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Decision No. 45595

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 LINES INCORPORATED, CROWN TRANSFER & STORAGE COMPANY, DAVIES WAREHOUSE COMPANY, FEDERAL ICE & COLD STORAGE CO., FREIGHT TRANSPORT COMPANY, 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., SMITH BROS. TRUCK CO., STAR TRUCK & WAREHOUSE CO., UNION TERMINAL WAREHOUSE AND WESTLAND WAREHOUSES, INC., for authority to increase rates in the city of Los Angeles, and other Southern California points.

ORIGINAL

Application No. 32070

Appearances

Arlo D. Poe and J. L. Dawson, for applicants.

J. M. Johnson, Nathan Nibley, Carl F. Peters, Gordon Ross, C. O. Simpson, Morgan Stanley, W. H. Tyler, and A. O. Walde, for various applicant warehousemen.

R. J. Jones, for General Foods Corporation.

Wm. W. Wylie, for California and Hawaiian Sugar Refining Corporation.

Henry Croskey, for Hoffman Radio Corporation.

E. F. Manning, for Board of Harbor Commissioners, City of Los Angeles.

Charles H. Jacobsen, for Engineering Division, Transportation Department, Public Utilities Commission of the State of California.

O P I N I O N

By this application 23 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, seek authority under Sections 15 and 63(a) of the Public Utilities Act to increase their charges upon less than statutory notice.

Public hearing was held before Examiner Bryant at Los Angeles on March 15, 1951. The matter is ready for decision.

The last general adjustment of applicants' rates and charges was made on April 10, 1950.[1] Applicants allege that since that date wage rates paid to warehouse laborers have been increased by 12½ cents an hour, that wages and salaries paid to clerical and supervisorial employees have been raised correspondingly, and that other operating expenses have increased and are still increasing. As a result of such increases in the cost of operations, the present warehouse rates and charges assertedly are inadequate to provide revenues sufficient to meet operating expenses and leave a reasonable profit. In order to produce the required revenues, applicants propose to increase all storage and handling rates by 8 per cent, or to increase all storage rates by 15 per cent, or to increase all handling rates by 17½ per cent.[2] Each of the three alternative proposals would produce approximately the same amount of added revenue.

Revenue needs of the applicants were analyzed and developed in the record by a consulting engineer, who submitted income statements, revenue schedules, rate bases and other related data. His studies were based essentially upon the operating experience of eleven of the applicant companies for the twelve-month period ending with September, 1950. The eleven companies, according to his information, operated approximately 81 per cent of the total

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1 The adjustment, which involved an increase in handling rates only, was authorized by Decision No. 43894, dated March 7, 1950, in Application No. 30878.

2 Charges per hour per man for special labor would also be increased from $2.50 to $2.75 during regular hours and from $3.75 to $4.12½ during overtime hours, with an increase in the minimum labor charge from 25 cents to 75 cents.

warehouse floor area and received about 82 per cent of the total gross revenue earned by all of the applicants. The consultant introduced also income statements and balance sheets of most of the other applicants for the year ending December 31, 1950, but explained that these were offered in compliance with the Commission's requirements rather than as data believed to be helpful to the disposition of this proceeding. These statements were meaningless, he said, unless they were first subjected to analysis, allocation and modification, all of which would take a great deal of time and labor, and in some cases would be literally impossible because of inadequacy of underlying records. The witness said that applicants other than the eleven which he studied were necessarily omitted from his exhibit because of the preponderance of their nonutility services, insufficiency of detailed records for required allocations, or the relatively limited scope of their warehouse operations. The witness stated also that he was unable to base his study upon experience later than September 30, 1950, because of the time required to close the records, gather the data, and make the necessary allocations and analyses.

The following table, developed from the consultant's exhibit, indicates in a condensed form the actual operating experience of the eleven warehousemen for the year ended with September 30, 1950:

TABLE 1

ACTUAL OPERATING RESULTS
12-MONTH PERIOD ENDED SEPTEMBER 30, 1950

	Operating Revenues	Operating Expenses	Net Operating *Revenues*	Operating Ratio (Percent)
Star Truck & Whse. Co.	$ 381,005	$ 356,845	$ 24,160	93.66
Pacific Commercial Whse. Co.	75,247	93,873	(18,626)	124.75
Metropolitan Whse. Co.	208,215	199,930	8,285	96.02
Westland Whse. Co.	97,563	108,456	(10,893)	111.17
Overland Terminal Whse. Co.	366,085	326,097	39,988	89.08
Davies Whse. Co.	141,776	131,363	10,413	92.66
Pacific Coast Terminal	107,535	103,202	4,333	95.97
Jennings Nibley Whse.	101,616	94,927	6,689	93.42
California Whse. Co.	197,847	191,574	6,273	96.83
Union Terminal Whse.	514,414	527,576	(13,162)	102.56
Citizens Whse. Co.	39,472	37,482	1,990	94.96
Total	$2,230,775	$2,171,325	$ 59,450	97.34

* Before federal income taxes, which were not developed by the witness.
(____) Denotes loss.

The actual experience as reflected in the foregoing table, the consultant explained, is not indicative of applicants' current experience or that which should be expected for the future. He offered adjusted figures as a conservative estimate of the operating experience to be expected for the future year. His modifications included upward adjustments in revenues to reflect rate changes made in December, 1949, and April, 1950, and in expenses to reflect the more recent increases in wages and salaries.

Because most of the warehousemen operate facilities leased from affiliated corporations at rates which he believed to be unrealistically low, the witness 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 includes in the rate base only such properties as are in fact owned by the warehousing companies. The second method disallows the rents, but adds as operating expense the depreciation, taxes, and building repair costs on all of the facilities, whether owned or leased, and includes all of the properties in the rate base at the depreciated cost to the present owners.[3] The following tables reflect the adjusted figures as submitted by the consultant:

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[3] Owners' records were unavailable for two of the buildings. For this reason only nine companies were included in his estimates under the second method.

TABLE 2

ESTIMATED OPERATING RESULTS - LEASE METHOD
(Eleven Warehouses)

	Under Present Rates	Under Proposed Rates
Operating Revenues (1)	$ 2,289,681	$ 2,289,681
Proposed Increase (2)	-	146,927
Total Operating Revenues	$ 2,289,681	$ 2,436,608
Operating Expenses	$ 2,171,325	$ 2,171,325
Increased Labor Costs (3)	135,875	135,875
Total Operating Expenses	$ 2,307,200	$ 2,307,200
Net Operating Revenues	$ (17,519)	129,408
Federal Income Tax	13,620	45,666
Net Revenues after tax	$ (31,139)	$ 83,742
Operating Ratio before tax	100.8%	94.7%
Operating Ratio after tax	101.4%	96.6%
Rate Base	$ 1,050,516	$ 1,050,516
Rate of Return before tax	(loss)	12.3%
Rate of Return after tax	(loss)	8.0%

Explanation of Table 2.

This table shows estimated revenues and expenses under actual lease arrangements now prevailing, except that in one instance, where the lease is based upon a percentage of revenue, the consultant substituted a lower figure. 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 eleven warehousemen, for the twelve months ending with September 30, 1950, as submitted by applicants' consultant.

(1) Actual operating revenues which would have accrued had the present tariff rates been in effect throughout the year.

(2) Additional revenue which would accrue from rate increase herein sought.

(3) Additional expense which would have been incurred if present wages and salaries had been in effect throughout the year.

(______) - Denotes loss.

TABLE 3

ESTIMATED OPERATING RESULTS - OWNER METHOD
(Nine Warehouses)

	Under Present Rates	Under Proposed Rates
Operating Revenues (1)	$ 2,140,123	$ 2,140,123
Proposed Increase (2)	..	139,127
Total Operating Revenue	$ 2,140,123	$ 2,279,250
Operating Expenses	$ 1,916,669	$ 1,916,669
Increased Labor Costs (3)	127,741	127,741
Total Operating Expenses	$ 2,044,410	$ 2,044,410
Net Operating Revenues	$ 95,713	$ 234,840
Federal Income Tax	23,931 (4)	$ 81,406
Net Revenues after tax	$ 71,782	$ 153,434
Operating Ratio before tax	95.5%	89.7%
Operating Ratio after tax	96.7%	93.3%
Rate Base	$ 2,943,713	$ 2,943,713
Rate of Return before tax	3.3%	8.0%
Rate of Return after tax	2.4%	5.2%

Explanation of Table 3.

This table shows estimated revenues and expenses under conditions which would exist if all of the operating properties were in fact owned by 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 nine warehousemen for the twelve months ending with September 30, 1950, as submitted by applicants' consultant.

(1) Actual operating revenues which would have accrued had the tariff rates been in effect throughout the year.

(2) Additional revenue which would accrue from rate increases herein sought.

(3) Additional expense which would have been incurred if present wages and salaries had been in effect throughout the year.

(4) Estimated at current federal tax rates applicable to corporations, based upon equal division of revenues among the nine warehousemen.

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From the tables it will be seen that the warehousemen, at current expense levels and present tariff charges, would experience operating ratios before income taxes of 100.8 per cent under Table 2 and 95.5 per cent under Table 3. On basis of Table 2 there would be a net operating loss, and on basis of Table 3 the annual rate of return on the rate base, after taxes, would be only 2.4 per cent. Establishment of the proposed rates, it appears, would produce corresponding operating ratios of 94.7 per cent and 89.7 per cent under the two tables, respectively, and annual rates of return after taxes of 8.0 per cent and 5.2 per cent.

The consultant's study, as summarized in the foregoing tables, appears to develop fairly the revenue requirements of the applicant warehouses as a group. It is clear that an increase in the net revenues is necessary if these operators are to be maintained in sound financial condition. At the sought rates none of the companies would have operating ratios more favorable than 85 per cent, before income taxes, under either the "lease method" represented by Table 2 or the "owner method" represented by Table 3.[4] Under the latter method the highest rate of return for any of the warehousemen would be 11 per cent on the rate base, and under either method of analysis a number of the companies would continue to suffer operating losses. The evidence is

[4] The consultant urged that, considering the rate of capital turnover and other factors, an operating ratio of 85 per cent is reasonable for public warehousemen.

convincing that the sought rates are reasonable and will not result in excessive revenues.

As hereinbefore indicated, applicants seek authority, in the alternative, to (1) increase all storage and handling rates by 8 per cent, or (2) increase all storage rates by 15 per cent, or (3) increase all handling rates by 17½ per cent.[5] Their estimates show that each of the alternatives would produce approximately the same amount of added revenue. Applicants urge, however, that adjustment of the storage rates by 15 per cent offers the best and most logical means of obtaining the needed revenue. Their tariff publishing agent and a number of warehouse officers testified in support of this plan. They pointed out that applicants' handling charges have been increased several times in recent years whereas their monthly storage rates have not been adjusted since 1938. As a result of these selective adjustments in the past, it was testified, the handling and storage rates are now out of balance. The existing relationships might be justified by cost analysis, the witnesses believed, but are nevertheless not readily acceptable to their customers. According to the testimony, storage rates in the Los Angeles area are now generally lower than those maintained by warehousemen in other major cities throughout the country, whereas the charges for handling are relatively higher. This condition is disturbing to

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[5] The increase of 10 per cent in charges for certain special labor services, as stated in Footnote 2, supra, would be in addition to any of the three alternatives.

warehouse patrons who operate on a nationwide basis and who necessarily must compare charges at various cities throughout the country. Even though the increased cost of performing warehouse services continues to be largely attributable to labor expense, applicants believe that it would be a serious mistake to make a further increase in handling charges at this time. They urgently request that they be permitted, as a matter of managerial discretion, to obtain the needed additional revenue through an increase in their storage charges rather than in their handling rates. Otherwise, they fear, they may be faced with a significant loss of patronage.

Approximately 3200 notices of the hearing were distributed to warehouse customers and to other persons believed to be interested. Only two storers were represented at the hearing. One of these, the division traffic manager of General Foods Corporation, testified that his company in its over-all distribution methods has many alternatives to using the services of public warehouses in the Los Angeles area. He said that in his opinion the applicants herein are approaching the point of diminishing returns in their warehousing charges. He believed, however, that an increase in the present storage charges is justified, and said that he favored increased charges for storage rather than for handling.

The other storer witness was the assistant traffic manager of California & Hawaiian Sugar Refining Corporation. He stated that it was not his purpose to protest the particular adjustments herein sought, but rather to object to the plan of seeking increased revenues through a general percentage adjustment of the charges. This witness believed that the volume of storage which his company is able to offer should entitle it to relatively lower charges. He thought that if a cost analysis were made it would be found that warehousing charges on many commodities should be relatively higher and that those on his company's products should be relatively lower.

The form of increase proposed and advocated by applicants appears to be the best one readily available based upon all of the evidence of record. The charges for handling, labor and storage service are in general borne by the same patrons, and applicants have made a convincing showing that the adjustment which they urge is justified under all of the circumstances. It cannot be determined, of course, in a general rate proceeding 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 the applicants in this proceeding are justified. The application will be granted. Specifically, applicants will be authorized (1) to increase the rates of charge for special services as proposed in Paragraph IV, subparagraph No. 1, of the application; (2) to increase all storage rates by 15 per cent as proposed in the second alternative under Paragraph IV, subparagraph No. 2, of the application; and (3) to dispose of resulting fractions as proposed in the oral testimony of Jack L. Dawson, their tariff-publishing agent.

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 as specifically set forth and referred to in the foregoing opinion.

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 17th day of April, 1951.

R. J. [illegible]

Justus F. Craemer

Harold P. Hule

Kenneth Potter

Peter E. Mitchell

COMMISSIONERS