

ORIGINAL

Decision No. 83385

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Investigation into
the rates, rules, regulations, charges,
allowances and practices of all common
carriers, highway carriers and city
carriers relating to the transportation
of any and all commodities between and
within all points and places in the
State of California (including, but
not limited to, transportation for
which rates are provided in Minimum
Rate Tariff No. 2).

Case No. 5432, Petition 821
(Filed September 19, 1974;
amended October 11, 1974 and
November 15, 1974)

And Related Matters.

Case No. 5439, Petition 228
Case No. 5441, Petition 317
Case No. 7783, Petition 105
(Filed September 19, 1974;
amended October 11, 1974 and
November 15, 1974)

(Appearances are listed in Appendix A.)

O P I N I O N

Minimum Rate Tariffs 2, 1-B, 19, 9-B, and 15 contain minimum rates for transportation of general commodities statewide and within the major metropolitan areas of the State.

In the captioned petitions, California Trucking Association (CTA) seeks an immediate surcharge increase of 8 percent in said tariffs to offset increases in highway carriers' operating expenses related to maintenance and tire costs, investment and depreciation costs, and indirect expenses not related to labor.

Public hearing in the captioned proceedings was held before Examiner Mallory at San Francisco on October 22 and 23 and November 25, 26, and 27, 1974. The matters were submitted on November 27, 1974.

Evidence was adduced by CTA, the Commission staff, National Small Shipments Traffic Conference and Drug and Toilet Preparations Traffic Conference (Conferences), California Manufacturers Association (CMA), and Traffic Managers Conference of California (Traffic Managers).

The aforementioned shippers' groups and the staff recognize that the elements of carrier operating costs which are the subject of this proceeding have met with severe inflationary pressures in recent periods and such parties do not object to increases in minimum rates to offset such costs. However, the shippers' groups and the staff recommend that the Commission adopt a lesser surcharge increase than that proposed by petitioner.

Background

The minimum rates set forth in MRT 2, 1-B, 19, 9-B, and 15 were developed using the methods and techniques approved in California Manufacturers Association v California Public Utilities Commission (1954) 42 C 2d 530.

The Commission periodically revises the tariffs in question based on full-scale cost studies, which establish a cost datum plane. In the period between tariff revisions based on full-scale studies, the tariffs are revised by adjusting the datum plane costs to reflect changes in certain operating costs. The components of the cost studies underlying the rates in the tariffs in issue may be categorized as follows:

TABLE 1
Categories of Cost Components Included
In the Full-Scale Studies Underlying Rates
Contained in MRT 2, 1-B, 19, 9-B, and 15

<u>Cost Categories</u>	<u>Subject to Wage Offset Procedures in Recent Proceedings</u>
I. <u>Labor Costs</u>	
(a) Basic wages, premium wages	Yes
(b) Vacation, holiday pay	Yes
(c) Health, welfare, pension	Yes
(d) Payroll taxes	Yes
(e) Workmen's compensation insurance	Yes
II. <u>Vehicle Fixed Costs</u>	
(a) Depreciation	No
(b) Vehicle license, taxes, and weight fees	Yes
III. <u>Motor Vehicle Running Costs</u>	
(a) Fuel and oil	Yes
(b) Tires	No
(c) Maintenance and repair	No
IV. <u>Indirect Expenses</u>	
(a) Management, sales and clerical salaries, and related payroll costs	Yes
(b) Terminal and office rents	No
(c) Utilities, communications, office supplies, and general expenses	No
V. <u>Gross Revenue Expenses</u>	
(a) Property damage, liability, and cargo insurance	Yes
(b) Transportation Rate Fund fee and uniform business license tax	Yes

The cost offset procedures found reasonable by the Commission are more fully discussed in Re Minimum Rate Tariff 2 (1969) 70 CPUC 277. The procedures approved in that decision are described as the Direct Wage Offset, Wage Offset, and Wage (Cost) Offset methods (ibid. ✓ at pages 280 and 281). The three cost offset procedures approved by the

Commission hold constant the cost factors related to fixed investment and depreciation, maintenance costs, and fuel costs.^{1/} Similarly, the Wage Offset method, used in recent proceedings involving increases in MRT 2 and the drayage tariffs, holds constant that portion of indirect expenses which are not related to labor.

As may be observed from Table 1 (above) vehicle depreciation expense, tire, and maintenance and repair costs, and that part of indirect expenses not related to wages or salaries, have not been changed from the original full-scale cost studies.^{2/} The rationale for holding constant such elements of highway carrier operating costs is that the values contained in the original cost studies which established the datum plane are representative of the actual conditions encountered at any later time (ibid. at page 279). Historically, such cost elements have not been subjected to regular or periodic changes and changes in said costs have been considered incapable of precise measurement in the absence of new full-scale cost studies.

The most recent full-scale cost studies underlying MRT 2, 1-B, 19, and 9-B were presented in evidence more than ten years ago. The rate adjustments made in those tariffs since the introduction of the latest full-scale studies have been made using one of the three offset bases described in Re Minimum Rate Tariff 2, supra.

^{1/} The three offset methods described in Decision No. 76353 (70 CPUC 277) did not provide for increases in fuel costs. Due to the rapid acceleration in fuel costs occurring in late 1973 and early 1974, procedures for fuel offsets were established in Decision No. 82905 dated May 29, 1974 in Case No. 5432 (Petition 780).

^{2/} Vehicle depreciation expenses for MRT 15 have been adjusted in a more recent proceeding than those in which full-scale studies were last presented for MRT 2 and the drayage tariffs (In re Minimum Rate Tariff 15 (1970) 71 CPUC 282).

The Commission staff had informed the Commission in past offset proceedings that it was conducting new full-scale studies involving MRT 2. However, completion of those studies have been delayed, and no new studies of that nature are currently available. The Commission expressed the need for development of current new full-scale cost and rate studies in recent proceedings.^{3/}

Petitioner's Request

Petitioner seeks herein the establishment of an immediate surcharge increase in rates to offset the asserted unprecedented rise in those elements of carrier operating costs which heretofore have not been considered in offset proceedings. Petitioner asserts that the assumptions under which the values for those cost components are held constant in offset proceedings are no longer valid, inasmuch as the current period of inflation has caused the actual expenses incurred by highway carriers to rise in all categories to the extent that highway carriers can no longer absorb such expense increases without risking economic ruin.

Petitioner's Presentation

The director of CTA's Division of Transport Economics presented oral and documentary evidence in support of the petitions herein. The witness testified that the changes in the elements of cost hereunder consideration cannot be measured as precisely as the elements of cost which historically are considered in offset rate proceedings.

The witness testified that in the last several months the cost elements under consideration herein have risen rapidly, and that such increases in costs have adversely affected the profitability of highway carrier operations under the minimum rate tariffs in issue.

^{3/} See In re Minimum Rate Tariff 2 (1972) CPUC 634; Decision No. 81185 dated March 27, 1973 in Case No. 5432 (Petition 713); Decision No. 82219 dated December 4, 1973 in Case No. 5432 (Petition 757); and Decision No. 82924 dated May 29, 1974 in Case No. 5432 (Petition 779).

Assertedly carriers can no longer absorb the increases in operating costs resulting from higher costs of acquiring and operating motor vehicle equipment, and from increases in the costs of other supplies and services such as rental expense, utility and communication expenses, and office supplies.

Witnesses from Fruehauf Corporation, International Trucks, Engs Motor Truck Company, Cummins Engine Company, Inc., Firestone Tire & Rubber Co., and Security Pacific National Bank, presented exhibits designed to show the recent changes in selling prices of truck trailers and dollies, tractors, truck parts, diesel engines, truck tires, and in the prime interest rate. The most current prices for trucks, trailers, tires, parts, and equipment are all higher than for any period in the past. In addition, the prime interest rate has accelerated in the second half of 1973 and in 1974 as compared with earlier periods.

CTA's director of its Division of Transport Economics presented a series of exhibits designed to show the current inflationary trends in specific items of expenses incurred by highway carriers. For example, the witness compared the changes in the wholesale price indices for the period January 1970 through October 1974 for office and store machines and equipment, paper, and truck tires. Utilities, telephone, and airline fare increases authorized by this Commission were compared for the years 1970-1974. The witness also compared in Exhibit 821-9 the historical cost of motive equipment for the years 1953 through 1962 set forth in CTA's last statewide full-scale cost study (Exhibit 233-26 in Case No. 5432) with the historical equipment costs for the years 1963 through 1972 set forth in the Commission's Data Bank Report 511-12.^{4/} Exhibit 821-10 compares the changes in base hourly wage rates for bobtail drivers and machinists

^{4/} Equipment costs used in cost studies underlying the minimum rate tariffs in issue reflect the average costs for each type of equipment over the assumed service life of that equipment. For example, the service life for a pickup truck is six years, a diesel tractor is eight years, and a semi-trailer is ten years in Exhibit 233-26.

for the period 1970 through 1974. That comparison shows that both drivers' and mechanics' wages have increased by \$4.10 per hour in that period. The increase in drivers' wages has been offset in prior offset rate increase proceedings, while the increases in mechanics' wages (a part of maintenance and repair costs) have not been included in such offset rate adjustments.

The CTA witness endeavored to show, in Exhibit 821-11, the inflationary trends in maintenance costs per mile by accumulating the totals of the 4100 series of accounts in the annual reports of four large common carriers and dividing those amounts by the total vehicle miles set forth in the annual reports. The average costs per mile so developed are as follows:

TABLE 2

<u>Year(s)</u>	<u>Average Cost per Mile For Maintenance Expense (Cents)</u>
1960 through 1962	12
1963	13
1964 through 1968	14
1969	15
1970	16
1971	17
1972	18
1973	19

In the period 1963 through 1973, maintenance cost per mile, as developed by the witness, increased 6 cents or 46 percent.

The witness also presented exhibits showing the changes from January 1970 through September 1974 in general price indices prepared by the United States Department of Labor, Bureau of Labor Statistics. These are the national consumer price index and the consumer price index for the Los Angeles and San Francisco Metropolitan areas, and the wholesale price index for all industrial commodities and for industrial commodities excluding fuel and power.

In Exhibits 821-16 and 821-29 CTA endeavored to show the effect of adjusting that portion of carriers' total operating expenses that have not been considered in past offset rate proceedings by the increase in the general price indices. The witness developed the total 1973 operating revenues and expenses for a representative group of 86 highway carriers from data set forth in their annual reports filed with this Commission. The witness analyzed the annual reports accounts and found that 18.95 percent of total expenses cover categories of expenses which were not considered in past offset proceedings. For the group of 86 carriers, the 1973 composite operating revenues were \$275,727,830, the composite operating expenses were \$271,167,348, and the resulting composite operating ratio was 98.3 percent.

The effect on composite expenses of the increases in operating costs as measured by the changes in various price indices and the effect on composite revenues of a surcharge of 8 percent, is set forth below.

TABLE 3
(CTA's Exhibit 821-29)

Measure of Inflationary Impacts

	Wholesale Price Index							
	All Commodities				Industrial Commodities (Less Fuel)			
	1/72	11/74	1/73	11/74	1/72	11/74	1/73	11/74
Comparative Index	116.3	172.8	124.5	172.8	115.9	161.3	119.9	161.3
Percent Increase		48.94%		38.80%		39.17%		34.53%
Increase In Total								
Expenses		9.27%		7.35%		7.42%		6.54%
Adjusted (1)								
Revenue	\$297,786,056		\$297,786,056		\$297,786,056		\$297,786,056	
Expense	296,304,561		291,098,148		291,287,965		288,901,693	
Operating Ratio	99.50%		97.75%		97.82%		97.02%	

(1) Operating Summary for Year 1973:

<u>Actual</u>	
Revenue	\$275,727,830
Expenses	271,167,348
Operating Ratio	98.3%
Expenses Not Offset	18.95%

Table 3 purportedly shows that a revenue increase of 7.42 percent is required to offset the increase from January 1972 through November 1974, in that portion of carriers' operating expenses hereunder consideration, as measured by the change in the industrial price index (less fuel).

Evidence Adduced by Shipper Groups

The evidence introduced by parties other than petitioner was designed to show that the full amount of the increase sought by petitioner is not warranted. All such parties recognize that in the present inflationary period rapid increases have incurred in those elements of carrier operating costs that heretofore have not been considered in offset rate proceedings. However, it is the position of these parties that the changes in price indices do not afford the best means of measuring such changes in operating costs, and that the methods employed by petitioner herein do not give effect to changes in carrier productivity achieved through improvements in motive equipment, terminal handling equipment, and from improvements in management and accounting techniques.

Evidence was presented by a transportation consultant appearing for Conferences to show the components of the industrial price index. It was the consultant's view that the industrial price index (less fuel) is a better measure than the industrial price index including fuel. It is also the consultant's contention that the industrial price index also contains many nontransportation items. Comparisons of price indices which include nontransportation items assertedly cause distortions because prices have increased differently for the transportation items and the nontransportation items included in the industrial price index. Conferences presented comparisons to demonstrate that the expenses in issue on a per ton basis have increased only 2.9 percent from 1972 to 1973 (Exhibit 821-26).

The witness listed the 1974 percentage rate increases authorized by the ICC to highway common carriers in various rate territories in the United States (Exhibit 821-27). These rate increases assertedly were authorized to cover higher costs for non-labor items of expense. The increases range from 1.0 percent in New England to 3.0 percent for Pacific-Inland Tariff Bureau. The latter tariff area includes transportation to and from California. Exhibits 821-26 and 821-27 were presented to show that lesser increases sought on interstate traffic and the lower cost per ton data may be the result of offsetting improvements in carrier efficiency (productivity).

Statements presented by Traffic Managers and by CMA support the view of Conferences that the methods employed by petitioner do not reflect the true measurement of increased carrier operating expenses actually incurred because such methods give no consideration to improved carrier productivity. Traffic Conference and CMA urge that this Commission investigate the use of the procedures adopted by the ICC in Ex Parte No. MC-82 - New Procedures in Motor Carrier Revenue Proceedings (1971) 339 ICC 324 and 340 ICC 1.

Commission Staff Presentation

The examiner requested that the Commission's Transportation Division staff analyze the procedures adopted in Ex Parte MC-82 and advise whether they are appropriate for minimum rate proceedings before this Commission. The staff advised that it had reviewed such procedures and believed that the issues in the ICC motor carrier proceedings differed sufficiently from those involved in California minimum rate proceedings so that the MC-82 procedures would not be appropriate to test the reasonableness of proposed changes in the levels of minimum rates.

The examiner also requested the Commission staff to review the evidence introduced by petitioner with a view of recommending alternative methods of developing facts that would show the precise changes in the specific elements of carrier operating costs involved

in this proceeding. In response to this request, a transportation engineer introduced a two-part exhibit. The engineer testified that the Commission's Data Bank contains information on equipment costs. The staff full-scale cost study introduced as Exhibit 86 in Case No. 6322 (Decision No. 74991 dated November 26, 1968) was adjusted to substitute the most current available equipment costs for those used in that study.^{5/} Exhibit 821-32 shows that the revision of that cost study to reflect changes in equipment costs would result in increases in total costs of 0.52 to 1.001 percent. The staff witness indicated that the percentage increases would be greater than those shown for longer hauls and for heavier shipments. The second part of Exhibit 821-32 shows the effect on total operating costs of an assumed increase of one cent per mile in running costs. That change showed that total costs would increase by amounts ranging from 0.289 to 0.889 percent.

The staff transportation engineer also introduced Exhibit 821-34, which contains data concerning trends in running costs for the period 1967 through 1973. The trend in maintenance cost was determined in the following manner. The witness selected the annual reports of five prominent less-truckload common carriers for analysis.^{6/} The yearly maintenance expense for the group of carriers was developed using the total of the 4100 series of accounts, less Account 4160 (tires). The vehicle miles operated by the carriers was also totaled. The annual maintenance expense so determined was

^{5/} The staff exhibit served as a basis for the establishment of the small shipment rates applicable within the Los Angeles Metropolitan area in MRT 2. The study covers shipments of less than 20,000 pounds.

^{6/} The carriers are Associated Freight Lines, Delta Lines, California Motor Express, Di Salvo Truck Lines, and Willig Freight Lines.

divided by the total annual miles operated to find the cost per mile. The following is the maintenance cost per mile developed by the staff witness:

TABLE 4
Tabulation of Maintenance Cost Per Mile
1967 - 1973

(Exhibit 821-34)

<u>Year</u>	<u>Cost Per Mile (Cents)</u>	<u>Index (1967=100)</u>
1967	12.14	100
1968	12.68	104
1969	12.38	102
1970	13.54	112
1971	14.60	120
1972	15.46	127
1973	16.63	137

The staff engineer developed a tabulation of tire costs (Account 4160) using annual report data for same group of carriers mentioned above. These data are summarized below.

TABLE 5
Tabulation of Tire Costs
1967 - 1973

(Exhibit 821-34)

<u>Year</u>	<u>Cost Per Mile (Cents)</u>	<u>Index (1967=100)</u>
1967	1.95	100
1968	2.17	111
1969	2.38	122
1970	2.37	122
1971	2.32	119
1972	2.39	123
1973	2.33	119

The staff engineer showed the following tabulation in his report for mechanics' wages:

TABLE 6
 Tabulation of Mechanics Base Hourly Wage
 1967 - 1973
 (Exhibit 821-34)

<u>Month and Year</u>	<u>Base Hourly Wage</u>	<u>Index (1967=100)</u>
May 1967	\$4.21	100
May 1968	4.56	108
May 1969	4.75	113
May 1970	4.94	117
May 1971	5.71	136
Nov. 1971	5.96	142
May 1972	6.29	149
Nov. 1972	6.54	155
Jan. 1973	6.81	162
July 1973	7.24	172
July 1974	7.65	182
July 1975	8.06	191

Exhibit 821-34 also contains a graphic representation of the indices set forth in Tables 4, 5, and 6 above. The engineer stated that total maintenance expense increases at a much slower pace than mechanics wages; therefore, changes in mechanics wage rates are not indicative of the relative changes in total maintenance costs for any period of time. The staff engineer had no recommendation concerning measurement of changes in maintenance expenses.

The staff engineer offered in evidence a tabulation of composite operating ratios of Associated Freight Lines, Delta Lines, Di Salvo Truck Lines, and Willig Freight Lines, to show that operating ratios of less-truckload common carriers had not deteriorated in the period 1967 through the third quarter of 1974 (Exhibit 821-35).

A staff transportation rate expert presented Exhibit 821-37. The witness testified that his examination of the components of the various price indices prepared by the Bureau of Labor Statistics indicated the following: The consumer price index covers items purchased by families or persons by their day-to-day requirements

for food and shelter. The wholesale price index shows the cost of commodities at the first point they reach the market place. The industrial price index (less food and agricultural products) is a general index, and does not attempt to measure the specific types of carrier operating costs in issue. The witness concluded that the use of broad general indices to measure changes in a limited group of operating costs is improper, as there is little relationship, one to the other.

The rate expert recommended, if indices are to be used, that the components of the wholesale price index pertaining to motor trucks (Code 1411.02), auto parts (Code 1412), and tires (Code 0712.015) be combined, and the composite index for the three items be used as a measure of the changes in maintenance and equipment costs over a specific time period. The witness indicated that there is no category in the wholesale price index that shows changes in communication, utility, office supply, and other cost components included in indirect expenses. Therefore, the witness assumed that such costs changed in the same proportion that equipment, parts, and tire costs had changed, as measured by price indices for motor trucks, auto parts, and tires.

The staff rate expert developed the following table to show his recommended method of measuring the changes in carrier costs in issue herein.

TABLE 7
Measure of Inflationary Impacts
(Exhibits 821-37 and 821-39)

	<u>Wholesale Price Index</u>					
	<u>Motor Trucks - Auto Parts - Tires</u>					
	<u>1/72</u>	<u>10/74</u>	<u>1/73</u>	<u>10/74</u>	<u>7/74</u>	<u>10/74</u>
Comparative Index	100.0	125.1	102.0	125.1	114.7	125.1
Expenses Not Offset (18.95% of total)		25.1%		22.6%		9.1%
Increase in Total Expenses		4.76%		4.28%		1.7%

The rate expert testified that the staff does not advocate the use of an index system as a method for adjusting minimum rates. However, in the absence of quantitative information concerning changes in costs, the index system provides the only currently available method to reflect in the minimum rates the changes incurred in the cost components hereunder consideration. The witness recommended that, based on the data in Table 7, the surcharge not exceed four percent.

Rebuttal Testimony of Petitioner

CTA's director of its Transportation Research Division presented evidence in rebuttal to that adduced by shipper groups and the staff.

The witness stated that it is CTA's desire to measure the changes in running costs and equipment costs occurring in the period 1967 through 1975, even though the rapid acceleration in those costs have been incurred only in recent months. The witness stated that it is within the discretion of the Commission to determine when the change from a normal period to an accelerated period of inflation occurred, and to relate the relief granted herein to that period of inflation. The witness further stated that petitioner considers this proceeding as an emergency revenue proceeding and desires that the relief granted be in the form of a surcharge to become effective at the earliest possible date, preferably January 1, 1975.

The witness presented a series of revised exhibits to demonstrate the need for the level of surcharge increase sought in the amended petitions. In his Exhibit 821-43, the witness assumed that labor expense amounts to 50 percent and that parts expense constitutes 50 percent of maintenance expenses (running cost, less fuel). The witness's calculation of changes in running costs are set forth in the following table.

TABLE 8
Calculation of Increased
Running Cost (Less Fuel)
(Exhibit 821-43)

<u>Line</u>	<u>Item</u>	<u>Amount</u>	
1.	Cost per Mile - 1967	\$.1410	(1)
2.	Cost per Mile - 1973	.1895	
3.		<u>\$.0485</u>	
4.	<u>Labor Increase</u>		
5.	50% of Line 2	\$.0948	
6.	Base Wage - 1973	\$7.24	(2)
7.	Base Wage - 1975	\$8.06	(2)
8.	Percent Increase (Line 7 ÷ Line 6 - 100)	11.33%	
9.	Increase in Labor Cost (Line 5 x Line 8)	\$.0107	
10.	<u>Parts Increase</u>		
11.	50% of Line 2	\$.0947	
12.	WPI Industrial Ex Fuel 12/73	130.7	(3)
13.	WPI Industrial Ex Fuel 10/74	159.5	(3)
14.	Percent WPI Increase (Line 12 ÷ Line 13 - 100)	22.04%	
15.	Increase in Parts Cost (Line 11 x Line 14)	\$.0209	
16.	Running Cost 1967-75 Increase (Lines 3 + 9 + 15)	\$.0801	
	(1) PUC Staff Exhibit 821-34, page 3.		
	(2) PUC Staff Exhibit 821-34, page 4.		
	(3) CTA Exhibit 821-5.		

WPI - Wholesale Price Index

The witness developed in Exhibit 821-44, the percentage relationship that non-labor indirect expenses bear to total expenses by analyzing the 4200 and 5000 series of accounts to isolate those accounts which are not primarily labor. The witness determined by this method that 9.11 percent of the total expenses for the CTA sample group of carriers are indirect expenses (other than labor). The witness used the method shown in Table 9, below, to increase such expenses for the effect of recent inflationary trends.

TABLE 9
Effect of Non-Labor Cost Increases
on Total Expenses
(Exhibit 821-44)

<u>Item</u>	<u>Amount</u>
Non-Labor - Indirect to Total Expenses	9.11%
<u>Increase</u>	
WPI Industrial Less Fuel - 12/73	130.7
WPI Industrial Less Fuel - 10/74	159.5
Percent Increase	22.04%
Increase in Total Expense	2.01%

The CTA witness developed a composite of the data shown in Tables 8 and 9 to show the effect on total operating costs of the increases in the specific cost components measured in those tables. The result is shown in the following table.

TABLE 10
Summary of Cost Increase Data
Contained in Tables 8 and 9
(Exhibit 821-42)

<u>Item</u>	<u>Percent</u>
Running Cost (Table 8)	5.36
<u>Equipment Investment Cost</u>	
Average Increase in Case 1, Table 30, PUC Staff Exhibit 821-32	.81
Non-Labor Indirect Expense (Table 9)	<u>2.01</u>
Total Cost Increase	8.18

The witness contended that the sought increase of 8 percent is justified in face of the cost increase of 8.18 percent measured in Table 10 above.

Comparison of Petitioner and
Staff Methods Used Herein

Petitioner has presented two alternative methods of showing the need for an 8 percent surcharge. The first method is set forth in Table 3. That method compares changes in (a) the wholesale price

index for all commodities and (b) the wholesale price index for industrial commodities less fuel. The latter method is preferable because it excludes fuel, which has already been considered in recent offset proceedings. Those indices, however, are too broad for the specific purposes of this proceeding in that each index contains components which are unrelated to the cost changes attempted to be measured herein.

The second method employed by CTA is set forth in Tables 8, 9, and 10. That method, although preferable to that discussed above, has a defect in that it combines changes in costs for different time spans. The calculations of changes in running costs in Table 8 cover a seven-year period while the calculation of changes in non-labor components of indirect expense in Table 9 covers a two-year span. CTA requests that the rate increase herein be granted immediately in the form of a surcharge inasmuch as the revenue increase resulting therefrom is urgently needed to offset the rapid rise in the costs in question which have occurred in the current inflationary period.

It will be reasonable to limit the increase authorized herein to the cost changes which have been encountered in the recent inflationary period. Similarly, it will be reasonable for the purposes of this proceeding to use indices which are as closely related to the types of cost changes being measured as is possible to determine from the record.

With the foregoing in mind, changes in running costs should be measured for the period 1973 to date, and the "parts" component of running costs should be based on the index set forth in Table 7 for the period January 1973 through October 1974. As explained herein-after, adjustment should be made for an improvement in productivity in the test period. The indexing method used by petitioner indicates an increase of 46.5 percent in running costs for the period 1967-1973, while the corresponding increase measured by the staff was 34.0 percent. The difference results in a productivity factor of 91.5 percent used in the following table. Thus, Table 8 should be revised as follows:

TABLE 11
Revised Calculation of Increased
Running Cost (Less Fuel)

<u>Item</u>	<u>Amount</u>
Cost per Mile - 1973	\$.1895
<u>Labor Increase</u>	
50% of \$.1895	\$.0948
Base Wage - 1973	\$7.24
Base Wage - 1975	\$8.06
Percent Increase	11.33%
Increase in Labor Cost (\$.0948 x 11.33%)	\$.0107
<u>Parts Increase</u>	
50% of \$.1895	\$.0947
Parts/Trucks/Tires Index (Table 7)	
As of 1/73	102.0
As of 10/74	125.1
Percent Increase	22.6%
Increase in Parts Costs (\$.0947 x 22.6%)	\$.0214
Running Cost (less fuel) Total	\$.0321
Productivity factor 91.5%	\$.0294 ✓

Based on the above revision, Table 10 should be changed as follows:

TABLE 12
Summary of Cost Increase Data Contained
In Table 9 and Table 11 (Table 10 Restated)

<u>Item</u>	<u>Percent</u>
Running Cost (less fuel)	1.97 ✓
Equipment Investment Cost	.81
Non-Labor Indirect Expense	<u>2.01</u>
	4.79 ✓

Based on the calculations in Table 12, a surcharge increase of 5 percent will be sufficient to offset the increases in the carrier operating expenses in issue in the current period of rampant inflation.

Further Discussion

The method followed by CTA in developing Table 8 assumes that maintenance costs per mile are composed 50 percent of labor and 50 percent of parts and other expense items. Table 4 shows that maintenance costs rose by 37 percent in the period 1967 through 1973, and Table 6 shows that mechanics' base hourly wage rates rose by 62 percent in that period. We must assume, therefore, that the reason maintenance costs per mile did not actually rise as fast as its labor component is that productivity was rising at the same time as labor rates.

The greatest error that can result from the use of petitioner's methods advanced for the purposes of this proceeding (or, in fact, the use of historical offset procedures over a long period of time) is that such procedures fail to give effect to changes in productivity. The principal need for the periodic development of new full-scale cost studies is to measure productivity changes. All other elements contained in a cost study can be measured with reasonable accuracy and current values for such cost elements can be substituted in the old study.

As heretofore indicated, petitioner seeks to establish higher minimum rates for the transportation of general commodities to offset the higher expenses incurred by highway permit carriers for those elements of carriers' operating costs which have not been subjected to offset procedures in the past under criteria for offset rate proceedings described in Re Minimum Rate Tariff 2 (1969) 70 CPUC 277.

As stated in the decision cited above, offset procedures lack precision and are not designed nor intended to replace or be accepted as a completely satisfactory alternative for thorough full-scale studies (ibid., at page 279). The procedure adopted herein is an expediency designed only to remedy an emergency situation and is not meant to be suitable for future cost offset proceedings. The record shows that new full-scale studies or their alternative have become essential.

The Commission staff has indicated that it intends to conduct new full-scale studies involving the transportation of general commodities. Under the methods used by the staff and CTA in the past, a substantial amount of manpower is required to complete that portion of the full-scale cost studies which involve measurement of the productivity of labor and equipment involved in pickup and delivery operations, terminal handling of less truckload shipments, and line-haul operations. The methods heretofore followed involve time-and-motion studies of carriers' drivers and platform employees in the performance of pickup and delivery and terminal operations. By far, the largest part of the total manpower requirements and total time necessary to complete a new full-scale study is assigned to such time-and-motion studies. It is difficult to free sufficient staff employees in any one time to complete time-and-motion studies within an acceptable period. It is apparent that new methods of measuring the productivity of employees and equipment are essential if the Commission is to have the benefit of current up-to-date information concerning costs of transporting general commodities. Therefore, the Commission's Transportation Division should consider new programs which include the following:

1. Determination of a small sample group of carriers that engage predominantly in the statewide less-truckload transportation of general commodities.

2. Development of a similar, but larger, sample group of carriers that engage in the statewide truckload transportation of general commodities, including carriers that specialize in the handling of commodities that move in substantial volume, such as lumber, steel, canned foods, and packaged petroleum products.

3. Methods of measuring the productivity of carriers' manpower and equipment necessary to efficiently transport small shipments, other less-truckload, and truckload traffic.

4. Statistical data that can be obtained from the sample groups of carriers that will measure the changes in productivity of manpower and equipment, and the means of acquiring such data from sample carriers on a periodic basis.

Pending completion of the aforementioned studies, our Transportation Division should establish a simplified method of indexing changes in running costs (less fuel), equipment costs, and indirect expenses (less labor) for the purpose of making offset adjustments in those elements of costs in the interim period.

Findings

1. Petitioner, California Trucking Association, seeks the establishment of a surcharge increase of 8 percent in the charges resulting under the provisions of MRT 2, 1-B, 9-B, 15, and 19.

2. The purpose of the proposed surcharge increase is to offset the increases incurred in the recent period of rapid inflation in those elements of operating costs which historically have not been subject to offset procedures under criteria described in Re Minimum Rate Tariff 2 (1969) 70 CPUC 277, as amended for changes in fuel costs in Decision No. 82905 dated May 29, 1974 in Case No. 5432 (Petition 780).

3. The cost elements referred to in the preceding finding are (a) running costs (less fuel) (maintenance and tire costs), (b) fixed equipment costs (depreciation), and (c) indirect expenses (other than labor).

4. Offset procedures have not been established with respect to the cost elements described above because in periods of normal prices such costs ordinarily do not increase rapidly and because of the difficulty in measuring changes in such costs.

5. In the current inflationary period there has been a rapid increase in all elements of carriers' operating costs, including those elements of cost which historically have been held constant in offset rate proceedings.

6. Increases in minimum rates are necessary in order to offset the increases experienced by highway carriers involving running costs (less fuel), equipment costs, and indirect expenses (other than labor), if such minimum rates are to be maintained at just and reasonable levels.

7. The results attained and methods used in Table 12 in arriving at the surcharge increase necessary to offset the carrier cost increases in issue, as explained in the preceding opinion, are reasonable for the purposes of this proceeding.

8. A surcharge increase of 5 percent in the charges resulting from the provisions of MRT 2, 1-B, 9-B, 15, and 19 is necessary to offset the increase costs measured in Table 12, and increases of that magnitude are justified. The resulting increased rates and charges established in the order which follows are just, reasonable, and nondiscriminatory minimum rates for the transportation services governed thereby.

9. To the extent that the provisions of MRT 2, 1-B, 9-B, 15, and 19 have been found heretofore to constitute reasonable minimum rates and rules for common carriers as defined in the Public Utilities Act, said provisions as hereinafter adjusted, are, and will be,

reasonable minimum rate provisions for said common carriers. To the extent that the existing rates and charges of said common carriers for the transportation involved are less in volume or effect than the minimum rates and charges herein designated as reasonable for such carriers, to that same extent the rates and charges of said carriers are hereby found to be, now and for the future, unreasonable, insufficient, and not justified by the actual rates of competing carriers or the costs of other means of transportation.

10. Where common carriers have been heretofore authorized to depart from the so-called long- and short-haul prohibition of former Article XII, Section 21 of the Constitution, and Section 460 of the Public Utilities Code, such outstanding authorities should be modified, as requested by petitioner, to depart from Section 461.5 of the Public Utilities Code.

11. The Commission staff, petitioner, and other parties should immediately undertake such studies as necessary to develop methods of measuring the productivity of the labor and facilities necessary to provide reasonably efficient highway carrier transportation services within California with a view to completing the new full-scale cost and rate studies at the earliest practical time.

Conclusions

1. Petitions 821, 228, 317, and 105 in Cases Nos. 5432, 5439, 5441, and 7783, respectively, should be granted to the extent indicated in the above findings, and MRT 2, 1-B, 9-B, 15, and 19 should be amended accordingly.

2. Common carriers should be authorized to depart from the long- and short-haul provisions of Section 461.5 of the Public Utilities Code and the Commission's tariff circular requirements only to the extent necessary to publish the offset surcharge ordered herein.

3. For purposes involving distribution of tariffs, the surcharge supplement to MRT 2 will be attached to the order herein and the like supplements to MRT 1-B, 9-B, 15, and 19 will be established by separate orders.

O R D E R

IT IS ORDERED that:

1. Minimum Rate Tariff 2 (Appendix D to Decision No. 31606, as amended) is further amended by incorporating therein, to become effective February 1, 1975, Supplement 116, attached hereto and by this reference made a part hereof.

2. Common carriers subject to the Public Utilities Act, to the extent that they are subject to Decision No. 31606, as amended, are directed to establish in their tariffs the increases necessary to conform with the further adjustments ordered by this decision.

3. Common carriers maintaining rates on a level other than the minimum rates for transportation for which rates are prescribed in MRT 2 are authorized to increase such rates by the same amounts authorized by this decision for MRT 2 rates.

4. Common carriers maintaining rates on the same level as MRT 2 rates for the transportation of commodities and/or for transportation not subject to MRT 2 are authorized to increase such rates by the same amounts authorized by this decision for MRT 2 rates.

5. Common carriers maintaining rates at levels other than the minimum rates for the transportation of commodities and/or for transportation not subject to MRT 2 are authorized to increase such rates by the same amounts authorized by this decision for MRT 2 rates.

6. Tariff publications required or authorized to be made by common carriers as a result of this order shall be filed not earlier than the effective date of this order and may be made effective not earlier than the fifth day after the effective date of this order,

on not less than five days' notice to the Commission and to the public; such tariff publications as are required shall be made effective not later than February 1, 1975; and as to tariff publications which are authorized but not required, the authority shall expire unless exercised within thirty days after the effective date of this order.

7. Common carriers are authorized to depart from the Commission's tariff circular requirements only to the extent necessary in establishing the interim surcharge authorized by this order.

8. Common carriers, in establishing and maintaining the rates authorized by this order, are authorized to depart from the provisions of Section 461.5 of the Public Utilities Code to the extent necessary to adjust long- and short-haul departures now maintained under outstanding authorizations; such outstanding authorizations are hereby modified only to the extent necessary to comply with this order; and schedules containing the rates published under this authority shall make reference to the prior orders authorizing long- and short-haul departures and to this order.

9. In all other respects, Decision No. 31606, as amended, shall remain in full force and effect.

C. 5432 Pet. 821 et al. lmm

10. To the extent not granted herein, Petition 821, as amended, in Case No. 5432 is denied.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 14th
day of JANUARY, 1975.

Verano L. Sturgeon
President
William J. Sturgeon, Jr.
Sturgeon

Commissioners

APPENDIX A

LIST OF APPEARANCES

Petitioner: R. W. Smith, Attorney at Law, J. C. Kaspar, and H. W. Hughes, for California Trucking Association.

Respondents: Frank J. Corsello, for Pacific Motor Trucking Co.; Richard D. Stokes, for Haslett Company; Allan D. Smith and John McSweeney, for Delta Lines; T. R. Dwyer, for Delta Consolidated Industries; Joe McDonald, Lowell E. Christie, and Wayne Varozza, for California Motor Express; Armand Karp, for Rogers Motor Express; John Odoxta, for Shippers-Imperial; E. A. Anderson and Lee Pfister, for Willig Freight Lines; John Briggs, for PCP Transportation Company; C. E. Goacher, for Di Salvo Trucking Co.; Ray V. Mitchell and Richard R. McIntosh, for System 99; James Tonte, for Semper Truck Lines; Norman Crisp, for Crescent Truck Lines; Edward M. Daigh, for Morning After Delivery Service; Theo. Wright, Jr., for Santa Fe Transportation Company; and George James, for C. Line Express.

Interested Parties: Don B. Shields, for Highway Carriers Association; Ralph O. Hubbard, for California Farm Bureau Federation; Jess J. Butcher, for California Manufacturers Association; William D. Maver and R. E. Healy, for Cannery League of California; Calhoun E. Jacobson, for Traffic Managers Conference of California; Harvey E. Hamilton and Vernon Hampton, for Certain-Teed Products Corporation; Asa Button, for Amstar Corp. - Spreckels Sugar Division; H. Wolff and P. W. Pollock, for Fibreboard Corporation; James Orear, for California and Hawaiian Sugar Company; J. M. Cunningham, for Bethlehem Steel Corporation; Robert A. Kormel, for Pacific Gas and Electric Company; M. J. Nicolaus and R. S. Gleitz, for Western Motor Tariff Bureau; Thomas E. Carlton, for Morton Salt; Marshall Stein and Delmar D. Watkins, for Shell Oil Company; Howard W. Haage, for National Can Corporation; R. M. Zaller, for Can Manufacturers Institute and Continental Can Company, Inc.; Cornelius F. Phelan, for General Electric; J. R. Steele, for Leslie Foods, Division of Leslie Salt Company; Dan Sweeney, Attorney at Law, for National Small Shipments Traffic Conference and Drug and Toilet Preparations Traffic Conference; and R. W. Eberle, for Crown Zellerbach Corporation.

Commission Staff: E. Q. Carmody and Clyde T. Neary.

SPECIAL INCREASE SUPPLEMENT

SUPPLEMENT 116

(Cancels Supplement 114)

(Supplements 73, 75, 77, 87, 98, 112, 115 and 116 Contain All Changes)

TO
MINIMUM RATE TARIFF 2
NAMING
MINIMUM RATES AND RULES
FOR THE
TRANSPORTATION OF PROPERTY OVER THE
PUBLIC HIGHWAYS WITHIN THE
STATE OF CALIFORNIA

BY
RADIAL HIGHWAY COMMON CARRIERS
HIGHWAY CONTRACT CARRIERS
CEMENT CONTRACT CARRIERS
DUMP TRUCK CARRIERS
AND
HOUSEHOLD GOODS CARRIERS

APPLICATION OF SURCHARGE
(See Page 2 of This Supplement)

Decision No.

83985

EFFECTIVE

Issued by the
PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
State Building, Civic Center
San Francisco, California 94102

APPLICATION OF SURCHARGE

Except as otherwise provided, compute the amount of charges in accordance with the provisions of this tariff, including any surcharges applicable thereto under other supplements to this tariff, and increase the resulting total amount by six percent.

For purposes of disposing of fractions under provisions hereof, fractions of less than one-half cent shall be dropped and fractions of one-half cent or greater shall be increased to the next higher whole cent.

EXCEPTIONS: The surcharge provided in this supplement shall not be applied to those charges determined under provisions of this tariff specified below:

- (a) Item 124, Charges for Escort Service (paragraph (c) only).
- (b) Item 128, Charges for Permit Shipments.
- (c) Item 147, Advertising on Equipment.
- (d) Item 181-1, Special C.O.D. Service.
- (e) Item 182, Collect on Delivery (C.O.D.) Shipments.
- (f) Item 200, Alternative Application of Common Carrier Rates (railhead to railhead portion only).
- (g) Item 210, Alternative Application of Combinations with Common Carrier Rates (railhead to railhead portion only).
- (h) Item 220, Alternative Application of Split Pickup under Rates Constructed by Use of Combinations with Common Carrier Rates (railhead to railhead portion only).
- (i) Item 230, Alternative Application of Split Delivery under Rates Constructed by Use of Combinations with Common Carrier Rates (railhead to railhead portion only).
- (j) Item 260, Forklift Service Rates.

THE END