EM

ORIGINAL

Decision No. 47637

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, DESPER TERMINAL COMPANY, FREIGHT TRANSPORT COMPANY, JENNINGS-NIBLEY WAREHOUSE CO. LTD., LYON VAN & STORAGE CO., METROPOLITAN WAREHOUSE CO., OVERLAND TERMINAL WAREHOUSE CO., PACIFIC COAST TERMINAL WHSE. CO., PACIFIC COMMERCIAL WAREHOUSE, INC., REPUBLIC VAN & STORAGE CO., 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.	Application No. 33576

Appearances

Arlo D. Poe, for applicants.

Harold J. Blaine, Harold A. Drury, Morgan Stanley, Gordon Ross, W. H. Tyler, Carl F. Peters, A. O. Walde, Nathan Nibley, and H. B. Johnston, Jr., for various applicant warehousemen.

Irving W. Hamilton, for Los Angeles Warehousemen's Association, interested party.

Jack L. Dawson, for California Warehouse Tariff Bureau, interested party.

R. J. Jones, for General Foods Corp., interested party.

John E. Hunt, interested party.

Lillian Nedwick, protestant.

James F. Bartholomew and Willard L. Ellington, for Signal Trucking Service, Ltd., intervenor.

OPINION

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, seek authority under sections 454 and 491 of the Public Utilities Code to increase certain of their rates and charges upon less than statutory notice.

Public hearing was held before Examiner Bryant at Los Angeles on August 11, 1952. The matter is ready for decision.

The latest general adjustment of applicants' rates and charges was made on May 15, 1951.[1] Applicants allege that since that date there have been increases in the wage rates paid to warehouse laborers, in the wage and salary rates paid to clerks and supervisorial employees, and in other items of operating expense. As the result of such increases in the costs of warehouse operations the existing rates and charges assertedly are not adequate to produce revenues sufficient to meet operating expenses and leave a reasonable profit.

In order to produce the required revenues, applicants propose to raise the minimum monthly charge on each account from $1.73 to $5.00, to establish a new charge of 25 cents per ton, minimum 35 cents per shipment, for receiving merchandise from trucks, to increase the charge for loading or unloading merchandise into or from rail cars from 50 cents per ton to 75 cents per ton, to increase the minimum charge for loading or unloading rail cars from $12.50 to $15.00 per car, to increase the charge for each withdrawal of merchandise from 25 cents to 35 cents, and to make incidental rule revisions.

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[1] The adjustment, which involved an increase in the special labor rate and the storage rates only, was authorized by Decision No. 45595 dated April 17, 1951, in Application No. 32070.

In support of the application an accountant, testifying as a warehouse consultant, submitted and explained a study of the revenues, expenses and operating costs of thirteen of the applicant companies. He explained that applicants other than the thirteen were necessarily omitted from his exhibit because of the insufficiency of detailed records for necessary allocations, or the preponderance of their nonutility operations, or the relatively limited scope of their warehouse services. The consultant stated that he had obtained income statements and balance sheets from nearly all of the applicants, but had found as to some that it would be impracticable to analyze and allocate the figures to the extent that would be necessary for purposes of this proceeding. He testified that the companies not included in his exhibit had experienced increases in operating expenses as great as or greater than the ones that were included. It was his opinion that data from the thirteen studied companies were representative of the cost of warehousing general commodities, and that no significant figures might reasonably be developed from the other applicants.

He submitted a table to show that the thirteen companies operated about 86 percent of the total warehouse floor area and received more than 88 percent of the total gross warehouse revenue earned by all of the applicants.

The consultant's study was based primarily upon the operating experience of the warehousemen for the year ending December 31, 1951, with adjustments necessary to reflect subsequent changes in warehouse rates and charges and in labor expense. Included in the exhibit are income statements, revenue schedules, rate bases and other related data. The following table, developed from the consultant's exhibit, summarizes the actual operating experience of the thirteen warehousemen for the year 1951, without adjustment:

ACTUAL OPERATING RESULTS OF PUBLIC UTILITY OPERATIONS FOR YEAR ENDED DECEMBER 31, 1951

	Operating Revenues	Operating Expenses	*Net Operating Revenues	*Operating Ratio (Percent)
California Whse. Co.	$ 208,749	$ 194,538	$ 14,211	93.19
Central Terminal Whse Co.	141,857	130,313	11,544	91.86
E. P. Chaffee Company	60,015	62,383	(368)	100.59
Citizens Warehouse	42,060	41,501	559	98.67
Davies Warehouse Co.	140,503	127,531	12,972	90.77
Jennings-Nibley Whse.Co.Ltd.	122,282	100,268	22,014	82.00
Metropolitan Whse. Co.	343,163	351,487	(8,324)	102.43
Overland Term.Whse. Co.	421,098	377,300	43,798	89.60
Pac.Coast Term.Whse. Co.	156,426	153,678	2,748	98.24
Pac. Commercial Whse. Co.	107,435	124,517	(17,082)	115.90
Star Truck & Whse. Co.	363,782	321,309	42,473	88.32
Union Terminal Whse.	596,801	583,168	13,633	97.72
Westland Warehouses, Inc.	135,935	126,626	9,309	93.15
Total	$2,842,106	$2,694,619	$147,487	94.82

* Before federal income taxes, which were not developed by the witness.

( ) Indicates loss

The consultant testified that the actual experience for the year 1951, as set forth in the foregoing table, is not indicative of current or future operations. He pointed out that there was a general rate adjustment in May, 1951, that one of the companies was recently authorized to increase certain of its rates,[2] and he stated that there had been increases in the wages paid for warehouse labor and in the salaries of clerks and supervisors. In order to show the anticipated operating experience for the future rate year the witness submitted tables in which the adjustments which he deemed necessary were developed in detail. A segregation of revenues and expenses was made

[2] Westland Warehouses, Inc. was authorized by Decision No. 47486 of July 15, 1952, in Application No. 33152, to cancel provisions under which it maintained storage charges 25 percent below those of other warehouses in the area. The cancellation was made effective on August 10, 1952.

between public utility operations and nonutility operations.[3]

The estimated operating results were developed and submitted 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 warehouse companies. The second method disallows the rentals but adds as operating expense the depreciation, taxes and building repair costs of all of the properties, and includes the properties in the rate base at the depreciated costs to the present owners. The consultant stated that the latter method is the most significant, and was adopted because a number of the operating companies lease their properties from affiliates at rentals which are abnormal and generally subnormal. He was of the opinion that the rentals should be disregarded and that the rates should be based upon the allowance of a reasonable return upon the properties which are used and useful in rendering the service to the public. The following tables reflect the estimated operating results as submitted by the consultant. Table 1 shows the results under the actual lease arrangements now prevailing. Table 2 shows the results if the owners' expenses are substituted for the rents.[4]

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[3] The nonutility operations consist principally of for-hire trucking and of space rental on a landlord-tenant basis.

[4] Two companies are omitted under Table 2. For one of these companies the owner's records were not available. The other company changed its location from Los Angeles to Vernon during the year 1951.

Table 1

ESTIMATED OPERATING RESULTS
LEASE METHOD
(Thirteen Warehouses)

	Under Present Rates	Under Proposed Rates
Operating Revenues (1)	$ 2,935,127	$ 2,935,127
Proposed Increase (2)		164,629
Total Operating Revenues	$ 2,935,127	$ 3,099,756
Operating Expenses	$ 2,694,619	$ 2,694,619
Increased Labor Costs (3)	76,108	76,108
Total Operating Expenses	$ 2,770,727	$ 2,770,727
Net Operating Revenues	$ 164,400	$ 329,029
Federal Income Tax	66,440	130,034
Net Revenues After Tax	$ 97,960	$ 198,995
Operating Ratio (4)	96.7%	93.6%
Rate Base	$ 1,436,905	$ 1,436,905
Rate of Return (4)	6.8%	13.9%

Explanation of table:

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 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 13 warehousemen for the 12 months ending with December 31, 1951, 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.

(4) After provision for income taxes.

Table 2

ESTIMATED OPERATING RESULTS
OWNER METHOD
(Eleven Warehouses)

	Under Present Rates	Under Proposed Rates
Operating Revenues (1)	$ 2,730,426	$ 2,730,426
Proposed Increase (2)		155,547
Total Operating Revenues	$ 2,730,426	$ 2,885,973
Operating Expenses	$ 2,366,133	$ 2,366,133
Increased Labor Costs (3)	70,702	70,702
Total Operating Expenses	$ 2,436,835	$ 2,436,835
Net Operating Revenues	$ 293,591	$ 449,138
Federal Income Tax	97,801(4)	183,613
Net Revenues After Tax	$ 195,790	$ 265,525
Operating Ratio (5)	92.8%	90.8%
Rate Base	$ 3,444,752	$ 3,444,752
Rate of Return (5)	5.7%	7.7%

Explanation of table:

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 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 12 months ending with December 31, 1951 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.

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

(5) After provision for income taxes.

From the tables it will be seen that the warehousemen as a group, at current expense levels and present tariff charges, would experience estimated operating ratios of 96.7 percent under Table 1 and 92.8 percent under Table 2, and would receive an annual rate of return on the rate base of 6.8 percent under Table 1 and 5.7 percent under Table 2. Under the proposed rates the operating ratio would be 93.6 percent under Table 1 and 90.8 percent under Table 2, and the rates of return would be 13.9 percent and 7.7 percent, respectively. With reference to these results the consultant testified, and counsel for the applicants argued, that the warehouse industry requires operating ratios substantially lower than those which might be deemed reasonable in the trucking industry, although not as low as would be deemed appropriate for light, power, and communication utilities. The consultant developed that the applicants turn their invested capital on the average slightly less than once each year, whereas in trucking operations the capital is commonly turned two or three times a year and in the case of other utilities it is turned only once in several years.

Applicant's counsel argued that public warehousing has substantial capital risks inasmuch as it is not a monopoly form of utility operation. He pointed out that in Vernon and other areas immediately adjacent to the city of Los Angeles anyone may become a warehouseman without the necessity of a showing before the Commission, and he said that the warehousemen encounter active competition not only from each other but also from property owners who lease storage space to tenants. The consultant testified that the rate bases which he developed should be considered to be subnormal. He said that most of the buildings are from 20 to 30 years old, and are substantially depreciated on the books of the owners. Counsel argued further that anticipated net revenues are seldom realized because of the unavoidable lapse in time between wage increases and the establishment of increased charges. As an example, he said that it was a practical certainty that higher wages would have to be granted to warehouse employees at the end of the contract period in November, 1952, but no claim could be made for such additional expense in the present rate proceeding. For all of these reasons it was urged that the net revenues anticipated under the proposed rates are no more than necessary to meet the minimum requirements of the applicant companies.

The evidence as a whole is persuasive that an increase in the net revenues is necessary if the applicant warehouses are to be maintained in a sound financial condition, and that the revenues estimated to result from the proposed rates will be reasonable and not excessive.

There remains for consideration the reasonableness of the particular charges by which applicants propose to develop the required revenues. In general the increases sought are of an overall nature. Basically, applicants seek an additional 25 cents per ton on all merchandise received for storage, an additional 10 cents per withdrawal of all merchandise delivered from storage, and a $5.00 monthly minimum storage charge. The tariff publishing agent for all of the applicant warehousemen described the proposed rate adjustments in detail and explained the considerations underlying each change. The president of one of the applicant companies further explained the proposals on behalf of a warehouse rate committee of which he was the chairman. According to the testimony of these two witnesses, the applicants, through their proposals in this proceeding, have endeavored to maintain the existing relationship between storage and handling rates, and to apply the necessary increases fairly among all of their patrons. The witnesses declared that the sought charges would reasonably distribute the operating costs among large and small accounts according to the number of separate withdrawals required and the total tonnage received.

Approximately 3200 notices of the hearing were mailed in advance to all of the warehouse patrons and to other persons believed to be interested. Only two storers were represented at the hearing. One of these opposed granting of the application to the extent that it would increase the minimum monthly storage charge. This patron made a statement of position but offered no testimony or other evidence. The other storer appeared as an interested party but did not otherwise participate in the proceeding.

The particular rule changes and rate increases herein proposed appear to be reasonable under all of the circumstances. 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.

Signal Trucking Service, Ltd., a corporation which operates a public utility warehouse in the city of Vernon, asked leave at the hearing to intervene in this proceeding for the purpose of seeking authority to establish rates the same as those sought by the applicants herein. It was explained that Signal, in a separate proceeding submitted on July 18, 1952, sought authority to adjust its rates, rules and regulations to conform to those now maintained by the applicants herein and to become a participant in their common tariffs.[5] A cost analyst and accountant for Signal testified that

[5] Application No. 33363 in the matter of the application of Signal Trucking Service, Ltd., a corporation, for an order authorizing an increase in warehouse rates.

the granting of the application in that proceeding would do no more than reduce the warehouse operating losses of his company, and it was his opinion that the increases sought in the instant proceeding would still leave Signal's warehouse operations on a losing basis. In view of the evidence, it is clear that Signal should not be required to maintain charges lower than those generally maintained by other warehousemen in the area. The intervention of Signal Trucking Service, Ltd., will be allowed and that company will be authorized by the following order to establish the increased charges herein found to be justified.

ORDER

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

IT IS HEREBY ORDERED that Signal Trucking Service, Ltd., and the applicants in this proceeding be and they are hereby authorized to establish, on not less than ten (10) days' notice to the Commission and the public, the following increased rates and charges in California Warehouse Tariff Bureau Warehouse Tariff No. 7-C, Cal. P.U.C. No. 102 (L.A. Bailey series) of Jack L. Dawson, agent:

Rule No. 14C Increase from $1.73 to $5.00 the minimum storage charge applicable to each account of storer requiring separate records.

Rule No. 17½ Establish new rule as follows:

"(a) When merchandise is received from trucks a charge of 25 cents per ton, minimum charge 35 cents per shipment, will be made.

(b) In the event warehouse labor is used for unloading merchandise from trucks, charges will be made under Rule No. 25 series in lieu of charges provided in paragraph (a) hereof."

Rule No. 18F

1. Increase the charge for loading or unloading merchandise from or into rail cars from 50 cents per ton to 75 cents per ton.

2. Increase the minimum charge for loading or unloading rail cars from $12.50 per car to $15.00 per car.

3. Amend the last sentence of Rule No. 18F to read as follows:

   "Charges under this rule for the unloading of bad-order or damaged merchandise received by rail shall not be less than those accruing under the special labor service rates provided in Rule 25 series."

Rule No. 18½B Amend to read as follows:

"When merchandise is received in stop-in-transit cars, unloading thereof will be subject to charges provided in Rule No. 18 series, except that the minimum charge will be $12.50 per car. In addition, when storage handling service is performed the minimum charge for such service will be $3.00. Labor and materials required for rebracing outbound cars will be subject to charges provided in Rule 25 series."

Rule No. 24B Increase the withdrawal charge from 25 cents to 35 cents.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall expire unless exercised within sixty (60) 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 26th day of August, 1952.

Justus F. Craemer
President

Harold P. Hule

Kenneth Potter

Peter E. Mitchell

Commissioners

Commissioner R. E. MITTELSTAEDT, being necessarily absent, did not participate in the disposition of this proceeding.