

Decision No. 47596

**ORIGINAL**

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 WARE- )  
 HOUSE 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 WARE- )  
 HOUSE 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. 33544

Appearances

- A. B. Christiansen, Jack L. Dawson, John G. Lyons, James B. Mahoney, and Reginald L. Vaughan, for applicants.
- Russell Bevans, for Draymen's Association of San Francisco, interested party supporting applicants.
- R. A. Dahlman, and J. L. Mason, Jr., for R. J. Reynolds Tobacco Co.; A. V. Mattingly, for Board of State Harbor Commissioners; and James Quintrall, for Los Angeles Warehousemen's Association; interested parties.
- William E. Turpen, for the Transportation Department, Rate Division, Public Utilities Commission of the State of California.

OPINION

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

A public hearing was held at San Francisco on July 28, 1952, before Examiner Mulgrew.

The increases in rates and charges herein sought are identical with those sought in Application No. 33036 and denied by Decision No. 47046 of April 22, 1952, in that application.

Applicants propose a 20 percent increase in the storage rates. They also propose increases in minimum charges, in space rental rates and in various accessorial charges.<sup>1</sup> No increases are sought in the storage-handling charges. Applicants estimate that the proposed increases will amount to an over-all revenue increase of 10 percent.

Applicants' tariff publishing agent described the various sought increases in detail. He explained that the storage charges had not been increased since 1938, although there had been several increases in handling charges since then. The presently proposed rate adjustments, he said, would to some extent restore the relationship between the storage and handling rates which existed prior to World War II.

Applicants mailed notices of the proposed increases and of the hearing to all of their storers. In addition, notices were sent by the Commission's Secretary to persons believed to be interested. No one appeared in opposition to the granting of the application. Representatives of R. J. Reynolds Tobacco Co., protestant in Application No. 33036, appeared as interested parties.

Studies of the operating results of 15 of the 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. The data submitted

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The increases proposed in addition to that in the storage rates are as follows: Minimum storage charge from 20 to 25 cents per lot and the minimum monthly charge from \$1.50 to \$5.00 per account; space rental rates 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; rates on special handling, labor and clerical services from \$2.50 to \$2.75 per man-hour for straight-time work and from \$3.75 to \$4.12½ per man-hour for overtime work, and the minimum charge for special services from 25 to 75 cents.

involved the same 15 operators for which data were submitted in Application No. 33036. As pointed out in Decision No. 47046, these 15 warehousemen operate approximately 85 percent of the total warehouse floor space. Applicants contend that the operating results of these 15 warehousemen afford a representative showing. The witness developed operating results for the calendar year 1951 by six months' periods and for the entire year, for the first quarter of 1952 and for the combined nine-month period ending March 31, 1952. Federal and state income taxes were included in the expenses. Adjustments were made covering increased costs and estimated higher revenues resulting from the proposed rate increases.

At the hearings in Application No. 33036, as discussed in Decision No. 47046, a protestant contended that the operating results of three of the applicants studied were not representative of the group as a whole and should not be used in determining revenue requirements or as a basis for increased rates. In discussing this protest, the Commission said:

"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 the present proceeding, the accountant reported the results of an investigation into the operations of the above-referred to three applicants. He explained that their costs of operation per square foot of warehouse space were lower than the industry average, and that the amount of storage revenues received per square foot was considerably less than the industry average.<sup>2</sup> This, he claimed, showed that the three warehousemen were not high-cost operators, but that they experienced losses because of reduced revenues. The witness further said that two of the three operators have been able to improve their operating position since the data was gathered for the previous proceeding, and that one of them consolidated its facilities and reduced its space and as a result showed an operating profit in the first quarter of 1952. According to the witness, the third operator lost several large accounts following the 1949 warehouse strike, but was unable to reduce its facilities because of existing lease commitments. However, he said, during the second quarter of 1952, this latter applicant has been able to arrange a temporary reduction of facilities which will result in an annual savings of \$44,108.90 in rental expense with no appreciable change in storage revenues.

Table I which follows shows the accountant's figures, before and after adjustment for cost increases and sought rate increases, and also adjusted to reflect the annual rental savings referred to above:

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<sup>2</sup> The direct operating and general overhead expenses per square foot of warehouse space operated during the first six months of 1951 for these applicants were 23.8; 21.6 and 21.9 cents, compared to an industry average of 25.2 cents. The average storage revenues per square foot of space operated for the same period were 17.4, 17.0 and 13.1 cents, compared to an industry average of 25.9 cents.

TABLE 1  
ADJUSTED OPERATING RESULTS

		<u>Revenues</u>	<u>Expenses</u>	<u>Net Income*</u>	<u>Operating Ratio*</u>
First Six Months 1951	(a)	\$1,513,811	\$1,517,481	(\$3,670)	100.24%
	(b)	1,664,642	1,602,870	61,772	96.29
	(c)	1,664,642	1,580,816	83,826	94.96
Second Six Months 1951	(a)	\$1,541,139	\$1,590,225	(\$49,086)	103.19%
	(b)	1,693,534	1,662,693	30,841	98.18
	(c)	1,693,534	1,640,639	52,895	96.88
Year, 1951	(a)	\$3,054,950	\$3,107,707	(\$52,757)	101.73%
	(b)	3,358,177	3,265,563	92,614	97.24
	(c)	3,358,177	3,221,455	136,722	95.93
First Quarter 1952	(a)	\$ 733,977	\$ 789,895	(\$55,918)	107.62%
	(b)	810,072	811,377	( 1,305)	100.16
	(c)	810,072	800,350	9,722	98.80
July 1, 1951 to March 31, 1952	(a)	\$2,275,116	\$2,380,120	(\$105,004)	104.62%
	(b)	2,503,606	2,474,071	29,535	98.82
	(c)	2,503,606	2,440,990	62,616	97.50

- \* - Includes provision for income taxes.  
 ( ) - Indicates loss.  
 (a) - Not adjusted.  
 (b) - Adjusted for increased expenses and for higher revenues under the proposed rates.  
 (c) - Same as (b) except expenses of one applicant reduced by \$44,108.90 per year to reflect rental savings.

If the same three operators that were challenged in Application No. 33036 were to be eliminated from consideration here, the operating results of the remaining twelve warehouses for the nine-month period ending March 31, 1952, adjusted for the higher costs and proposed rate changes would show revenues of \$1,892,892 and expenses of \$1,772,832, resulting in a net profit of \$120,060 and an operating ratio of 93.66 percent. For the first quarter of 1952, they would result in revenues of \$625,001, expenses of \$590,078, net profit of \$34,923, and operating ratio of 94.41 percent.

In Decision No. 47046, supra, the Commission pointed out that the applicants relied in that proceeding on the operating ratio method alone to determine revenue requirements, and that no attempt was made to develop a rate base or rate of return. In his testimony in the present proceeding the accountant overcame this deficiency by developing a consolidated rate base for the 15 applicants. For the purpose of computing the book values of land and the depreciated values of buildings, he explained, the warehouses were divided into two groups. One group, representing approximately 45 percent of the total warehouse space operated, consisted of the warehouses whose facilities are owned by the operating company or rented from related interests, and for which the costs of land and buildings were available. The other group consisted of those operators which in whole or in part rented their facilities from independent parties, and for which land and building costs could not be obtained. In order to determine the values where not available, the witness calculated the average cost of land and buildings and depreciation per square foot of warehouse space operated for those facilities for which the costs were available and used this average to determine the data for the remaining warehouses. Provisions for working capital, including prepayments and inventories of supplies, were based on one-sixth of the 1951 revenues. The accountant explained the nature of the warehouse business pointing out that it requires a larger working capital than many other types of utilities due to the time-lag involved in receiving payment for services.

The rate bases, as shown in Table 2 below, were calculated by the accountant to reflect the average amount of warehouse space dedicated to public use during the calendar year 1951 and during the nine-month period ending March 31, 1952.

TABLE 2 - RATE BASE

	Year <u>1951</u>	Nine Months <u>Ending March 31, 1952</u>
Land	\$1,768,885.26	\$1,827,027.27
Building and Structures	4,517,431.40	4,702,872.73
Warehouse Equipment	441,059.46	441,059.46
Furniture and Fixtures	92,879.79	92,879.79
Autos and Trucks	92,264.73	92,264.73
Miscellaneous Equipment	14,509.35	14,509.35
Improvements to Leased Property.	<u>88,558.59</u>	<u>88,558.59</u>
Total	\$7,015,588.58	\$7,259,171.92
Accumulated Depreciation	<u>1,559,490.64</u>	<u>1,563,799.81</u>
Net Book Value, Fixed Assets	\$5,456,097.94	\$5,695,372.11
Working Capital	<u>509,158.28</u>	<u>509,158.28</u>
Rate Base	<u>\$5,965,256.22</u>	<u>\$6,204,530.39</u>

In computing the rate of return, the accountant adjusted the operating expenses by deducting the rents paid to landlords and by adding the owners' costs of maintaining the buildings, including taxes and depreciation. This had the effect of considering all operators as though they owned the properties and included only the costs of maintenance. It results in adding to the actual net income the amount of rents paid to landlords in excess of building maintenance costs. Accordingly, the net income shown here is greater than that shown in Table 1. Income taxes were computed on this adjusted basis. The exhibit showed the following results:

TABLE 3 - RATE OF RETURN

	<u>Year</u> <u>1951</u>	<u>Nine Months</u> <u>Ending March 31, 1952</u>
A. Before adjusting for increased expenses and proposed rates:		
Net Income*	\$ 99,905	\$ 10,006
		(1) 13,342
Rate Base	5,965,256	6,204,530
Rate of Return*	1.67%	(1) 0.22%
Operating Ratio*	96.73%	99.56%
B. After adjusting for increased expenses and proposed rates:		
Net Income*	\$ 240,537	\$ 142,956
		(1) 190,607
Rate Base	5,965,256	6,204,530
Rate of Return*	4.03%	(1) 3.07%
Operating Ratio*	92.84%	94.29%

\* - After income taxes.

(1) - Converted to an annual basis.

From the above table it is clear that under the existing rates, and without taking into consideration the increased costs that have been experienced, insufficient revenues are being earned to maintain the warehousemen in a sound financial condition. An increase in rates and charges is necessary. The rates of return and operating ratios shown in Table 3 which would be experienced under the proposed rates are probably higher than would actually result. As mentioned previously, the income figures are based on owners' costs of maintaining the operating properties, and not on the larger expense of rents paid. It can also be seen that the results covering the latest period are less favorable than for the calendar year of 1951.

Upon careful consideration of all of the facts and circumstances of record, the Commission concludes and finds as a fact that the increases proposed by the applicants in this proceeding are

justified. The application will be granted. Applicants have requested that they be authorized to establish the sought increases on one day's notice to the Commission and to the public. Such short notice does not appear justified. Instead they will be authorized to establish the increased rates and charges on not less than ten days' notice. In authorizing the above-described increases we do not make any finding of fact as to the reasonableness of any particular rate or charge.

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, 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 734 of the Public Utilities Code, 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 unless exercised within 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 19<sup>th</sup> day of August, 1952.

*R. J. [Signature]*  
 President

*Justus J. [Signature]*

*Harold [Signature]*

*Peter E. [Signature]*

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 Commissioners

Commissioner..... Kenneth Potter....., being necessarily absent, did not participate in the disposition of this proceeding.