

ORIGINAL

Decision No. 49242

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., )  
 Signal Trucking Service, Ltd., Smith )  
 Bros. Truck Co., Star Truck & Warehouse )  
 Co., Union Terminal Warehouse and West- )  
 land Warehouses, Inc., for authority to )  
 increase rates in the City of Los )  
 Angeles and other Southern California )  
 points. )

Application No. 34624

Arlo D. Poe, for applicants and for  
 West Coast Warehouse Corporation,  
 intervenor.  
W. H. Tyler, R. E. Lamden, Gordon Ross,  
A. O. Walde, Morgan Stanley, A. F.  
Mortensen, J. F. Bartholomew, J. W.  
Kendall and Samuel P. Krown, for  
 various applicant warehousemen.  
Irving W. Hamilton, for Los Angeles Ware-  
 housemen's Association, interested party.  
Jack L. Dawson, for California Warehouse  
 Tariff Bureau, interested party.  
Bernard Rosoff, for General Foods Corp.,  
 interested party.  
F. B. Austin and C. S. Abernathy, for the  
 Commission's staff.

O P I N I O N

By this application filed August 11, 1953, twenty-four public utility warehousemen engaged in the operation of warehouse facilities for the storage and handling of general commodities within Los Angeles and nearby territory seek authority to increase their rates and charges by 10 per cent on less than statutory notice.

A public hearing of the application was held at Los Angeles on September 2, 1953, before Examiner Jacopi.

Applicants' rates and charges were reviewed in Decision No. 47637 of August 26, 1952, in Application No. 33576, when upward adjustments were authorized in certain of the rates.<sup>1</sup> No change was sought nor authorized, however, in the rates for storage, for handling or for designated special services. The record shows that since that time applicants' operating expenses have increased substantially, particularly the wages of employees and the cost of employee health and welfare plans. It is alleged that under these changed conditions the present warehouse rates and charges produce revenues which are insufficient to cover the cost of operation and leave a reasonable profit. It is proposed to place the public utility operations on a compensatory basis by increasing all of the rates for storage, handling and special services by 10 per cent.<sup>2</sup>

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Only a few of applicants' rates and charges were involved in the prior proceeding, i.e., the minimum monthly charge, the charge for receiving merchandise from trucks, the charge for loading or unloading merchandise into or from rail cars, the charge for each withdrawal of merchandise and incidental changes in rules.

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The rates and charges that would be adjusted are published in California Warehouse Bureau Tariffs Nos. 7-C and 5-J, Cal. P.U.C. Nos. 102 and 94, respectively.

A public accountant retained by applicants submitted and explained in detail a comprehensive exhibit dealing with the financial results of operations of fourteen of the applicants. The exhibit included balance sheets, analyses of annual revenues and operating expenses, rate bases and other related data. The witness explained that, after study, the other applicants were not included in the group figures because their book records did not provide sufficient detail for necessary allocations, or the bulk of the operations were comprised of nonutility services or the scope of the warehouse services were relatively limited in relation to the other utility services performed. The accountant asserted that the costs experienced and the operating conditions encountered by the fourteen applicants whose earning positions were studied were representative of those involved in the warehousing of general commodities in the Los Angeles territory. According to his exhibit, the fourteen companies studied operated about 86 per cent of the total warehouse floor space and earned more than 89 per cent of the total warehouse revenue earned by all of the applicants.

The financial results of operations experienced by the 14 warehousemen in conducting their warehouse services in the year 1952 under the present rates were developed by the accountant

from applicants' book records. As summarized from his exhibit, the results are shown in the tabulation which follows:

Table No. 1

Actual Operating Results of Public Utility Warehouse Operations for the Year 1952 Under the Present Rates

	<u>Operating Revenues</u>	<u>Operating Expenses</u>	<u>Net Operating Revenues*</u>	<u>Operating Ratio (Per Cent)*</u>
California Whse. Co.	\$ 209,655	\$ 190,676	\$ 18,979	90.9
Central Terminal Whse. Co.	184,943	161,782	23,161	87.5
H. G. Chaffee Company	66,179	63,238	2,941	95.6
Citizens Warehouse	44,858	44,256	602	98.7
Davies Warehouse Co.	143,136	123,794	19,342	86.5
Jennings-Nibley Whse. Co., Ltd.	124,322	105,352	18,970	84.7
Metropolitan Whse. Co.	389,729	389,149	580	99.9
Overland Terminal Whse. Co.	435,139	391,743	43,396	90.0
Pacific Coast Terminal Whse. Co.	232,666	189,022	43,644	81.2
Pacific Commercial Whse. Co.	111,294	125,935	(14,641)	113.2
Signal Trucking Service, Ltd.	173,376	194,951	(21,575)	112.4
Star Truck & Whse. Co.	400,276	335,955	64,321	83.9
Union Terminal Whse.	536,322	560,663	(24,341)	104.5
Westland Warehouses, Inc.	145,998	131,376	14,622	90.0
<b>Total</b>	<b>\$3,197,893</b>	<b>\$3,007,892</b>	<b>\$190,001</b>	<b>94.1</b>

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

( ) - Indicates Loss.

The foregoing actual operating results experienced in the year 1952, according to the accountant, were not entirely representative of current or future revenue and expense levels under the present rates. He pointed out that certain of applicants' rates were adjusted in October 1952, that the wages of warehouse and supervisory employees were advanced in November 1952 and that other items of operating expense had increased at various times during the year. The accountant's exhibit included calculations of the operating results anticipated for

the aforesaid group of 14 warehousemen in the future rate year under the present rates and those proposed in this proceeding. In these operating results, which are summarized in Table No. 2 below, the changes that occurred in the rates and in the operating expenses were given full effect through appropriate adjustments.

Table No. 2

Estimated Annual Operating Results -  
Existing Lease Basis (14 Warehousemen)

	<u>Present Rates</u>	<u>Proposed Rates</u>
Operating Revenues	\$3,340,343	\$3,614,340
Operating Expenses	3,146,439	3,146,439
Not Operating Revenues	\$ 193,904	467,901
Income Taxes	93,620	193,475
Net Revenues After Taxes	\$ 100,284	274,426
Rate Base	\$1,565,333	\$1,565,333
Rate of Return	6.4%	17.5%
Operating Ratio after Income Taxes	97.0%	92.4%

The accountant asserted that the rate base shown in Table No. 2 was subnormal and not a proper measure of the reasonableness of applicants' earnings. He explained that the bulk of the warehouse properties used and useful in the operations were leased from the owners and that the rate base in Table No. 2 included only those properties in fact owned by the warehouse companies. In addition, he said, the owned properties were substantially depreciated on the books of the 14 warehouse companies involved in Table No. 2. The accountant presented additional rate base calculations showing that if the leased properties also were owned by the warehousemen the depreciated rate base for 12 warehouse companies would amount to \$3,657,632 as compared

with \$1,565,333 for the 14 companies included in the figures in Table No. 2. For the purpose of this calculation, the book values and depreciation reserves for the leased properties were developed from the owners' book records.<sup>3</sup> The accountant reported that the depreciable leased properties also were substantially depreciated on the owners' books.

According to the accountant's testimony, the estimated net revenues from the proposed rates shown in Table No. 2 would not be realized. Assertedly, the estimated revenues were somewhat overstated and the expenses did not provide for the full impact of increases in various items of operating costs, particularly insurance, taxes and the inclusion of office employees in applicants' health and welfare plans. The revenue figures, the accountant said, were based upon the storage volume for a past period without adjustment for a downward trend which had occurred in some categories of storage. The evidence shows that under present conditions there is little likelihood that this business would be replaced by other articles. In regard to the expenses, the accountant explained that appropriate provision for the added costs resulting from the aforesaid changes involved extensive analyses of basic operating data for which there was not sufficient time prior to the hearing.

The operating conditions confronting the applicant warehousemen and the proposed rate adjustment were explained in detail by the secretary of the warehousemen's association and by their tariff publishing agent. According to the testimony, applicants now find themselves in a period of declining use of warehouse storage space as a result of

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Two companies included in Table No. 2 were omitted from the calculations on the ownership basis because the book records of the owners of the leased facilities were not available to the accountant.

lessened demand for consumer goods. Some classes of goods, it was stated, no longer were being placed in storage and there was no indication of any necessity in the near future for again maintaining supplies of such goods in the warehouses. Assertedly, under these conditions the revenue estimates developed by the accountant would not be achieved. In explaining the proposed rate adjustment, the witnesses requested that applicants be authorized to establish the proposed increase in their tariffs in the form of a surcharge except that on charges named in tariff rules specific publication of the adjusted charges would be made. It was explained that a complete study of the rate structure has been undertaken with the view of bringing it into conformity with changes in packaging, weights, services required and other commodity characteristics under present merchandising practices. When completed in about 8 months, the study is expected to result in modification of virtually the entire tariff. Establishment of the instant adjustment on a surcharge basis as proposed, the witnesses said, would avoid costly duplication of tariff compilation and printing.

Applicants' counsel argued that the earnings from the proposed rates would be no greater than necessary to meet applicants' minimum requirements. He asserted that the warehouse industry required operating ratios more favorable than those considered reasonable for the trucking industry. He pointed out that this record shows that applicants' invested capital usually is turned slightly less than once each year whereas it commonly is turned three or four times per year in trucking operations. In addition, counsel argued that substantial capital risks are

encountered by public warehouse business because it is not a monopoly form of utility operation. He pointed out that as the law now stands anyone may commence public utility warehouse operations in Vernon and other areas near Los Angeles without a showing before the Commission. Furthermore, he said, active competition is encountered from private storage operations as well as from other utility warehousemen. Counsel pointed out that applicants' rate base as developed by the accountant was substantially depreciated and was otherwise not representative by reason of applicants' operation of a preponderance of leased properties.

Notices of the hearing were mailed in advance to about 3,200 parties consisting of all of the warehouse patrons and other persons believed to be interested. No one appeared in opposition to the granting of the application.

The evidence as a whole is persuasive that an increase in net earnings is necessary if the warehousemen involved herein are to be maintained in sound financial condition and that the revenues which reasonably may be expected to result from the proposed rates will be reasonable and not excessive.

Upon careful consideration of all of the evidence of record, the Commission is of the opinion and hereby finds that the increases in rates proposed by the applicants in this proceeding are justified. The application will be granted.



West Coast Warehouse Corporation, which operates a public utility warehouse in the City of Long Beach, asked leave at the hearing to intervene in this proceeding for the purpose of seeking authority to establish increased rates the same as those proposed herein on customs bonded storage. This service involves the storage of import traffic under government supervision pending clearance of the movement and payment of import duty. The evidence shows that this company only recently commenced operations and that it is subject to the same wage rates as the other three applicants who handle customs traffic. It was pointed out that those operations require that the goods be stored in separate enclosures under the supervision of government storekeepers whose salaries are paid by the warehousemen. The record shows that specialized and more costly services are involved which are not encountered in regular warehouse operations. It is clear from the evidence that West Coast should not be required to maintain charges for customs bonded storage lower than those generally maintained by the other warehousemen in the area. The intervention of West Coast Warehouse Corporation will be allowed and that company will be authorized by the following order to establish the increased charges herein found to be justified for the other applicants.

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 the applicants in this proceeding be and they are hereby authorized, on not less than five days' notice to the Commission and the public, to increase their rates and charges named in California Warehouse Tariff Bureau Warehouse

Tariff No. 7-C, Cal. P.U.C. No. 102 and Tariff No. 5-J, Cal. P.U.C. No. 94, by ten per cent, and to establish the increase in the form of a surcharge for storage and handling rates named on pages 13 to 89, inclusive, of the aforesaid Tariff No. 7-C and pages 7 to 33, inclusive, of the aforesaid Tariff No. 5-J. In all other instances, the authorized increase shall be incorporated in the tariff rates and charges. In determining the amount of the increase, fractions of less than one-half cent shall be dropped and fractions of one-half cent or more shall be increased to the next whole cent, except as hereinafter provided. For basic rates and charges named in rules and regulations of the aforesaid tariffs amounting to less than 10 cents, the fractions shall be advanced or reduced to the nearest one-quarter cent or multiple thereof, as the case may be, and for basic rates of 10 cents but not more than 20 cents the fractions shall be advanced or reduced to the nearest half-cent or multiple thereof, as the case may be, with midpoint fractions being advanced to the nearest unit or multiple referred to.

IT IS HEREBY FURTHER ORDERED that West Coast Warehouse Corporation be and it is hereby authorized, on not less than five days' notice to the Commission and the public, to increase its rates and charges for customs bonded storage by ten per cent, with fractions of a cent to be disposed of as provided in the preceding ordering paragraph.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall expire unless exercised within sixty days after the effective date of this order.

This order shall become effective twenty days after the date hereof.

Dated at Los Angeles, California, this 27<sup>th</sup> day of October, 1953.

A. E. Davidson  
President

Justus D. C. Newell

Samuel P. Patton

John L. Mitchell

James Duggins  
Commissioners