

Decision No. 54199

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 SHASTA UNITED SERVICE, INC., a corpo-)
 ration, for an order authorizing)
 departure from the rates, rules and)
 regulations of Minimum Rate Tariff)
 No. 2, pursuant to the provisions)
 of Section 3666 of the Public)
 Utilities Code, for the transporta-)
 tion of lumber and forest product -)
 Douglas City.)

Application No. 38060

Daniel Baker and Marvin Handler for Shasta
 United Service, Inc., applicant.
J. C. Kaspar and Arlo D. Poe for California
 Trucking Associations, Inc. and J. K.
 Quintrall for Western Motor Tariff Bureau,
 interested parties.
William C. Bricca, Arthur Lyon, A. R. Day
 and J. W. Mallory for the Commission's
 staff.

O P I N I O N

Shasta United Service, Inc., a corporation holding permits to operate as a radial highway common carrier and as a highway contract carrier, is engaged in the transportation of lumber between points in California. By this application it seeks authority under Section 3666 of the Public Utilities Code to charge U. S. Plywood Corporation a rate of 12½ cents per 100 pounds, minimum weight 40,000 pounds for the transportation of lumber and forest products from Douglas City to the Shasta Box Company mill one mile south of Redding and to the U. S. Plywood Corporation's plant six miles south of Redding. The proposed rate is less than the established minimum rate for this transportation.

Public hearing was held in this application on August 28 and 29, 1956 at San Francisco before Examiner J. E. Thompson.

Shasta United Service, Inc., has 1,800 shares of stock, outstanding, of which Donald H. Hawkey, secretary-treasurer of the firm, holds 850 shares. Donald H. Hawkey, as an individual, is engaged in the business of transporting lumber as a highway common carrier under the name and style of Hawkey Lumber Transportation.⁽¹⁾

Shasta was incorporated in 1950 and since that time has been continuously engaged in transporting lumber for Shasta Box Company and the latter's successor in interest, the U. S. Plywood Corporation. Recently U. S. Plywood acquired some properties included in which were four trucks and trailers of the heavy duty type equipped for transporting lumber in truckload quantities. It informed the applicant that it would use the trucks on the haul from Douglas City to Redding. After negotiation the shipper informed applicant that it would continue to use the services of Shasta United Service, Inc., if the latter was authorized to charge 12½ cents per 100 pounds for the transportation and that it would defer placing the trucks in operation pending the determination of the application for such authority.

The operation in the transportation of lumber from origin at Douglas City to the two plants at Redding is described by the applicant as an around the clock operation. Approximately six hours are required for a round trip. The distance between Douglas City and the farthest destination is 47 actual highway miles and 63 constructive miles. Three truck and trailer units are used in the operation.

(1) Donald H. Hawkey has many business interests other than the highway common carrier operation and Shasta United Service, Inc. For convenience in this opinion Hawkey Lumber Transportation will be referred to as Hawkey Transportation and Donald H. Hawkey, as an individual aside from the Hawkey Transportation enterprise will be referred to as Hawkey.

The lumber is loaded at origin and unloaded at destination by fork-lift trucks. There is a constant volume of traffic averaging eight trips per day for eleven months of the year with an average load of 48,000 pounds. During the twelfth month, operations are suspended for mill repairs and maintenance. During this month the applicant overhauls its equipment and performs some subhauling.

According to the testimony the operation is one of routine with which the drivers are so familiar that close supervision is not required. When other than routine problems are encountered by the drivers they obtain direction from Hawkey or from the dispatcher employed in the Hawkey Transportation operation.

The accountant for the applicant introduced a profit and loss statement covering operations conducted by the applicant during its fiscal year ended May 31, 1956. He also presented an estimate of revenue and expense on a per trip basis for the transportation here involved under the proposed rate.

The financial statement shows a remarkably small amount of indirect or overhead expense. Of the total operating expenses of approximately \$109,000, approximately \$5,500 consisted of items of indirect expense. Hawkey is paid \$250 per month which covers the expense of management and supervision. The only office equipment owned by the applicant is a filing cabinet. A clerk is shared on a part-time basis with Rock Transport, Inc., a corporation, in which Hawkey is a major stockholder. Office work is performed in the office of Rock Transport, Inc. which is in the same building as the offices of Hawkey Transportation. No rent for the use of this office is paid by the applicant. Bookkeeping and accounting is done by an accounting firm for an average monthly charge of approximately \$125. It is apparent that the relatively low indirect expense results from facilities and services owned and furnished by one of the stockholders of the applicant.

Just as the charges for services between companies that are connected through ownership are scrutinized and considered by the Commission in matters involving the reasonableness of proposed increases in rates, such charges, or lack of them, will be given consideration in the determination of the reasonableness of a reduced rate. The reasonableness of the amount of indirect expense is proportional to the extent of the facilities and employees reasonably necessary to the conduct of the management and administration of the business. Here the business is confined principally to the transportation of lumber for one shipper from one point of origin to two points of destination. While close supervision of the drivers is not required, management must be available for the times when situations out of the routine are encountered by the drivers. While the operation of moving the lumber is performed by the drivers, the administrative functions such as billing the charges for transportation, purchasing of supplies, paying bills and receiving monies are not driver functions. For this operation a small office and a telephone are required at the very least. For the operation conducted by the applicant \$10,000 rather than \$5,500 appears to be a reasonable allocation for indirect expense for rate-making purposes. This is a ratio of indirect expenses to direct expenses of approximately 10 per cent rather than 5 per cent as indicated on the financial statement.

The accountant's estimate of the cost per trip of performing the service appears to be understated. While the amount indicated as administrative expense is slightly over 10 per cent of the direct expenses, it appears from the testimony that a number of items usually considered as direct expenses are included in the

estimated figure. When effect is given to allocations in cost that should be made for rate-making purposes, it appears that the cost per trip would be approximately \$54. The revenue for a shipment weighing 40,000 pounds, the minimum weight herein proposed, at the proposed rate would be \$50. Under the proposed rate a shipment of 45,000 pounds will produce \$56.25, which is an amount that exceeds the cost of providing the service. The evidence shows that the average weight per shipment transported is 48,236 pounds. The maximum weight per load that can be transported is approximately 51,000 pounds.

Upon consideration of all of the facts and circumstances of record the Commission is of the opinion and finds that a rate of 12½ cents per 100 pounds, minimum weight 45,000 pounds for the transportation of lumber and forest products from Douglas City to the plants of U. S. Plywood Corporation and Shasta Box Company in the vicinity of Redding has been shown to be reasonable. In all other respects the applicant has not shown that the proposed rate is reasonable.

O R D E R

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

IT IS ORDERED that Shasta United Service, Inc. be and it is hereby authorized to transport as a highway contract carrier, lumber and forest products from Douglas City to the plant of U. S. Plywood Corporation located six miles south of Redding and to the Shasta Box Company mill located one mile south of Redding at a rate of 12½ cents per 100 pounds, minimum weight 45,000 pounds.

IT IS FURTHER ORDERED that the authority granted herein shall expire December 1, 1957, unless sooner modified, canceled or extended by order of the Commission.

In all other respects the application of Shasta United Service, Inc., is denied.

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

Dated at Los Angeles, California,
this 4th day of DECEMBER, 1956.

E. P. Mitchell President
Raymond L. ...
William ...
R. ...
C. ... Commissioners