

ORIGINAL

Decision No. 42894

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., COAST VAN & STORAGE, )  
 INC., CROWN TRANSFER & STORAGE COMPANY, )  
 DAVIES WAREHOUSE COMPANY, FEDERAL ICE & COLD )  
 STORAGE CO., FREIGHT TRANSPORT COMPANY, )  
 HOLLYWOOD STORAGE CO., JENNINGS-NIBLEY WARE- )  
 HOUSE CO., LTD., LYON VAN & STORAGE CO., )  
 METROPOLITAN WAREHOUSE CO., OVERLAND TERMINAL )  
 WAREHOUSE CO., PACIFIC COAST TERMINAL WARE- )  
 HOUSE CO., PACIFIC COMMERCIAL WAREHOUSE, INC., )  
 RICHARDS TRANSPORTATION CO., SMITH BROS. TRUCK )  
 CO., STAR TRUCK & WAREHOUSE CO., TESKEY TRANS- )  
 PORTATION 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. 30878

Appearance

Arlo D. Poe, for applicants.

O P I N I O N

Applicants are 26 warehousemen engaged in operating facilities for the handling and storage of general commodities in southern California, principally within the City of Los Angeles and vicinity. By this application they seek authority to increase certain handling charges, and to make the changes effective on ten days' notice.

Public hearing was had before Commissioner Craemer and Examiner Bryant at Los Angeles on January 30, 1950. The matter is ready for decision.

Applicants allege that operating costs, particularly for labor, have increased substantially since the last general adjustment of their rates was made 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 seek authority to increase all of their handling charges by amounts approximately equivalent to two cents per 100 pounds.<sup>1</sup> 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.

No increases are proposed in the present charge for warehouse storage. It was testified that, under existing occupancy conditions, the storage charges as a whole are fully compensatory. Revenue and expense exhibits were introduced in corroboration of this testimony.

Revenue needs of the applicants were developed by a consulting engineer, who submitted income statements, revenue schedules, and other related data. His studies were based primarily upon the

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The handling charges cover "the ordinary labor and duties incidental to receiving merchandise in good condition at warehouse platform for storage; and delivery, after storage, in original packages, to shipping platforms." The current rates and charges are published in California Warehouse Tariff Bureau Tariffs Nos. 5-J and 7-C, Cal.P.U.C. Nos. 94 and 102, respectively, of Jack L. Dawson, Agent.

operating experience of eleven of the applicant companies for the twelve-month period ending with June 30, 1949. The eleven companies, he said, operated 83 per cent of the total warehouse floor area and received about 85 per cent of the total gross revenue earned by all of the applicants.<sup>2</sup>

Most of the eleven warehousemen operate leased facilities; others own the buildings in which their services are conducted. For this reason, 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 such properties as are in fact owned by the warehouse companies. The second method disallows the rents, but adds as operating expense the depreciation, taxes, and building repair costs 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.<sup>3</sup> The tables which follow were developed from figures submitted by the consultant, based upon the year ending with June 30, 1949. Expense adjustments referred to in the tables have the effect of revising labor costs to current wage scales.

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The witness explained that the other applicants were necessarily omitted from his study for reasons such as insufficiency of detailed records for required allocations, preponderance of nonutility services, or limited scope of warehouse operations. He said also that it was impossible to base his study upon operations later than June 30, 1949, because of the time required to close the records, gather the data, and make the necessary allocations and analyses.

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Use of the second method was limited to nine companies for the reason, as explained by the witness, that owners' records were unavailable for two of the buildings.

TABLE 1

ESTIMATED OPERATING RESULTS -- LEASE METHOD  
(Eleven Warehouses)

	Present Rates and Actual Expenses	Present Rates and Adjusted Expenses	Proposed Rates and Adjusted Expenses
Operating Revenues	\$2,308,688	\$2,329,028*	\$2,450,596 <sup>o</sup>
Operating Expenses	\$2,145,833	\$2,145,833	\$2,145,833
Increased Labor Costs	-	82,026	82,026
Total Operating Expenses	\$2,145,833	\$2,227,859	\$2,227,859
Net Operating Revenues	\$ 162,855	\$ 92,169	\$ 227,737
Income Tax	62,626	46,209	87,594
Net Revenues After Tax	\$ 100,229	\$ 45,960	\$ 135,143
Operating Ratio (before tax)	92.95%	96.03%	90.91%
Operating Ratio (after tax)	95.66%	98.02%	94.49%
Rate Base	\$1,055,755	\$1,055,755	\$1,055,755
Rate of Return (after tax)	9.49%	4.35%	12.80%

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 were leased from the owners during the period studied. 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 twelve months ending June 30, 1949, as submitted by applicants' consultant.

Income taxes were estimated upon the basis of current tax rates (state and federal) applicable to corporations, computed separately for each company.

\* Includes \$11,340 resulting from an increase in charges for special labor and clerical services which was made in November, 1949.

<sup>o</sup> Includes the \$11,340 explained above; also \$130,568 anticipated revenue from increases in handling charges as herein sought.

TABLE 2.

ESTIMATED OPERATING RESULTS - OWNER METHOD  
(Nine Warehouses)

	Present Rates and Actual Expenses	Present Rates and Adjusted Expenses	Proposed Rates and Adjusted Expenses
Operating Revenues	\$2,156,086	\$2,167,251*	\$2,291,618 <sup>o</sup>
Operating Expenses	\$1,887,701	\$1,887,701	\$1,887,701
Increased Labor Costs	-	76,733	76,733
Total Operating Expenses	\$1,887,701	\$1,964,434	\$1,964,434
Net Operating Revenues	\$ 268,385	\$ 202,817	\$ 327,184
Income Tax	96,549	73,024	123,556
Net Revenues After Tax	\$ 171,836	\$ 129,793	\$ 203,628
Operating Ratio (before tax)	87.55%	90.64%	85.72%
Operating Ratio (after tax)	92.03%	94.01%	91.11%
Rate Base	\$2,882,462	\$2,882,462	\$2,882,462
Rate of Return (after tax)	5.96%	4.51%	7.06%

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 seven 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 9 warehousemen for the twelve months ending June 30, 1949, as submitted by applicants' consultant.

Income taxes were estimated upon the basis of current tax rates (state and federal) applicable to corporations, computed separately for each company.

\* Includes \$11,165 resulting from an increase in charges for special labor and clerical services which was made in November, 1949.

<sup>o</sup> Includes the \$11,165 explained above; also \$124,367 anticipated revenue from increases in handling charges as herein sought.

As shown in the foregoing tables, the warehousemen, at current expense levels and with no increase in rates or charges, would experience estimated operating ratios, before income taxes, of 96.03 per cent under Table 1 and 90.64 per cent under Table 2. The annual rates of return on the rate base, after taxes, would be 4.35 per cent under Table 1 and 4.51 per cent under Table 2. Establishment of the sought rates, according to the evidence, would produce corresponding operating ratios of 90.91 per cent and 85.72 per cent under the two tables, respectively, and annual rates of return, after taxes, of 12.80 per cent and 7.06 per cent.

The consultant was of the opinion that the lease method of computation, as covered by Table 1, did not provide a sound basis for judging the revenue need of these applicants. The owner method, as covered by Table 2, was greatly to be preferred, he said, because it eliminated the effect of inadequate rent payments. He believed that in some instances, because of close intercorporate relationships between the warehouse companies and the property owners, rents paid for the warehouse properties were unrealistically low. Referring to the relationship between operating expenses and revenues, the consultant 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.

No one opposed the granting of the application. Approximately 3,000 notices of the hearing were distributed to warehouse customers and to other persons believed to be interested.

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<sup>4</sup> He pointed out that highway carriers generally have higher ratios, railroads and traditional utilities generally have lower ratios, and that the warehouses are intermediate in capital-turnover rate.

The rate increase herein proposed is substantially identical to that which was sought by the same applicants in January and in June, 1949.<sup>5</sup> At those times the adjustment was denied because it then appeared that net operating revenues of the warehouses as a group were not at levels which would justify a general increase in charges on the plea of revenue deficiency. Since that time, as shown by the present record, wages of applicants' employees have been adjusted upward as the result of negotiation and threat of strike, and applicants' revenue positions have become considerably less favorable. Allowing for minor infirmities in the record, and without necessarily subscribing to all of the premises of applicants' witnesses, it is nevertheless apparent that an increase in net revenues is necessary if the applicant warehouses as a group are to be maintained in sound financial condition. Revenues resulting from the proposed increases in handling charges, as sought in this proceeding and as developed in the foregoing tables, would be reasonable and not excessive. The form of increase likewise appears to be the best one readily available, based upon the evidence of record. It cannot be determined, of course, in a general rate adjustment, that each resulting charge will be reasonable. Applicants offered to correct any inequities which come to their attention, and they will be expected to do so without delay.

Upon careful consideration of all of the facts and circumstances of record, the Commission finds as a fact that the increases proposed by applicants in this proceeding are justified. The application will be granted.

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<sup>5</sup> See Decisions Nos. 42499 and 43163 in Application No. 29887.

O R D E R

Based upon the evidence of record and upon the conclusions and findings set forth in the preceding opinion,

IT IS HEREBY ORDERED that applicants be and they are hereby authorized to establish, within ninety (90) days after the effective date of this order and on not less than ten (10) days' notice to the Commission and the public, the increased rates and charges proposed in the above-entitled application.

IT IS HEREBY FURTHER ORDERED that the authority herein granted is subject to the express condition that applicants will never urge before this Commission in any proceeding under Section 71 of the Public Utilities Act, or in any other proceeding, that the opinion and order herein constitute a finding of fact of the reasonableness of any particular rate or charge, and that the filing of rates and charges pursuant to the authority herein granted will be construed as consent to this condition.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall expire ninety (90) days after the effective date of this order.

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

Dated at San Francisco, California, this 7<sup>th</sup> day of March, 1950.

Justice F. Cooney  
Deputy

Commissioners

Commissioner Harold P. Euls, being necessarily absent, did not participate in the disposition of this proceeding.