

ORIGINAL

Decision No. 55193

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 AMERICAN WAREHOUSE, BEKINS WAREHOUSING)
 CORP., BRADCO CARTAGE AND DISTRIBUTING)
 COMPANY, 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, DAVIES WAREHOUSE COMPANY,)
 DESPER TERMINAL COMPANY, FREIGHT TRANS-)
 PORT COMPANY, JENNINGS-WIBLEY WAREHOUSE)
 CO., LTD., LOS ANGELES TRANSPORT &)
 WAREHOUSE CO., LYON VAN & STORAGE CO.,)
 METROPOLITAN WAREHOUSE CO., OVERLAND)
 TERMINAL WAREHOUSE CO., PACIFIC COAST)
 TERMINAL WAREHOUSE CO., PACIFIC)
 COMMERCIAL WAREHOUSE, INC., REPUBLIC)
 VAN & STORAGE CO., INC., SIGNAL TRUCK-)
 ING SERVICE, LTD., SLOCUM VAN & STORAGE)
 CO., SMITH BROS. TRUCK CO., STAR TRUCK)
 & WAREHOUSE CO., TORRANCE VAN & STORAGE)
 COMPANY, UNION TERMINAL WAREHOUSE, WEST)
 COAST WAREHOUSE CORP., and WESTLAND)
 WAREHOUSES, INC., for authority to)
 increase their rates as warehousemen in)
 the city of Los Angeles, and other)
 Southern California points.)

Application No. 37663

In the Matter of the Application of)
 BEKINS WAREHOUSING CORP., CITY)
 TRANSFER CO., INC., dba CITY WARE-)
 HOUSE & STORAGE CO., and WEST COAST)
 WAREHOUSE CORPORATION for authority)
 to increase their rates as warehouse-)
 men.)

Application No. 38646

In the Matter of the Application of)
 SIGNAL TRUCKING SERVICE, LTD. for)
 authority to increase its rates as a)
 warehouseman on certain commodities at)
 Long Beach and Wilmington, California.)

Application No. 38715

Arlo D. Poe, for applicants.

James F. Bartholomew, B. A. Beckham, E. R. Booth, Ross A. Bloming, H. L. Chaffee, Ruth A. Clark, Harold A. Drury, Daniel C. Fessenden, Harry B. Johnston, Jackson W. Kendall, Robert E. Landen, A. F. Mortenson, Nathan Nibley, Charles W. Owen, Carl F. Peters, Martin H. Richards, Gordon Ross, Morgan Stanley, J. R. Thomas, W. H. Tyler, A. O. Walde; for various applicant warehousemen.

I. W. Hamilton, for Los Angeles Warehouse Association, interested party in Application No. 37663.

Jack L. Dawson, for California Warehousemen's Association, interested party in Applications Nos. 37663 and 38646.

James Quintrall, for California Trucking Associations; John F. Parkinson, for Los Angeles Harbor Department; A. C. Wegner, for Vernon Distributing & Warehouse Co.; interested parties.

Martin J. Porter, C. V. Shawler and Norman Haley, for the Commission's staff.

O P I N I O N

By Application No. 37663, as amended, twenty-nine public utility warehousemen¹ engaged in the operation of warehouse facilities for the storage and handling of general commodities within Los Angeles and the adjacent metropolitan area seek authority to increase rates and charges by approximately ten per cent in the aggregate, and to establish a revised tariff. By Application No. 38646, Bekins Warehousing Corp., City Transfer Co., Inc., doing business as City Warehouse & Storage Co., and West Coast Warehouse Corporation seek to increase by 15 per cent their warehouse rates and charges applicable at Wilmington and Long Beach. A like increase is sought by Signal Trucking Service, Ltd., in Application No. 38715, in connection with its warehouse rates and charges which are likewise applicable in Wilmington and Long Beach.

¹ Keystone Warehouses was originally included as a party to the application. Subsequently, it developed that the concern in question was no longer in the public utility warehouse business and it was, by amendment, eliminated from the application.

Public hearing of Application No. 37663 was held in Los Angeles on December 19 and 20, 1956, January 24 and 25, 1957, and March 12 and 13, 1957. Application No. 38646 was heard on the last four of the above-mentioned days, and Application No. 38715 was heard on the last two days. Portions of the evidence adduced in the matters involved herein were heard on a common record. The hearing on December 20, 1956, was before Commissioner Rex Hardy and Examiner Carter R. Bishop. The balance of the hearing sessions were before the Examiner. The matters are now ready for decision.

Application No. 37663

The original application in this matter was filed on January 17, 1956. Therein applicants sought authority to establish, in lieu of the existing surcharge of 10 per cent,² a new surcharge of 20 per cent in connection with their rates and charges for storage and handling as set forth in California Warehouse Tariff Bureau Tariffs Nos. 7-C and 5-J, issued by Jack L. Dawson, Agent.³ The net increase under that proposal would have been approximately nine per cent. After the original application was filed applicants concluded to defer prosecution thereof pending completion of the draft of a general revision of Tariff No. 7-C. Upon the conclusion of that project an amendment to the application was prepared and filed with the Commission on October 18, 1956. As amended, the application

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The presently effective surcharge of 10 per cent was established pursuant to Decision No. 49242, dated October 27, 1953, in Application No. 34624.

³

Tariff No. 7-C is of general application. Tariff No. 5-J names quantity rates, lower than those in Tariff No. 7-C, which are applicable on a limited number of commodities. Some of the applicants herein are not parties to the latter tariff.

proposes a general revision of the rates in Tariff No. 7-C, the over-all effect of which would, it is alleged, produce approximately the same increase in revenue for applicants as would obtain under a general surcharge, as was originally proposed. In the amended application the rates in Tariff No. 5-J would be individually increased to reflect 20 per cent over the current base rates, in lieu of the present 10 per cent. Many rates in that tariff, however, would be canceled, because of non-use, and a few rates would be transferred to the new Tariff No. 7-D for general application by all utilities parties thereto.

The requested rate increases, according to the application, are made necessary by substantial increases in operating expenses which applicants have experienced since the rates in question were last increased in 1953. Increases have resulted both in wages and salaries of personnel and in the cost of materials and supplies. Assertedly, the present rates and charges, including the 10 per cent surcharge, fail to produce revenues sufficient to meet operating expenses and to provide a reasonable profit.

At the hearing the individual employed by applicants to develop the revised general tariff, a former warehouse operator of broad experience in the field, explained the proposed tariff. His testimony disclosed the following facts: Tariff No. 7-C and its predecessor tariffs have for many years contained storage and handling rates reflecting many inconsistencies and inequalities. Thus, for example, rates for the storage of the same commodity, in the same type of package and of the same quantity, reflect widely different levels as between two different operators, or as between two different warehouses of the same operator. According to the

record, the need for a general revision of the tariff in question with a view to eliminating the inequitable features of the rate structure has, in the past, been pointed out by members of the Commission's staff and has long been recognized by applicants. For more than three years past the witness had been engaged in the construction of the new tariff. During that time he consulted freely with members of the Commission's Rate Branch staff.

The proposed tariff, No. 7-D, contains a series of tables in which are set forth rates for storage and rates for handling, the applicable rate in a particular instance depending upon the weight and size of the package and upon the particular rate scale to which it is assigned. The storage rates are designed to reflect an average revenue of 7.5 cents per square foot of gross storage area, which the witness considered to be compensatory. Some of the proposed scales reflect slightly more and some slightly less, than that amount. In view of current wage scales the witness felt that the proposed rates for handling should reflect a return of \$3.25 per ton; however, this could produce extreme increases in many instances, so the tariff expert compromised on \$2.50 per ton as an over-all average. In some instances, he said the scales produce charges that are higher than this latter figure. With respect to some commodities specific storage or handling rates are proposed in lieu of those named in the tables.

In assigning a particular storage or handling scale to a commodity the witness explained that he endeavored to avoid marked deviation from the present rates for that commodity, except to incorporate the over-all increase of approximately nine per cent. Under the proposed tariff the rates would be uniform, for a

particular commodity in a particular shipping form, at all warehouses governed by the tariff. As a part of this effort, rates on articles in the same commodity group would be made uniform and many similar or duplicate tariff items would be eliminated. Additionally, it is proposed to cancel some specific rates because of non-use.⁴

In order to measure the impact of the proposed tariff, the witness had applied the storage and handling rates named therein to the merchandise actually received for storage and stored at the warehouses of ten of the principal applicants herein during January, March and June of 1954. Upon comparing the combined handling and storage charges thus calculated with those actually assessed under the present tariff, he found that the former reflected a close approximation of the flat increase of nine per cent originally sought in this application.⁵

Tariff No. 7-C contains, in addition to the main section devoted to domestic rates, a section containing customs bonded warehouse rates. The charges proposed in the latter section, together with those proposed in the "cooling room" section of Tariff No. 5-J, were explained by the president of one of the applicants engaging substantially in cooling room and bonded warehouse operations. The

⁴ During the course of the hearing certain minor errors or inconsistencies in the proposed tariff came to light, necessitating modifications in the proposed descriptions and in other respects. These revisions are set forth in Exhibit No. 39. According to the record, other such instances may appear as the tariff is subjected to further review.

⁵ According to a separate exhibit of this witness, the rate changes proposed in Tariff No. 7-D, as applied to the combined storage and handling charges on individual consignments of property, reflect increases in some cases and reductions in others. The increases in a few instances exceed the over-all increase of 9 per cent by varying amounts.

changes proposed in the general storage section of the latter tariff were described by the publishing agent of the California Warehouse Tariff Bureau.

Exhibits depicting the financial results of operations experienced by applicants, including estimates for the future, were introduced by an accountant employed by applicants, by officers of two of the utilities involved and by members of the Commission's accounting and transportation engineering staff.⁶ The exhibits which applicants introduced at the initial hearing showed the results of operation, for the calendar year 1955, for the 16 principal utility warehousemen involved in the application. At the January hearings applicants presented like data, also for 1955, for all but two of the remaining 13 applicants.⁷ These 11 operators, the record shows, have a relatively small amount of public utility storage. At the March hearings an additional exhibit was introduced on behalf of applicants, setting forth operating results of the above-mentioned group of 16 warehousemen for the calendar year 1956. The staff studies show the results of operation, for the 12-month period ending June 30, 1956, for 17 applicants. In Table I below the results for 1956, as prepared by applicants' accountant, are compared with those of the staff.

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The two utility officers were the assistant to the controller of Bekins Van & Storage Co. and the treasurer of Lyons Van & Storage Company. They introduced financial statements and estimated operating results for Bekins Warehousing Corp. and Lyons, respectively.

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The two applicants omitted from the study are Crown Transfer and Storage Co. and Smith Bros. Truck Co. The record discloses that neither of these operators received any public utility revenues during 1955. Applicants' witnesses were unable to state whether any such revenues were received by these companies in 1956.

TABLE I

Results of Operations for Calendar Year 1956 (Applicants)
and for 12-month Period ending June 30, 1956 (Staff)

Warehousemen		Revenues	Expenses	Net Before Taxes	Operating Ratio (Per Cent)	
					Before Taxes	After Taxes
American Warehouse	S	\$ 47,520	\$ 41,029	\$ 6,491	86.3	89.7
California Warehouse	A	265,971	261,098	4,873	98.2	---
" "	S	272,580	260,878	11,702	95.7	96.7
Central Terminal Whse	A	157,072	164,357	(7,285)	104.7	---
" " "	S	211,735	200,201	11,534	94.6	96.3
H. G. Chaffee Co.	A	74,205	64,920	9,285	87.5	---
" " " "	S	79,878	65,268	14,610	81.7	87.7
Citizens Warehouse	A	43,530	46,921	(3,391)	107.8	---
" "	S	52,742	51,960	782	98.5	98.8
J. A. Clark Draying	A	35,074	39,402	(4,328)	112.3	---
" " " "	S	50,731	41,149	9,582	81.1	87.3
Davies Warehouse	A	209,798	168,878	40,920	80.5	---
" "	S	220,847	166,229	54,618	75.3	86.1
Jennings-Nibley	A	121,169	99,402	21,767	82.0	---
" "	S	156,687	115,232	41,455	73.5	84.3
Los Angeles Transport	A	137,053	140,536	(3,483)	102.5	---
" " "	S	138,111	134,312	3,799	97.2	98.2
Metropolitan Whse	A	519,268	486,861	32,407	93.8	---
" "	S	547,753	496,037	51,716	90.6	94.6
Overland Terminal	A	498,703	484,617	14,086	97.2	---
" "	S	614,518	611,779	2,739	99.6	99.7
Pacific Coast Terminal	A	463,438	428,225	35,213	92.4	---
" " "	S	418,932	371,067	47,865	88.6	93.4
Pacific Commercial	A	145,382	163,644	(18,262)	112.6	---
" "	S	175,901	166,055	9,846	94.4	96.2
Signal Trucking	A	465,517	435,037	30,480	93.5	---
" "	S	383,278	340,697	42,581	88.9	93.4
Star Truck & Whse	A	388,055	386,485	1,570	99.6	---
" " " "	S	476,193	423,821	52,372	89.0	93.7
Union Terminal	A	845,085	888,596	(43,511)	105.1	---
" "	S	821,174	857,870	(36,696)	104.5	104.5
Westland Whses	A	198,606	196,435	2,171	98.9	---
" "	S	206,878	204,777	2,101	99.3	99.3

A - Applicants

S - Staff

() - Indicates loss.

The revenues and expenses set forth in the preceding table purport to reflect those which are related solely to the services rendered under Tariffs 7-C and 5-J. Many of the applicants engage in utility warehouse operations at locations not embraced by these tariffs, and some engage also in other activities, such as for-hire trucking and the storage of used household goods. In arriving at

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the figures shown in Table I, therefore, it was necessary in some instances for applicants' accountant and the staff, respectively, to adjust the book record data of applicants to provide a proper segregation of the two classes of revenues and expenses. Operating ratios of the individual warehousemen, as shown in connection with applicants' figures, are calculated before provision for income taxes. Applicants' showing of past operating results did not include development of income taxes relating solely to the utility operations here in issue; hence, net operating ratios after taxes were not available.⁸

In Table II below the operating results of the above-mentioned group of 11 warehousemen, as developed by applicants' witnesses for the year 1955, are set forth.

TABLE II
Results of Operation of 11 Warehousemen
for Calendar Year 1955

<u>Warehousemen</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Net Before Taxes</u>	<u>Operating Ratio Before Taxes (Per Cent)</u>
American Warehouse #	\$ 45,918	\$ 31,655	\$14,263	68.9
Bekins Warehousing *	228,678	222,134	6,544	97.1
Bradco Cartage	4,761	5,765	(1,004)	121.1
Charles Van & Storage	6,717	6,716	1	100.0
Desper Terminal	56,453	57,613	(1,160)	102.1
Freight Transport Co.	47,800	47,528	272	99.4
Lyon Van & Storage	14,632	15,635	(1,003)	106.9
Republic Van & Storage	11,806	12,757	(951)	108.1
Slocum Van & Storage	14,989	14,659	330	97.8
Torrance Van & Storage	5,138	5,423	(285)	105.5
West Coast Warehouse	25,823	29,231	(3,408)	113.2

No provision in accounts for management salary.
 * Operations prior to September 1, 1955, were conducted by Bekins Van & Storage Co.

() - Indicates loss.

⁸ Applicants' accounting witness did not calculate individual operating ratio in connection with past operating results. Those shown in Table I were calculated by the staff.

With the exception of American Warehouse and West Coast Warehouse Corporation, all of the applicants shown individually in Table II engage primarily in the storage of used household goods or in trucking operations. The preponderance of revenues and expenses of West Coast are incurred in connection with California Warehouse Tariff Bureau Tariff No. 13-A, which is involved in Application No. 38646. All operating results shown in Table II relate exclusively to services rendered under the tariffs involved in Application No. 37663.

Applicants' accountant developed estimated operating results for the future. He did so by adjusting the 1955 revenues to reflect the rate increases sought herein⁹ and by adjusting the 1955 expenses to give effect, for a full year, to increases in wages, salaries and payroll expense which took place during 1955 and 1956. In developing his expense estimates the accountant did not give effect to known wage increases which were to take place in April and May of 1957, nor to any increases in operating expenses

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The accountant did not accord this treatment to the revenues of one applicant, Desper Terminal and Distributing Company, because of difficulties involved in attempting to segregate Tariff 7-C revenues from other utility revenues.

other than labor cost.¹⁰ Estimated operating results for the future were also developed by the staff engineer for the 17 warehousemen for which staff data are shown in Table I. He modified the adjusted operating results for the 12-month period ending June 30, 1956, to give effect, for a full year, to increases in wage rates which had transpired since May 31, 1955, including those which were, under firm agreements, to take effect in 1957. As in the case of applicants' study, the engineer did not take into account any increases in operating expenses other than those relating to labor. His study differed from that of applicants, however, in that he did not adjust revenue to reflect the rate increases herein sought; the estimated operating results as developed by the engineer are predicated upon increased labor expense but on no increase in rates. In Table III below are compared the operating ratios reflected by the estimated operating results as developed by applicants and the staff, respectively. The operating ratios as developed by the staff are segregated between operators who lease their facilities and those who own their facilities. For the applicants who lease facilities from an affiliate the operating ratio is shown for both the lease basis and the ownership basis.

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The witnesses for Bekins and Lyons developed their estimates of operating results by the same procedure that the consulting accountant employed, except that, in the Bekins study, no effect was given to the sought rate increases.

TABLE III

Comparison of Estimated Operating Ratios (in Per Cent) Under Present and Proposed Rates, After Income Taxes, for the Respective Rate Years

Warehousemen	Under Present Rates		Under Proposed Rates (Applicants)
	Leased	Staff Owned Applicants	
American Warehouse	93.8		76.1
Bekins Warehousing	----		----
Bradco Cartage	----		113.2
California Warehouse	100.0		94.8
Central Terminal	97.0		92.2
E. G. Chaffee Co.	----	89.8	87.9
Charles Van & Storage	----		95.7
Citizens Warehouses	102.8		103.3
J. A. Clark Draying	89.2		108.7
Davis Warehouse	----	88.6	87.7
Desper Terminal	----		----
Freight Transport	----		96.2
Jennings-Nibley	----	82.5	86.5
Los Angeles Transport	----	102.0	102.1
Lyon Van & Storage	----		102.7
Metropolitan Warehouse	96.6	95.0	92.3
Overland Terminal	----	104.5	94.0
Pacific Coast Terminal	95.7		92.4
Pacific Commercial	99.2	86.1	104.8
Republic Van & Storage	----		102.0
Signal Trucking	95.1		91.1
Slocum Van & Storage	----		94.5
Star Truck & Warehouse	95.6	91.2	95.0
Torrance Van & Storage	----		99.5
Union Terminal	110.6	114.3	99.7
West Coast Warehouse	----		105.2
Westland Warehouses	103.8		95.0

As hereinbefore mentioned, both applicants' accountant and the staff witnesses found it frequently necessary in the development of their financial exhibits to make allocations of expenses and revenues as between the utility operations here in issue, on the one hand, and other business activities of the warehousemen, on the other. Applicants' accountant introduced a series of exhibits setting forth in detail, in connection with the main group of 16 operators, the allocations and the bases therefor. These bases varied according to

the nature of the particular expense items. Among others they included allocations on the basis of revenue, of space occupied, of tonnage handled, of payroll, of labor distribution and of management time studies. Substantially the same bases were employed by the staff. According to the record, the allocations as made, both by applicants' witness and by the staff, were the subject of conferences with the warehousemen involved or their accounting officers, and had their general approval.

With reference to the determination of revenues assignable to the utility operations involved herein, a review of Table I, supra, shows that in a number of instances the staff figures are substantially in excess of those developed by applicants' accountant. The fact that the periods covered by the two studies are not the same does not explain these differences. The explanation, the record shows, is that the revenues as shown in the staff engineer's study include revenue from the rental by the warehousemen of warehouse space and office space to outside parties. This revenue was transferred by the staff from nonutility revenue accounts, where it had been carried on the warehousemen's books. Applicants' accountant did not make such transfer. The engineer stated that in a conference of staff members it had been concluded that such revenue was so closely allied to the warehouse operations that it should properly be assigned thereto. He did not know, however,

of any previous instance in which the staff had advanced the principle which he had here applied.¹¹

Concurrently with the transfer of space rental revenue to utility revenue, as explained above, in some cases it was necessary to transfer related expense items; however, in other cases no such transfer was required, as the recorded warehouse expenses included all of the expenses. Other adjustments in expenses were also made; for example, in the matter of managerial salaries, it was found that the book records of American Warehouse made no provision for this item. In the staff study an allowance was made for managerial salary; whereas, applicants' witness made no such adjustment, which accounts for the extremely low operating ratios shown in applicants' columns of Tables I and III. It does not appear necessary to describe in detail the various other adjustments incorporated in the respective financial studies.

Rate base estimates were also introduced by applicants' witness and by the staff based on depreciated book value of the utility properties. In the applicants' exhibits rate bases were developed for the 16 principal warehousemen including prepayments and an allowance for working capital. The rate base for 12 of the operators is negligible, since the applicants in question do not own

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Staff counsel requested that the Commission take official notice of the following provision in Tariff 7-C:

"No warehouse shall give free office space or office space at less than its fair reasonable value to any warehouse customer. Each warehouse must file with the Commission a schedule of rates for office space and no warehouse customer shall be charged less than the rates so on file."

The provision in question is clearly intended to prevent unjust discrimination as between storers. It does not necessarily follow that the rentals in question are properly classed as utility rather than nonutility.

the land and structures utilized in their warehouse activities, but lease them, either from affiliates or outsiders. Consequently, investment for the larger part of the facilities utilized by them is not included in the rate base. However, the expenses include rental for the leased property, which normally includes provision for depreciation expense and interest on the investment. With respect to these 12 applicants, working capital in every instance was the largest item in the rate base.¹² Thus, in the case of Star Truck and Warehouse Company, for example, working capital amounted to \$29,167 in a total rate base of \$31,410. Rates of return reflected by applicants' estimated operating results under the proposed rates in connection with the above-described rate bases range from no return up to as high as 62 per cent, after taxes.

Rate base estimates for the 17 warehouses included in the staff engineer's study were developed in a manner similar to that employed by applicants' witness, as described above, except that no provision was made therein for prepayments or for working capital. In the opinion of the staff, a warehouse generates sufficient cash through collecting charges in advance, to meet its obligations, once it has become a going concern. Because of the absence of working capital in the staff rate base estimates, the projected rates of return for those utilities not owning the land and buildings utilized in their warehouse operations range much higher in the staff study, even on the basis of present rates, than

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According to the record, working capital, as developed by the accountant, reflected the difference between current assets and current liabilities.

those calculated by applicants. The highest of these was 1071 per cent for Star Truck and Warehouse, supra, with a rate base of \$1,937.¹³

In an effort to develop more realistic rate base estimates, the applicants' witness calculated additional rate bases for some of the utilities which leased the land and buildings utilized in their operations, on the assumption that the utilities in question owned said facilities. Such figures were developed by applicants for twelve warehousemen in connection with which the necessary book figures could be obtained. Predicated on all rate base estimates which take into account land and buildings, as well as other assets, the estimated rates of return, as calculated by applicants' accountant under proposed rates, range from no return up to 16 per cent. The staff engineer developed adjusted rate bases for the four applicants where the properties are leased from affiliated interests. In these cases the actual depreciated cost figures for the property were determined and included in the rate base. Expenses were adjusted to exclude rentals and to include depreciation expense as well as taxes, insurance and maintenance where these expenses were borne by the lessor. The adjusted operating ratios are shown in Table III. The corresponding rates of return calculated by the

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Under present rates the staff estimated Star's results for the rate year as follows: revenues, \$476,193; expenses, \$445,167; net after taxes, \$20,744.

staff, at present rates, also range from no return up to 16 per cent. Both figures are after taxes.¹⁴

The three warehouses with the highest operating ratios as developed by the staff, Overland Terminal, Union Terminal and Westland Warehouses, are operated by railroad interests. One factor which contributes to their unfavorable earning position is that they are paying payroll taxes based on railroad retirement rates of 8½ per cent as compared to an average of 3 per cent paid by the other operators.

The staff engineer pointed out that an operating ratio for an operator who leases his property is not comparable to an operating ratio for an operator who owns his property. In the case of leased property the operating expenses include the interest or return on the investment while in the case of owned property, that item is not included in expenses. For this reason the staff exhibit does not include group composite or average operating ratios.

The aforementioned publishing agent of the California Warehouse Tariff Bureau, who is also secretary-manager of the California Warehousemen's Association, described the various types of warehouses and outlined the competitive factors experienced by the general storage operators, including applicants herein. He pointed out that applicants are subjected to severe competition with proprietary warehouse operators and so-called "contract" warehousemen,

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Applicants' witness also prepared estimated operating results, under proposed rates, for the 16 principal applicants, predicated on the assumption that none of the facilities are owned but are uniformly rented at three cents per square foot. The resulting operating ratios, after taxes, ranged from 85 to 128 per cent. ✓

both of which classes are not subject to regulation by the Commission. Competition, he said, is also experienced with pool car operators. He enumerated the general merchandise warehousemen in the Los Angeles metropolitan area who are not applicants herein and who publish their own tariffs. His testimony regarding the nature and scope of their operations, as disclosed by their tariffs and annual reports on file with the Commission, indicated that they are either primarily engaged in activities other than public utility storage, or are specialized operators handling only a few commodities, or that their revenues are very small.

Careful consideration had been given, the publishing agent said, to the possible adverse effect of the proposed rate increases on applicants' revenues. The judgment had been reached, he stated, that the increases in question, if authorized, would not result in a diversion of tonnage to proprietary storage. He doubted whether there would be any diversion to warehousemen who are not parties to the application herein, in view of the nature of the operations of the latter as outlined above.

An associate transportation rate expert of the Commission's staff introduced and explained several exhibits. These included a list and companion map showing the names and locations of dry storage warehouses in a large area centering on Los Angeles; tabulations showing the extent of participation of applicants in various tariffs together with data regarding the extent of their facilities and their public utility revenues; descriptions of the warehouse facilities of applicants and of the nature of their utility warehouse operations and other activities; and a comparison, as to selected

commodities, of the storage and handling rates of applicants, involved in this proceeding, with those of other warehousemen operating in the same area.

The rate expert stated that the commodities utilized in the rate comparison had been chosen at random. They are: automobiles, candy, canned foods, furniture, lard and its substitutes, soap and detergents, sugar and tobacco. The exhibit shows considerable variation in the rates of applicants, on the one hand, and of the compared operators, on the other. In some cases applicants' rates were higher and in others, lower. The witness stated that there are not necessarily a great many instances of the kind illustrated by the exhibit. He said that no attempt was made to ascertain the amounts, if any, of the commodities that were in storage in any of the warehouses involved. On cross-examination it developed that most, if not all, of the nonapplicant operators are engaged presently in activities other than general merchandise storage.

Notices of the hearing were mailed in advance to more than 4,000 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.

Conclusions

The record is clear that applicants have experienced increases in operating costs since their warehouse rates were last adjusted in 1953. Witnesses for applicants and members of the Commission's staff have endeavored to measure the impact of those increases and to estimate, for the future, operating results of the utilities. Because of differences of time periods and treatment,

however, it is difficult to compare the showings developed by applicants and the staff, respectively. Applicants showed the actual results of operation for the year 1955, later introducing corresponding data for the year 1956, while the staff utilized the 12-month period ending June 30, 1956. In developing estimates for the future, applicants assumed the traffic experience of 1955 while the staff naturally utilized that of the above-mentioned 12-month period. In estimating expenses the staff included the effect of 1957 wage increases, while applicants did not. The staff included, as utility revenue, the income received from office and warehouse space rentals, while applicants excluded such income. Applicants calculated the effect under proposed rates, but not under present rates; the staff estimate, on the other hand, was developed under present rates, but not under those for which authority is herein sought. In developing rate base estimates applicants included an allowance for working capital, while the staff excluded that element.

The difficulties encountered in attempting to establish a proper rate base by which to measure rates of return have been outlined above. More reliance, therefore, must be placed upon operating ratios as a measure of the reasonableness of the sought rate increases. The most notable feature with respect to the operating ratios of applicants, as shown in the tables herein, is the wide range as between individual applicants. Some are very favorable, while others are markedly unfavorable. One factor which contributes to this wide range is the question of owned or leased property. Generally, the ratios calculated by the staff are more favorable than those reflected by applicants' studies, this being largely attributable to the inclusion, in the staff estimates, of income from space rentals as utility revenue.

The wide range of individual operating ratios exhibited in the studies of record leads to a consideration of the question of uniformity of warehouse rates. Counsel for applicants argued that, while it would be unrealistic to contend that absolute rate uniformity is required for the continued existence of public utility warehouses, some degree of uniformity is required in order to avoid discrimination and to assure for the public a sound, dependable public warehouse service. In support of his position he quoted from this Commission's Decision No. 25024 of August 1, 1932 (37 CRC 547). Therein the Commission found that the warehouse business in the Los Angeles metropolitan area was not, taken as a whole, operating upon a profitable basis, that tariff rates were, to a large degree, being disregarded, and that the adoption of a uniform tariff applicable to all the warehousing in the locality, coupled with safeguards against discriminatory practices, might be a partial remedy for the unsatisfactory conditions then existing in the industry. The Los Angeles warehousemen, counsel asserted, have, from the time of the above-mentioned decision, endeavored to carry out the Commission's advice. He adduced illustrations which pointed up the necessity for some degree of uniformity within a given competitive area.

We conclude that, to the extent that uniformity of rates would be accomplished by the tariff changes proposed herein, such uniformity has been justified. We conclude also that, considering the record as a whole, the tariff changes, including the increases, proposed in Application No. 37663, as amended, have been justified, except for the two applicants for which no showing was made. It appears, moreover, that the adoption of the proposed Tariff No.7-D will constitute a step forward in the interest of tariff simplification, of tariff uniformity and of sound rate-making practice.

Applications Nos. 38646 and 38715

As hereinbefore stated, an increase of 15 per cent in warehouse rates and charges at Long Beach and Wilmington is sought by Bekins Warehousing Corporation, City Transfer Co., Inc., and West Coast Warehouse Corporation¹⁵ in Application No. 38646, and by Signal Trucking Service, Ltd., in Application No. 38715. The rates and charges involved in Application No. 38646 are set forth in California Warehouse Tariff Bureau No. 13-A, while those in issue in Application No. 38715 are contained in Signal Trucking Service, Ltd. Tariff No. 2. The record discloses that most of Signal's warehouse rates and charges are named in California Warehouse Bureau Tariffs Nos. 5-J and 7-C. However, in its own Tariff No. 2 it provides rates on a limited number of commodities, which rates it maintains on a competitive level with those of other warehouses in the aforesaid agency Tariff No. 13-A.¹⁶

Applicants in both applications allege that the rates and charges in issue are unreasonably low. According to the record, these applicants have been subjected to the same general increases in costs of operation, including labor expense, as have been experienced by applicants in Application No. 37663. Assertedly, the rates and charges in Tariff No. 13-A and in Signal Tariff No. 2 are below full cost today, and will still be below full cost if the sought rate increases are granted.

¹⁵

West Coast is also a party to Application No. 37663; however, its interest therein is relatively small, being confined to the customs bonded warehouse section of Tariff No. 7-C.

¹⁶

The commodities in question are canned foods, green coffee, lard and lard substitutes, crude rubber, cleaned rice, fertilizer, soap and detergents, and scouring cleanser.

Revenue and expense studies, including estimated results of operation for the future, were introduced by various witnesses. A study of all three applicants in Application No. 38646 was made by the accountant who also made the study on behalf of applicants in Application No. 37663. The study on behalf of Signal was introduced by its cost accountant. Members of the Commission's staff made a study of West Coast and Signal Trucking operations; they did not make similar studies of the other two applicants here under consideration. The staff study of Signal Trucking in Application No. 37663 covers its total warehouse operation, including the Long Beach-Wilmington area.

The periods embraced in the various studies differ. The accountant calculated results of operation for the warehousemen in Application No. 38646 for the calendar year 1955. The Signal study was for the first 11 months of 1956, while the staff study of West Coast was for the 12-month period ending June 30, 1956. In Table IV below these results, for the operations involved in the two applications in question, are set forth.¹⁷

TABLE IV

Results of Operation for Year 1955 (Applicants in A. 38646), 12-Month Period Ending June 30, 1956 (Staff) and First 11 Months of 1956 (Signal)

	West Coast		Bekins*	City Transfer	Signal	
	Applicant	Staff			Applicant	Staff ^x
Revenues	\$190,605	\$193,721	\$85,426	\$24,404	\$175,854	\$383,278
Expenses	216,523 ^{**}	203,248 ^{**}	80,027	26,038 ^{xxx}	167,156	310,697
Net Before Taxes	<u>(\$ 25,923)</u>	<u>(\$ 9,527)</u>	\$ 5,399	<u>(\$ 1,634)</u> ^{xxx}	\$ 8,698	\$ 42,581
Net After Taxes	<u>(\$ 25,923)</u>	<u>(\$ 9,527)</u>	#	<u>(\$ 1,634)</u>	\$ 6,089	\$ 25,121
Operating Ratio (Per Cent)						
Before Taxes	113.6	104.9	93.9	106.7	95.1	88.9
After Taxes	113.6	104.9	#	106.7	96.5	93.4

* Operations prior to September 1, 1955, were conducted by Bekins Van & Storage Co.

** Book records make no provision for managerial salary.

x Total warehouse operation covering all locations.

xxx After eliminating \$734 interest expense from operating expense.

Applicant did not calculate income tax on net warehouse revenue.

 - Indicates loss.

17

The figures for West Coast Warehouse include operations under Tariff No. 7-C, which are relatively small.

The estimated results of operation for the future were developed by the accountant for the utilities in Application No. 38646 and by the staff engineer generally in the same manner as was employed in connection with Application No. 37663. The study made by Signal's accountant follows the same general plan as that employed by the witness for the other applicants. Thus, the data of Table IV were modified to give full effect to wage increases, except that the known wage advances of 1957 were not included, and to give effect to the rate increases herein sought. The staff estimate for West Coast and Signal was predicated on a continuation of present rates; it included the 1957 wage increases, as well as those of the earlier years. The foregoing results are summarized in Table V, below.

TABLE V

Estimated Results of Operation
for the Respective Rate Years

	<u>West Coast</u>		<u>Belkins *</u> (Proposed Rates)	<u>City Transfer</u> (Proposed Rates)	<u>Signal</u>	
	<u>Applicant</u> (Proposed Rates)	<u>Staff</u> (Present Rates)			<u>Applicant</u> (Proposed Rates)	<u>Staff</u> (Present Rates)
Revenues	\$215,322 #	\$193,721	\$98,240	\$28,065	\$186,518	\$383,278
Expenses	<u>221,314</u>	<u>209,808</u>	<u>82,934</u>	<u>27,516</u>	<u>167,712</u>	<u>354,182</u>
Net Before Taxes	<u>(\$ 5,992)</u>	<u>(\$ 16,087)</u>	\$15,306	\$ 549	\$ 18,806	\$ 29,096
Net After Taxes	<u>(\$ 5,992)</u>	<u>(\$ 16,087)</u>	\$10,714	\$ 384	\$ 13,164	\$ 18,907
Operating Ratio After Taxes (Per Cent)	102.8	108.3	89.1	98.6	92.9	95.1

* Operations prior to September 1, 1955, were conducted by Belkins Van & Storage Co.

Revenues under Tariff No. 7-C excluded.

 - Indicates loss.

All four applicants engage extensively in other business activities besides public utility storage and three of them conduct utility operations other than those involved herein. Consequently, the development of these financial studies made it necessary to segregate a good deal of revenues and expenses. In accomplishing this it was necessary in many instances to make allocations. The bases employed were generally the same as mentioned above in connection with Application No. 37663, the particular method of allocation depending upon the type of expense involved.

The record discloses that, of the four applicants, only Bekins owns its own warehouses and land. Rate bases developed from the assets owned by the other applicants would not be of assistance in measuring the reasonableness of the sought rate increases. The rate of return under the proposed rates, as developed for Bekins by applicants' accountant, is 7.27 per cent. Constructive rate bases developed by this witness for West Coast and City Transfer, on the assumption that the land and buildings were owned by the utilities, with corresponding adjustments in expenses, reflected rates of return of 2.26 per cent and 4.44 per cent, respectively. All three rate bases were calculated on original costs to present owners, less depreciation. No rate base was developed for Signal.

Copies of the notices of hearing in both applications were mailed to all storers of the applicants. Other individuals and organizations believed to be interested were also notified. No one opposed the granting of either application.

While there is a wide range, among the four applicants, in estimated operating results under the proposed rates, particularly as reflected by the operating ratios, we are of the opinion that such increases as may be authorized herein should be made equally available

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to all of the utilities. We are further of the opinion that the increases as proposed will not be excessive.

Upon careful consideration of all the facts and circumstances of record, the Commission concludes and finds as a fact that the increases and other tariff adjustments proposed in Application No. 37663, as amended, and the increases proposed in Applications Nos. 38646 and 38715, have been justified as to all applicants except Crown Transfer and Storage Co. and Smith Bros. Truck Co. Except as to those two utilities, the applications will be granted. Applicants have requested that they be authorized to establish the sought rate adjustments on less than statutory notice. The request appears reasonable. It will be granted. 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 on the evidence of record and on the conclusions and findings set forth in the preceding opinion,

IT IS ORDERED that applicants, except Crown Transfer and Storage Co. and Smith Bros. Truck Co., in Application No. 37663 be and they are hereby authorized to establish, on not less than ten days' notice to the Commission and the public, the increased rates and charges and other tariff changes proposed in Application No. 37663, as amended on October 18, 1956, and as further amended by Exhibit No. 39 in that proceeding.

IT IS FURTHER ORDERED that applicants in Application No. 38646 be and they are hereby authorized to establish, on not less than ten days' notice to the Commission and the public, the increased rates and charges proposed in Application No. 38646.

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IT IS FURTHER ORDERED that Signal Trucking Service, Ltd., be and it is hereby authorized to establish, on not less than ten days' notice to the Commission and the public, the increased rates and charges proposed in Application No. 38715.

IT IS FURTHER ORDERED that, in applying percentage increases herein authorized, disposition of fractions shall be made in accordance with the rules contained in Exhibits Nos. 4, 5, and 4, respectively, in Applications Nos. 37663, 38646 and 38715, respectively.

IT IS FURTHER ORDERED that the authority herein granted is subject to the express condition that applicants in Applications Nos. 37663, 38646 and 38715, respectively, 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 FURTHER ORDERED that the authority herein granted shall expire unless exercised within ninety days after the effective date of this order.

In all other respects, Application No. 37663, as amended, is hereby denied.

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

Dated at San Francisco, California, this 2nd day of July, 1957.

[Signature]
President
[Signature]
[Signature]
[Signature]
Commissioners