

ORIGINAL

Decision No. 57992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 American Warehouse, Bekins Warehous-)
 ing Corp., Bradco Warehouse Co.,)
 California Warehouse Co., Central)
 Terminal Warehouse Co., H. G.)
 Chaffee Company, Charles Warehouse)
 Co., Inc., Citizens Warehouse,)
 J. A. Clark Draying Co., Ltd.,)
 Davies Warehouse Company, Desper)
 Terminal Company, Fields Freight,)
 Inc., Freight Transport Company,)
 Hargrave Freight Terminal, Jennings-)
 Nibley Warehouse Co., Ltd., Los)
 Angeles Cold Storage Company, Los)
 Angeles Transport & Warehouse Co.,)
 Lyon Van & Storage Co., Metropoli-)
 tan Warehouse Co., Overland Termi-)
 nal Warehouse Co., Pacific Coast)
 Terminal Warehouse Co., Pacific)
 Commercial Warehouse, Inc., Redway)
 Transfer Co., Republic Van &)
 Storage Co., Inc., Signal Trucking)
 Service, Ltd., Slocum Van & Storage)
 Co., Star Truck & Warehouse Co.,)
 Torrance Van & Storage Company,)
 Union Terminal Warehouse, Vernon)
 Distributing & Warehousing Company,)
 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 Cali-)
 fornia points.)

Application No. 40688

Arlo D. Poe and Jack L. Dawson, for applicants.
H. L. Chaffee, Ruth A. Clark, Harold A. Drury,
D. C. Fessenden, Clyde R. Hoagland, H. B.
Johnston, Jr., Jackson W. Kendall, Richard H.
Marshall, A. J. Palitzki, Gordon Ross,
Morgan Stanley, J. R. Thomas, J. A. Williams,
 for various warehousemen, applicants.
Sherman B. Erickson, for The Dow Chemical Com-
 pany - Western Terminals; Carl F. Peters, for
 Los Angeles Warehousemen's Association; James
Quintrall and J. C. Kaspar, for California
 Trucking Associations, interested parties.
Hugh N. Orr, C. V. Shawler and Ralph Staunton,
 for the Commission staff.

INTERIM OPINION

Applicants are engaged in the operation of warehouse facilities for the storage and handling of general commodities within Los Angeles and at other Southern California points. Rates and charges applicable to their services as public utility warehousemen are set forth in California Warehouse Tariff Bureau Warehouse Tariffs Nos. 28, and 29, Cal. P.U.C. Nos. 165 and 166, respectively, of Jack L. Dawson, Agent. Applicants seek authority by this application to increase by 15 per cent all rates and charges set forth in the above-mentioned tariffs, except those provided for storage.

Initial public hearings of the application were held before Examiner Carter R. Bishop at Los Angeles on January 19 and 20, 1959. At the conclusion of these sessions the matter was adjourned to March 17, 1959, to give the Commission staff opportunity to review the working papers of applicants' accountant witness and to make such additional studies as it deemed desirable. At the initial hearings, counsel for applicants made a motion requesting that, pending a final determination of the issues, applicants be authorized to establish, on an interim basis and as a surcharge, the rate increases herein sought.¹ Said increases would, of course, be subject to such modification as the Commission might find justified after consideration of the completed record. The motion was necessitated, counsel stated, by the financial emergency in which applicants now find themselves as a result of greatly increased costs of operation. He then adduced evidence purporting to establish the fact of an emergency and the need for prompt rate relief.

¹ The record shows that three of the applicants, namely, Bradco Warehouse Co., Desper Terminal Company and Fields Freight, Inc., no longer engage in public utility warehousing. Counsel for applicants excluded these companies from the motion for interim relief.

The rates here in issue were last adjusted effective August 1, 1957, pursuant to Decision No. 55198 in Application No. 37663, at which time a general revision of the rate structure was accomplished, reflecting an estimated over-all increase in revenues of approximately 10 per cent. Since that time, the instant application states, a series of wage and salary increases, including increases in so-called fringe benefits, has been experienced by applicants. As a result of these increased labor costs, the application alleges, the rates and charges presently in effect are not adequate to produce revenues sufficient to meet operating expenses and leave a reasonable profit.

Applicants believe that the alleged deficiency of revenue is attributable almost entirely to the rates and charges provided for handling and incidental services, which entail the use of labor and of clerical help. Applicants, therefore, have excluded from their proposals any increase in storage rates, since labor expense is involved in connection therewith only to a minor degree.

An accountant employed by applicants testified regarding revenue and expense studies which he had made of the utility operations of 24 of the applicants herein. Evidence regarding similar studies of two more applicants, namely, Bekins Warehousing Corp. and Lyon Van & Storage Co., was offered by officials of those companies.²

² The record contains no estimate of results of operations under either present rates or proposed rates for six applicants. These include, in addition to the three previously mentioned which no longer operate as utility warehousemen, Los Angeles Cold Storage Company, Republic Van & Storage Co., Inc., and Slocum Van & Storage Co. The first of these, the record indicates, did not become a party to Tariff No. 28 until September 5, 1958, which was subsequent to the period covered by the accountant's studies. Republic had so little utility warehousing revenue (\$200) as contrasted with its nonutility revenues (about \$3,000,000) during the period selected, that it was deemed impracticable to make a financial study of that company's utility operations. Slocum received no revenues from utility warehousing during the 11-month period utilized in the studies; however, it has the necessary facilities and holds itself out to render utility warehousing services.

In Table I, below, are summarized the operating results of each of the 26 applicants in question, as developed by the aforesaid witnesses, ending with June 30, 1958. As indicated in the table, the data for most of the warehousemen shown cover an 11-month period. A few are for shorter lengths of time.

TABLE I

Results of Operations for 11-Month Period Ending June 30, 1958
(Except as Noted)

<u>Warehouseman</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Net Before Taxes</u>
American	\$ 45,433	\$ 34,991(x)	\$ 10,442(x)
Bekins	196,777	193,073	3,704
California	268,375	259,259	9,116
Central	65,659	79,280	(13,621)
Chaffee	74,562	64,189	10,373
Charles	8,053x	10,064x	(2,011)x
Citizens	42,890	48,540	(5,650)
Clark	41,627	45,748	(4,121)
Davies	196,010	183,301	12,709
Freight	51,442	50,788	654
Hargrave	4,476x	4,682zx	(206)zx
Jennings-Nibley	97,409	90,743	6,666
L. A. Transport	154,141	151,044	3,097
Lyon	9,607	10,245	(638)
Metropolitan	527,722	520,132	7,590
Overland	475,663	445,563	30,100
Pacific Coast	450,223	420,105	30,118
Pacific Commercial	150,730	165,085	(14,355)
Redway	41,233	33,977#	7,256#
Signal	327,482	364,335	(36,853)
Star	400,730	399,556	1,174
Torrance	12,402	13,106	(704)
Union	738,000	775,151	(37,151)
Vernon	5,714*	5,742*	(28)*
West Coast	48,242	47,221	1,021
Westland	160,260	173,492	(13,232)

(Indicates Loss)

- x Operating results for 6-month period ending June 30, 1958.
- # No provision in expenses for salaries of owner and his wife.
- * Operating results for 2½-month period ending June 30, 1958.
- (x) No provision in expenses for salary of owner.
- z No provision in expenses for salaries of officers.

The principal accountant witness explained that originally he had been directed to make a study of the results of operation under the increased warehouse rates established pursuant to Decision No. 55198, supra, for the 5-month period from the effective date of those rates to the end of 1957. Subsequently he was instructed to make an additional study for the first six months of 1958. The combined studies reflected a period of 11 months, which the witness considered to be representative. Operating results for Charles Warehouse Co., Inc., and for Hargrave Freight Terminal cover only the first six months of 1958, while those developed for Vernon Distributing and Warehousing Co. embrace only 2½ months, beginning with April 15, 1958. The record shows that figures for Charles' operations for the last five months of 1957 were not available due to reasons of health. Hargrave became a party to Tariff No. 28 effective March 25, 1958, prior to which time it was a private or contract warehouse, assessing charges practically the same as those in said tariff. The witness considered the 6-month period utilized as representative of that applicant's operations. The reason for the short period embraced by the Vernon study is that Vernon did not become a party to Tariff No. 28 until April 15, 1958.

Exhibits of record disclose that nearly all of the applicants engage in other business activities in addition to public utility warehousing. These include such activities as household goods storage and for-hire trucking. With respect to 17 of the warehousemen included in Table I, their utility warehouse revenues comprise at least a substantial portion, if not all, of the revenues they receive. The utility revenues of the remaining nine operators constitute only a small part of their total revenues. Moreover, 90 per cent of the total warehouse utility revenues involved herein,

for the 6-month period ending June 30, 1958, were earned by 16 of the 32 applicant warehousemen.

In developing the operating results of applicants' utility warehousing, as shown in Table I, it was necessary for the witnesses to segregate the utility revenues and expenses from those accruing or incurred in the nonutility activities. In many instances these processes entailed allocations as between the two classes of expenses. According to the record, the methods employed in making these allocations were the same as those utilized in the studies which were developed in connection with Application No. 37663, supra.

It will be seen from Table I that warehouse utility operations during the test periods selected resulted in deficits for 12 of the 26 operators.

Applicants' witnesses also introduced estimates of future operating results under a continuation of present rates and under the proposed increased rates. These estimates were developed by adjusting the expenses, as shown in Table I, to give appropriate effect to the increases in operating costs, for the full periods involved, and, in the estimate under proposed rates, by adjusting the revenues in Table I to give effect to the proposed rate increases. In thus developing their estimates of future operating results the witnesses assumed that the respective applicants would continue to enjoy the same volume and character of warehouse business that they did during the periods covered by Table I.

In Table II below, are shown the operating ratios, after income taxes, as estimated by the witnesses under both present and proposed rates. These ratios are also compared with those which would result by applying a 10 per cent increase (instead of 15 per cent) to all tariff rates and charges except those provided for storage. In developing this last set of operating ratios, the same

adjusted expense figures have been used as were employed by the witnesses in arriving at their estimates under present and proposed rates.

TABLE II

Comparison of Estimated Operating Ratios
(in per cents), After Income Taxes, Under
(1) Present Rates, (2) Proposed Rates,
and (3) Rates Reflecting an Increase
of 10 Per Cent,
(For The Projected 11-Month Period (Except as Noted))

<u>Warehouseman</u>	<u>Under Present Rates</u>	<u>Under Proposed Rates</u>	<u>Under a 10% Increase</u>
American	85.3(x)	81.2(x)	83.2(x)
Bekins	99.4	95.6	97.1
California	103.1	96.3	98.2
Central	123.9	113.9	117.0
Chaffee	92.6	88.5	90.2
Charles	125.8 ^x	120.7 ^x	122.3 ^x
Citizens	117.3	108.1	111.0
Clark	112.9	106.2	108.3
Davies	99.2	93.4	95.7
Freight	102.2	96.6	98.2
Hargrave	108.5 ^z ^x	102.7 ^z ^x	104.5 ^z ^x
Jennings-Nibley	97.7	93.6	95.1
L. A. Transport	105.9	97.2	99.4
Lyon	106.6	100.6	102.8
Metropolitan	102.7	96.3	97.9
Overland	99.2	95.3	96.3
Pacific Coast	98.7	94.5	95.7
Pacific Commercial	116.6	107.6	110.5
Redway	89.7 [#]	85.1 [#]	87.1 [#]
Signal	115.3	108.4	110.6
Star	106.7	97.8	99.9
Torrance	106.6	103.1	104.2
Union	111.4	103.2	105.8
Vernon	103.2 [*]	97.7 [*]	99.2 [*]
West Coast	99.7	97.0	97.9
Westland	113.5	105.3	107.9

- x Reflects 6-month test period.
 * Reflects 2½-month test period.
 (x) No provision in expenses for salary of owner.
 z No provision in expenses for salaries of officers.
 # No provision in expenses for salaries of owner and his wife.

As indicated in both Tables I and II, the operating results, actual and projected, for American Warehouse, for Hargrave Freight Terminal and for Redway Transfer Company, are less favorable than would appear from the figures shown. This stems from the fact that

no provision is made, as items of expense, in the book records of these applicants for salaries of owners or of officers.

As has been pointed out in prior decisions, many of the warehousemen in the Los Angeles area do not own the facilities in which they conduct their operations, but lease said facilities from other parties. Because of this circumstance, the accountant witness was able to develop complete rate base estimates for only four of the applicants.³ Rates of return on these rate base estimates, which would result under the accountant's estimate of operating results under both present and proposed rates, are set forth in Table III, below. In arriving at the estimated rates of return, the witness expanded his forecast of net profit after income taxes to cover a 12-month period. The rate base figures in the table purport to relate only to those portions of the facilities of the operators shown which are devoted to utility warehousing. They include allowances for working capital, the latter comprising amounts ranging from approximately 10 percent to 22 percent of the rate base estimates.

TABLE III

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

<u>Warehouseman</u>	<u>Rate Base</u>	<u>Rate of Return (Percents)</u>	
		<u>Under Present Rates</u>	<u>Under Proposed Rates</u>
Chaffee	\$202,914	3.0	4.9
Davies	245,206	0.7	5.8
Overland	397,116	1.1	6.6
L. A. Transport	186,206	0.0	2.8

³ In one exhibit the accountant also developed constructive rate base estimates for seven of the leasing applicants, predicated on the assumption that the latter owned the real properties which they utilized in their warehouse operations.

Testimony specifically in support of the motion for interim relief was adduced through the accountant who made the major revenue and expense studies, the publishing agent of the California Warehouse Tariff Bureau⁴ and by responsible officers of three of the larger applicants. These latter concerns were considered by their counsel to be representative of the industry.⁵

The accountant stated that, in his opinion, the operating results of applicants for the selected periods ending June 30, 1958 did not reflect current conditions; that although he had not made a specific study of applicants' books for the period subsequent to the above-mentioned date, such review of their records as he had made showed a worsening financial condition. The warehouses, he said, which showed a loss for the 11-month period used in his studies, are today operating at a loss.

According to the tariff publishing agent, applicants are uniformly in the worst financial condition currently that he has ever observed them to experience during his 12 years' association with them as tariff publishing agent and association secretary-manager. The application herein, he asserted, is in the nature of an emergency proposal and the relief now sought will not solve all the difficulties of the industry. Applicants, he added, plan to make a further study of the rate structure with a view to filing a subsequent application in which "long-range" rate adjustments will be proposed.

4 This witness is also secretary-manager of several warehousing associations, including the California Warehousemen's Association.

5 Overland Terminal Warehouse Company owns the facilities in which it operates; Pacific Coast Terminal Warehouse Company leases its facilities from a non-affiliate, engages in very little non-utility business, and is located in an industrial section different from that in which Overland is based; Star Truck & Warehouse Company leases its facilities from an affiliate and engages in a substantial trucking business in addition to its warehousing activities.

The testimony of the warehousemen officials was generally to the effect that their respective companies are in serious financial condition, that they are presently operating in the red, that they will continue to do so if the sought rate increases are not authorized, that, for their companies an increase greater than 15 percent could be justified, and that the existing emergency would not permit detailed studies to determine how much each rate or charge should be increased. Each of these witnesses testified further that, due to competitive forces, substantial uniformity of warehouse rates in the Los Angeles area is essential.

All storers of applicants were notified, well in advance of the initial hearings dates, of the proposed increases and of the time and place of hearing. Additionally, hearing notices were sent to other individuals and organizations believed to be interested. No one appeared at the initial hearings in opposition to the granting of the application.

The Commission's staff assisted in the development of the record at said hearings. It reserved the right to examine applicants' witnesses further and to introduce evidence at the adjourned hearing.

Conclusions

According to applicants' estimate of operating results, as developed by their accountant witnesses and summarized in Table II, supra, a continuation of present rates without any increases will have the following results: Excluding American and Redway, whose operating ratios are not a true measure of their financial condition,⁶ the estimated operating ratios after income taxes will range, with one exception, from a low of 97.7 percent to a high of 125.8 percent. Seventeen operators out of the total of 26 included in the study will, according to the table, operate at a loss under present rates.

⁶ As previously mentioned, these utilities make no allowance in their expenses for the services of owners or managing officers.

Under the proposed increase of 15 percent on all rates and charges except those for storage, and again disregarding the three operators referred to above, Table II shows a range in operating ratios, after income taxes, from 93.4 percent to 120.7 percent. Eleven of the operators would continue to conduct their utility warehouse operations at a loss.

The record discloses that the primary purpose of the instant application is to offset by additional revenues the increases in labor costs which have been experienced since the 1957 rate increase. The record shows further that, in the case of most applicants, the additional revenues which would result under a 10 percent rate increase (in lieu of a 15 percent increase as sought herein) would approximate, or exceed, the estimated increased labor expenses. The operating ratios set forth in the last column of Table II are predicated on total operating revenues, including a 10 percent rate increase, and total operating expenses as estimated by applicants' witnesses, of the respective utilities. Again excluding the three operators referred to above, the ratios range from 95.1 percent to 122.3 percent. As in the case of the proposed 15 percent increase, 11 of the operators studied would, on the basis of these estimates, operate at a loss during the test period.

Considering only those 17 applicants a substantial part, or greater, of whose revenues are derived from the warehouse utility operations here in issue, the estimated operating ratios in Table II reflect, under each of the three rate structures, the same range as for all of the applicants as a group.⁷ The number of the aforesaid

⁷ This contemplates again the exclusion of estimated operating ratios for American and for Redway as not being reliable.

primary operators which, under the estimated ratios, would operate at a loss during the test period is as follows: (a) at present rates, 9 applicants; (b) under a 10 percent increase, 5 applicants; (c) under the proposed 15 percent increase, 5 applicants.

As hereinbefore indicated, the underlying data on which applicants' exhibits were based had not been reviewed by the Commission's staff at the time of the initial hearings and it is expected that further examination of applicants' witnesses will be had at the adjourned hearings. Additionally, the staff may introduce thereat the results of its independent investigation.⁸ In view of these facts, the propriety of the estimated operating results as developed by said witnesses, including the methods and bases utilized, has not been fully established as the record now stands. The record is persuasive, however, that applicants, excluding of course those no longer in business, are urgently in need of some interim rate relief pending final determination of the issues on a complete record. In this connection it is noted that in developing their estimates of increased labor expense applicants' witnesses did not give effect to an additional wage increase which, under current labor agreements, will go into effect on May 1, 1959. Moreover, the record indicates that increases in operating costs other than labor expense have been experienced by applicants since the 1957 rate increase, although the precise effect of said cost increases is not disclosed.

Upon careful consideration of all of the evidence thus far adduced, we are of the opinion and hereby find that, pending further order of the Commission, an increase of 10 percent, published as a surcharge, in all warehouse rates and charges proposed to be increased herein, except those published for account of Bradco Warehouse Company,

⁸ It is understood also that applicants plan to complete their presentation of evidence at the adjourned hearings.

Desper Terminal Company and Fields Freight, Inc., has been justified. In view of the need for immediate relief the effective date of the authorizing order will be ten days after the date hereof and applicants will be permitted to establish the interim increases on not less than five days' notice to the Commission and the public. In all other respects the motion for interim relief will be denied.

INTERIM ORDER

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

IT IS ORDERED that:

1. Pending further order of the Commission, applicants herein, except Bradco Warehouse Company, Desper Terminal Company and Fields Freight, Inc., be and they are hereby authorized to increase by ten percent, on not less than five days' notice to the Commission and to the public, all rates and charges in California Warehouse Tariff Bureau Warehouse Tariffs Nos. 28 and 29, Cal. P.U.C. Nos. 165 and 166, respectively, of Jack L. Dawson, Agent, except those applying to storage, said increased rates and charges to be subject to such further revision as the Commission may find justified in a final determination of the issues in this proceeding.
2. Said increased rates and charges may be published in the form of surcharge rules such as are set forth in Exhibit No. 15 filed in this proceeding, including the specific revision of Item No. 170 of said Tariff No. 29 as proposed in said Exhibit No. 15.
3. 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.

4. 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 9th day of February, 1959.

[Signature]
President

[Signature]

[Signature]

Commissioners:

Commissioner Theodore H. Jenner, being necessarily absent, did not participate in the disposition of this proceeding.