ORIGINAL

Decision No. 47046

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of A-B-C TRANSFER & STORAGE CO., INC., BECKMAN EXPRESS & WAREHOUSE CO., BEKINS VAN LINES, INC., BELSHAW WAREHOUSE COMPANY, CENTRAL WAREHOUSE & DRAYAGE CO., J. A. CLARK DRAYING COMPANY, LTD., De PUE WAREHOUSE COMPANY OF SAN FRANCISCO, DISTRIBUTORS WAREHOUSE, THE DODD WAREHOUSES, ENCINAL TERMINALS, FARNSWORTH & RUGGLES, GIBRALTAR WAREHOUSES, HASLETT WAREHOUSE COMPANY, HOWARD TERMINAL, JOHN McCARTHY & SON, MERCHANTS EXPRESS CORPORATION, FRANK NOLAN DRAYAGE CO., NORTH POINT DOCK WAREHOUSES, SAN FRANCISCO WAREHOUSE CO., SEA WALL WAREHOUSES, SOUTH END WAREHOUSE COMPANY, STATE TERMINAL CO., LTD., THOMPSON BROS., INC., TURNER-WHITTELL WAREHOUSES, INC., WALKUP DRAYAGE & WAREHOUSE CO., and WALTON DRAYAGE & WAREHOUSE COMPANY for an increase in rates.	Application No. 33036

Appearances

Reginald L. Vaughan, for applicants.
Jackson W. Kendall, for Bekins Van Lines, Inc., applicant.
R. A. Dahlman and J. L. Mason, Jr., for R. J. Reynolds Tobacco Co., protestant.
Hugh Cavalli, for Board of State Harbor Commissioners, interested party.
Matt Clarke, for The Borden Co., interested party.
Charles D. Gilbert, for C & H Sugar Refining Corporation, Ltd., interested party.

O P I N I O N

Applicants are public utility warehousemen operating in San Francisco, Oakland, Alameda and Berkeley. They seek authority to increase their rates and charges.

Public hearing was held at San Francisco on February 8 and 25, 1952, before Commissioner Mitchell and Examiner Mulgrew.

At the close of the hearing a statement protesting against the granting of the application was made on behalf of R. J. Reynolds Tobacco Co. Applicants requested permission to file a written answer. Protestant consented to this arrangement. The request was granted. The answer was filed and the application submitted on March 12, 1952.

Applicants propose to raise the storage rates, except the space rental rates, by 20 percent, and to increase the minimum storage charge from 20 to 25 cents per lot and the minimum monthly charge from $1.50 to $5.00 per account. Their space rental rates are stated in amounts per square foot per month. These rates and the minimum charges applicable in connection therewith vary according to the footage involved. Applicants propose to make the following increases: For 250 square feet or less, from 6½ to 10 cents per square foot and from a $3.00 to a $5.00 minimum charge, for 251 to 600 square feet from 5½ to 8 cents and from $16.50 to $25.00, and for over 600 square feet from 4½ to 6 cents and from $33.00 to $48.00. Applicants' rates on special handling, labor and clerical services are on a man-hour basis. They propose to raise these rates from $2.50 to $2.75 for straight-time work and from $3.75 to $4.12½ for overtime work, and to increase the minimum charge for special services from 25 to 75 cents. The foregoing proposals collectively are estimated by applicants as amounting, on an over-all revenue basis, to an increase of 10 percent.

Applicants' operations involve the use of approximately 3,350,000 square feet of warehouse floor space. Fifteen of the 26 applicants operate some 85 percent of the total floor space. The aggregate revenues and expenses of these 15 warehousemen, applicants contend, afford a representative showing of operating results. They contend further that their future revenue requirements should be measured by operating ratios (relationships of costs to revenues stated on a percentage basis) developed from the over-all experience of the 15 warehousemen, adjusted to give effect to subsequent cost increases and to estimated higher revenues to be derived from the rate increases under consideration.

A consulting engineer retained by applicants testified that he had studied the problem of testing their operating results by the rate base and rate of return method. He said that he had found that the depreciated value of the warehouse buildings would be by far the greatest single component of a rate base. He said further that buildings owned by the warehousemen themselves accounted for less than one-third of total floor space, that about one-half of the balance of the space was owned by related interests, and that the remainder was leased from independent owners. The engineer explained that, while it would be possible to develop the depreciated value of the buildings owned by the related interests, some of the operations were conducted in part in buildings owned either by the warehousemen or their affiliates and in part in buildings leased from independent owners. Five of the operators, he stated, exclusively use space leased from independent owners. Their rate bases, he pointed out, would consist of the depreciated cost of warehouse equipment, office furniture and fixtures and working capital. He asserted that such rate bases would be but small fractions of what they would be if the building were owned by the operators.

The engineer concluded that rate base and rate of return figures could be developed for only five of the 15 applicants. He estimated that such figures would cover approximately one-third of the total floor space operated. He also concluded that conditions other than investment considerations surrounding the operations of the five applicants for which rate base and rate of return figures could be developed were so different from the group average that it would be impossible to use such figures in determining revenue requirements of the remaining warehousemen. Added difficulties, he said, were that warehouse buildings are usable in nonutility enterprises, that they may have market and rental values in excess of the values indicated by the original cost of the property less depreciation, and that the return to be secured by continuing to use the buildings in warehouse operations may be lower than that obtainable by converting them to nonutility use. The engineer contrasted this situation with respect to warehouse property with that obtaining in the operations of electric, telephone and other utilities where, he said, the properties are largely those designed specifically for and usable only in public utility operations. He expressed the opinion that in the circumstances here the average or over-all operating ratio for the group of warehousemen is an entirely satisfactory test of applicants' revenue requirements.

In this connection the Commission has held:

> "Operating ratios and rate bases are both valuable indexes of earning requirements. In rate proceedings the applicants should develop as much information as practicable in order that the Commission may determine properly what revenues are necessary and reasonable under the particular circumstances. We perceive no necessary purpose to be served by discussing herein the relative merits of various methods of appraising the reasonableness of earnings. In reaching its conclusions this Commission considers all available data, without limitation or restriction to any single formula." (Pasadena City Lines' Application for Fare Increases (51 Cal.P.U.C. 248, 255 (1951).)

Studies of the operating results of the 15 applicants, estimates of increased costs, and forecasts of prospective revenues under the proposed higher rates were submitted by a certified public accountant retained by the warehousemen. He developed operating results for the calendar year 1950, for the first six months of 1951, and for the entire eighteen-month period and then made adjustments covering increased costs and estimated higher revenues from the proposed rate increases. He did not make provision for income taxes in these calculations.

Protestant, R. J. Reynolds Tobacco Co., contends that the results of three of the applicants studied are not representative and should not be used in determining revenue requirements or as a basis for increased rates.

Table I which follows shows the accountant's figures, before adjustment for cost increases and sought rate increases, segregated as to the three applicants involved in the Reynolds' protest and the 12 remaining warehousemen covered by the studies.

TABLE 1 - OPERATING RESULTS BEFORE ADJUSTMENT - 15 APPLICANTS

		Revenues	Expenses	Net Income*	Operating Ratio*
January 1, 1950, through December 31, 1950	Three Applicants	$ 596,960	$ 817,068	($220,108)	136.87%
	Remaining Twelve	2,065,274	1,912,955	152,319	92.62
	Totals and Overall Operating Ratio -	$2,662,234	$2,730,023	($ 67,789)	102.55%
January 1, 1951, through June 30, 1951	Three Applicants	$ 356,652	$ 432,154	($ 75,502)	121.17%
	Remaining Twelve	1,157,159	1,038,909	118,250	89.78
	Totals and Overall Operating Ratio -	$1,513,811	$1,471,063	$ 42,748	97.18%
January 1, 1950, through June 30, 1951	Three Applicants	$ 953,612	$1,249,222	($295,610)	131.00%
	Remaining Twelve	3,222,433	2,951,864	270,569	91.60
	Totals and Overall Operating Ratio -	$4,176,045	$4,201,086	($25,041)	100.60%

* Without provision for income taxes.

( ) - Indicates loss.

It will be observed in the foregoing table that the aggregate losses shown for the three applicants have been severe and continuing. More than two-thirds of their indicated aggregate loss reflects the experience of one operator as disclosed by the accountant's studies. This applicant's 1950 revenues and expenses are shown as $315,756 and $466,501, respectively, producing a loss of $150,745 and an operating ratio of 147.74 percent.

It will also be observed from the table that the indicated loss of the three applicants for the first six months of 1951 was relatively less than for the preceding calendar year. The same operator again accounted for most of the loss with revenues of $209,045, expenses of $264,258, a resulting loss of $55,213, and an operating ratio of 126.41 percent. The net income of the remaining 12 operators during the 1951 period is shown to have increased substantially over 1950.

For the eighteen-month period, the three warehousemen have an indicated loss of substantial proportions in relation to their revenues. On an over-all basis this indicated loss is offset by the net income earned by the other 12 warehousemen. Only one of the group of 12 applicants shows a loss for the eighteen-month period with revenues of $465,444 and expenses of $475,176, a loss of $9,732 and an operating ratio of 102.09 percent. The same operator, however, in the first six months of 1951 had revenues of $170,244, expenses of $163,792, a net income of $6,452, and an operating ratio of 96.21 percent.

The combined operations of the 15 applicants show a slight loss for the eighteen months. The indicated loss of one operator in the group of three applicants covered by the Reynolds' protest for that period, $205,958, is more than eight times as great as the over-all loss of $25,041 shown for the 15 applicants. This one operator had approximately 12½ percent of the total revenues, $524,802 out of $4,176,045, but had some 17½ percent of the aggregate expenses. The group of three applicants had approximately 23 percent of total revenues but had some 30 percent of aggregate expenses.

In their answer to the Reynolds' protest applicants contend that there is no justification for omitting either high-cost or low-cost operators. They argue that no two warehousemen operate the same amount and type of space at the same cost, handle the same commodities in like quantities, or enjoy the same percentage of occupancy or turnover of warehouse stocks. They argue further that their accounts vary in number and in size and that a warehouseman operating under unfavorable circumstances at any given time may later find his position materially improved by changed patronage or differences in the type and extent of storage service required. Uniform rates assertedly are necessary in the face of competition between warehousemen which applicants describe as "intense."

It is nevertheless apparent that the unfavorable over-all operating results shown for the 15 applicants result from the adverse experience of the three operators involved in the Reynolds' protest and particularly from the extremely adverse experience of the largest operator in that group. The indicated losses of these latter warehousemen are so strikingly different from the operating results of the other applicants that, on the basis of the facts at hand, the operating results of the three warehousemen are not acceptable for use in determining the over-all revenue requirements of applicants. To be useful for this purpose, specific and detailed explanation of the operating losses and of the extreme differences between these operating results and those of the other warehousemen would be necessary prerequisites. Applicants have not furnished such information. The arguments they advance in answering the Reynolds' protest are general in nature and are not persuasive that the operating results of the three applicants in question are appropriate or proper for use in appraising applicants' over-all revenue requirements.

In view of this conclusion with respect to the three applicants, further discussion of applicants' proposed increases as measured by the operating ratio method will be limited to the operating results of the remaining twelve. The accountant's adjustment of operating results to depict increased expenses and estimated higher revenues under the proposed rates are shown in Table 2 which follows:

TABLE 2 - ADJUSTED OPERATING RESULTS - 12 APPLICANTS

		Revenues	Expenses	Net Income*	Operating Ratio*
January 1, 1950 through December 31, 1950	(a)	$2,065,274	$2,035,140	$ 30,134	98.54%
	(b)	2,261,543	2,035,140	226,403	89.99
January 1, 1951 through June 30, 1951	(a)	1,157,159	1,071,446	85,713	92.59
	(b)	1,270,123	1,071,446	198,677	84.36
January 1, 1950 through June 30, 1951	(a)	3,222,433	3,106,586	115,847	96.40
	(b)	3,531,666	3,106,586	425,080	87.96

* - Without provision for income taxes.

(a) - Adjusted only for increased expenses.

(b) - Adjusted for both increased expenses and higher revenues under the proposed rates.

The proposed rates, the foregoing table indicates, would produce an operating ratio of 84.36 percent, before provision for income taxes, on the basis of the latest experience submitted by the warehousemen, the first six months of 1951. As hereinbefore pointed out, applicants have elected to develop and supply information relating to their revenue requirements which allow these requirements to be measured only by the operating ratio method. In the circumstances here, the indicated operating results under the proposed rates are not sufficient to demonstrate that the sought increases are necessary and justified. This is not a case where consideration of the reasonableness of earnings should be restricted to information relating to a single method or formula. As pointed out in Pasadena City Lines, supra, applicants should fully develop all available information.

In view of the foregoing conclusions there is no occasion to discuss other evidence submitted by applicants, although the entire record has been considered.

Upon consideration of all the facts and circumstances of record we are of the opinion and hereby find that the increases in rates and charges proposed in this application have not been justified and that accordingly the application should be denied.

ORDER

Based on the evidence of record and on 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 22nd day of April, 1952.

President

Commissioners