

ORIGINAL

Decision No. 42163

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 TRANS-)
 PORTATION 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

Appearances

Arlo D. Poe, for applicants.

Jackson W. Kendall, Gordon Ross, C. O. Simmon,
A. O. Walde, W. E. Fassenden, B. F. Johnston,
Morgan Stanley, L. H. Bennett, and Harold Drury,
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.

OPINION ON REHEARING

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.

The matter was originally heard and submitted on January 18, 1949. Thereafter the Commission, finding that applicants had not shown the proposed increased rates or charges to be justified, denied the application.¹ Applicants petitioned for a rehearing for the purpose of permitting the introduction of additional evidence, particularly with respect to operating conditions experienced in their warehouse operations currently and during the second half of 1948. The petition was granted, rehearing was had before Examiner Bryant at Los Angeles on June 28, 1949, and the matter is now ready for decision upon the entire record.

The revenue figures submitted on the original record, regardless of the nature of the particular rate proposals, were not persuasive "that a need has been established for increasing the rates or charges of the warehouse patrons at the present time." (Decision No. 42499, supra.) In the interest of clarity, therefore, we shall consider first the question of revenue requirements, referring later to the specific rate proposals.

The revenue showing was developed by a consulting engineer, who submitted as exhibits the results of his study of the operating experience of 11 of the 25 applicant companies. The 11 companies, according to his figures, operated 77 per cent of the total warehouse floor area and received about 84 per cent of the total

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Decision No. 42499 dated February 8, 1949, sometimes referred to herein as "the original decision."

gross revenue. He explained that the other companies were necessarily omitted for reasons such as insufficiency of detailed records for required allocations, preponderance of nonutility services, or limited scope of warehouse operations.

Operating figures originally submitted were those for the first six months of 1948. On rehearing, the consultant introduced supplemental figures completing the year 1948 and including the first quarter of 1949. The witness testified that the fourth-quarter figures included some expense items which should have been distributed over the earlier months. Nevertheless, his exhibits do not permit segregation of figures for the latest twelve months ending with March 31, 1949; and it appears that, for purposes of this proceeding, the current revenue position of the warehousemen may best be judged by the nine months ending with that date.²

The consultant developed his estimates of revenue needs on two different plans. The first method considers the rentals paid for leased facilities devoted to public use 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 cost to the present owners. The consultant preferred the second

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In addition to other considerations, the showing of revenue increase which would result from the proposed rates was developed in detail only for the nine-month period in question.

method, believing the rents to be unrealistic because of the inter-corporate relations between some of the warehousemen and property owners.³ Operating results under the two methods, based upon the figures for the first six months of 1948, were set forth in tabular form in Decision No. 42499, supra.⁴ Tables 1R and 2R, which follow, set forth in comparable summary form the actual and estimated operating results of the 11 selected warehouse companies, developed from figures submitted by the consulting engineer for the nine months ending with March, 1949. The expense adjustments referred to in the tables have the effect of revising labor and clerical costs to the current wage and salary scales which became effective in the latter part of 1948.

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Two of the 11 warehousemen own the buildings in which their services are conducted; the others operate leased facilities. The consultant submitted also alternative rate bases, representing "reproduction cost less depreciation on present fair value of rented real property, operators' depreciated investment and working capital." The claimed costs and values entering into the alternative bases were not clearly developed.

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The decision summarized the figures as follows: "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 86.5 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."

TABLE 1R
ESTIMATED OPERATING RESULTS - LEASE METHOD
(Nine-Month Period)

	<u>Present Rate and Actual Expenses</u>	<u>Present Rate and Adjusted Expenses</u>	<u>Proposed Rate and Adjusted Expenses</u>
Operating Revenues	\$1,744,049	\$1,744,049	\$1,744,049
Proposed Increase	-	-	110,142
Total Operating Revenues	\$1,744,049	\$1,744,049	\$1,854,191
Operating Expenses	\$1,631,100	\$1,631,100	\$1,631,100
Increased Labor Costs	-	16,360	16,360
Total Operating Expenses	\$1,631,100	\$1,647,460	\$1,647,460
Net Operating Revenues	\$ 112,949	\$ 96,589	\$ 206,731
Income Tax	28,116	23,925	52,830
Net Revenues After Tax	\$ 84,833	\$ 72,664	\$ 153,901
Operating Ratio (before tax)	93.52%	94.5%	88.9%
Operating Ratio (after tax)	95.1%	95.8%	91.7%
Rate Base	\$1,020,423	\$1,020,423	\$1,020,423
Rate of Return (before tax)	14.8%	12.6%	27.0%
Rate of Return (after tax)	11.1%	9.5%	20.1%

Explanation of Table 1R:

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 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 nine months ending March 31, 1949, as submitted by applicants' engineer.

Income taxes were estimated upon the basis of current tax rates (state and federal) applicable to corporations, using three-quarters 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.

TABLE 2R

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

	Present Rate and Actual Expenses	Present Rate and Adjusted Expenses	Proposed Rate and Adjusted Expenses
Operating Revenue	\$1,744,049	\$1,744,049	\$1,744,049
Proposed Increase			110,142
Total Operating Revenues	\$1,744,049	\$1,744,049	\$1,854,191
Operating Expenses	\$1,541,311	\$1,541,311	\$1,541,311
Increased Labor Costs		16,360	16,360
Total Operating Expenses	\$1,541,311	\$1,557,671	\$1,557,671
Net Operating Revenues	\$ 202,738	\$ 186,378	\$ 296,520
Income Tax	51,744	47,223	100,022
Net Revenues After Tax	\$ 150,994	\$ 139,155	\$ 196,497
Operating Ratio (before tax)	88.4%	89.3%	84.0%
Operating Ratio (after tax)	91.3%	92.0%	89.4%
Rate Base	\$2,993,459	\$2,993,459	\$2,993,459
Rate of Return (before tax)	9.03%	8.3%	13.2%
Rate of Return (after tax)	6.73%	6.2%	8.3%

Explanation of Table 2R:

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 nine months ending with March 31, 1949, as submitted by applicants' engineer.

Income taxes were estimated upon the basis of current tax rates (state and federal) applicable to corporations, using three-quarters 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.

It will be seen from the tables that the warehouses, at current expense levels and with no increase in rates or charges, would experience estimated operating ratios, before income taxes, of 94.5 per cent under Table 1R and 89.3 per cent under Table 2R. The annual rates of return, after taxes, would be 9.5 per cent under Table 1R and 6.2 per cent under Table 2R. Establishment of the sought rates, according to the evidence, would produce corresponding operating ratios of 88.9 per cent and 84 per cent under the two tables, respectively, and annual rates of return, after taxes, of 20.1 per cent and 8.8 per cent.

These estimated operating results, although somewhat less favorable than those indicated on the original record for the first half of 1948, do not in themselves, we believe, constitute a clear showing of revenue need. The consultant urged with considerable logic that warehouse revenues should be adjusted to an operating ratio of about 85 per cent in order to maintain a sound financial condition in the industry. The conclusion which we draw from the evidence, however, giving due consideration to all factors, including both the indicated operating ratios and the rates of return, is that the net operating revenues of the 11 selected companies as a group, while not excessive, are not currently at a level which would justify a general increase in charges on the plea of revenue deficiency.

In view of the basic conclusion that the revenue estimates do not show the need for a general increase in rates, further discussion of the record would appear to be unnecessary. However, applicants went to some lengths to make a clear and apparently accurate disclosure of their revenue experience, and undertook on rehearing to answer various questions raised by the original decision.

Under these circumstances, and in consideration of the probability that these applicants may be before us in similar proceedings in the future, we believe that further comment may be helpful.

First, it may be inquired whether increased rates, although not justified by the showing of group revenue needs, may not be a matter of necessity for some of the individual applicants. Unquestionably several of the warehousemen are receiving only meager operating incomes or suffering operating losses, and might readily show the need for an improved revenue position. Nevertheless, the applicants have preferred in the present proceeding to stand or fall together. They urged that uniformity of rates among warehousemen operating in the same general area is a matter of competitive necessity as well as a matter of advantage and convenience to the warehouse patrons. They pointed out that the Commission has on more than one occasion in the past authorized uniform rate adjustments among competing warehousemen.

Much may be said of the advantages and conveniences of uniform rates among competitors, and it may be desirable in some circumstances to adjust rates within the zone of reasonableness to that end. Applicants should understand, however, that this Commission does not accept without qualification the premise that all warehousemen in an area, regardless of circumstances, must maintain identical rates. A number of circumstances may outweigh the advantages of rate uniformity. The record indicates that some commodities and types of services are more remunerative than others; that some companies specialize in particular commodities and services; that the warehousemen do not offer services which are in all respects comparable; and that for these or various other reasons there is a considerable diversity in the revenue position of the several applicants, particularly when the net revenues are measured in relation to the rate bases. In these circumstances it may well be

that reasonable results, would best be obtained by adjustment in the rates of particular warehousemen, or on particular commodities or services. That the applicants recognize some necessity for departures from rate uniformity is apparent from their exception tariff, which names special rates on certain commodities, each rate applying only at various selected warehouses.⁵

Second, applicants may question whether, regardless of their average revenue position, their rate proposal may not be justified on the ground that the particular charges sought to be increased are unremunerative. Applicants' proposal is that all charges for handling property into and out of storage, with minor exceptions, be increased by amounts approximately equivalent to two cents per 100 pounds; and that hourly charges for special labor and clerical services be increased about 14 per cent. The services on which increased charges are sought account at present for nearly 50 per cent of the gross operating revenues. No increases are proposed in any of the warehouse storage charges, which produce about 46 per cent of the revenues. Applicants' consultant witness submitted, at the rehearing, allocated figures to show that for the latest six-month period the 11 warehouse companies earned a net revenue of \$230,474 from their storage services but lost \$179,961 in their handling and other labor services, resulting in an over-all net operating revenue of \$50,513. He declared that the proposed rates would not fully meet the costs of performing the handling and labor services, but would reduce the losses and would permit satisfactory revenues from the combined operations.

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Warehouse Tariff No. 5-J, Cal.P.U.C. No. 94 of L. A. Bailey, Agent. This tariff, as indicated on its title page, names "Special Rates for Storage and Incidental Handling of Certain Merchandise as Named Herein at Warehouses as Designated Only in Individual Items in Los Angeles, Vernon, Etc., California."

The rate proposal is an extensive one, affecting a very substantial portion of the warehouse revenues. Since it has been hereinbefore concluded that the sought rates would produce over-all revenues which are not justified on this record, it would appear to follow that the increase in the handling and labor charges should be accompanied by a reduction in the storage revenues if unreasonable results were to be avoided. The fact that the charges may be improperly adjusted between handling and labor services on the one hand and storage services on the other may not be serious, inasmuch as the charges for both services are in general borne by the same patrons. In any event, although it may be appropriate to increase individual rates on a cost basis, the over-all revenue results must be considered where the rate proposal is an extensive one.

Finally, applicants alleged in their petition for rehearing that the original decision gave no consideration to the history of storage and handling charges and the history of wage rates, as shown in certain exhibits of record. The exhibits indicate that since 1937 the charges have been subjected to increases ranging from 19 to 49 per cent, whereas the wage rates have increased from 100 to 145 per cent. A showing of increased expenses does not necessarily establish a need for increased charges. In the present proceeding the testimony shows that the increased expenses have been countered in some measure by increased revenues resulting from a high degree of warehouse occupancy. The net operating revenues from the over-all operations, as has been hereinbefore stated, are not currently at a level which would justify a general increase in charges on the plea of revenue deficiency.

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 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.

ORDER ON REHEARING

Public hearings having been had in the above-entitled proceeding, and based upon the evidence received at the hearings 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 20th day of July, 1949.

R. Z. Anderson
Justice J. Coe
Irving F. Wallace
Harold T. Hale
Herbert W. Patten
Commissioners