

ORIGINAL

Decision No. 39895

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 CALIFORNIA WAREHOUSE TARIFF BUREAU,)
 L. A. Bailey, Agent, for authority)
 to establish certain accessorial)
 charges, and to increase certain) Application No. 28099
 other accessorial charges, of public)
 warehouses in the City of Los Angeles,)
 and other Southern California points,)
 State of California.)

Appearances

Arlo D. Poe for Applicant
 L. A. Bailey for California Warehousemen's Association
 C. G. Munson for Los Angeles Warehousemen's Association
 Gordon Ross for Overland Terminal Warehouse Company
 John H. Broadhead for Los Angeles Warehouse Company
 I. W. Hamilton for Pacific Commercial Warehouse, Inc.
 Harold L. Drury for Pacific Coast Terminal Warehouse
 Company
 H. B. Plummer for Davies Warehouse Company
 C. O. Simpson for Metropolitan Warehouse Company and
 Westland Warehouses, Inc.
 Edgar S. Stanley for Star Truck & Warehouse Co.
 W. E. Fessenden for California Warehouse Co.
 H. B. Johnston, Jr. for Citizens Warehouse
 William W. Wylie for California and Hawaiian Sugar
 Refining Corporation, Ltd.
 Reginald F. Walker for Spreckels Sugar Company
 H. V. Tupper for American Crystal Sugar Co.
 Carl F. Peters for Union Terminal Warehouse
 Millard & Schmiedell, by A. F. Leland, for Union
 Sugar Co.

OPINION

By this application, 26 public utility warehousemen engaged in the storage of general merchandise in the City of Los Angeles and vicinity seek authority to establish a charge of 50 cents per ton for unloading merchandise from rail cars,¹

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In connection with certain specified commodities a charge of 50 cents per ton on packages weighing 150 pounds or less and 60 cents on packages weighing in excess thereof has heretofore been established. A charge of 50 cents per ton is already in effect for loading rail cars.

to provide a charge for delivering merchandise from storage of .25 cents for each delivery, and to increase the present man hour charges for special labor and clerical services from \$1.50 to \$2.20 for straight time work and from \$2.25 to \$3.30 for overtime work. No change is proposed in storage and handling rates.

Hearing was had before Examiner Krause at Los Angeles on January 6, 1947.

According to the testimony, the rates now in effect have been maintained without substantial change since June, 1942, during which period the cost of rendering warehouse services has increased materially. The most substantial increases in operating costs have been in wages and salaries. Typical of the increases incurred since 1942 in the regular rates of pay are the increases paid warehouse laborers, which amount to 37.5 per cent, for the first four months of employment, and 40.35 per cent for employment over four months. It was testified that the cost trend is still upward. Applicants declare that they are no longer able to operate at a reasonable profit under present rates. They assert that the continued maintenance of adequate and efficient public warehouse service in Los Angeles and vicinity is likely to be impaired unless substantially increased revenues can be obtained immediately.

A consulting engineer introduced an exhibit portraying the results of a detailed study of the cost experience and revenue needs of 12 of the applicant warehousemen, based upon their operations for the first nine months of 1946. The engineer testified that the companies which he studied operated 80 per cent of the total storage space and earned 85 per cent of the total

revenue during the period studied. He explained that the companies omitted from his study were for the most part engaged in activities not related to merchandise warehousing and that it would not be feasible to segregate their utility operating expenses, which were said to be negligible, from the total. As to the others, it was explained that accurate figures were not available.

According to the study, the operations performed under the storage rates are profitable in each instance whereas those performed under the handling rates are unprofitable. The engineer found that the over-all revenue experience of the twelve warehousemen varied considerably for the period studied, their operating ratios before income taxes ranging from 85.7 to 110.3 under present wage scales, space rentals and storage and handling rates.² The operating ratios of seven of the warehousemen exceeded 99.4 and the operating ratio for the entire group was 98.5.³ To determine applicants' revenue requirements, the engineer adjusted the warehousemen's figures so that they would reflect an operating ratio of 85, before income taxes. The engineer testified that the resulting earnings, when measured by return on rate base, were proper. The following table shows the

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The engineer pointed out that in giving effect to wage increases not in effect throughout the period, no attempt was made to calculate the added expense incurred in overtime work and increases given office workers because of the fact that such increases were not applied uniformly by all the warehousemen.

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Operating ratios after provision for income taxes were not given. Computing income taxes on a corporation basis, the operating ratios after taxes range from 89.4 to 110.3. The operating ratio for the group as a whole becomes 99.6.

rates of return, after federal income taxes, computed on a corporation basis, for the nine-month period, expanded to a yearly basis. The rates of return shown are based upon (1) depreciated book value plus a working capital allowance and (2) upon estimated reproduction cost, less depreciation or, in three instances, upon estimated present fair value of real property and depreciated book cost of equipment, plus working capital.

Warehousemen	Rate Base		Rates of Return to Produce Operating Ratio of 85	
	Depreciated Book Value	Estimated Depreciated Reproduction Cost	Based on Book Value	Based on Estimated Reproduction Cost
1	\$ 375,677	\$ 611,027	9.41%	5.79
*2-3	246,155	440,095	15.76	8.81
4	264,882	336,115	5.21	4.10
5	227,162	327,528	16.51	11.45
6	863,675	807,674	9.19	9.83
7	237,538	(1) 252,811	7.89	7.41
8	253,577	(1) 366,947	6.34	4.38
9	27,092	(1) 144,592	19.26	3.61
10	388,662	(2) 739,011	7.72	4.06
11	264,861	(2) 364,335	9.70	7.05
12	362,246	(2) 313,774	6.13	7.08
TOTAL	3,511,527	4,753,533	9.19	6.79

* Warehousemen numbered 2 and 3 are combined because one of them subleases from the other.

(1) Estimated present fair value.

(2) The value of depreciated investment in property other than land and buildings is not included in the individual figures for the last three warehousemen because only a total figure was given and it could not be apportioned. However, the amount thereof, \$49,624, is included in the total for the group. Had this amount been included a lower rate of return than shown would result.

Most of the warehousemen conduct a substantial part of their operations in property leased from others. Accordingly, the depreciated book cost of the property leased, as reflected on the owners' books, was used to determine the total value of invested property dedicated to public utility service. Expenses were

adjusted by substituting for the rent paid for the facilities the actual owners' expenses, including depreciation, taxes, insurance and repairs.⁴ A similar basis of allocation was followed in connection with estimating present fair value and reproduction costs.

The additional revenue said to be necessary to produce the results depicted by the table was \$249,451. An exhibit was introduced to show that the proposed establishment of a 50 cent per ton car unloading charge would, based upon applicants' actual experience during the nine-month period, produce additional revenues of \$117,772, that the proposed 25 cent delivery charge would produce an additional \$90,237, and that the increases in special labor rates sought would amount to \$33,355. The total estimated revenue from the proposed charges was given as \$241,364, or approximately \$8,000 less than the added revenues which would result under the sought 85 per cent operating ratio. Applicants stressed the fact that after giving consideration to an increase of approximately 35 per cent in taxes on real estate effective July 1, 1946 and to added payroll expenses not reflected in the engineer's study, the amount by which the proposed rates would fall short of producing the needed revenue would approximate \$33,000. It was also pointed out that items of overtime expense and increased wages paid clerical help which could not be measured were also incurred, thereby further increasing the spread between the amount needed to produce the operating results portrayed by the table and the additional revenue which could be expected under the proposed rates. Witnesses testified that the operating results depicted for the nine-month period reflect approximately 95 per cent warehouse space utilization and that improved earnings through increased storage volume could not be expected.

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In every instance the owners' expenses were less than the rental paid by the warehousemen.

It was applicants' position that rates involving labor services were unprofitable and that the proper place to secure the additional revenue needed was from such services. One of their witnesses stated that while consideration had been given to a further increase in the handling rates, it was decided that increases should be sought from those services which are presently being performed without any compensation or at rates which are clearly inadequate. It was stated that for these reasons the particular services for which increases are sought in this proceeding were chosen.

The California and Hawaiian Sugar Refining Corporation, Ltd., American Crystal Sugar Refining Co. and Union Sugar Company opposed the establishment of the sought car unloading charge and the proposed 25-cent charge for each delivery made from storage. Their principal witness testified that the only place where an unloading charge is presently assessed is at San Francisco and contended that the proposed charge places an undue burden upon those shipping to the warehouse via rail.⁵ He likewise contended that certain benefits accrued to the warehouse when goods were shipped rail because their facilities are not adequate to receive all of their merchandise by truck. He also stated that at San Francisco the charge for unloading rail cars varied with the weight of the individual packages and contended that such a basis is more proper than a flat charge per ton. The latter charge, he said, failed to recognize that additional costs are incurred in unloading small packages as compared with larger packages.

The witness took the position that making multiple deliveries of single storage lots was a fundamental warehouse function and that the expenses connected therewith should be compensated out of the handling rate and not by a charge for each delivery effected, as

⁵ Merchandise delivered to the warehouse by truck is unloaded on the warehouse platform by truck labor.

proposed.

He stated that he would have no objection to a reasonable percentage increase in the handling rates as an interim revenue-producing measure pending completion of a study of all commodities to determine to what extent they are bearing their proper share of the over-all warehouse expense.

The warehousemen in reply stated that the proposed charges are not disproportionate with the cost of performing the services. To increase the handling rates they said would mean that a substantial part of the expense incurred in unloading cars and in making numerous deliveries from storage would be borne by persons shipping by truck or by storers who do not require the warehousemen to make multiple deliveries of individual storage lots and would result in discriminatory and otherwise improper rates. Applicants contended that relating the over-all unloading rates to particular sizes of packages required unnecessary refinement and was not feasible.

It appears from the record that with but two exceptions the warehousemen are either operating at a loss or at an unsatisfactory profit under present rates. The rates proposed are appropriately directed toward producing revenue for services which are presently either partially or entirely uncompensated. The additional revenue which they will produce will not be excessive.

Upon careful consideration of all of the facts and circumstances of record, the Commission is of the opinion and finds as a fact that the proposed rates are justified. The application will be granted.

O R D E R

Public hearing having been had in the above entitled application and based upon the evidence received and the conclusions and findings set forth in the preceding opinion,

IT IS HEREBY ORDERED that Application No. 28099 be and it is granted.

IT IS HEREBY FURTHER ORDERED that the increases herein authorized may be established on not less than five (5) days' notice to the Commission and to the public.

IT IS FURTHER ORDERED that the authority herein granted shall be void unless exercised within ninety (90) days from the effective date of the order herein.

This order shall become effective twenty (20) days from the date hereof.

Dated at San Francisco, California, this 21st day of January, 1947.

Harold P. Kule
Justice F. Gallen
Frank H. Powell
A. J. [Signature]

Commissioners