

ORIGINAL

Decision No. 55247

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Bekins Warehousing Corp.,)
 Lyon Van & Storage Co., John J. Myers,)
 dba National City Transfer & Storage Co.,)
 and Russell S. Stowell and Albert Compher,) Application No. 38555
 a partnership, dba Pacific Transfer and)
 Storage Co. for authority to increase)
 public utility warehouse rates and charges)
 at San Diego and National City, California.)

Wyman C. Knapp, Ruth A. Clark, Richard L. Smith,
R. S. Stowell, and Jackson W. Kendall, for
 applicants.

James Quintrall for California Trucking Associations,
 Inc., interested party.

O. B. Liersch and Leonard Diamond for the staff of
 the Public Utilities Commission of the State of
 California.

O P I N I O N

Applicants are engaged in operations as public utility warehousemen in the San Diego area. They are also engaged in the storage of used household goods and in the performance of certain other services which are of a non-public utility character. In connection with the public utility warehousing operations Bekins Warehousing Corp., a California corporation, provides approximately 27,000 square feet of storage space in the City of San Diego; Lyon Van & Storage Co. provides approximately 105,000 square feet of storage space in National City; and Russell S. Stowell and Albert Compher, a partnership doing business under the name of Pacific Transfer and Storage Co. provides about 2500 square feet of

storage space in the City of San Diego. Applicant John J. Myers, an individual doing business as National City Transfer & Storage Co., in National City, has published rates for public utility services since August 1, 1956, but reportedly has not yet actually engaged in any public utility warehousing operations.

In this proceeding applicants seek authority to increase by 20 percent all of their rates and charges applicable to their public utility warehousing services. They allege that during the past several years they repeatedly have had to meet increases in the costs of labor, their principal item of cost in the conduct of their warehousing operations. They state that they have been subjected to other increases in operating costs also and that as a consequence of these increases collectively their operations are being conducted at a loss.

Public hearing on the application was held before Commissioner Ray E. Untereiner and Examiner C. S. Abernathy in San Diego on March 21 and 22, 1957. Evidence was presented on applicants' behalf by officers and employees of Bekins, Lyon and Pacific, and by a consultant who had made a study of the operations of those companies. Members of the Commission's staff also presented evidence and participated in the development of the record.

The nature and scope of the warehousing services involved herein, and certain operating procedures with respect thereto, were described generally in testimony which was presented by the officer or employee witnesses for applicants. Testimony in a more specific vein was also presented concerning applicants' credit and collection practices to indicate the cash requirements

of the warehousing operations. The witnesses testified, moreover, concerning the basis of the rate increases which are herein sought. In this regard they stated that determination on the proposals had been reached in light of the over-all revenues needed to meet present operating costs. No studies had been made, they said, concerning the adequacy or inadequacy of present revenues from any particular services. However, with respect to various of the services, especially those which require the expenditure of considerable amounts of labor, they said that the present rates fall substantially short in returning the costs involved, and that even under the sought rates the revenues from these services would still be insufficient to return the applicable costs.

Evidence which was presented by the consultant witness for applicants consists principally of a report of financial operating results from the warehouse services for the years 1955 and 1956, and estimates, based upon these data, of the results that would obtain under the sought rates. Similar data were presented by a Commission engineer based upon operating results for the year 1956 only. The revenues, expenses, and net operating results covering past experience which were so reported are shown in Table 1 below:

Table 1

1955 and 1956 Public Utility Warehouse Operating Results

	<u>Bekins</u>	<u>Lyon</u>	<u>Pacific</u>	<u>Total</u>
<u>1955</u>				
Revenues	\$35,413	\$125,572	\$5,088	\$166,073
Expenses	<u>35,934</u>	<u>135,828</u>	<u>5,330</u>	<u>177,092</u>
Net Operating Loss	\$ 521	\$ 10,256	\$ 242	\$ 11,019
<u>1956</u>				
Revenues	\$36,124	\$133,287	\$3,605*	\$173,016
Expenses	<u>37,236</u>	<u>136,524</u>	<u>4,337*</u>	<u>178,097</u>
Net Operating Loss	\$ 1,112	\$ 3,237	\$ 732*	\$ 5,081

* Revenues and expenses as reported by applicants' consultant. Revenues of the same amount were reported by the Commission engineer; however, expenses and net operating loss figures which he reported were \$4,937 and \$1,332, respectively.

The estimates of operating results of applicants' consultant and of the Commission engineer were each prepared on two bases, viz., (a) on the basis of actual operating expenses, which expenses reflect rental payments made by applicants for warehouse real properties used in their operations, and (b) on the basis of actual operating expenses adjusted to give effect to the expenses that would apply, assuming the warehouse real properties were owned instead of rented.¹ The respective estimates which were developed on actual operations are set forth in Table 2 below. The estimates which were developed on an "owned" basis are set forth in Table 3.²

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The revenue and expense data for Bekins (including the data in Table 1, above) were developed only on the basis that the operating properties are owned. In actual practice, however, Bekins rents the real properties which it uses from an affiliated company. It appears from testimony of a Bekins' witness that on the basis of the actual rentals the company's operating results are somewhat more favorable than reported either by the consultant or the Commission engineer.

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One of the purposes of the submission of data such as set forth in Table 3 is to show the net earnings measured in relation to the value of the properties used in the operations. In addition they provide a means for appraising the propriety of rental payments particularly where the amount of the payments may not have been determined as a result of arms-length dealings between the contracting parties.

Table 2

Estimates of 12 Months' Operating Results Under Sought Rates,
Based on Actual Operations (See Note)

<u>Per Applicants' Consultant</u>	<u>Bekins*</u>	<u>Lyon</u>	<u>Pacific</u>	<u>National*</u>
Revenues	-	\$155,315	\$ 5,216	-
Expenses	-	<u>140,658</u>	<u>4,949</u>	-
Net Operating Revenues	-	\$ 14,657	\$ 267	-
Provision for Income Taxes	-	<u>4,397</u>	<u>80</u>	-
Net Income	-	\$ 10,260	\$ 187	-
Rate Base	-	\$ 32,872	\$ 1,652	-
Rate of Return	-	31.2%	11.3%	-
Operating Ratio	-	93.4%	96.4%	-
 <u>Per Commission Engineer</u>				
	<u>Bekins*</u>	<u>Lyon</u>	<u>Pacific</u>	<u>National*</u>
Revenues	-	\$159,950	\$ 4,330	-
Expenses	-	<u>130,500</u>	<u>6,340</u>	-
Net Operating Revenues	-	\$ 29,450	<u>\$(2,010)</u>	-
Provision for Income Taxes	-	<u>10,380</u>	<u>-</u>	-
Net Income	-	\$ 19,070	<u>\$(2,010)</u>	-
Rate Base	-	\$ 6,560	-	-
Rate of Return	-	290.7%	-	-
Operating Ratio	-	88.1%	146.4%	-

() Loss

* Estimate not provided.

Note: The estimates of applicants' consultant which are represented in this table and in Table 3, below, covered a 24 months' period, having been developed on the combined operating results for 1955 and 1956. The estimates of the Commission engineer were projected for a 12 months' period from operating data for 1956 only. In order to show comparable figures in this table and in Table 3, the consultant's estimates have been modified to a 12 months' basis by the division of his figures by two.

Table 3

Estimates of 12 Months' Operating Results Under Sought Rates,
Assuming All Operating Properties are Owned by Applicants

<u>Per Applicants' Consultant</u>	<u>Bekins</u>	<u>Lyon</u>	<u>Pacific</u>	<u>National*</u>
Revenues	\$42,922	\$155,315	\$ 5,216	-
Expenses	<u>38,388</u>	<u>112,578</u>	<u>3,844</u>	-
Net Operating Revenues	\$ 4,534	\$ 42,737	\$ 1,372	-
Provision for Income Taxes	<u>1,360</u>	<u>16,723</u>	<u>411</u>	-
Net Income	\$ 3,174	\$ 26,014	\$ 961	-
Rate Base	\$34,931	\$403,051	\$14,902	-
Rate of Return	9.1%	6.5%	6.5%	-
Operating Ratio	92.6%	83.3%	81.6%	-
 <u>Per Commission Engineer</u>				
	<u>Bekins</u>	<u>Lyon</u>	<u>Pacific*</u>	<u>National*</u>
Revenues	\$43,330	\$159,950	-	-
Expenses	<u>38,730</u>	<u>100,560</u>	-	-
Net Operating Revenues	\$ 4,600	\$ 59,390	-	-
Provision for Income Taxes	<u>1,510</u>	<u>26,520</u>	-	-
Net Income	\$ 3,090	\$ 32,870	-	-
Rate Base	\$34,800	\$372,190	-	-
Rate of Return	8.9%	8.8%	-	-
Operating Ratio	92.9%	79.4%	-	-

* Estimate not provided.

The record shows that the patrons of applicants' public utility warehouse services were notified of applicants' intent to establish the increased rates which are herein sought. Notices of the hearings on this application were published in the Commission's calendar. No one appeared in opposition to the proposals.

Discussion, Conclusions and Findings

It is evident from the record in this matter that under present levels of operating costs applicants' rates and charges do not return revenues of sufficient volume to maintain their warehousing services. Clearly, if those services are to be preserved for the public, some increases in the rates and charges should be made. The question to be considered is whether increases as great as those sought are justified and reasonably may be authorized.

For this determination it appears that with certain modifications the data which were submitted by the Commission engineer provide a better measurement of applicants' earning position and revenue needs than do the data of the consultant. The revenue and expense estimates of applicants' consultant, having been developed on the combined operating experience for the years 1955 and 1956, are more remote from present operating conditions than are the estimates of the engineer which reflect operating experiences for 1956 only. The consultant explained that the two-year period was utilized in order to provide a broader basis for his estimates. While the development of estimates in this manner may have some merit, it appears that for such estimates to be accepted as the sounder indication of future operating conditions in the circumstances here presented it should be shown that in the light of past experience the estimates are in closer conformity to the probable trend for the future than are estimates which have been developed on operating experience for the most recent year only. Such a showing was not made.

The modifications which should be made in the data submitted by the Commission engineer relate to his estimates of operating expenses for Lyon and to the rate base figures for Bekins, Lyon and Pacific. The engineer's estimate of certain of Lyon's operating expenses for the twelve months' period through December, 1957, is \$76,690 as contrasted to an amount of \$82,779 which Lyon recorded for the year 1956. The engineer said that the lower figure reflects a staff estimate of management and general expenses which is lower than the amount that was allocated for that purpose by Lyon to the warehousing operations. The testimony of the engineer shows that in arriving at this estimate he had made no specific study of the services involved. It shows also that with the exception of this item the engineer was of the opinion that Lyon's allocations of charges to its warehousing operations are maintained in accordance with sound accounting principles. In view of the fact that Lyon's records as a whole apparently are properly maintained, and since no specific check was made of the management and general services in question, there does not appear to be sound grounds for adoption of the lower figure. The figure of \$82,779 will be used as the estimate of the applicable expenses for 1957. The effect of this modification is the reduction of the engineer's net income figure of \$19,070 (after provision for income taxes) which is shown in Table 2 for Lyon to \$15,700.

In the development of rate base the engineer included no allowance for working capital on the grounds that in the normal

conduct of operations sufficient working capital is generated through payments to applicants in advance of their actual performance of the services and that as a consequence no allowance for working capital need be made. On the other hand, it was applicants' position that there is such a lag between the time that the services are performed and the time compensation therefor is received that an allowance of two months' expenses should be made.³ From the showing in this matter it appears that neither the viewpoint of the Commission engineer nor of applicants is in accord with actual circumstances. The evidence shows that in general practice applicants' bills are submitted in advance of the performance of the services to which they apply, and that payment is made some time thereafter. It appears that allowance for working capital should be made but not in an amount as great as that sought by applicants. For the purpose of this proceeding amounts approximating one month's expenses will be allowed. Adjustment of the engineer's figures to reflect these allowances results in rate base figures as follows: Bekins, \$10,000; Lyon, \$17,500; and Pacific, \$1,300.⁴

³ Examples were cited by applicants' witnesses where the lag between billing and receipt of payment has been substantial - up to 60 days or more. Some of the asserted collection difficulties to which the witness referred appear attributable largely to applicants' tariff provisions which permit considerable latitude in billing and collection practices. As an alternative to seeking higher rates because of these delays, applicant should give consideration to revision of the tariff provisions to establish a more definite and nondiscriminatory basis for the collection of their charges.

⁴ These figures are based upon applicants' operations as actually conducted, not upon the bases which assume that the properties used in the operations are all owned by applicants.

Effect being given to these modifications and related matters of record, it appears that the following may be deemed as representing reasonably the operating results that would accrue under the rates sought herein:

Table 4

Estimates (Modified) of 12 Months' Operating Results Under Sought Rates Based on Actual Operations

	<u>Bekins</u>	<u>Lvon</u>	<u>Pacific</u>	<u>National*</u>
Revenues	\$43,330	\$159,950	\$ 4,330	-
Expenses	<u>38,730</u>	<u>136,589</u>	<u>6,340</u>	-
Net Operating Revenues	\$ 4,600	\$ 23,361	<u>\$(2,010)</u>	-
Provision for Income Taxes	<u>1,510</u>	<u>7,661</u>	<u>-</u>	-
Net Income	\$ 3,090	\$ 15,700	<u>\$(2,010)</u>	-
Rate Base	\$10,000	\$ 17,500	\$ 1,300	-
Rate of Return	30.9%	89.7%	-	-
Operating Ratio	92.9%	90.2%	146.4%	-

() Loss

* Estimate not provided.

Note: The revenue and expense figures for Bekins are those which were developed on the basis that the operating properties are owned by Bekins. As indicated heretofore, the earnings would be somewhat greater than those shown if reported on the rental basis.

Notwithstanding assertions which were advanced by applicants' consultant concerning the propriety of the anticipated earnings under the proposed rates, it appears that establishment of the full amount of the sought increases has not been shown on this record to be either reasonable or justified. With reference to the amounts of the anticipated earnings, the consultant asserted that they are within reasonable limits. He argued that earnings as reflected by operating ratios as low as 85 percent should be considered as reasonable for warehousing operations. His argument was based on representations that in the conduct of warehousing undertakings generally a greater investment is necessary than in carrier operations; that the capital turnover (the ratio of investment to gross revenues) of warehousing operations is less than that of carrier operations, and that whereas an operating ratio of approximately 93 percent or more may produce a reasonable return for carriers, a lower operating ratio is necessary in connection with warehousing to yield the same rate of return. The consultant's arguments do not apply in the present instance. Applicants' investments in their warehousing operations are relatively small and their capital turnover is relatively high. The reasonableness of their anticipated earnings under their proposed rates should be determined in light of the specific circumstances applicable to their operations.

As a further consideration it should be noted that the rate proposals were developed from a standpoint of over-all revenue needs without consideration of the reasonableness of the resulting rates. Applicants asserted that to develop information

along this line would entail outlays which they can ill afford. In response, however, it must be pointed out that the maintenance of reasonable and nondiscriminatory rates and charges is a responsibility which is imposed upon public utilities by the Public Utilities Act and is one that the utilities may not avoid.⁵ In view of the testimony of applicants' officers concerning the unprofitableness of various of the "handling" and related services, it appears that establishment of the full amount of the sought rate increases would have the effect of unduly burdening the "storage" services. In the circumstances the absence of information concerning the costs of the "handling" and "storage" services, and the relationship of the sought rates to those costs, must act as a limiting factor upon the rate increases that might otherwise be authorized. Within this limitation it is concluded, and the Commission so finds, that an increase of 15 percent in the rates and charges of Bekins, Lyon and Pacific has been shown to be justified. An increase of this amount appears necessary to provide sufficient margin between revenues and expenses to assure the preservation of the services.

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As a further reason for not submitting cost data for their handling and storage services separately, applicants said that action in this direction has been deferred pending the outcome of a proceeding (Application No. 37663) which is now pending before the Commission and by which warehousemen in the Los Angeles area seek substantial revisions in their handling and storage rates. Applicants indicated that the establishment of revised rates in the Los Angeles area undoubtedly would exercise considerable influence upon their own rate proposals for the future because they compete with the Los Angeles warehousemen.

Estimated operating results under the rates and charges as so increased are as follows:

Table 5

Estimate of 12 Months' Operating Results
Under Rates Increased 15 Percent

	<u>Bekins</u>	<u>Lyon</u>	<u>Pacific</u>
Revenues	\$41,538	\$153,283	\$ 4,152
Expenses	<u>38,730</u>	<u>136,589</u>	<u>6,340</u>
Net Operating Revenues	\$ 2,808	\$ 16,694	\$(<u>2,188</u>)
Provision for Income Taxes	<u>921</u>	<u>5,476</u>	<u>-</u>
Net Income	\$ 1,887	\$ 11,218	\$(<u>2,188</u>)
Rate Base	\$10,000	\$ 17,500	\$ 1,300
Operating Ratio	95.5%	92.7%	152.7%

The rate authority which is granted by the order which follows will not apply in connection with the rates of National, notwithstanding the fact that by this application Bekins, Lyon, Pacific and National as a group seek rate increases which would apply uniformly to all. No evidence was presented concerning the operations of National other than balance sheet and profit-and-loss data for the year 1955 which were submitted with the application. Such data do not provide grounds for a finding of a similarity in operating costs between National, on the one hand, and the other three applicants on the other hand, nor do the data otherwise provide grounds for authorizing increases in rates for National. ⁶ In this respect the application will be denied.

⁶ Insofar as the study of applicants' consultant is concerned, his testimony shows that he made no investigation of National's operations, not even to the extent of visiting the warehouse and reviewing the physical aspects of the various services which National performs.

In connection with the rate increases hereinafter authorized, no finding is made concerning the reasonableness of any particular rate or charge. Establishment of the increased rates on less than statutory notice will be authorized in order that Bekins, Lyon and Pacific may avoid, as promptly as possible, further losses under their present rates.

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 HEREBY ORDERED that

1. Bekins Warehousing Corp., Lyon Van & Storage Co., and Russell S. Stowell and Albert Compher, a partnership doing business as Pacific Transfer and Storage Co., be and they hereby are authorized to increase by 15 percent all of their rates and charges as set forth in California Warehouse Tariff Bureau Warehouse Tariff No. 14-A, Cal. P.U.C. No. 151, issued by Jack L. Dawson, Agent, and to establish said increased rates and charges on not less than five days' notice to the Commission and to the public.
2. The authority herein granted is subject to the express condition that applicants will never urge before this Commission in any proceeding under Section 734 of the Public Utilities Code, or in any other proceeding, that the opinion and order herein constitute a finding of fact of the reasonableness of any particular rate or charge, and that the filing of rates and charges pursuant to the authority herein granted will be construed as consent to this condition.
3. The authority herein granted shall expire unless exercised within ninety days after the effective date of this order.

4. Except as otherwise provided herein, the above-numbered application be and it hereby is denied.

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

Dated at San Francisco, California, this 9th day of JULY, 1957.

President
[Signature]

[Signature]

[Signature]

[Signature]
Commissioners

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