

ORIGINAL

Decision No. 58663

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
 AMERICAN WAREHOUSE, BEKINS WAREHOUSING  
 CORP., BRADCO WAREHOUSE CO., CALIFORNIA  
 WAREHOUSE CO., CENTRAL TERMINAL WARE-  
 HOUSE 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., METROPOLITAN WAREHOUSE CO.,  
 OVERLAND TERMINAL WAREHOUSE CO., PACIFIC  
 COAST TERMINAL WAREHOUSE CO., PACIFIC  
 COMMERCIAL WAREHOUSE, INC., REDWAY TRANS-  
 FER 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 DIS-  
 TRIBUTING & WAREHOUSING COMPANY, WEST  
 COAST WAREHOUSE CORP. and WESTLAND WARE-  
 HOUSES, INC., for authority to increase  
 their rates as warehousemen in the City  
 of Los Angeles, and other Southern  
 California points.

Application No. 40688

Additional Appearances

E. R. Booth, Jay Frederick, I. W. Hamilton, James  
Matinas, Richard L. Smith, and A. O. Walde, for  
various warehousemen, applicants.  
C. W. Shaw, for Pacific Cold Storage Warehousemen's  
Association, interested party.

SUPPLEMENTAL OPINION

Applicants engage in the public utility warehousing of  
 general commodities in Los Angeles and vicinity. By Decision  
 No. 57992, dated February 9, 1959, in this proceeding, they were  
 authorized, on an interim basis, to increase by 10 percent all rates

and charges, except those provided for storage, 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.<sup>1/</sup> The full amount of the increase sought herein is 15 per-cent. No increase is sought in warehouse storage rates.

Adjourned hearing was held at Los Angeles on March 31 and April 1, 1959. At the adjourned hearing two members of the Commission's staff testified concerning analyses which they had made of applicants' book records and of operating results, both in the past and as projected into the future. The period studied by the staff was the same as that selected by applicants; namely, the eleven-month period ending June 30, 1958.

The first staff witness, a member of the Finance and Accounts Division, presented a study setting forth balance sheets and income statements, as recorded and as adjusted, for 12 of the applicants. The staff accountant's adjustments were made primarily to accomplish the segregation and allocation of estimated or actual revenues and expenses as between warehouse utility, other utility and non-utility categories to the proper uniform warehouse accounts where necessary, and to correct errors.

The second staff study was presented by a senior transportation engineer. It embraced the same 12 applicants that were

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<sup>1/</sup> The decision in question was issued following public hearing which was held in Los Angeles on January 19 and 20, 1959 before Examiner Carter R. Bishop.

included in the accountant's study.<sup>2/</sup> The engineer's exhibit showed estimated operating results under (1) the rates in effect prior to the interim adjustment, (2) the interim rates, and (3) the proposed full 15 percent increase. For the purposes of his study the engineer divided the 12 applicants into two groups. The first group was comprised of warehousemen who own their warehouse properties or lease the facilities from an affiliate. The second group consisted of three warehousemen who lease their utility warehouse facilities from non-affiliates. The reason for making this segregation, the engineer testified, was that operating expenses of warehousemen who lease their properties at arm's length include, in the rental, provision for a return on the investment in the property dedicated to the services in question, while, in the case of the warehousemen who own their facilities, either directly or through an affiliate, the expenses do not include any such provision.<sup>3/</sup> For this reason, the witness pointed out, the operating results, actual or estimated, of the first group were not properly comparable with those of the second group.

In Table I below are compared the operating ratios estimated by the staff with those projected by applicants under the three rate structures, respectively, mentioned above.

<sup>2/</sup> According to the record, the 12 warehousemen whose operations were utilized in the staff studies constitute a representative cross-section of the warehousing industry in the Los Angeles area. Their revenues and average warehouse space, for the first months of 1958, amounted to 82 percent and 85 percent, respectively, of the total revenues and warehouse space of all 32 applicants for the same period.

<sup>3/</sup> In developing estimated operating results for warehousemen who lease their facilities from an affiliate, the staff engineer adjusted the operating expenses by eliminating rent expense and substituting therefor the property expenses of the affiliate, such as taxes, insurance, depreciation and, in some cases, maintenance.

TABLE I

Comparison of Estimated Operating  
 Ratios (in Percents), After Income  
 Taxes, Under (1) Old Rates,  
 (2) Proposed Rates and (3) Interim Rates  
 (For the Projected 11-Month Period)

| <u>Warehouseman</u> |   | <u>Under<br/>Old<br/>Rates</u> | <u>Under<br/>Proposed<br/>Rates</u> | <u>Under<br/>Interim<br/>Rates</u> |
|---------------------|---|--------------------------------|-------------------------------------|------------------------------------|
| <u>Group I</u>      |   |                                |                                     |                                    |
| Chaffee             | A | 92.6                           | 88.5                                | 90.2                               |
| "                   | S | 97.8                           | 93.8                                | 95.0                               |
| Davies              | A | 99.2                           | 93.4                                | 95.7                               |
| "                   | S | 94.5                           | 90.7                                | 91.7                               |
| Jennings-Nibley     | A | 97.7                           | 93.6                                | 95.1                               |
| "                   | S | 95.3                           | 92.0                                | 93.1                               |
| L. A. Transport     | A | 105.9                          | 97.2                                | 99.4                               |
| " " " "             | S | 100.1                          | 92.9                                | 94.8                               |
| Metropolitan        | A | 102.7                          | 96.3                                | 97.9                               |
| "                   | S | 93.4                           | 90.3                                | 91.3                               |
| Overland            | A | 99.2                           | 95.3                                | 96.3                               |
| "                   | S | 99.3                           | 95.9                                | 96.7                               |
| Star                | A | 106.7                          | 97.8                                | 99.9                               |
| "                   | S | 90.9                           | 90.2                                | 90.4                               |
| Union               | A | 111.4                          | 103.2                               | 105.8                              |
| "                   | S | 115.4                          | 106.9                               | 109.6                              |
| Westland            | A | 113.5                          | 105.3                               | 107.9                              |
| "                   | S | 101.2                          | 94.4                                | 96.6                               |
| <u>Group II</u>     |   |                                |                                     |                                    |
| California          | A | 103.1                          | 96.3                                | 98.2                               |
| "                   | S | 100.5                          | 95.0                                | 96.7                               |
| Pacific Coast       | A | 98.7                           | 94.5                                | 95.7                               |
| "                   | S | 97.5                           | 93.5                                | 94.5                               |
| Signal              | A | 115.3                          | 108.4                               | 110.6                              |
| "                   | S | 109.0                          | 99.8                                | 102.7                              |

Group I - Warehousemen who own their facilities  
 or lease same from an affiliate.

Group II - Warehousemen who lease their facilities  
 from a non-affiliate.

A - Applicants' estimate.

S - Staff's estimate.

As was done in applicants' study, the staff engineer developed his estimates of operating results for the future by adjusting the recorded revenues and expenses, as modified by the staff accountant, for the selected 11-month period, to give effect to the anticipated increase in revenues (under the interim and sought rate structures, respectively) and to the increases in operating costs which have been experienced since the beginning of said 11-month period.

The engineer also made adjustments in the allocations, as reflected by the modified book records of the applicants studied, of expenses and revenues, respectively, as between (1) warehouse utility operations, (2) other utility operations, and (3) non-utility services. These adjustments, he stated, were generally in conformity with those which the staff had made in studies of these same warehouses in prior rate increase proceedings. He set forth in some detail the reasons for the various allocation adjustments which he had made.

It will be noted that, with respect to some of the warehousemen included in Table I, there are substantial differences between the operating ratios estimated by applicants' witness and those estimated by the staff engineer. The record discloses that the principal reason for these differences is found in the treatment in the respective studies accorded the revenues derived from the sub-rental of office or warehouse storage space and the expenses incurred by applicants in connection therewith. The office or storage space may be rented to storers, or it may be rented to outside parties. In the case of storage space, the area in question may be shut off entirely from the rest of the premises and kept under lock and key, access thereto being denied the warehouseman and its

employees. In other situations the rented storage space may be in an open area through which the utility's employees may pass in the performance of their duties; they may even assist in the handling of property belonging to the lessor. Charges for the space used may be assessed under space rates named in the tariffs involved herein, or on some other basis of charges.

Applicants, in their study, classified the office and space rental revenue and expenses as non-utility. The staff engineer, in most instances, transferred these revenues to warehouse utility as being a part of those operations, and accordingly transferred the rental expenses to warehouse utility also. He expressed the opinion that where the subrental space was kept under separate lock and key, with access thereto withheld from the warehouseman, the rental revenue and accompanying expenses were properly classifiable as non-utility. In such instances, with one exception, the engineer made no re-allocation. In the case of Star Truck and Warehouse Company, however, he found that the expenses relating to subrentals of office and storage space were so commingled with other company operating expenses that no segregation thereof was practicable. Because of this circumstance he re-allocated the revenues accruing from subrentals to the warehouse utility category. The evidence of record is lacking in sufficient detail for us to determine whether, in each instance, revenues derived from subrentals of office or warehouse storage space, and the expenses associated therewith, are specifically from utility or non-utility services; however, from a rate-making standpoint we are convinced that such revenues and expenses are properly includable in determining the over-all results of operation except for those cases where an entire building or a large portion of a building is leased for the exclusive use and control of the lessee.

As hereinbefore stated, the staff study was restricted to 12 of the applicants. For convenient reference, estimated operating ratios for each of the remaining warehousemen for whom studies were made by applicants' accountant witness are set forth in Table II, below. The estimates are carried forward from Decision No. 57992, supra. They show the results as estimated by the accountant, after provision for income taxes, under each of the three rate structures involved herein.

TABLE II

Comparison of Operating Ratios, After  
Income Taxes, As Estimated by Applicant's  
Accountant, for Those Applicants not  
Included in the Staff Study  
(For the Projected 11-Month Period)  
(In Percents)

| <u>Warehouseman</u> | <u>Under<br/>Old<br/>Rates</u> | <u>Under<br/>Proposed<br/>Rates</u> | <u>Under<br/>Interim<br/>Rates</u> |
|---------------------|--------------------------------|-------------------------------------|------------------------------------|
| American            | 85.3(x)                        | 81.2(x)                             | 83.2(x)                            |
| Bekins              | 99.4                           | 95.6                                | 97.1                               |
| Central             | 123.9                          | 113.9                               | 117.0                              |
| Charles             | 125.8 <sup>x</sup>             | 120.7 <sup>x</sup>                  | 122.3 <sup>x</sup>                 |
| Citizens            | 117.3                          | 108.1                               | 111.0                              |
| Clark               | 112.9                          | 106.2                               | 108.3                              |
| Freight             | 102.2                          | 96.6                                | 98.2                               |
| Hargrave            | 108.5 <sup>zx</sup>            | 102.7 <sup>zx</sup>                 | 104.5 <sup>zx</sup>                |
| Lyon                | 106.6                          | 100.6                               | 102.8                              |
| Pacific Commercial  | 116.6                          | 107.6                               | 110.5                              |
| Redway              | 89.7 <sup>#</sup>              | 85.1 <sup>#</sup>                   | 87.1 <sup>#</sup>                  |
| Torrance            | 106.6                          | 103.1                               | 104.2                              |
| Vernon              | 103.2 <sup>*</sup>             | 97.7 <sup>*</sup>                   | 99.2 <sup>*</sup>                  |
| West Coast          | 99.7                           | 97.0                                | 97.9                               |

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 stated in Decision No. 57992, the projected operating results for American Warehouse, Hargrave Freight Terminal and Redway Transfer Company are less favorable than would appear from the figures shown. This arises from the fact that no provision is made in the book records of these applicants for salaries of owners and officers.

As pointed out in the interim decision, applicants' accountant witness was able to develop full rate base estimates for only four of the warehousemen included in the application. These were operators who own the premises in which they render their public utility warehouse services. The staff engineer developed complete rate base estimates for nine applicants, including those who lease their facilities from affiliated companies. In the case of the latter group, the engineer included the depreciated book values of the physical properties in the rate base estimates, treating the facilities as if they were owned by the operator-lessees. The rate base estimates reflected the situation as of the mid-point of the rate period.

In Table III below, the estimated rates of return reflected by the staff's rate base estimates are compared with those developed by applicants' witness.

TABLE III

Estimated Rates of Return, After  
Income Taxes, for the Projected Rate Year  
(12-Month Basis)

| <u>Warehouseman</u> |   | <u>Rate of Return (Percents)</u> |                                     |                                    |
|---------------------|---|----------------------------------|-------------------------------------|------------------------------------|
|                     |   | <u>Under<br/>Old<br/>Rates</u>   | <u>Under<br/>Proposed<br/>Rates</u> | <u>Under<br/>Interim<br/>Rates</u> |
| Chaffee             | A | 3.0                              | 4.9                                 | *                                  |
| "                   | S | 0.9                              | 2.6                                 | 2.1                                |
| Davies              | A | 0.7                              | 5.8                                 | *                                  |
| "                   | S | 6.4                              | 11.6                                | 10.1                               |
| Jennings-Nibley     | S | 2.1                              | 3.8                                 | 3.3                                |
| L. A. Transport     | A | 0.0                              | 2.8                                 | *                                  |
| " " "               | S | 0.0                              | 6.2                                 | 4.5                                |
| Metropolitan        | S | 5.5                              | 8.7                                 | 7.6                                |
| Overland            | A | 1.1                              | 6.6                                 | *                                  |
| "                   | S | 0.8                              | 4.7                                 | 3.6                                |
| Star                | S | 15.7                             | 18.0                                | 17.3                               |
| Union               | S | 0.0                              | 0.0                                 | 0.0                                |
| Westland            | S | 0.0                              | 3.7                                 | 2.0                                |

A - Applicants' estimate.

S - Staff estimate.

\* - Not developed by applicants.



In the development of his rate base estimates, applicants' witness included an allowance for working capital. The staff engineer, however, made no such provision. Applicants' witness explained that the amounts of working capital utilized in his rate base estimate reflected the difference, in each instance, between the utility's current assets and its current liabilities.<sup>4/</sup> The figures used are the average of the indicated differences as of the beginning and end of the 11-month period studied. The amounts of working capital included in applicants' rate base estimates for the four utilities mentioned above range from 9 percent to 22 percent of the total rate base.

The staff engineer had made a special study of the problem of working capital. The study, he said, involved three selected warehouses. Certain of the accounts of these utilities were analyzed to determine what the working cash requirements, if any, might aggregate. Lack of time prevented a more comprehensive survey. The results of the analysis, the engineer stated, indicated to the staff that the prepayments received by the warehouses just about offset those payments which lag behind the time of rendition of services to the storers.<sup>5/</sup> The staff, however, was not prepared to make a specific recommendation concerning working capital, in view of the restricted scope of its study.

No one opposed the granting of the application in full, either at the initial, or at the adjourned hearings.

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<sup>4/</sup> The accountant stated that, in one instance, where the current liabilities exceeded the current assets, he calculated the amount of working capital as one month's average operating expenses of the utility in question.

<sup>5/</sup> An example of a prepayment is compensation for "handling out", which is paid by the storer after the first monthly billing. An example of time lag in payments to the warehouseman is in the normal delay between the billing date for services rendered (such as handling in) and the date on which payment is received.

### Conclusions

The question to be resolved in this supplemental opinion is whether the ten percent increase in warehouse rates, other than those for storage, established by applicants on an interim basis under Decision No. 57992, *supra*, should be made permanent, or increased to the full 15 percent sought in the application or revised to some other level. The interim relief was authorized solely on the basis of the showing made by applicants. We now have the additional evidence adduced through the staff witnesses to assist us in making a determination of the issues.

Table I shows that the projected operating results are, with respect to some of the applicants, more favorable under applicants' estimates than under those of the staff, while the reverse is true with respect to other warehousemen. In some instances the operating ratios estimated by the staff differ only slightly from those developed in applicants' study. In the case of certain other warehousemen, substantial differences are apparent. The foregoing statements appear to be true in all three of the rate structures shown.<sup>6/</sup>

Directing attention specifically to the estimated operating ratios in the "Proposed Rates" column of Table I, it is noted that, even under a 15 percent increase over the base rates, both staff and applicants forecast operating losses for Union, while applicants make similar forecasts for Westland and Signal. With one exception, none of the estimates of operating results under the full 15 percent proposed rate increase appears to be unduly favorable. The exception

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<sup>6/</sup> As indicated in the interim decision, applicants made no estimates of operating results under the 10 percent increase authorized by that decision. The operating ratios in the "Interim" column opposite the symbol "A" in Table I and in Table II were developed by applying a 10 percent increase to the pertinent revenues of the respective utilities (in lieu of 15 percent), in connection with the projected increased expenses as developed by applicants' accountant witness.

relates to Chaffee. Applicants developed an estimated operating ratio of 88.5 percent for that utility, as contrasted with the staff estimate of 93.8 percent. In the light of the respective estimates, it appears that the actual experience under the sought rates would produce an operating ratio lower than the staff's figure but somewhat above 90 percent.

It will be seen from an examination of Table II that applicants' witness has developed estimated operating ratios, which, even under the full 15 percent, reflect deficit warehouse utility operations for the majority of the applicants listed therein. Excluding American Warehouse and Redway Transfer (the estimated ratios for both of which fail to reflect provision for the owners' salaries), the most favorable operating ratio estimate shown in the table is 95.6 percent, after income taxes.

With respect to the projected rates of return shown in Table III, it should be pointed out that the rate of return estimated by the staff for Star Truck & Warehouse Company reflects the results based on the inclusion of some \$196,000 of revenue and related expenses from the rental of space for storage and other purposes.<sup>7/</sup> This revenue was assigned, in the utility's books, to non-utility revenue, however the related expenses are included as utility expense.

As previously stated, the evidence is not sufficiently detailed to enable us to determine how much of the above-mentioned revenue and expenses should properly be classed as resulting from warehouse utility operation. Furthermore, in a proceeding of this type involving the establishment of uniform rates for a large number of utilities the operating results of any individual operator must be considered in the light of the results of the other operators as well as on an individual basis.

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<sup>7/</sup> The staff's reasons for this procedure have hereinbefore been stated.

In the light of the foregoing analysis of the presentations of applicants and the staff, respectively, and upon careful consideration of the record as a whole, we are of the opinion and hereby find, that, subject to the reservation hereinafter set forth, the full increase of 15 percent as sought herein, in lieu of the interim increase of 10 percent presently in effect, in the rates of applicants for warehouse services other than for storage, has been justified. To this extent the application will be granted.

No increases in the warehouse rates of Bradco Warehouse Company, Desper Terminal Company and Fields Freight, Inc., have been justified. The record indicates that these applicants no longer operate as public utility warehousemen.<sup>8/</sup>

In view of the need for immediate relief, the effective date of the order which follows will be ten days after the date hereof and applicants will be permitted to establish the increased rates on not less than five days' notice to the Commission and the public.

#### SUPPLEMENTAL ORDER

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

IT IS ORDERED that:

1. Applicants herein, except Bradco Warehouse Company, Desper Terminal Company and Fields Freight, Inc., be and they are hereby authorized to establish, in lieu of the increased rates authorized on an interim basis by Decision No. 57992, and on not less than five days' notice to the Commission and to the public, the increased rates and charges for warehouse services other than for storage, as proposed in the application filed in this proceeding.

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<sup>8/</sup> We take official notice of the fact that Agent Jack L. Dawson has taken steps, through the procedures established pursuant to Decision No. 58169 in Application No. 58265, to cancel the three companies in question from participation in his tariffs.

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 California Warehouse Tariff Bureau 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 ten days after the date hereof.

Dated at San Francisco, California, this 23<sup>rd</sup> day of June, 1959.

E. Lynn Fox  
President  
W. L. B. B. B.  
W. L. B. B. B.  
Theodore H. H. H.  
Ernest H. H. H.  
Commissioners