

ORIGINAL

Decision No. 61567

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., Bentley Moving &)
 Storage Co., Blankenship Warehouse)
 Co., Central Warehouse & Drayage)
 Co., Chichester Transportation Com-)
 pany, Inc., Consolidated Warehouse)
 Company of California, De Pue Ware-)
 house Company of San Francisco,)
 Dillon Drayage Company, Distributors)
 Warehouse, East Bay Storage Co.,)
 Emery Warehouse Company, Encinal)
 Terminals, Gibraltar Warehouses,)
 Haslett Warehouse Company, Howard)
 Terminal, Lyon Van & Storage Co.,)
 G. Marcantelli Co., John McCarthy &)
 Son, Merchants Express of California,)
 Richmond Transfer and Storage Com-)
 pany, 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 Warehouses), United California)
 Express and Storage Co. (doing busi-)
 ness as U. C. Express & Storage)
 Company), Walkup Drayage & Warehouse)
 Co., and Walton Drayage & Warehouse)
 Company, for an increase in rates.)

Application No. 42582

Jack L. Dawson, for applicants.
R. A. Dahlman, for R. J. Reynolds Tobacco
 Co.; Malcolm W. Lamb, for South End
 Warehouse Company; Russell Bevans, for
 Draymen's Association of San Francisco,
 Inc., interested parties.
Hugh N. Orr, C. V. Shawler, A. R. Day and
J. W. Mallory, for the Commission staff.

O P I N I O N

Applicants operate as public utility warehousemen in various cities of the San Francisco Bay Area. By this application they seek authority to increase their warehouse rates and charges by 10 per cent. The increase would apply to the rates and charges

for storage, for handling in and out, and for all accessorial services.¹ Applicants propose to publish the increase in the form of a surcharge rule.

Public hearing of the application was held before Examiner Carter R. Bishop at San Francisco on October 24 and 25 and November 7, 1960. Evidence was presented on behalf of applicants by their tariff publishing agent and by officers of 12 of the 30 applicant companies.

The rates and charges here in issue were last adjusted effective January 1, 1959, pursuant to Decision No. 57885,² when rates for storage and for handling in and out were increased by approximately 5 per cent, and various increases were made in charges for accessorial services. According to the application herein, increases in operating costs have been experienced in all categories of expense since the above-mentioned rate increase became effective. As a consequence, it is alleged, the revenues produced by the presently applicable rates and charges are insufficient to allow applicants to conduct their warehouse operations at a reasonable profit. Assertedly, the rate increases herein sought are necessary in order for applicants to continue in business and to render an adequate and efficient warehouse service to the public.

The agent testified regarding a series of exhibits, attached to the application, in which were set forth analyses of the book records of 22 of the applicants, including estimates of operating results at current labor expense levels and under the proposed rates.

1 The proposed increase would apply to all rates and charges set forth in California Warehouse Tariff Bureau Tariffs Nos. 32 and 33, Cal.-P.U.C. Nos. 174 and 175, respectively, Jack L. Dawson, Agent.

2 In Application No. 40323.

In Table I below are summarized the operating results of said 22 applicants for the 12-month period ended December 31, 1959, excepted as otherwise noted. These data reflect the gross revenues, expenses, net revenues after income 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 intercompany rents, where such exist, and to substitute landlord expenses in lieu thereof.

TABLE I

Results of Operation for 22 Warehousemen for 12-Month Period Ended December 31, 1959, except as noted, (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 (Per Cent)</u>
Bay Cities	\$ 33,080	\$ 29,849	\$ 3,231	90.2
Beckman	34,828	31,963	2,865	91.8
Bekins	9,484	8,930	554	94.2
Central	224,947	198,771	26,176	88.4
Consolidated	64,848	102,711	(37,863)	158.4
De Pue	443,148	398,163	44,985	89.8
Distributors	59,824	53,363	6,461	89.2
Emery #	56,405	49,981	6,424	88.6
Encinal	366,210	355,566	10,644	97.1
Gibraltar	372,636	359,971	12,665	96.6
Haslett	566,182	576,849	(10,667)	101.9
Howard	505,666	591,532	(85,866)	117.0
Marcantelli ^x	7,154	7,001	153	97.9
McCarthy	17,542	21,797	(4,255)	124.3
Merchants	78,846	78,562	284	99.6
Robertson	79,642	77,407	2,235	97.2
San Francisco	903,037	883,867	19,170	97.9
Sea Wall	72,532	68,341	4,191	94.2
State Terminal	19,392	22,181	(2,789)	114.4
Thompson	290,906	314,216	(23,310)	108.0
Walkup	408,968	386,656	22,312	94.5
Walton	60,536	58,402	2,134	96.5

(Red Figure)

Figures are for 9 months ended April 30, 1960. Operations commenced September 1, 1959. No allocation of general expense included.

x Figures are for 4 months ended December 31, 1959. Operations commenced August 31, 1959.

Of the eight applicants for which no operating results are shown in the foregoing Table, six, the record shows, commenced utility warehouse operations at the locations involved herein about September 1, 1959.³ The utility warehouse revenues received by those operators during the remainder of that year were either very small, or nonexistent. The utility warehouse revenues of the remaining two applicants, Dillon Drayage Company and United California Express & Storage Co., were also negligible compared with the revenues which they received from other business activities.

Almost all of the applicants included in Table I are engaged in other activities besides their utility warehouse operations and some render utility warehouse service at locations outside the San Francisco Bay Area. A majority of said 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 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 projection of operating results for the future under the proposed rate changes was developed by adjusting the revenues and expenses shown in Table I, to give appropriate effect to said rate proposals and to the increases in labor and related expenses which have been experienced by applicants since January 1, 1959. This method of estimating future operating results is, of course, predicated on the assumption that applicants will continue to enjoy

³ The six applicants in question are: Bentley Moving & Storage Co., Blankenship Warehouse Co., Chichester Transportation Company, Inc., East Bay Storage Co., Lyon Van & Storage Co., and Richmond Transfer and Storage Company.

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

In the development of the aforesaid estimate of operating results, the record reveals, no effect was given to increased operating costs other than those relating to wages, salaries and related payroll expense. The tariff agent and operating witnesses testified, however, that increased costs have been experienced in all categories of expense, including such items as materials and supplies, property taxes and insurance. With respect to wages, warehouse employees have received two increases since the last warehouse rate adjustment, namely $7\frac{1}{2}$ cents per hour, effective June 1, 1959 and an increase of 21 cents per hour, effective June 1, 1960. Comparable increases, the record shows, have been accorded office workers and company officials. The net increase in labor and related payroll expense resulting from these wage adjustments, the agent testified, amounted to 10.4 per cent.

The tariff agent 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, under the proposed rates.

TABLE II

Comparison of Estimated Operating Ratios
(in per cent) under Present and Proposed
Rates, after Income Taxes, for the Rate Year
(or other Test Period Specified in Table I)

<u>Warehouseman</u>	<u>Under</u> <u>Present Rates</u>	<u>Under</u> <u>Proposed Rates</u>
Bay Cities	92.1	86.8
Beckman	108.2	98.7
Bekins	96.6	90.4
Central	90.5	87.2
Consolidated	165.9	150.9
De Pue	92.0	88.6
Distributors	92.4	87.1
Emery	91.4	86.2
Encinal	100.7	94.8
Gibraltar	101.2	94.7
Haslett	108.2	98.9
Howard	124.0	112.8
Marcantelli	103.8	96.3
McCarthy	130.0	118.2
Merchants	104.1	96.4
Robertson	101.2	94.7
San Francisco	103.4	96.7
Sea Wall	98.7	92.8
State Terminal	120.0	109.0
Thompson	110.7	103.8
Walkup	97.6	93.2
Walton	100.1	93.9

Many of the applicants lease all, or the major portion, of the facilities which they use in the performance of public utility warehouse services. Thus meaningful rate base estimates could be developed for only nine of the applicants. Of this latter group, the warehousemen's forecast of operating results under the sought rates shows a net profit for only five applicants. The estimated rates of return for these five applicants are set forth in Table III, below. The figures shown are predicated on the rate base estimates developed by applicants.

TABLE III

Estimated Rates of Return for the Rate Year
(or other Test Period Specified in Table I),
under Present and Proposed Rates

<u>Warehouseman</u>	<u>Rates of Return</u>	
	<u>Under</u> <u>Present Rates</u> <u>(Per Cent)</u>	<u>Under</u> <u>Proposed Rates</u> <u>(Per Cent)</u>
Haslett	-	0.1
Merchants	-	2.2
San Francisco	-	2.9
Sea Wall	0.9	5.4
Walkup	1.3	4.1

The percentage of occupancy of available storage space experienced during the test year was generally favorable, according to most of the operating witnesses. Also, it appeared that the experience of 1960 would prove to be equally favorable.

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

Representatives of the Commission staff, and certain other parties, assisted in the development of the record through examination of applicants' witnesses. At the adjourned hearing, counsel for the Commission staff stated that during the intervening period the staff had analyzed the showings made by applicants, as a result of which certain conclusions had been reached. Taking the figures of record, the staff had rearranged into three groups the estimated operating results of the 22 warehouses studied. The first group consisted of the six warehouses for which operating losses, even under the proposed rates, were forecast. Counsel argued that abnormal circumstances, such as the loss of several large accounts, rendered these applicants unfit for inclusion in a study purporting to be representative of the Bay Area warehouse industry. He felt that little weight should be given to the operating result estimates of the first group.

The second and third groups of applicants in the staff analysis, each comprising eight warehousemen, were segregated as between those which derived more than 50 per cent and less than 50 per cent, respectively, of their revenues from utility warehouse operations. The estimated operating ratios of all of the operators

in these two groups were below 100 per cent.⁴ Staff counsel expressed the view that the second group of applicants might well be considered representative of the industry and that some increase in rates might be justified for both the second and the third groups.

The burden of proof, in so far as justification of the proposed increases for all 30 applicants is concerned, had not, in the opinion of staff counsel, been fully met. In addition to the above-indicated conclusions from the staff analysis, he directed attention to certain other alleged discrepancies in the showings, which it appears unnecessary to set forth herein. Finally, he raised the question as to whether all of the applicants should be treated together in a single proceeding for fixing what seems to be uniform rates for the whole area embraced by the proceeding. He urged that the Commission give further consideration to the question of the propriety of such treatment.

In his argument the aforesaid tariff agent stated that in their preparation of the case applicants had tried to do a conscientious job; that the methods utilized in making allocations of expenses as between utility and nonutility operations were the same as applicants herein had employed in prior proceedings; that to eliminate loss operators from consideration was unrealistic and absurd; and that the 22 utilities which were included in the study comprised a representative cross-section of all the applicants. He pointed out that the necessity for rate uniformity, as between the various operators in the Bay Area, had been well-settled in prior decisions of the Commission, predicated upon extensive evidence introduced by the warehousemen in the proceedings to which said

⁴ The staff calculated, on the basis of applicants' showing, weighted average estimated operating ratios under the proposed rates, after income taxes, for each of the three groups as follows: first group, 107.0%; second group, 93.2%; third group, 94.0%. The corresponding weighted average operating ratio for all 22 applicants included in the study, as calculated by the tariff agent, is 97.7%.

decisions relate.⁵ Rate uniformity, he pointed out, is dictated by the fact that the warehousemen in the area are strongly competitive with one another.

Conclusions

It will be seen from an examination of Table I, above, that the results of operation for the year ended December 31, 1959, vary greatly as between the several applicants. The operating ratios, after income taxes, and after adjustment of operating expenses to eliminate intercompany rents and to substitute landlord expenses therefor, ranged from 88.6 to 158.4 per cent. Warehouse operations of six of the applicants, during the period in question resulted in losses. Under a continuation of present rates, and giving effect to increased labor costs, the operating ratios reflected by the results of operation estimated by applicants for the projected rate year range, after income taxes, from 91.4 to 165.9 per cent. On the basis of these estimates, as set forth in Table II, the warehouse services of 14 of the applicants would, under a continuation of present rates, result in deficits.

Operating ratios under the proposed rates, as estimated by applicants, and as set forth in Table II range, after provision for income taxes, from 86.2 to 150.9 per cent. According to these estimates of operating results, even if the sought rate increases are granted, five of the applicant warehousemen will continue to sustain operating losses in the area embraced by this proceeding. Here again, if the estimate of operating expenses had given effect to all increased costs which applicants have sustained since the 1959

⁵ The tariff agent commented on the fact that one warehouseman who had been a party to prior rate increase applications elected to stay out of the instant proceedings. The agent stated that, as to those commodities which said warehouseman handles, applicants herein would, of necessity, keep their rates on a competitive basis.

rate adjustment the estimated results of operations would have been less favorable than those set forth in the table.

The matter of the propriety of including in one rate increase application a large group of warehousemen, all competing with one another in a given area, has been thoroughly considered by this Commission in prior proceedings. In its decisions in those matters the Commission found that, as a general proposition, uniformity of rates, under the circumstances indicated above, is essential to permit the operators to compete for the utility warehouse business offered.⁶ We have no reason to believe that the competitive situation in the warehouse business in the Bay Area is materially different now than it was when the earlier proceedings were decided. We here reaffirm our earlier conclusions as to the propriety of rate uniformity and of considering in one application the rate proposals of the warehousemen operating competitively in a given area.

It is clear from the record that some of the applicants are urgently in need of rate relief. Others would be removed from the threat of deficit operations by establishment of the increased rates. The competitive situation necessitates a uniform rate level for all the applicants. Upon careful consideration of all the facts and circumstances of record, the Commission finds as a fact that sought increases in rates and charges have been justified. The application will be granted. Applicants have requested that they be authorized to establish the increased rates and charges on one day's notice to the Commission and to the public. Such short notice does

⁶ See, for example, Decision No. 57855 dated January 13, 1959, in Application No. 40323 and Decision No. 53527, dated August 3, 1956, in Application No. 37352.

not appear justified. Instead applicants will be authorized to make publication on not less than five days' notice.

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:

1. Applicants are hereby authorized, on not less than five days' notice to the Commission and to the public, to increase by 10 per cent all rates and charges published for their account in California Warehouse Tariff Bureau Warehouse Tariffs Nos. 32 and 33, Cal. P.U.C. Nos. 174 and 175, respectively, issued by Jack L. Dawson, Agent.

2. The increased rates and charges authorized by numbered paragraph 1 of this order may be established by the publication of a rule reading substantially as follows:

"All charges accruing under rates and charges named in this tariff are subject to a surcharge of 10 per cent. The surcharge will be applied as follows:

Compute the total charge under the applicable rates and charges and increase such total charge by 10 per cent; resulting fractions of less than one-half cent will be dropped, and fractions of one-half cent or greater will be increased to the next whole cent."

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 herein granted shall expire unless exercised within ninety days of the effective date of this order.

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

Dated at San Francisco, California, this 21st day of FEBRUARY, 1961.

Ernest R. Fox
 President

Ed. J. [unclear]

E. Lynn Fox

Frederick B. Holcomb
 Commissioners