed Rates

	Present Rates		Proposed Rates	
	Applicants	Staff Engineer	Applicants	Staff Engineer
Revenue	$194,879	$194,879	$217,921	$217,921
Operating Expenses	195,741	194,952	196,129	195,356
Net Before Income Taxes	$ (862)	$ (73)	$ 21,792	$ 22,565
Income Taxes	-	-	6,300	6,254
Net After Income Taxes	-	-	$ 15,492	$ 16,311
Estimated Rate Base	$ 71,275	$ 63,208	$ 71,832	$ 63,242
Rate of Return	-	-	21.57%	25.79%
Operating Ratio After Income Taxes	100.44%*	100.04%*	92.89%	92.52%

( ) Indicates Loss.

* Operating loss. No income tax involved.

Basic differences appear in the witnesses' calculations of the annual depreciation expense and the rate base. The amount of depreciation expense included in the accountant's figures for revenue equipment was based on a four-year service life as provided in the book depreciation schedule. The staff engineer, however, found that the service lives actually experienced ranged from two years to eight years, depending upon whether the equipment was purchased new or used and he developed his figures accordingly on the equipment not fully depreciated on the books. In regard to the rate base estimates, the accountant used the average value of revenue equipment and structures that would prevail at the midpoint of the service lives whereas the engineer based his figures on the depreciated book values of the properties. On this record, the bases used by the accountant have not been substantiated. The engineer's estimates based upon actual operating conditions are reasonable and will be adopted for the purpose of the determinations to be made herein.

Opposition to the proposed rate increase was voiced by representatives of the Merchants Association of San Jose and of two retail store shippers served by applicants. According to their testimony, the increase sought in the cost of parcel delivery could not successfully be passed on to the customers and neither could it be absorbed by the retail stores under present conditions. Assertedly, the historical markup of goods under which the retail stores operated provided but little margin over the current costs of operation. One of the witnesses reported that his company operated at a loss in the last fiscal year. In addition, the witnesses maintained that a thorough review of the service should be undertaken by applicants for the purpose of effecting economies designed to reduce the unit costs. The witness for the association, however, conceded that the stores should study their individual policies to determine whether the territories in which they offer to deliver parcels to their customers were greater in scope than warranted under present cost levels and economic conditions. It was indicated that a number of the stores intended to inquire into the practicability of providing their own delivery system.

Applicants' rate structure, one of the aforesaid protestants asserted, did not provide a proper spread of the cost burden over some phases of the common carrier operations. Although no cost studies were presented, he maintained that both the present and proposed rates for local delivery of small parcels appeared to be too low and that some rates for movements beyond San Jose were not properly related to the distances involved in the hauls. The witness stated, however, that rate revisions such as suggested should be made only in the light of unit cost determinations. Other protestants developed that his company charged for delivery of small parcels which could be carried by the purchaser, that free delivery service was offered only on the larger and heavier articles and that the small parcels represented but a small portion of his company's total deliveries.

Evidence relative to the questions raised by protestants was offered by applicants' accountant and by one of the partners. According to their testimony, the nature and scope of the present parcel delivery service involved herein was developed over a period of years through cooperation with the retail stores served and consideration of the needs of their customers. Assertedly, all operating economies which would not impair the service have been made. It was pointed out that the operating performance for each route was reviewed regularly for the purpose of maintaining efficiency. The witnesses conceded that the cost of providing the service for the outlying areas exceeded that of the local services but it was pointed out that the rates were on substantially higher bases than those for shorter hauls.

Conclusions

The evidence of record establishes that the revenues from the present rates are insufficient to cover the cost of providing the common carrier service under present cost levels and that continuance of the operations under the existing rates would result in further losses. In considering the testimony of the protestants urging that no rate increase be granted, it is not apparent how the applicants could continue to operate at a loss and still provide essential parcel delivery service for the San Jose retail stores. An increase of 11.8 per cent in the present rates as sought by applicants, however, would provide earnings that are greater than necessary or reasonable. An upward adjustment of 7.0 per cent would result in annual net income of $10,430, an operating ratio of 95.0 per cent after provision for income taxes and a rate of return of 16.5 per cent on a depreciated rate base of $63,228.

Under the conditions now surrounding applicants' operations, the depreciated rate base and the rate of return calculated thereon shown above do not afford a reliable basis for measuring the reasonableness of the earnings from the increased rates. The record shows that the rate base now is substantially depreciated largely as a result of the fact that 19 of the 30 vehicles operated in the common carrier service are fully depreciated on the books. It is apparent, therefore, that the true rate of return is materially less than that indicated above. From the foregoing and all other pertinent facts of record, it is clear that the estimated annual net earnings of $10,430, with an operating ratio of 95.0 per cent after provision for income taxes expected to result if the present rate were increased by 7 per cent, are reasonable.

The contention of one of the protestants that some of the rates for local delivery of small parcels were lower than the cost of the hauls and should be increased to a greater extent than the rates for the heavier parcels was not supported by cost figures or other evidence of probative value. In the circumstances, this record affords no basis for a finding that the local service does not bear a fair share of the cost of operation.

Upon careful consideration of all of the evidence of record, the Commission is of the opinion and hereby finds that an increase of 7.0 per cent in applicants' present rates is justified. 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 common carrier 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 seven per cent 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.

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

Dated at San Francisco, California, this 21st day of December, 1953.

President

Commissioners