

ORIGINALDecision No. 51810

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
SOUTHERN CALIFORNIA FREIGHT LINES,
a corporation, SOUTHERN CALIFORNIA
FREIGHT FORWARDERS, a corporation,
and BOYLE & SON, a corporation, for
authority to increase rates of charges
on small lot shipments now published
in their tariffs on file with the
Public Utilities Commission.

Application No. 35776
As Amended

Application of PACIFIC FREIGHT LINES,
a California corporation, and PACIFIC
FREIGHT LINES EXPRESS, a California
corporation, for authority to increase
rates and charges on small lot shipments
pursuant to the provisions of Section
454 of the Public Utilities Code of the
State of California on less than statu-
tory notice, and for authority to
depart from the provisions of Section
460 of said Code.

Application No. 35797
As Amended

H. J. Bischoff, for Southern California Freight Lines
and Southern California Freight Forwarders,
applicants in Application No. 35776 and interested
parties in Application No. 35797.

Wyman C. Knapp, for Pacific Freight Lines and Pacific
Freight Lines Express, applicants in Application
No. 35797 and interested parties in Application
No. 35776.

J. C. Kaspar and R. D. Boynton, for California
Trucking Associations, Inc., interested carrier
association.

John F. Kirkman, for The Coca Cola Company;
A. L. Russell, for Sears Roebuck and Company;
J. A. Sullivan, for California Hardware Company,
and Morton S. Cosgrove, for Potlatch Forests, Inc.,
interested shippers.

R. A. Lubich and Norman Haley, for the staff of the
Public Utilities Commission of the State of
California.

O P I N I O N

Applicants are engaged in the business of transporting
property as common carriers mainly between points in Southern

California. Southern California Freight Forwarders and Pacific Freight Lines Express are express corporations as that term is defined in Section 219 of the Public Utilities Code. Southern California Freight Lines and Boyle & Son are highway common carrier affiliates of and principal underlying carriers for Southern California Freight Forwarders. Pacific Freight Lines is a highway common carrier affiliate of and a principal underlying carrier for Pacific Freight Lines Express.

Southern California Freight Lines and Southern California Freight Forwarders are herein seeking authority to establish a surcharge of 30 cents a shipment to apply, with some exceptions, to shipments of more than 100 pounds but not more than 1,000 pounds which they transport either in their local services or in joint services within the area comprised of the counties of Los Angeles, Orange, San Diego, San Bernardino, Riverside and Imperial.¹ The surcharge is proposed for a six-month period. It is sought as an interim measure while operating experience under this form of rate adjustment is being developed and evaluated. Whether continuance of the authority may be subsequently requested is contingent upon the results attained. It is contingent also upon the effect of pending wage increases and upon any adjustments in rates that may be established in recognition of such wage increases.²

Boyle & Son seeks like authority for its own operations and in addition it asks that it be permitted to increase its minimum charges to correspond to those maintained by Southern California

¹ Among other things the surcharge would not apply in addition to the minimum charges prescribed in the carriers' tariff nor would it apply to shipments transported at joint rates which Southern California Freight Lines and Southern California Freight Forwarders maintain with Walter Mitchell, doing business as Mountain Auto Line. Walter Mitchell is not a party to Application No. 35776.

² Since these applications were submitted, Decision No. 51688 of July 18, 1955, in Case No. 5432, established a 5 per cent surcharge on the rates in Minimum Rate Tariff No. 2 to offset recently established wage increases. Southern California Freight Lines, Southern California Freight Forwarders and Boyle & Son published the surcharge effective July 21, 1955.

Freight Lines and Southern California Freight Forwarders. Pacific Freight Lines and Pacific Freight Lines Express also seek to establish corresponding minimum charges for transportation which they provide individually or jointly within the above-described area; their proposal involves both increases and reductions in their present charges.³ The specific adjustments which Pacific is seeking are indicated in the following comparison of its present minimum charges with those of Southern:

Table No. 1

<u>Weight of Shipment (in pounds)</u>		<u>Minimum Charge (in cents)</u>				
		<u>Pacific</u>			<u>Southern</u>	
<u>Over</u>	<u>Not Over</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
0	25	105	57	111	100	78
25	50	105	73	111	100	89
50	75	105	89	111	125	105
75	100	120	102	111	150	120
100		131	110	123	175	131

- Column 1. Applicable to shipments of general commodities.
- Column 2. Applicable to shipments of fresh fruits and vegetables.
- Column 3. Applicable to shipments transported within the Los Angeles Drayage Area.
- Column 4. Applicable to all shipments except those for which provision is made in Column 5.
- Column 5. Applicable to all shipments received from one shipper at one time at one point of origin, provided that not less than 5 shipments are so tendered.

NOTE: Subject to certain exceptions, the charges shown apply where the distance between point of origin and point of destination does not exceed 150 miles; where said distance is in excess of 150 miles, the minimum charge is that for the transportation of 100 pounds at the applicable class or commodity rate but not less than \$1.41 or the charge shown herein, whichever is the greater.

The foregoing charges which are shown for Southern apply for shipments of general commodities except fresh fruits and vegetables.

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For convenience the term "Southern" will be used at times hereinafter to designate Southern California Freight Lines and Southern California Freight Forwarders; "Boyle" will be used to designate Boyle & Son, and "Pacific" will be used to designate Pacific Freight Lines and Pacific Freight Lines Express.

For the latter commodities Southern's minimum charges are about 5 per cent less than those shown in Column 5 of the above table and do not vary with the number of shipments picked up at one time. Pacific's proposal herein contemplates the establishment of the same minimum charges for fresh fruits and vegetables as for other commodities.

With reference to the proposals of Boyle, it appears from the applicable tariff provisions that this carrier is assessing the same minimum charges as those of Southern at the present time and that although Boyle purportedly is seeking authority to increase its minimum charges to correspond to Southern's, the authority which it is seeking in effect is to maintain its present charges.⁴ The tariff provisions naming the rates and charges of Southern and of Boyle are set forth in Southern California Freight Forwarders Local and Joint Freight and Express Tariff No. 4, Cal. P.U.C. No. 4; the corresponding rates and charges of Pacific are set forth in Local and Joint Express Tariff No. 1, Cal. P.U.C. No. 1 of E. J. McSweeney, Agent.

Public hearing of the matters involved in these applications was held before Examiner C. S. Abernathy at Los Angeles on May 9, 1955.

Evidence on behalf of Southern was submitted by the president, by the operating manager and by the assistant traffic manager of the two companies. Southern's position with respect to its increase proposal, as advanced in its application and through its witnesses, is that additional revenues are needed for its operations and that in seeking to obtain such revenues by assessing a surcharge in

⁴ Boyle's minimum charges were established at their present level in September, 1954, when the charges shown in Column 4 of Table 1 were made effective by Southern pursuant to authority granted to Southern by Decision No. 50401 in Application No. 35444. Prior to that time the authorized minimum charges of Southern and Boyle were as shown in Column 5 of Table 1 and applied irrespective of the number of shipments tendered at one time.

connection with the transportation of shipments weighing between 100 and 1,000 pounds it is seeking to apply higher charges to shipments that do not now fully bear the cost of the service performed.⁵ According to financial data included in the application as amended Southern's operating results for 1954 were as follows:

	<u>Year 1954</u>
Operating Revenues	\$7,450,997
Operating Expenses	<u>7,465,272</u>
Net Operating Revenues	(<u>\$ 14,275</u>)
Operating Ratio	100.2%

() - Indicates Loss.

The evidence which was submitted by Southern's president in support of his companies' allegations that the present rates for shipments of 100 to 1,000 pounds do not return the costs of the service consists largely of opinion testimony to the effect that the rates for such shipments are relatively less in proportion to the applicable costs than are the rates for heavier shipments. He stated that he had made no specific study to develop the relative profitability or unprofitability of the traffic to which the sought surcharge would apply. In support of his opinions, however, he said that the daily operating experience of his companies shows clearly that unit costs of transportation service decrease as the weights

⁵ It appears that these shipments constitute a substantial segment of Southern's traffic, accounting for almost half of the total shipments handled, almost one third of the tonnage transported and more than two fifths of the two companies' gross revenues.

of the shipments increase.⁶ He submitted a comparison of revenues which his companies receive for transporting shipments of various weights to show that for the distance upon which the figures were developed Southern must transport from $1\frac{1}{2}$ to more than 10 shipments weighing between 100 and 1,000 pounds to earn the same amount of gross revenue as it receives from the transportation of a single shipment weighing between 1,321 and 2,000 pounds.⁷ The witness declared that this revenue comparison, when considered in conjunction with the higher unit costs of transporting the smaller shipments, obviously bears out his conclusions concerning the relative unprofitableness of the present rates for the smaller shipments.

With respect to the form and amount of the sought increase, Southern's president pointed out that the effect of the surcharge method of increasing rates is to assign a proportionately greater increase to the smaller shipments where, in this instance, the greater increases assertedly are most needed. He presented figures to show that the increases would range from about 24 cents per 100 pounds for shipments of 101 to 150 pounds to about $3\frac{1}{2}$ cents per 100 pounds for shipments of 751 to 1,000 pounds. The amount of the sought increase, he said, was selected on a judgment basis to bring about

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An exhibit bearing on this point was submitted by Southern's operating manager. The exhibit represents an analysis of performance data in connection with the pickup or delivery of single shipments of various weights and shows, for example, that the average time for pickup or delivery of shipments of 100 to 200 pounds is 3.6 minutes per 100 pounds as contrasted to 1.1 minutes per 100 pounds for shipments of more than 1,000 pounds.

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The weight, 1,321 pounds, represents the point where the transportation charges computed at the applicable rate equal the charges for transporting 2,000 pounds at the rate subject to a 2,000-pound minimum. The rate based upon a minimum weight of 2,000 pounds is said to break back to 1,321 pounds.

a maximum amount of additional revenue with a minimum diversion of traffic to competing carriers. He estimated that the additional revenue would amount to approximately \$20,000 monthly. Except for this estimate Southern's president did not undertake to show the effect upon the operating results of his companies that establishment of the sought surcharge would have.

Generally speaking, very little showing of specific justification was advanced for the increases sought by Boyle & Son. Southern's president, who is also the president of Boyle, submitted an operating statement for Boyle for the year 1954 showing total revenues of \$80,888, expenses of \$75,578, and net earnings of \$5,310 before allowance for income taxes. He testified that Boyle was brought under the same management as Southern more than a year ago; that at the time it was incurring substantial losses, and that the improvement in earnings which Boyle was able to attain during 1954 is attributable to the fact that under the common management some of the business of Southern California Freight Lines was diverted to Boyle during the year. He said that he had not caused any study to be made specifically of the operations of Boyle, for he had assumed no distinction between Boyle's present operating costs and those of Southern.

Evidence in Pacific's behalf was submitted by the director of research of the California Trucking Associations, Inc., who had been retained to make a study of the costs involved in transporting small shipments, and by the traffic manager for the two companies. Pacific's position herein, as reflected in the exhibits and testimony of these witnesses, is similar to that of Southern, namely, that additional revenues are needed for its operations and that by its increase proposal it is seeking additional revenues from the transportation of shipments that do not fully bear the costs of the

service. Pacific reported that it has incurred operating losses continuously since 1951. The companies' revenues, expenses and net operating results from and including 1951 to date were represented as follows (amounts shown in thousands of dollars):

	Year				Three Months Ended With March 31, 1954
	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	
Operating Revenues	\$9,673	\$10,301	\$10,943	\$10,408	\$2,341
Operating Expenses	<u>9,642</u>	<u>10,427</u>	<u>10,996</u>	<u>10,847</u>	<u>2,362</u>
Net Operating Revenues	\$ 31	(\$ 126)	(\$ 53)	(\$ 439)	(\$ 21)

() - Indicates Loss.

According to balance sheet data which were submitted with the foregoing revenue and expense figures, the net valuation of the properties used by Pacific in its operations was approximately 2½ million dollars as of January 31, 1955, exclusive of any allowance for working cash.

Establishment of the sought charges, Pacific's witnesses anticipated, would result in dual benefits for the companies: (a) those accruing directly through the additional revenues which the higher charges would produce and (b) those accruing indirectly through operating expense reductions expected to flow from greater concentration of shipments by the shippers in order to take advantage of the resultant differential in charges favoring the tender of 5 or more shipments at one time. The additional revenues would amount to about \$20,000 annually, the witnesses estimated. With respect to the reductions in operating costs, they offered no specific forecast of the probable savings in expense. They indicated, however, that experience under the sought charges may prove the expense reductions to be of greater importance to Pacific than the direct revenue increases. To illustrate

the savings that may be realized under the proposed charges, the research director presented figures showing that in Pacific's pickup operations its costs of handling 5 average shipments of less than 100 pounds is 43 cents per 100 pounds if the shipments are handled singly whereas the cost drops to approximately 18 cents per 100 pounds if the 5 shipments are tendered at one time. He asserted that similar savings are attained in other phases of Pacific's services when the shipments are handled on a multiple basis. His figures show that about half of the total number of shipments which Pacific transports are minimum charge shipments and that about 90 per cent of its shippers at present tender less than 5 shipments at one time. With respect to the relationship of the volume of the proposed charges for less than 5 shipments to costs of the service, the research director compared the charges with cost figures based on data developed by a Commission engineer and submitted in an exhibit in a proceeding involving minimum rates for the transportation of general commodities on a state-wide basis.⁸ His comparison shows that before any allowance for profit the sought charges are less in every instance than the corresponding costs by amounts ranging from 8 to 20 per cent.

Notices of the hearing on these applications were sent by the Commission's secretary to persons and organizations believed to be interested. Notices also were published in the Commission's calendar. Various shippers and members of the Commission's staff participated in the examination of applicants' witnesses. No one specifically opposed the proposals.

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Exhibit No. 9-4 in Case No. 5432 submitted by witness Pearson on July 22, 1953.

Discussion and Conclusions

Southern's portrayal of its revenue position as reflected in its operating statements for 1954 and for the first three months of 1955 is generally persuasive that additional revenues are needed by Southern for the maintenance of its operations. In certain respects it appears that the showing understates the level of the companies' earnings for the reason that it does not give full effect to the evident improvement in earnings which occurred during the latter half of the year, and which apparently is attributable in part to increased minimum charges that were established in September pursuant to authority granted to Southern by Decision No. 50401, dated August 10, 1954, in Application No. 35444. The data are insufficient to permit a precise determination of what Southern's earnings are under the higher minimum charges. Nevertheless, a reasonable approximation may be made from data covering operations for the nine months ended with March 31, 1955. From these data, converted to an annual basis, it appears that Southern's level of earnings is as shown by the following figures.

Cross Operating Revenues	\$7,544,000
Operating Expenses	<u>7,386,666</u>
Net Operating Revenues	\$ 157,334
Allowance for Income Taxes	<u>79,334</u>
Net Income	\$ 78,000
Rate Base	\$1,950,000 *
Operating Ratio	99.0%
Rate of Return	4.0%

* Estimated figure. Specific rate base data not submitted by Southern.

It is clear that at present there is only a small margin between Southern's revenues and expenses. Although this margin would be widened by the additional revenues which the sought surcharge would yield, it would continue to be minor. Estimated operating results for a year's period with the surcharge in effect are as follows:

Gross Operating Revenues	\$7,784,000
Operating Expenses	<u>7,391,666</u>
Net Operating Revenues	\$ 392,334
Allowance for Income Taxes	<u>206,046</u>
Net Income	\$ 186,288
Rate Base	\$1,950,000
Operating Ratio	97.6%
Rate of Return	9.6%

It appears from the foregoing that Southern, by its surcharge proposal, is seeking to obtain additional revenues which would do no more than restore the margin between its revenues and expenses to a minimum necessary to its operations. Certain deficiencies of Southern's showing -- the reliance on a general showing of inadequate revenues to support rate increases for only a portion of the traffic transported and the reliance on unsupported opinion evidence to establish the relative profitableness of the existing rates for the various classes of traffic -- might be commented on in detail. Were Southern seeking a greater increase than that which it proposes, these deficiencies might be controlling in our conclusions. However, in view of evidence showing that shipments of less than 1,000 pounds constitute more than 90 per cent of the number of shipments which Southern transports, that increases for about half of these shipments (those of 100 pounds or less) have been established under Decision No. 50401, supra, and that the

transportation of the shipments involved herein entail virtually the same kind of services as are required in the transportation of the smaller shipments, it is concluded that the sought surcharge may reasonably be authorized for the limited term proposed. Should it subsequently develop that Southern should desire extension of the surcharge to apply to a further period, Southern will be expected to supplement its showing to overcome the deficiencies noted.

The foregoing tables reflect the evidence of record, without reference to the latest wage adjustment nor to the recently established 5 per cent surcharge on the rates (see footnote 2, supra), both of which developed after the date of submission of these applications. However, the surcharge increase authorized by Decision No. 51688 is designed to do no more than offset the increased costs incurred as the result of labor contracts negotiated after this record was closed, and hence do not affect the conclusions herein. The effect of the higher wages and the 5 per cent surcharge will be considered in connection with any request for extension of the temporary per-shipment surcharge hereinafter authorized.

The request of Boyle for authority to increase its minimum charges and to establish a surcharge corresponding to that sought by Southern will be denied for lack of justification inasmuch as no showing was made to establish the need of this applicant for the specific increases. Since Boyle has heretofore increased its minimum charges without requisite authority, it is hereby placed on notice that it will be expected to reinstate its authorized charges forthwith.

The adjustments which Pacific seeks in its minimum charges will be authorized. The evidence is clear that Pacific's operations are resulting in substantial losses. These losses, the evidence shows, are directly attributable in part to insufficiency of the present charges to return the cost of the service. The increases and related adjustments will be authorized, not only that Pacific's losses may be lessened by the additional revenues which will result,

but also that Pacific may attain the savings in operating expense which it anticipates will result under the revised basis of charges.

Applicants, Southern and Pacific, both ask that with the establishment of the increased charges, they be authorized to deviate from the provisions of Article XII, Section 21 of the State Constitution and of Section 460 of the Public Utilities Code which prohibit the charging of any greater compensation for the transportation of property for a shorter distance than for a longer distance over the same line or route in the same direction, the shorter being included in the longer distance. It appears that Southern maintains various joint rates which would be lower than its local rates increased by the surcharge for transportation over the same route in the same direction. Pacific maintains local minimum charges to and from points north of the six-county area involved herein which would be lower than the minimum charges which it seeks to establish within the six-county area for transportation over the same route and direction. Southern submitted evidence through its assistant traffic manager to show that with respect to the traffic that moves in the joint service, rates and charges which would be in violation of the long- or short-haul provisions of the Constitution and of the Public Utilities Code would be few, and that the dollar differences in the charges would be small. However, the fact that relatively few departures from the applicable prohibitions would be involved is not of itself sufficient grounds for authorizing the departures.⁹ Pacific did not undertake to submit specific justification for its request. It is concluded that in neither instance should the sought authority be granted.

Upon careful consideration of all of the evidence of record, the Commission is of the opinion and finds as a fact that the increased

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It appears that the departures would be more numerous than alleged. In developing the data set forth in his exhibit, the assistant traffic manager apparently did not consider the relationship of the rates for various local services to rates to further points served jointly.

charges which are specified in the order which follows have been shown to be justified. In connection with its proposals, Pacific requested that it be authorized to make the necessary tariff changes on not less than five days' notice to the Commission and to the public. Granting of this request also appears justified in the circumstances. To this extent the applications of Southern and Pacific will be granted; in other respects they will be denied. The application of Boyle will be denied.

O R D E R

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

IT IS HEREBY ORDERED that:

1. Except as otherwise provided herein, Southern California Freight Lines and Southern California Freight Forwarders be and they hereby are authorized to amend their local and joint rates as set forth in Southern California Freight Forwarders Local and Joint Freight Tariff No. 4, Cal. P.U.C. No. 4, to establish a surcharge of the amount and application shown in Exhibit C of Amended Application No. 35776 filed March 24, 1955.
EXCEPTIONS: The surcharge herein authorized shall not be applied
 - a. In addition to the minimum charges specified in Rule No. 140 series of the aforesaid tariff; and
 - b. To transportation performed under joint rates maintained with Walter G. Mitchell, doing business as Mountain Auto Line, which joint rates are named in Section 7 of the aforesaid tariff.
2. Pacific Freight Lines and Pacific Freight Lines Express be and they hereby are authorized to amend their local and joint rates as set forth in Local and Joint Freight and Express Tariff No. 1, Cal. P.U.C. No. 1, of E. J. McSweeney, Agent, on not less than five days' notice to the Commission and to the public, to establish for transportation within the area comprised of the counties of Los Angeles, Orange, San Diego, San Bernardino, Riverside and Imperial the minimum charges as proposed and as set forth in Exhibit No. 5 of record in Application No. 35797 for transportation within said area.

IT IS HEREBY FURTHER ORDERED that the authority herein granted applicants Southern California Freight Lines, Southern California Freight Forwarders, Pacific Freight Lines and Pacific Freight Lines Express be and it hereby is limited to the extent that it may be exercised in conformity with the provisions of Article XII, Section 21 of the Constitution of the State of California and of Section 460 of the Public Utilities Code and that the authority shall not be construed as relieving said applicants from the operation and requirements of said provisions of the Constitution and of the Public Utilities Code to any extent whatsoever.

IT IS HEREBY FURTHER ORDERED that except as otherwise provided herein Applications Nos. 35776 and 35797 be and they hereby are denied.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall expire unless exercised within ninety 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 9th day of August, 1955.

[Signature]
President
[Signature]
[Signature]
[Signature]
Commissioners