

ORIGINAL

Decision No. 57855

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of BAY CITIES)
 WAREHOUSE CO., BECKMAN EXPRESS & WAREHOUSE CO.,)
 BEKINS WAREHOUSING CORP., CENTRAL WAREHOUSE &)
 DRAYAGE CO., J. A. CLARK DRAYING COMPANY, LTD.,)
 CONSOLIDATED WAREHOUSE COMPANY OF CALIFORNIA)
 (doing business as FARNSWORTH AND RUGGLES DRAY-)
 AGE AND WAREHOUSE COMPANY), DeFUE WAREHOUSE)
 COMPANY OF SAN FRANCISCO, DILLON DRAYAGE)
 COMPANY, DISTRIBUTORS WAREHOUSE, ENCINAL)
 TERMINALS, GIBRALTAR WAREHOUSES, HASLETT WARE-)
 HOUSE COMPANY, HOWARD TERMINAL, KANE WAREHOUSES,)
 INC., KELLOGG EXPRESS AND DRAYING CO., JOHN)
 MCCARTHY & SON, MERCHANTS EXPRESS CORPORATION,)
 ROBERTSON DRAYAGE CO., INC., SAN FRANCISCO)
 WAREHOUSE CO., SEA WALL WAREHOUSES, STATE)
 TERMINAL CO., LTD., THOMPSON BROS., INC.)
 (doing business as THOMPSON BROS., INC., THE)
 DODD WAREHOUSES, and NORTH POINT DOCK WARE-)
 HOUSES), UNITED CALIFORNIA EXPRESS AND STORAGE)
 CO. (doing business as U. C. EXPRESS & STORAGE)
 COMPANY), WALKUP DRAYAGE & WAREHOUSE CO.,)
 WALTON DRAYAGE & WAREHOUSE COMPANY, and SOUTH)
 END WAREHOUSE COMPANY, for an increase in)
 rates.)

Application No. 40323

Reginald L. Vaughan, John G. Lyons, Jack L. Dawson
and A. B. Christiansen, for applicants.

Marvin Handler, for South End Warehouse Company,
applicant.

Larry Binsacca, for Pacific Coast Coffee Association,
protestant.

J. J. Deuel and William L. Knecht, for California
Farm Bureau Federation; Russell Bevans, for Draymen's
Association of San Francisco, Inc.; J. C. Kaspar,
A. D. Poe and J. X. Quintrall, for California
Trucking Associations; Carl F. Peters, for Los Angeles
Warehousemen's Association; J. B. S. Johnson, Jr.,
Forrest A. Cobb, Jr., Dean Parnell, and Brobeck,
Phleger and Harrison, by Robert N. Lowry, for Otis,
McAllister & Co.; William Petros, for J. A. Folger &
Co.; R. A. Dahlman, for R. J. Reynolds Tobacco Co.,
interested parties.

Hugh N. Orr, for the Commission's staff.

O P I N I O N

Applicants operate as public utility warehousemen in various
 cities adjacent to San Francisco Bay.^{1/} By this application, as

1/ The warehouse operations involved herein are conducted in San Fran-
cisco, Berkeley, Emeryville, Oakland, Alameda and San Leandro.

amended, they seek authority to establish increased rates and charges for storage, for storage handling, and for accessorial services.

Public hearing of the application was held before Examiner Carter R. Bishop at San Francisco on September 18 and 19, and October 2, 3 and 27, 1958. Evidence was presented on behalf of applicants by a certified public accountant, by applicants' tariff publishing agent, and by officers of several of the applicant warehousemen. The president of one of the applicants offered evidence on behalf of his company.

The rates and charges here in issue are set forth in California Warehouse Tariff Bureau Tariffs Nos. 1-E and 3-E of Agent Jack L. Dawson. Said rates and charges were last adjusted in 1956. By Decision No. 53527 of August 3 of that year in Application No. 37352 (55 C.P.U.C. 127), all storage, handling and accessorial charges were made subject to a surcharge of 15 percent. The increases which applicants herein now seek fall into two groups. First, they propose various revisions in the rules, regulations and accessorial charges of Tariff 1-E, resulting mainly in increases but including also some reductions. In this first group, applicants propose also revisions in certain commodity rate items in both tariffs to eliminate existing exceptions to the rules and rates generally applicable, and cancellation of so-called "dead" rates which are no longer used. After the above-described adjustments are made, applicants would, as the second part of their proposal, cancel the present 15 percent surcharge and, in lieu thereof, increase all storage and handling rates and all accessorial charges by 20 percent.

The increases which will result from the proposed changes in rules, regulations and accessorial charges vary widely in amount.

However, a test check, made by 13 of the applicants^{2/} against the

^{2/} According to the record, the warehouse revenues of the 13 applicants in question represent 80% of the total warehouse revenues of all applicants.

charges in question actually assessed during a representative month indicated that the proposed changes in said rules, regulations and accessorial charges would result in an increase of about 4.6 percent in applicants' total warehouse revenues, before applying the herein-before-mentioned overall percentage increase.^{3/}

The increases and reductions in the proposed commodity rate cancellation would, according to the record, be negligible in most cases. The accountant witness estimated an overall increase in revenue thereunder of approximately one-half of one percent.

The second part of applicants' proposal, namely, to substitute for the present 15 percent surcharge an increase of 20 percent, reflects an increase of 4.35 percent in all warehouse rates and charges in addition to the proposed increases in rules, accessorial charges and commodity rate revisions. The revenue study made by the accountant disclosed an estimated increase in revenues under all proposals in the application herein, and for all applicants in the aggregate, of approximately 9½ percent.

According to the application and to testimony of the tariff publishing agent, the rate increases herein sought are made necessary by increases in costs of operation which have occurred since the 1956 rate adjustment became effective. The augmentation of costs has occurred, it is stated, not only in respect to wages, but also in taxes, rents, and materials, services, and supplies. Assertedly, the revenue derived from existing rates and charges is insufficient and the increases herein proposed are necessary in order that applicants may continue in business and render an adequate and efficient warehouse service to the public.

^{3/} The proposed substituted percentage increase would not be carried forward as a surcharge, but would be incorporated in the individual rates and charges.

The accountant introduced a series of exhibits in which were set forth the results of an analysis of the book records of each of the applicants, including projections of estimated future revenues and expenses under the proposed rate increases.

In Table I, below, are summarized the operating results at present rates of each applicant for the 12-month period ending June 30, 1958. They reflect the gross revenues, expenses, net revenues after taxes, and operating ratios, relating solely to the utility warehouse activities embraced by the application herein. Operating expenses, the record shows, have been adjusted to eliminate inter-company rents.

Table I
Results of Operations of 26 Warehousemen for 12-Month
Period Ending June 30, 1958 (after Elimination of
Intercompany Rents and Substitution therefor of Landlord Expenses)

<u>Warehouseman</u>	<u>Revenues</u>	<u>Adjusted Expenses Including Income Taxes</u>	<u>Net After Taxes</u>	<u>Operating Ratio</u>
Bay Cities	\$ 1,147	\$ 1,456	\$(309)	127.0
Beckman	15,413	19,033	(3,620)	123.5
Bekins	15,665	14,708	957	93.9
Central	202,247	185,304	16,943	91.6
Clark	60,407	68,744	(8,337)	113.8
Consolidated	74,230	74,313	(83)	100.1
DePue	295,422	297,436	(2,014)	100.7
Dillon	24,034	22,575	1,459	93.9
Distributors	147,892	136,246	11,646	92.1
Encinal	294,826	299,533	(4,707)	101.6
Gibraltar	374,754	357,995	16,757	95.5
Haslett	596,015	580,906	15,109	97.5
Howard	513,326	527,545	(14,219)	102.8
Kane	26,106	25,002	1,104	95.8
Kellogg	3,440	1,683*	1,757*	48.9*
McCarthy	25,356	22,955	2,401	90.5
Merchants	62,449	61,649	800	98.7
Robertson	104,220	90,449	13,771	86.8
San Francisco	855,253	823,878	31,375	96.3
Sea Wall	59,987	54,751	5,236	91.3
South End	203,998	202,552	1,446	99.3
State Term	31,537	31,167	372	98.8
Thompson	279,223	269,473	9,750	96.5
United	1,700	1,487	215	87.4
Walkup	393,368	376,575	16,793	95.8
Walton	48,288	46,827	1,463	97.0

*Only item of expense included is that of rent. Kellogg did not make any allocation of labor expense or overhead to warehouse operation.

(Reflects loss)

Almost all of the applicants herein, the record discloses, are engaged in other activities besides their utility warehouse operations and some applicants render utility warehouse service at locations outside the San Francisco Bay Area. A majority of the applicants conduct local drayage operations in San Francisco or East Bay cities. In several instances utility warehouse operations constitute only a small portion of an applicant's business activities. In view of the foregoing, it was necessary, in the analysis of operating results, for the revenues and expenses generated in the conduct of applicants' San Francisco Bay Area warehouse operations to be segregated from those assignable to their other services. In many instances this involved the matter of making proper allocations of joint expense items, as between the two above-mentioned classes of operations.

The accountant and the warehouse officers testified that the expense allocations utilized in the aforementioned analysis are consistent with those made in connection with the last increase application (No. 37352), except that in those instances where the Commission's staff had, in the earlier proceeding, suggested certain changes in methods of allocation, said suggestions have been incorporated in the current studies.

The accountant's projection of operating results for the future under the proposed rate changes was developed by adjusting the revenues and expenses for the 12-month period ending June 30, 1958, as shown in Table I, to give appropriate effect to said rate proposals and to the increases in operating costs which have been experienced by applicants since the beginning of the 12-month period in question. This method of estimating future operating results is, of course, predicated on the assumption that applicants will continue

to enjoy the same volume and character of warehouse business that they did during the period covered by Table I.

The accountant did not include in his study estimates of future operating results under a continuation of present rates and charges. Such results, however, have been calculated, predicated on the revenue figures shown in Table I and the expanded expense figures utilized by the accountant in his development of operating results under the sought rate increases. The estimated operating ratios, after income taxes, thus calculated under a continuation of present rates, are compared in Table II, below, with the estimated operating ratios, as developed by the accountant, but adjusted in certain respects,^{4/} under the proposed rates.

^{4/} It was necessary to revise the accountants' estimate of revenues to be experienced under the proposed rate increases in order to give effect to certain corrections, which were made during the course of the hearings, in the estimates of certain warehousemen of revenues under the proposed changes in rules, regulations and accessorial charges. Also, it was necessary to eliminate from the aforesaid estimates of the accountant certain revenues from proposed increases in coffee rates. Higher increases were originally proposed for coffee storage and handling rates than for other commodities. The application was later amended to eliminate these greater increases.

TABLE II

Comparison of Estimated Operating Ratios (in Percents)
Under Present and Proposed Rates, After Income Taxes,
for the Rate Year

<u>Warehouseman</u>	<u>Under Present Rates</u>	<u>Under Proposed Rates</u>
Bay Cities	123.2	117.8
Beckman	125.8	115.5
Bekins	94.5	89.1
Central	92.5	89.0
Clark	115.2	108.8
Consolidated	101.7	95.5
DePue	102.7	98.8
Dillon	95.1	90.0
Distributors	93.2	88.7
Encinal	103.9	99.4
Gibraltar	96.7	92.6
Haslett	98.9	94.8
Howard	105.9	96.2
Kane	106.5	98.5
Kellogg	48.9*	47.6*
McCarthy	91.4	86.6
Merchants	99.8	95.5
Robertson	87.8	83.9
San Francisco	97.7	93.3
Sea Wall	92.9	89.5
South End	100.9	96.0
State Term.	99.5	93.7
Thompson	98.1	94.1
United	88.3	83.8
Walkup	96.7	92.0
Walton	99.9	94.7

*Expenses on which operating ratio based include rent only. Kellogg made no allocation of labor or overhead expense to warehouse operation.

The operating ratios shown in Tables I and II for Kellogg. Express & Draying Company are extremely low. According to the record, warehousing is the source of less than one percent of that company's revenues. It made no segregation of expenses between warehousing and its other activities, other than to allocate to the former a portion of its rental expense. No provision is made for labor costs or for overhead. Consequently, the net revenue and operating ratio figures developed by the accountant for Kellogg are of no value for the purposes of this proceeding.

The record discloses that many of the applicants do not own the facilities in which they conduct their warehouse operations. Because of this circumstance, the accountant was able to develop a depreciated rate base reflecting the value of the property for only seven of the applicants.^{5/} In doing this, he utilized original costs to the extent possible. The rate bases reflect the depreciated book values of the properties in question as of December 31, 1957. In Table III, below, are set forth the estimated rates of return for the rate year under present and proposed rates, after income taxes, for the above-mentioned seven applicants. The figures shown are predicated on the rate bases as developed by the accountant.

TABLE III

Estimated Rates of Return for the Rate Year, Under Present
and Proposed Rates

<u>Warehouseman</u>	<u>Rate of Return</u>	
	<u>Under Present Rates (Percents)</u>	<u>Under Proposed Rates (Percents)</u>
Consolidated	#	2.70
Haslett	1.36	3.01
Howard	#	3.34
San Francisco	2.74	5.78
Walkup) Merchants)	1.54	3.33
South End	.45	4.14

#Indicates Loss

As hereinbefore stated, the changes in rules and regulations reflect increases of various percentages as well as a few reductions. The tariff publishing agent testified that the proposals in question represented the results of a study, extending over a period of a year and a half, of a special committee of the applicant warehousemen. The purpose of the changes, he said, is to bring the rules into harmony with current practices and conditions, to clarify them, and to remove therefrom any provisions which are now obsolete.

^{5/} The accountant developed a single composite rate base for Walkup Drayage & Warehouse Company and Merchants Express Corporation. These are related companies.

The rules, he stated, have been in effect for many years without substantial change.

The proposed increases in accessorial charges which are incorporated in many of the above-mentioned rules, the publishing agent testified, are sought in order to bring them into line with the increases which have been experienced in recent years in the cost of rendering the services in question. The revenues derived from these services, he said, have not increased proportionately with those accruing from other warehouse labor services, such as handling in and out of storage. According to the record, no specific cost studies were made by applicants in connection with the various accessorial services under consideration. The amount of each of the proposed increases in accessorial charges, it appears, was, in many instances, determined through the exercise of informed judgment.

A wage rate study for handlers, fork lift operators and foreman was the basis for the proposed general accessorial charge of \$3.50 per hour. The study, which was introduced by the tariff publishing agent, showed hourly wage costs, including fringe benefits, ranging from \$3.05 to \$3.30 per hour. The costs thus developed included no provision for overhead or profit. A study made by the accountant indicated that the overhead costs properly assignable to labor expense amounted, on the average, to 60 percent of the latter.

The vice-president of San Francisco Warehouse testified that he did not expect any appreciable diversion of business to other means of storage in the event that the sought rate increases are authorized and established. At the hearing it was stipulated that witnesses for the other applicants, if called, would testify to the same effect.

The above-mentioned officer of San Francisco Warehouse also testified concerning a study which he had made contrasting the operating results attributable to his company's storage services, on the one hand, and all other warehouse services on the other hand. In his study he had employed the same methods of allocating expenses between the two groups of services as was utilized in the last rate increase proceeding (Application No. 37352). The witness' current study revealed the following operating ratios, after income taxes, from San Francisco Warehouse operations for the 12-month period ending June 30, 1958: storage, 89 percent; warehouse services other than storage, 97.9 percent; all warehouse services, 94 percent. Based upon the results of this study the witness concluded that storage rates and handling rates should receive the same horizontal increase, and that there was no justification for assigning different rate increases to the two groups of services. The above-mentioned stipulation relates also to this testimony, although none of the other applicants introduced similar studies.

South End Warehouse Company was made an applicant herein by an amendment to the original application. Its proprietor, however, offered evidence to the effect that his company was of the opinion that, rather than secure the needed additional storage and handling revenues through a horizontal percentage increase, applicants should have made individual cost studies of the commodities stored and seek rate increases, or make reductions in rates, to the extent indicated by the results of such studies.^{6/} He further indicated that if the sought percentage increase in storage and handling charges should be authorized his company probably would not take the increase in all commodities. He was not prepared to say specifically which rates would be increased and which would not.

^{6/} This witness stated, however, that he believed all of the increases sought herein in accessorial charges were justified.

This witness also introduced exhibits setting forth certain rates for storage or handling or other services applicable to specified commodities, or under particular conditions, all of which are exceptions to the generally applicable provisions of the tariff. He believed that the exceptions shown in his exhibits should be cancelled along with the exceptions which, by the application herein, are proposed to be cancelled. The record shows that in nearly every instance South End is either not a party to the exception or has not handled any business under it during the past five years.

Granting of the application, as amended, was opposed by a non-profit association of the principal importers and roasters of green coffee operating in the San Francisco Bay Area. The association's representative stated that his organization was opposed to any increase in the warehouse rates on green coffee, but that if the Commission should find rate increases warranted by the record such increases should not exceed the percentage increases granted on other commodities of similar nature. As hereinbefore stated, applicants' request for greater increases on warehouse rates for green coffee than for other commodities was, by amendment, modified so as to seek the same percentages of increase for green coffee as for other commodities.^{7/}

Representatives of the Commission's staff, as well as persons appearing for various interested parties, assisted in the

^{7/} Counsel for a coffee importing firm, appearing on its behalf as an interested party but actively opposing the higher increases on green coffee, on being informed of the withdrawal by applicants of the request for said higher increases, stated that his company would not oppose uniform, nondiscriminatory percentage increases on all commodities and, at that juncture, withdrew from further participation in the proceeding.

development of the record through extensive examination of applicants' witnesses.^{8/}

Conclusions

It will be seen from an examination of Table I, supra, that the results of operation during the fiscal year ending June 30, 1958, vary greatly as between the different applicants. The operating ratios, after income taxes, and after adjustment of operating expenses to eliminate intercompany rents, ranged from 86.8 to 127 percent. Warehouse operations of seven of the applicants during the period in question resulted in a loss. Under a continuation of present rates, and giving effect to increased operating costs, the operating ratios reflected by the results of operation estimated by the accountant for the projected rate year range, after provision for income taxes, from 87.8 to 128.2 percent. On the basis of these estimates, as set forth in Table II, the warehouse services of nine of the applicants would, under a continuation of present rates, result in deficits.

Operating ratios under the sought increased rates for the projected rate year, as estimated by the accountant, and as shown in Table II, range, after income taxes, from 83.8 to 117.8 percent. Even if the sought increases are granted it appears that three of the warehousemen will continue to operate at a loss. It should be noted at this point that the estimate of operating expenses on

^{8/} Prior to submission of the matter, counsel for the Commission's staff stated that the staff had, during the course of the hearings, made an extensive study of the working papers from which applicants' accountant witness had prepared his exhibits and had made a check of the records of several of the operators. The staff was satisfied, he said, that the methods of allocation of expenses, between utility and nonutility, employed by applicants in this proceeding were consistent with those utilized in the last rate increase proceeding, as modified by staff suggestions. Counsel further stated that the staff had found that the data furnished by applicants to the accountant correctly reflected the records of the respective applicants.

which the operating ratios for Dillon Drayage Company and Robertson Drayage Company are predicated appear to be understated. In the case of Dillon no managerial salary allowance was included, and, in the estimate for Robertson, no portion of general officers' salaries was allocated to the warehouse services. This, the record discloses, is true also as to the operating expenses of these applicants shown in Table I for the last fiscal year. Moreover, it appears that the estimated operating ratios for all applicants, as shown in Table II, are more favorable than may be reasonably expected, since the adjusted operating expenses upon which said ratios are based do not give effect to two wage increases which are part of the current labor agreement. The first of these took effect on January 1, 1959; the second will become operative on June 1, 1959.^{9/}

An analysis of the record indicates that the estimated operating ratios shown in Table II for only those warehousemen who are engaged exclusively in public utility warehousing, or a substantial portion of whose revenues are derived from such warehousing, range as follows: Under a continuation of present rates, from 92.5 to 103.9 percent; under the proposed rates, from 88.7 to 99.4 percent.

As hereinbefore stated, the development of reliable rate base estimates, on which to calculate estimated rates of return on investment, was impracticable with respect to those applicants who lease, in whole or in part, the facilities with which they render their warehouse services. More reliance, for those applicants, at least, must be placed upon operating ratios as a measure of reasonableness of the sought rate increases. However, it must be kept in mind that a warehouse operator using leased facilities is not entitled to as low an operating ratio as the operator who owns his facilities

because of the fact that the operating expenses for leased facilities
^{9/} The adjustment of January 1, 1959 gave an increase of five cents per hour to certain warehouse foremen; that of June 1, 1959 will increase the wage rates of all classes of employees by 7½ cents per hour.

include an allowance for return on investment in the rental expense.

According to the record, there are no warehousemen in the San Francisco Bay area, not included in the application herein, who compete with applicants. Applicants, however, are generally competitive with each other and the evidence is persuasive that, as a general proposition, uniformity of rates as between the various applicants is essential to permit them to compete for the utility warehouse business offered.

Upon careful consideration of all the facts and circumstances of record, the Commission finds as a fact that the increases in rates and charges and the other adjustments proposed by applicants in this proceeding are justified. The application, as amended, will be granted. Applicants have requested that they be authorized to establish the increased rates and charges and other tariff adjustments on one day's notice to the Commission and to the public. Such short notice does not appear justified. Instead they will be authorized to establish the rate and other tariff adjustments on not less than five days' notice. In authorizing the above-described increases we do not make any finding of fact as to the reasonableness of any particular rate or charge.

Two provisions of the aforesaid Tariff No. 1-E appear, both as now framed and as proposed to be revised, ambiguous and lacking in that precision necessary for the accurate determination of the applicable rate or charge. Rule No. 41 of the tariff now reads:

"A reasonable charge dependent upon the clerical service and cost for postage and forms will be made for preparing invoices for storers, but in no case less than 15 cents for each invoice."

The only change in this rule proposed by applicants is to increase the minimum charge to 35 cents. The word "reasonable" is used in the rule is ambiguous.

Rule No. 42-A of Tariff No. 1-E reads:

"When commodities are stored in excessive assortment or storer demands limited pile height resulting in the use of excessive floor space the space rental rates specified in Rule No. 41 series will be applied as the minimum basis to calculate the storage charges."

Applicants propose to revise said rule so as to read:

"When commodities are stored in excessive assortment or require limited pile height, the space rental rates specified in Rule 41 series will be applied as the minimum basis to calculate the storage charges."

The tariff contains no definitions of the expressions "excessive assortment" and "limited pile height". These expressions, therefore, appear to be ambiguous.

Applicants will be directed to eliminate the aforementioned ambiguities in Rules Nos. 42-A and 41, as presently published and as proposed in the application herein, said clarification to be accomplished concurrently with publication of the charges otherwise herein authorized in said Rules Nos. 42-A and 41.

O R D E R

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

IT IS ORDERED that applicants be and they are hereby authorized to establish, on not less than five days' notice to the Commission and to the public, the increased rates and charges and other tariff adjustments proposed in the application, as amended, filed in this proceeding.

IT IS FURTHER ORDERED that applicants shall so clarify the provisions, as now published and as proposed by applicants, of Rules Nos. 42-A and 41 of California Warehouse Tariff Bureau Tariff No. 1-E, Cal. P. U. C. No. 83 (L. A. Bailey Series) of Jack L. Dawson, Agent, as to eliminate therefrom the ambiguities of language pointed out in

the preceding opinion, said clarification to be accomplished concurrently with the other changes in said Rules Nos. 42-A and 41 hereinabove authorized.

IT IS FURTHER ORDERED that 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 a consent to this condition.

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

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

Dated at San Francisco, California, this 13th day of January, 1959.

E. J. Fox
President
W. E. B. Hill
W. E. B. Hill
Theodore J. Jensen
Commissioners