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Decision No. 47848

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of CRESCENT WAREHOUSE CO., LTD., a)
corporation, for authority to)
increase its rates.)

Application No. 33587

Appearance

Arlo D. Poe, for applicant

O P I N I O N

Crescent Warehouse Co., Ltd., is engaged in the business of storing merchandise for the public generally. In this proceeding it seeks authority to increase certain of its rates and charges on less than statutory notice.

Public hearing of the application was held before Examiner Abernathy at Los Angeles on August 19, 1952.

Applicant's services are conducted on Terminal Island in the harbor area of the city of Los Angeles. Four warehouse buildings, an open storage yard and tanks are used in the operation. Only the rates relating to the warehousing operations which are conducted in the buildings are in issue herein.[1] Applicant seeks increases in its rates for handling and for other services which primarily involve the use of labor. With a minor exception

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[1] The open yard and tank storage services are deemed by applicant to be non-public utility operations and not subject to the Commission's jurisdiction with respect to the rates therefor. For convenience, applicant's designation of its services as utility and nonutility will be used in this opinion.

no increases are sought in the rates for storage. The various proposals are listed specifically in Appendix "A" attached hereto.

The most recent adjustment of applicant's rates became effective on April 1, 1952, when, pursuant to authority granted by Decision No. 46818, dated March 4, 1952, in Application No. 32993, applicant increased its storage rates by 10 percent and its other rates and charges by 25 percent. The previous rate adjustments were effected in 1948 when the company's rates and charges other than those applicable to storage were increased by 20 percent. Applicant alleges that because of increases in labor costs in the past year the rate increases which were authorized by Decision No. 46818 have not been sufficient to produce adequate revenues and that the sought rates and charges are necessary to enable it to continue without financial loss.

Details regarding the increases in labor costs to which applicant has been subjected in recent months were provided by applicant's president and by its vice president. According to the testimony of those witnesses, applicant was obliged to revise its contract with its employees in February of this year to establish its pay scale based on a 6-hour day instead of an 8-hour day. Applicant's president said that as a consequence his company must make substantial payments for overtime in order to keep in operation 8 hours daily. On June 16 of this year the employees were granted a further increase in wages of 13 cents an hour. In addition to the wage adjustments, so-called "fringe" allowances have been made to the employees for health, welfare, and vacations. Applicant's vice president submitted an exhibit showing that in the past four years the average wage payments to warehouse labor have increased from $1.65 per hour for an 8-hour day to more than $2.58 an hour, an increase of 57 percent. Assertedly, because of the company's proximity to the waterfront, its employees are subject to the longshoremen's union and the applicable wage scale is higher than that governing the operations of other warehousemen in the Los Angeles area.

Exhibits were submitted through applicant's auditor to show the financial results of the company's operations for the six months, and for the year which ended with June 22, 1952. The revenue and expense figures were segregated between the utility and nonutility operations. The total revenues, expenses and net operating results which were recorded by the auditor for the two periods are as follows:

	Utility	Nonutility	Total
6 Months ended with June, 1952			
Revenues	$23,567	$13,897	$37,464
Expenses	29,127	18,508	47,635
Net loss	$ 5,560	$ 4,611	$10,171
Year ended with June 22, 1952			
Revenues	$56,762	$31,401	$ 88,163
Expenses	63,284	37,794	101,078
Net loss	$ 6,522	$ 6,393	$ 12,915

According to the auditor's exhibits, had the increased rates which became effective on April 1, 1952, and present wage costs applied throughout the two periods, the utility operations would have resulted in a net loss of $5,320 for the six months and of $3,378 for the year.[2] On the other hand, had the sought rates been in effect throughout the year, the company would have earned $3,259, or a rate of return of 1.93 percent.

Testifying in support of the specific rate adjustments which are sought, applicant's vice president said that the proposed rates for unloading rail cars and for receiving merchandise from trucks are the same as those which have been recently authorized for the warehousemen in the metropolitan Los Angeles area. He said that the authority which is sought with respect to the storage rates for loose merchandise is the same as was granted by Decision No. 46818, supra, but which, through inadvertence, was permitted to expire without being exercised. With respect to the handling rates he asserted that even including the increase of 25 percent proposed herein they would be about a third less than those of most other Los Angeles warehousemen.

Notices of the proposed increases and of the hearing in this proceeding were sent by applicant's president to each of his company's patrons. In addition notices of the hearing were sent by the Commission's secretary to persons and organizations believed to be interested. No one appeared at the hearing to oppose granting of the application.

As the foregoing review of the record in this proceeding shows, applicant undertook to justify its proposals by a showing of operating losses and of increases in labor costs. The evidence is persuasive to the extent that it shows inadequate earnings and that labor costs have increased. Regarding the amounts of the alleged

[2] Corresponding operating ratios are 121.3 percent and 105.4 percent, respectively.

losses, however, the record is clear that they are overstated. It is also clear that other factors than increases in labor costs have contributed materially to applicant's unfavorable earning position.

As to the amounts of the losses, the evidence shows that they are inflated by excessive charges to building repairs and to depreciation expense. The charges which were made against the utility operations for these expenses were as follows:

	Building Repairs	Depreciation
6 months ended with June 22, 1952	$2,516	$2,408
Year ended with June 22, 1952	8,380	4,816

The item of building repairs reflects largely charges which were made for reroofing the warehouse buildings. The evidence shows that reroofing is an expense which applicant must incur about every seven years. It is obvious that the reroofing costs should be apportioned over the several years for which they are incurred. Applicant's auditor applied the entire costs against the operations for 1951 and 1952 and thereby both overstated the costs for those years and arrived at figures which are not representative of operations for the future. Applicant declined to develop what a reasonable charge to current operations for building repairs would be, notwithstanding a suggestion which was made at the hearing that it do so. However, on the basis of the company's charges to repair expense over the past six years, it appears that not more than $3,500 for building repairs is reasonably allocable to a single year's operations. The charges to depreciation expense were developed by the auditor in conformity with rates allowed by the Federal Bureau of Internal Revenue for the purposes of computing income taxes. These depreciation rates reflect shorter service lives than will probably be realized from the use of the properties involved. Although the charges to depreciation expense should be reduced, the evidence is not sufficient to show the extent of the reductions that should be made.

The other factors which appear to have caused a deterioration in applicant's earnings, particularly during the latter part of 1951 and since, are changes in the commodities in storage and a decline in the volume of business handled. The company's revenues from storage for the second half of 1951 were approximately 85 percent of those for the first six months of the year. For the first half of 1952 they were only about 55 percent of those for the corresponding period in 1951. The decline in revenues was attributed partly to the fact that the company has been storing substantial quantities of rubber and imported chinaware. Assertedly, the storage of these commodities does not permit utilization of the warehouse facilities comparable to that of commodities such as canned goods which ordinarily accounts for a large part of the merchandise warehoused by applicant.

As a means for determining what increases, if any, in applicant's handling rates are reasonable and justified, the data relating to the company's operations for the six months which ended with June 22, 1952, have but little value. Aside from the fact that applicant's earnings for that period were substantially affected by factors other than changes in labor costs, it appears that the company's experience during those months is not representative of that which reasonably may be expected for the future. Applicant's president forecast an increase in the volume of business, particularly for the remainder of the year. He anticipated, moreover, that much of the rubber now in storage would be supplanted by other commodities which would yield greater revenues.

The data covering applicant's operations for the year ending with June 22, 1952, are subject to the same infirmities as those applicable to the operations for the six months but to a lesser degree. However, with adjustments to correct the charge to repairs and to reflect the increase in wage rates which became effective on June 16, 1952, they appear reasonably representative of the lower limits of the results which may be expected from the utility operations under present rates during the coming year. With similar adjustments in applicant's figures for 1951, those figures may be accepted as representative of results under the most favorable circumstances.[3] The respective data, adjusted as indicated, are set forth in the following table:

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[3] The data applicable to the 1951 operations are taken from Decision No. 46818. Although no adjustments are made for the excessive charges to depreciation expense, it appears that such adjustments would not materially affect the conclusions herein.

Table 1

Estimated Results of Utility Operations Under Present Rates for Rate Year

	Based on Operations for Year Ended December 31, 1951	Based on Operations for Year Ended June 22, 1952
Revenues	$ 75,848	$ 62,794
Expenses		
Labor	$ 21,317	$ 18,424
Depreciation	5,980	4,816
Repairs, buildings	3,500	3,500
All other expenses	35,161	34,553
Total	$ 65,958	$ 61,293
Net operating revenues	9,890	1,501
Income taxes	2,843	432
Net revenues	$ 7,047	$ 1,069
Rate base, applicant's (1)	$120,070	$120,070
Rate of return	5.8%	.88%
Operating ratio	90.7%	98.3%

(1) Rate base figures as developed by applicant are set forth in the margin below.[4]

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[4] Applicant's rate base figure reflects the following book valuations (assertedly, present values are greater):

Land	$ 29,018
Buildings and structures	113,647
Warehouse equipment	27,564
Furniture and fixtures	2,044
Spur track	3,897
Scales	1,502
Organization expense	1,065
Prepaid insurance	1,409
Working capital	9,460
	$189,606
Less depreciation	69,536
Rate base	$120,070

The rate base is overstated by about $6,500 as a result of inclusion of amounts for organization expense and prepaid insurance and as a result of basing working capital on one-sixth of annual revenues without allowance for depreciation accruals. Modification of the rate base as indicated would have little effect upon the rate-of-return figures shown. Such figures, developed in relation to the modified rate base, would be less than .5 percent higher than those shown in the table above.

Although it is clear from the figures in the table above that applicant's earning position is not as unfavorable as alleged, it is also clear that the probable earnings under present rates for the coming year would be unreasonably low. According to applicant's estimates, based upon its operations for the year ended June 22,1952, establishment of the sought rates would yield additional revenues of $6,638 for the year. As applied to the operations for the year 1951, it appears that the rates would return additional revenues of approximately $9,500. In the following table are set forth estimates of operating results to be realized for the coming year should the sought rates be established:

Table 2

Estimated Results of Utility Operations Under Proposed Rates for Rate Year

	Based on Operations for Year Ended December 31, 1951	Based on Operations for Year Ended June 22,1952
Revenues	$ 85,348	$ 69,432
Expenses	65,958	61,293
Net operating revenues	$ 19,390	$ 8,139
Income taxes	5,575	2,340
Net revenues	$ 13,815	$ 5,799
Rate base	$120,070	$120,070
Rate of return	11.5%	4.8%
Operating ratio	83.8%	91.6%

From the estimates in Table 2, it is clear that under the circumstances here the sought rates are reasonable and would not result in excessive earnings.[5] The additional revenues which would be returned from the proposed rates have been shown to be necessary to the maintenance of applicant's operations. Upon careful consideration of all of the facts and circumstances of record, the Commission is of the opinion and finds as a fact that the increases in applicant's rates and charges which are sought in this proceeding have been shown to be justified. The application will be granted.

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[5] The conclusions herein regarding the reasonableness of the earnings under the sought rates should not be construed as a finding of reasonableness with respect to the individual adjustments. The application has been considered primarily in its over-all aspects.

ORDER

Public hearing having been held of the application in the above-entitled proceeding, the evidence received therein having been considered carefully, and good cause appearing,

IT IS HEREBY ORDERED that Crescent Warehouse Co., Ltd. be and it is hereby authorized to amend its rates and charges as set forth in its Warehouse Tariff No. 2, Cal. P.U.C. No. 2, on not less than five (5) days' notice to the Commission and to the public, so as to establish the rates and charges set forth in Appendix "A" attached hereto and by this reference made a part hereof.

IT IS HEREBY FURTHER ORDERED that the authority herein granted is subject to the express condition that applicant 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 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 21st day of October, 1952.

[signature] President

[signature]

[signature]

[signature]

[signature] Commissioners

Appendix "A" to Decision No. 47848

Proposed Amendments to Warehouse Tariff No. 2, Cal. P.U.C. No. 2

Crescent Warehouse Co., Ltd.

1. Rule 18 - Rate for unloading or loading rail cars

Increase present rate of 63 cents a ton, minimum charge \$15.63 per car, to 75 cents a ton, \$19.54 per car.

2. Rule No. 300 - Merchandise, not otherwise specified, loose

Increase present storage rate of 6½ cents per square foot per month, minimum charge \$1.10 per month, to 7½ cents per month, minimum charge \$1.21 per month.

3. Establish a rate of 25 cents a ton, minimum charge 35 cents a shipment, for receiving merchandise from trucks, subject to the provision that the charges provided in Rule 13 - Rate for Special Labor and Clerical Services - will apply in lieu of said rate and charge when, at the request of the shipper or his agent, warehouse labor is used for unloading merchandise from trucks.

4. Increase all rates and charges except those provided in Rule 18 and those applicable to storage by 25 percent.

(End)