

ORIGINALDecision No. 74087

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of:)
 A & B GARMENT DELIVERY, a California)
 corporation, for authority to increase)
 rates pursuant to Section 454 and 491)
 of the Public Utilities Code.)

Application No. 49905
 (Filed December 22, 1967)

Theodore W. Russell, for A & B
Garment Delivery, applicant.
Joseph Braman and J. M. Jenkins,
of the Commission's staff.

O P I N I O N

Applicant is engaged in the business of transporting wearing apparel as a highway common carrier within the Los Angeles Basin Area.¹ By this application it seeks authority to effect a 15 percent increase in most of its rates and charges on less than 30 days' notice to the Commission and to the public.

¹ As defined in applicant's Local Freight Tariff No. 2, "Los Angeles Basin Area" means all points and places within the following boundary:

Beginning at the intersection of the westerly boundary of the City of Los Angeles and the Pacific Ocean, thence along the westerly and northerly boundaries of said City to its point of first intersection with the southerly boundary of Angeles National Forest, thence along the southerly boundary of Angeles and San Bernardino National Forests to the point of intersection of said southerly boundary of the San Bernardino National Forest and the San Bernardino -Riverside County Line, thence in a southerly and westerly direction along said County boundary to a point thereon distant 5 miles east of the intersection of said county boundary of U. S. Highway 91, thence generally southerly and southwesterly along a line generally paralleling and distant 5 miles from U. S. Highway 91, State Highway 55, U. S. Highway 101, Laguna Canyon Road, and the prolongation thereof to the Pacific Ocean, thence along the coastline of the Pacific Ocean to the point of beginning.

Public hearing on the application was held before Examiner Abernathy at Los Angeles on February 29, 1968. Evidence was presented by applicant's president, by its accountant and by a consultant for applicant. Members of the Commission's staff participated in the development of the record. The matter was taken under submission with the receipt of a brief on March 7, 1968.

Applicant's services constitute a specialized type of transportation designed to meet particular requirements of the wearing apparel industry. The principal movements are from manufacturers and wholesalers in the central portion of the City of Los Angeles to retail stores located throughout applicant's service area. Garments on hangers encased in protective bags are transported in van-type vehicles fitted with hanger racks. Each bag encloses a number of garments, generally not more than 25. This method of transportation permits savings in the expense of wrapping and packing garments per shipment. Moreover, it permits the delivery of garments in unwrinkled condition, thereby avoiding pressing expense which follows when ordinary packing and transportation methods are employed.

Applicant's basic rates for the transportation of garments on hangers in bags are as follows:

28 cents per bag plus 3.5 cents per pound,
but not less than 28 cents per bag plus
5 cents per garment, for all garments
except women's blouses or shirts which
shall be 2 cents each.

Said rates "apply from carrier's established depot at Los Angeles, Calif., and include delivery at all points of destination authorized

to be served."² Additional charges apply for pickup services performed when shipments are tendered for transportation from other than applicant's established depot.

The 15 percent increase which applicant seeks to make in its rates would apply mainly to the basic rates. About two-thirds of applicant's total revenues are earned under these rates. Applicant does not seek increases in other of its rates because its management is of the opinion that increases in said rates at this time either are not warranted or feasible. The rates (and charges) which would not be increased are for the services listed in the margin below.³

Applicant's rates were first established at their present level in 1961. Applicant alleges that during the interval since that time it has experienced increases in virtually all of its operating costs; that it has not been able to compensate for the effect of these cost increases; that its operations are resulting in losses; and that its needs for additional revenues to sustain its services are now so critical that it has had to seek the rate increases herein involved as an interim measure pending definitive studies to determine what additional or other increases should be made in its rates to restore its operations to a sound financial basis.

² Section 2, Local Freight Tariff No. 2, Cal. P.U.C. No. 1 (Series of Frank J. Brown), A & B Garment Delivery.

³ Pickup service; the use of bags which applicant rents to its patrons; collecting and remitting amounts collected on C.O.D. shipments; storage on shipments which cannot be delivered; insurance on shipments transported under excess valuations; services which applicant performs as a highway permit carrier; also, certain services which applicant performs as a city carrier; the transportation of shipments of applicant's patrons to terminals of other carriers; and pickup and delivery services which applicant performs for other carriers.

According to financial exhibits which were submitted and explained by applicant's witnesses, applicant's operating results for the years 1966 and 1967 were as follows:

Table No. 1

	<u>1966</u>	<u>1967</u>
Revenues	\$1,161,309	\$1,181,823
Operating Expenses	<u>1,171,991</u>	<u>1,260,949*</u>
Operating Loss	\$ 10,682	\$ 79,126

*\$8,403 interest expense excluded.

During the year 1967 applicant entered into new wage contracts with its employees. The new contracts resulted in increases of about \$62,000 in applicant's annual wage costs. To show the effect of the increased wage costs upon a year's operations the consultant for applicant adjusted the operating expenses for 1966 to the basis of the new wage costs. Also, he adjusted the revenues to reflect the additional revenues which applicant would receive if the sought rates are authorized.

The indicated operating results, as derived from the consultant's figures, are shown in the following table:

Table No. 2

Financial Results of Operations, Year 1966,
Adjusted to Show Effect of Increased Labor
Costs and Increased Revenues from Proposed Rates

	<u>Under Present Rates</u>	<u>Under Proposed Rates</u>
Revenues	\$1,161,309	\$1,294,665
Operating Expenses	<u>1,233,070</u> ^(a)	<u>1,238,164</u> ^{(a)(b)}
Net Operating Revenues	<u>(\$ 71,761)</u>	\$ 56,501
Income Taxes	-	22,677
Net Income	<u>(\$ 71,761)</u>	\$ 33,824
Operating Ratio	106.2%	97.4%

 Indicates loss.

- (a) Includes \$62,414 for increased labor costs.
(b) Includes \$5,094 for gross receipts tax and additional insurance costs based on increased revenue under proposed rates.

The data in the foregoing table, the consultant explained, were developed in relation to applicant's revenue and expense experience for 1966, instead of for 1967, because figures for 1967 were not available at the time that he was making his calculations. Applicant argued that the operating results for 1966 plus the showing of the increases in labor costs which became applicable in 1967 fully demonstrate that the sought rate increases are justified. Assertedly, the significance to be attributed to the 1967 data lies mainly in the fact that said data disclose that applicant's operating costs for 1967 have increased substantially over 1966.

Discussion, Findings and Conclusions

The evidence in this matter is clear that applicant is incurring substantial financial losses from its present operations. On the basis of the 1966 operating results, as adjusted to show the effect of the increased labor costs, it must be concluded that the revenues which applicant is receiving under its present rates are not sufficient to sustain its services. Moreover, if the cost increases, other than labor, which are reflected in the 1967 operating results are taken into account, it appears that the losses are so burdensome as to raise serious question as to whether applicant's operations can be long continued without some form of immediate relief therefrom. In this connection it is noted that applicant's net worth was reduced 40 percent by the 1967 losses.

On this record we do not fully accept the 1967 data as constituting a portrayal of applicant's financial circumstances for that year. For the most part said data were not explained, even though some of the expenses for 1967 were substantially higher than those of the preceding year. Examples of some of such expenses are as follows:

	<u>1966</u>	<u>1967</u>
Platform and other terminal employees	\$95,056	\$159,862
Miscellaneous terminal expense	18,201	52,774
Wages, officers	25,465	48,367
Expenses, officers	12,241	21,157

The absence of explanation of these and other expense increases detracts much from the weight that otherwise could be accorded them. If expense increases, particularly those of the magnitudes represented in the above figures, are to be accepted for rate making purposes, the propriety thereof should be clearly established.

Despite the indicated deficiencies in applicant's showing relative to the financial data applicable to the 1967 operations, however, we are persuaded that applicant's financial position did deteriorate, in fact, during 1967. Since the wage increases which became effective in 1967 applied to only the second half of the year's operations, it is evident that the level of the labor costs which prevailed during the latter part of the year is not fully represented by the level of the labor costs for the year. Considering this fact and applicant's 1967 operating results in general, we are of the opinion that any fair evaluation of applicant's financial position during the latter part of 1967 which might be developed upon fully-explained data for that period would disclose that the establishment of the increased rates which applicant seeks would have a less favorable effect upon applicant's earnings than that represented in the estimates of applicant (Table No. 2, above) based upon the operations for 1966.

The record shows that applicant's patrons were notified of the proposed rate increases. No one appeared in opposition to the proposals.

Upon consideration of the record herein the Commission finds that:

1. Applicant is incurring financial operating losses from its present operations under its present rates.

2. Said losses are of such severity that they threaten applicant's ability to maintain its services for the public.

3. The additional revenues which applicant expects to realize from the sought fares will do hardly more than overcome present losses and provide a small margin for profit.

4. The sought rate increases have been justified.

The Commission concludes that:

1. The sought increases in applicant's rates and charges should be authorized.

2. In view of applicant's evident need for prompt relief from its present losses, applicant should be authorized to make the increases effective on five days' notice to the Commission and to the public; also, the order herein should become effective ten days after the date thereof.

In arriving at our findings and conclusions above, we have been impelled primarily by applicant's needs for increased revenues to enable it to continue its operations. However, applicant should understand that should it undertake to seek further increases in its rates it will be expected to present data to support the then-sought rates not only from an over-all revenue and expense standpoint, but also from a standpoint of the reasonableness of the individual rates and their relationships to applicant's rate structure as a whole. For example, consideration should be given to whether pickup services which applicant

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provides at a charge of \$2.00 per week are casting an undue burden upon other of applicant's services.⁴ Also, similar consideration should be given to whether services which applicant performs other than as a highway common carrier are reasonably compensatory. Obviously, applicant should not expect to recover from the patrons of its highway common carrier services amounts to offset losses or earnings deficiencies attributable to its non-highway common carrier services.

O R D E R

IT IS ORDERED that:

1. A & B Garment Delivery is authorized to establish the increased rates in its Local Freight Tariff No. 2, Cal. P.U.C. No. 1 (Series of Frank J. Brown d.b.a. A & B Garment Delivery) proposed in Application No. 49905. Tariff publications authorized to be made as a result of the order herein shall be filed not earlier than the effective date of this order and may be made effective not earlier than five days after the effective date hereof on not less than five days' notice to the Commission and to the public.

EXCEPTION: The authority herein granted shall not be exercised to effect increases in the rates and charges (including service charges) for:

- (a) Pickup services for which rates and charges are set forth in Note 1 to Item No. 100 series of said tariff;

⁴ It appears that applicant's pickup charge of \$2.00 a week has been in effect since 1951 (Decision No. 56709, dated May 20, 1958). For this charge applicant provides daily pickup service, five days a week. The record herein shows that during the past seven years since February 1, 1961, the wage rates for drivers have increased 40 percent -- from \$2.525 per hour to \$3.52 per hour. Thus, even without regard to any wage increases for drivers during the ten years prior to February 1, 1961, the extent of the wage increases since then gives rise to a question of the reasonableness of the pickup charge under present cost levels.

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- (b) The rental of bags, the rates and charges for which are set forth in Item No. 15 series of said tariff;
- (c) Collecting and remitting amounts collected on C.O.D. shipments, the charges for which are set forth in Item No. 20 series of said tariff;
- (d) Storage services provided in connection with shipments which cannot be delivered (Item No. 25 series of said tariff);
- (e) Excess valuation on shipments (Item No. 30 series of said tariff).

2. The authority herein granted shall expire unless exercised within ninety days after the effective date of this order.

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

Dated at San Francisco, California, this 7th day
of MAY, 1968.

President

William W. Bennett

Augusta

William Sproule Jr.

And P. Monissey

Commissioners

COMMISSIONER PETER E. MITCHELL - CONCURRING IN PART -
DISSENTING IN PART

The decision in its present form eliminates consideration of a principal issue of the proceeding; namely, what was the scope of the proceeding. The question arose from assertions at the hearing that a portion of the operations of A & B Garment Delivery are in the City of Los Angeles and are not subject to its tariff, and therefore its rates for its services within Los Angeles were not in issue.

The Legislature and the California Supreme Court have ordered that the Commission shall make separately stated findings of fact on all material issues. (CF. Sect. 1705; 59 Cal. 2d 270, 65 Cal. 2d 811). Without expressing any conclusion on the issue in question, it is my belief that we must make findings thereon.

With the exception above noted I concur with the decision in esse.


Peter E. Mitchell, President

San Francisco, California

May 7, 1968