Decision No. 42499

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of AMERICAN WAREHOUSE, BEKINS VAN LINES, INC., CALIFORNIA WAREHOUSE CO., CENTRAL TERMINAL WAREHOUSE CO., H. G. CHAFFEE COMPANY, CHARLES VAN & STORAGE CO., CITIZENS WAREHOUSE, J. A. CLARK DRAYING CO., LTD., CROWN TRANSFER & STORAGE COMPANY, DAVIES WAREHOUSE COMPANY, FEDERAL ICE & COLD STORAGE CO., FREIGHT TRANSPORT COMPANY, HOLLYWOOD STORAGE CO., JENNINGS-NIBLEY WAREHOUSE CO., LTD., LYON VAN & STORAGE CO., METROPOLITAN WAREHOUSE CO., OVERLAND TERMINAL WAREHOUSE CO., PACIFIC COAST TERMINAL WAREHOUSE CO., PACIFIC COMMERCIAL WAREHOUSE, INC., RICHARDS TRANSPORTATION CO., SMITH BROS. TRUCK CO., STAR TRUCK & WAREHOUSE CO., TESKEY TRANSPORTATION COMPANY, UNION TERMINAL WAREHOUSE and WESTLAND WAREHOUSES, INC., for authority to increase rates in the City of Los Angeles, and other Southern California points.

Application No. 29887

ORIGINAL

Appearances

Arlo D. Poe, for applicants.

Jackson W. Kendall, Gordon Ross, C. O. Simpson, A. O. Walde, W. E. Fessenden, B. F. Johnston, Morgan Stanley, and L. H. Bennett, for various applicant warehousemen.

R. J. Jones, for General Foods Corporation, interested party.

W. H. Murphey, for National Plastics, interested party.

Charles A. Bland and E. F. Manning, for Board of Harbor Commissioners, City of Long Beach, interested party.

O P I N I O N

Applicants are 25 warehousemen operating facilities for the handling and storage of merchandise in southern California, principally within the City of Los Angeles and its environs. They seek authority under Sections 15 and 63(a) of the Public Utilities Act to increase certain of their charges on less than statutory notice.

A public hearing was had before Examiner Bryant at Los Angeles on January 18, 1949. The matter is ready for decision.

Applicants allege that operating costs, particularly for labor, have increased materially since their rates were last adjusted in February, 1947. Assertedly the rates do not now produce revenues sufficient to meet operating expenses and leave a reasonable profit. By this application they propose to increase all of their charges for handling property into and out of storage. The handling charges, which account for most of the labor revenue, would be increased by amounts approximately equivalent to two cents per 100 pounds. Applicants assert, and their witnesses testified, that this form of adjustment, producing a substantially uniform increase according to the weight of the merchandise handled, would be a fair and equitable method of spreading the increase in cost of handling which results from higher labor costs. Percentagewise the increases would vary from less than one per cent upward to approximately 40 per cent. Also proposed are increases in charges for special labor and clerical services, which account for a relatively small portion of the revenue. These charges are stated in cents per hour, and the increases are predicated upon specific advances in hourly rates of pay.

No increases are proposed in the present charges for warehouse storage. It was testified that, although there have been some advances in cost items relating directly to this service, the storage charges were believed nevertheless to be fully compensatory. Existing occupancy conditions, it was stated, permit relatively efficient utilization of the warehouse facilities.

Revenue needs of the applicants were developed by a consulting engineer, who submitted as exhibits the results of his study of the operating experience of 11 of the 25 companies herein involved. The studied warehousemen, according to his figures, operated 77 per cent of the total warehouse floor area and received about 84 per cent of the total gross revenue. He explained that the others were necessarily omitted for reasons such as insufficiency of detailed records for required allocations, preponderance of non-utility services, or limited scope of warehouse operations.

The engineer found that only two of the 11 warehousemen own the buildings in which their services are conducted; the others operate leased facilities. Because of this circumstance he developed his estimates of revenue needs on two different plans. The first method considers the rents as operating expense, and uses in the rate base only the properties owned by the warehouse companies. The second method disallows the rents but adds as operating expense the depreciation and taxes on all of the warehouse facilities, whether owned or leased, and includes all of the properties in the rate base at the depreciated book costs to the present owners.[1] The engineer urged that the second method should be used as the measure in this proceeding, principally for the reason that many of the rents were unrealistic because of close intercorporate relations between some of the warehouse companies and the property owners.

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[1] The witness submitted also an alternative rate base for ten of the warehouse companies, based upon present cost of land, "reproduction" cost of the buildings of seven of the companies, "present fair value" of the buildings of three companies, and operators' working capital. The figures were in large part taken from an exhibit introduced by another witness in another proceeding. The claimed costs and values were not adequately developed in the instant record. The alternative rate base as thus submitted is in excess of $4,000,000, which is substantially higher than the other rate bases of record.

Tables 1 and 2, which follow, set forth in summary form the actual and estimated operating results under the two methods. The figures are based upon experience of the 11 selected warehouse companies for the six months ending with June, 1948, as submitted by the consulting engineer.

TABLE 1.

ESTIMATED OPERATING RESULTS - LEASE METHOD
(Six-Month Period)

	Present Rate and Actual Expenses	Present Rate and Adjusted Expenses	Proposed Rate and Adjusted Expenses
Operating Revenues	$1,150,991	$1,150,991	$1,150,991
Proposed Increase	-	-	65,698
Total Operating Revenues	$1,150,991	$1,150,991	$1,216,689
Operating Expenses	$ 990,298	$ 990,298	$ 990,298
Increased Labor Costs	-	59,550	59,550
Total Operating Expenses	$ 990,298	$1,049,848	$1,049,848
Net Operating Revenues	$ 160,693	$ 101,143	$ 166,841
Income Tax	46,486	25,361	49,929
Net Revenues After Tax	$ 114,207	$ 75,782	$ 116,912
Operating Ratio (before tax)	86.04%	91.21%	86.29%
Operating Ratio (after tax)	90.08%	93.42%	90.39%
Rate Base	$1,020,423	$1,020,423	$1,020,423
Rate of Return (before tax)	31.5%	19.8%	32.7%
Rate of Return (after tax)	22.4%	14.9%	22.9%

Explanation of Table 1:

This table shows estimated revenues and expenses under actual lease arrangements now prevailing. Operating expenses include rents paid by nine of the warehousemen whose operating properties are leased from the real owners. The rate base represents the depreciated book cost of only those properties which are owned by the operating companies, plus an allowance for working capital. The table is based upon operating results of 11 warehousemen for the six months ending June 30, 1948, as submitted by applicants' engineer.

Income taxes were estimated upon basis of current tax rates (state and federal) applicable to corporations, using one half of the amount which would accrue on an annual basis on equal division of revenues among the 11 warehousemen.

Ratesof return are on an annual basis.

TABLE 2.

ESTIMATED OPERATING RESULTS - OWNER METHOD
(Six-Month Period)

	Present Rate and Actual Expenses	Present Rate and Adjusted Expenses	Proposed Rate and Adjusted Expenses
Operating Revenues	$1,150,991	$1,150,991	$1,150,991
Proposed Increase	-	-	65,698
Total Operating Revenues	$1,150,991	$1,150,991	$1,216,689
Operating Expenses	$ 935,897	$ 935,897	$ 935,897
Increased Labor Costs	-	59,550	59,550
Total Operating Expenses	$ 935,897	$ 995,447	$ 995,447
Net Operating Revenues	$ 215,094	$ 155,544	$ 221,242
Income Tax	76,186	43,676	79,541
Net Revenues After Tax	$ 138,908	$ 111,868	$ 141,701
Operating Ratio (before tax)	81.31%	86.49%	81.81%
Operating Ratio (after tax)	87.93%	90.28%	88.35%
Rate Base	$2,993,459	$2,993,459	$2,993,459
Rate of Return (before tax)	14.4%	10.4%	14.8%
Rate of Return (after tax)	9.3%	7.5%	9.5%

Explanation of Table 2:

This table shows estimated revenues and expenses under conditions which would exist if all of the operating properties were in fact owned by the warehousemen. Operating expenses disallow rents actually paid by nine of the warehousemen whose properties are leased from the real owners. In lieu of rents there are included, as expenses, allowances for depreciation and taxes on the buildings. The rate base represents all of the operating properties, whether or not owned by the operating companies, plus an allowance for working capital. The table is based upon operating results of 11 warehousemen for the six months ending with June 30, 1948, as submitted by applicants' engineer.

Income taxes were estimated upon basis of current tax rates (state and federal) applicable to corporations, using one half of the amount which would accrue on an annual basis on equal division of revenues among the 11 warehousemen.

Rates of return are on an annual basis.

The engineering witness expressed the opinion that an operating ratio of approximately 85 per cent is reasonable and necessary to sustain warehouse operations such as those herein involved. He did not urge a specific rate of return on the invested capital; in one instance, however, he predicated a rent figure upon an annual return of 9 per cent.

No one opposed the granting of this application. Approximately 3,200 notices of the hearing were distributed to warehouse patrons and to other persons and organizations believed to have an interest in the matter.

As developed in Table 1, which indicates estimated revenues and expenses under actual lease arrangements now prevailing, the warehouses, at current expense levels and with no increase in rates or charges, would experience an operating ratio before taxes of 91.2 per cent, and an annual rate of return, after taxes, of approximately 15 per cent. Under Table 2, which develops the results as they would exist if the warehousemen in fact owned all of the land and buildings and paid no rent thereon, the corresponding operating ratio would be 80.5 per cent and the rate of return, after taxes, would be 7.5 per cent. Establishment of the sought rates would produce operating ratios of 86.3 per cent and 81.8 per cent under the two tables, respectively, and annual rates of return of 23 per cent and 9.5 per cent.

Upon careful consideration of the figures submitted by applicants, as summarized in the foregoing tables and in the preceding paragraph, we are not persuaded that a need has been established for increasing the rates or charges of the warehouse patrons at the present time. Under these circumstances it is unnecessary to consider specifically the validity of applicants' stated or implied premises (1) that revenue needs of the 25 applicants, some of whom operate beyond the Los Angeles area, should be judged by the experience of 11 companies whose figures were submitted; (2) that figures for the first half of 1948, adjusted only for present higher wages and salaries, are reasonably representative of current conditions; (3) that charges should be adjusted uniformly in accordance with the average experience of the applicants as a whole, without reference to revenue requirements of individual companies; or (4) that storage charges are relatively compensatory and that needed revenues should be derived entirely from increases in handling and accessorial services.

From the evidence of record the Commission is of the opinion, and finds as a fact, that the applicants in this proceeding have not shown the proposed increased rates or charges to be justified within the meaning of Section 63(a) of the Public Utilities Act. The application will be denied.

O R D E R

A public hearing having been had in the above-entitled proceeding, and based upon the evidence received at the hearing and upon the conclusions and findings set forth in the preceding opinion,

IT IS HEREBY ORDERED that the above-entitled application be and it is hereby denied.

The effective date of this order shall be twenty (20) days after the date hereof.

Dated at San Francisco, California, this 8th day of February, 1949.

R. E. Mitchell

Justus F. Craemer

Ira H. Rowell

Harold P. Huls

Kenneth Potter

Commissioners