

Decision No. 61781**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 ALCO TRANSPORTATION CO., AMERICAN WAREHOUSE,
 ANAHEIM TRUCK & TRANSFER CO., ATLANTIC
 WAREHOUSE COMPANY, B & M TERMINAL FACILITIES
 INC., BEKINS WAREHOUSING CORP., CALIFORNIA
 CARTAGE WAREHOUSE CO., CALIFORNIA CRATING
 CORPORATION, CALIFORNIA WAREHOUSE CO.,
 CENTRAL TERMINAL WAREHOUSE CO., H.G. CHAFFEE
 COMPANY, CHARLES WAREHOUSE CO., INC.,
 CITIZENS WAREHOUSE, COLUMBIA EXPORT PACKERS,
 INC., COLUMBIA VAN LINES, INC., CONSOLIDATED
 WAREHOUSE COMPANY OF CALIFORNIA, DAVIES
 WAREHOUSE COMPANY, FREIGHT TRANSPORT COMPANY,
 G. I. TRUCKING COMPANY, HARGRAVE FREIGHT
 TERMINAL, JENNINGS-NIBLEY WAREHOUSE CO. LTD.,
 LAW EXPRESS, INC., LOS ANGELES COLD STORAGE
 COMPANY, LOS ANGELES TRANSPORT & WAREHOUSE
 CO., LYON VAN & STORAGE CO., MERRIFIELD
 TRUCKING COMPANY, METROPOLITAN WAREHOUSE CO.,
 MOSER TRUCKING INCORPORATED, OVERLAND
 TERMINAL WAREHOUSE CO., PACIFIC COAST
 TERMINAL WAREHOUSE CO., PACIFIC COMMERCIAL
 WAREHOUSE, INC., PAXTON TRUCKING COMPANY,
 PEERLESS TRUCKING COMPANY, REDWAY TRANSFER
 CO., SIERRA MOVING SERVICE, SIGNAL TRUCKING
 SERVICE, LTD., SLOCUM VAN & STORAGE CO.,
 STAR TRUCK & WAREHOUSE CO., SUPERIOR FAST
 DRAYAGE, 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 ware-
 housemen in the City of Los Angeles, and
 other Southern California points.

Application No. 42592
 (Amended)

Arlo D. Poe and Jack L. Dawson, for applicants.

E. R. Booth, Harold M. Brake, Harold A. Drury,
Elmus M. Ely, D. C. Fessenden, Jay Frederick,
Edward H. Good, I. W. Hamilton, A. F. Mortensen,
Gordon Ross, Richard L. Smith, Morgan Stanley,
J. R. Thomas, A. O. Walde, and J. A. Williams,
 for various warehousemen, applicants.

C. S. Connolly and Carl H. Fritze, for Carnation
 Company; Lester Llewellyn, for Curtiss Cendy
 Company; protestants.

P. J. Arturo, for Flour, Inc.; Floyd W. Betts,
 for U. S. Rubber Company; R. A. Dahlman, for
 R. J. Reynolds Tobacco Company; Carl F. Peters,
 for Los Angeles Warehousemen's Association;
James Quintrall and J. C. Kaspar, for California
 Trucking Associations, Inc.; interested parties.

Hugh N. Orr, C. V. Shawler, A. R. Day, J.W. Mallory;
 for the Commission's staff.

O P I N I O N

Applicants operate as public utility warehousemen of general commodities within Los Angeles and at other Southern California points. By this application they seek authority to establish increased rates and charges, as follows: increase storage rates by 10 percent, charges for handling in and out by 5 percent, and charges for accessorial services by various amounts.¹

Public hearing of the application was held before Examiner Carter R. Bishop at Los Angeles on October 27 and 28 and November 21, 1960. With the filing of concurrent briefs on December 29, 1960, the matter was taken under submission.

Evidence on behalf of applicants was introduced through their tariff publishing agent, the assistant director of the research department of the California Trucking Associations, Inc., and the president of the Los Angeles Warehousemen's Association. The assistant controller of Bekins Van and Storage Company testified concerning the results of operation of applicant Bekins Warehousing Corp.

The rates and charges of applicants were last adjusted pursuant to Decisions Nos. 57992 and 58663, dated February 9 and June 23, 1959, respectively, in Application No. 40668.² By the first-named decision applicants were authorized to increase all of their warehouse rates, except those for storage, by 10 percent. Under the latter decision the 10 percent increase was replaced by one of

¹ At the hearing counsel for applicants requested dismissal of the application with respect to G. I. Trucking Company, since that company has been found by the Commission not to be engaged as a public utility warehouseman.

² According to the record herein, the applicants in the instant proceeding are the same as those in Application No. 40668, with the addition of several warehousemen who filed tariffs initially in August 1959 pursuant to certain legislative enactments.

15 percent. The effective dates of these adjustments were March 20 and August 16, 1959, respectively. The most recent adjustment in applicants' rates for storage became effective on August 1, 1957, when a general revision of their storage and handling rates took place. The effect of that adjustment was to increase applicants' warehouse revenues by approximately 10 percent.

According to the application, the costs of providing warehouse services have increased during the past year. Assertedly, these increases have been experienced in all expense items, including, but not limited to, wages and salaries, materials and supplies, rents and taxes. It is alleged that the rates and charges now provided in the tariffs involved herein³ are not, and will not be, adequate to produce revenues sufficient to cover operating expenses and to leave a reasonable profit. It is further alleged that the insufficiency of said rates and charges varies as between those for storage, handling and accessorial services.

With respect to warehouse labor costs, the record shows that basic wage rates were increased by 2½ cents per hour, effective May 1, 1959, and again by 3 cents per hour, effective May 1, 1960. Corresponding increases were reflected in so-called payroll expense. Also, the record indicates that advances of varying amounts in the salaries of non-union and supervisory employees were effected in 1959 and 1960. The record contains no specific evidence of increases in operating costs other than for wages, salaries and related payroll expense.

The Association president explained how the proposed increases in rates and charges had been determined. According to his testimony, and that of the tariff agent, the majority of charges

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The tariffs in question are California Warehouse Tariff Bureau Warehouse Tariffs Nos. 28 and 29, Cal. P.U.C. Nos. 165 and 166, respectively, of Jack L. Dawson, Agent.

for so-called accessorial services had been increased very little since 1937. Applicants, accordingly, first determined the amount each accessorial charge should, in their opinion, be increased. Some of these proposed increases would be very great. For example, the charge for issuing a negotiable warehouse receipt would be raised from the present figure of 58 cents to a rate of \$5.00. The net effect of the proposed accessorial charge increases, as measured by the above-mentioned research director, would be to increase by 28 percent the revenues presently derived by applicants, as a group, from the accessorial services.

After determining the increases to be sought in accessorial charges, the Association president testified, the increases to be requested in storage rates and in the charges for handling in and out were decided upon.⁴ It appears that a greater increase (10 percent) is sought in storage rates than in those for handling (5 percent) because no increase was made in the former as a result of the above-mentioned 1959 adjustments, and to establish a more equitable relationship between the two groups of charges.

The research director presented exhibits in which were summarized studies he had made of the financial results of operation of 16 of the applicants. According to the record, these warehousemen accounted for 87 percent of the total revenues received by all applicants for public utility warehouse services rendered under the tariffs embraced by this proceeding. In Table I below are shown the revenues, expenses, and net operating income and operating ratios, after income taxes, of the aforesaid 16 applicants for the year 1959,

⁴ According to the tariff agent, the basic hourly wage rate, as of May 1, 1960, for fork lift operators was 367 percent greater than the 1937 basic wage rate for freight handlers. The cumulative increases in storage and handling rates, including the increases herein sought, he said, amount to 68 and 140 percent, respectively, over the 1937 rate levels.

as developed by the research director, and as further adjusted by the elimination of intercompany rents and the substitution of landlord expenses therefor.

TABLE I

Results of Operations for 16 Warehousemen
for 12-Month Period Ended December 31, 1959
(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 (Percent)</u>
*California Warehouse	\$305,723	\$283,946	\$21,777	92.9
Central Terminal	74,829	80,471	(5,642)	107.5
H. G. Chaffee	84,337	76,358	7,979	90.5
Citizens	59,321	64,330	(5,009)	108.4
Consolidated	34,347	34,820	(473)	101.4
Davies	228,829	214,415	14,414	93.7
*Jennings-Nibley	97,258	107,478	(10,220)	110.5
*Metropolitan	610,102	573,217	36,885	94.0
Overland Terminal	536,865	544,512	(7,647)	101.4
*Pacific Coast	528,425	502,045	26,380	95.0
Pacific Commercial	188,287	185,519	2,768	98.5
Signal Trucking	240,256	235,747	4,509	98.1
Star Truck	415,041	400,279	14,762	96.4
*Union Terminal	889,270	894,901	(5,631)	100.6
*Westland	225,776	217,484	8,292	96.3
L. A. Transport	168,805	169,737	(932)	100.6

* Landlord expenses substituted for intercompany rents.
() Indicates red figure.

In the development of expenses that are summarized in the above table, the director stated, segregations and allocations of costs as between public utility warehouse operations, on the one hand, and the other business activities of applicants, on the other, were made by substantially the same methods as were employed in the 1959 proceeding.

The director also developed estimates of operating results for the future for the 16 warehousemen listed in Table I. These estimates reflect the anticipated experience both under a continuation of present rates and under the proposed increased rates. Under both bases the 1959 revenue and expense figures were adjusted to give

full effect, on an annual basis, to the 1959 rate increases, and to the 1959 and 1960 wage increases. In estimating the results under the sought rates, the director further adjusted the revenue figures to reflect the additional revenue expected to materialize by reason of the proposed increases, if authorized. The estimates of additional revenue from the sought increased accessorial charges, the record shows, were predicated on a two-month study of accessorial charges assessed by each of the 16 warehouses included in the study. The proposed increased charges were substituted for the actual charges, and the constructive revenue thus obtained was expanded to the full 12-month period.

In Table II below are shown the operating ratios, after income taxes, as estimated for the rate year by the director, under present and proposed rates. As in the case of Table I, in those instances where utilities lease their land and buildings from an affiliated company, and where the figures are of record, the operating ratios have been adjusted to reflect the elimination of intercompany rents, and the substitution therefor of landlord expenses.

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>
* California Warehouse	93.6	79.6
Central Terminal	106.5	95.9
H. G. Chaffee	90.4	83.2
Citizens	108.9	96.9
Consolidated	101.3	92.7
Davies	94.1	88.9
* Jennings-Nibley	110.4	97.8
* Metropolitan	93.9	88.9
Overland Terminal	102.5	94.5
* Pacific Coast	95.3	90.2
Pacific Commercial	99.6	91.6
Signal Trucking	98.6	91.4
Star Truck	97.2	91.9
* Union Terminal	101.4	94.4
* Westland	96.9	90.3
L. A. Transport	100.9	93.2

*Landlord expenses substituted for intercompany rents.

As hereinbefore indicated, many of the applicants lease all, or a major portion, of the facilities which they use in the performance of public utility warehouse services. With respect to those applicants, meaningful rate base estimates were developed by the director only in those instances where he was able to secure from the owners of said facilities the original cost figures, less depreciation, of the properties. In constructing rate base estimates for this latter group of applicants, as well as for those applicants which own their facilities, the director included an allowance for working capital.⁵

In Table III below are shown the rates of return on investment, under present and proposed rates, as developed by the director in accordance with the foregoing. The rate base estimates on which the rates of return are predicated represent averages of the rate bases as of December 31, 1958, and December 31, 1959. The director's estimates of rates of return have been adjusted to reflect the substitution of landlord expenses in lieu of intercompany rents in those instances of leased facilities where the record includes said expenses.

TABLE III

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

<u>Warehouseman</u>	<u>Rates of Return</u>	
	<u>Under Present Rates (Percent)</u>	<u>Under Proposed Rates (Percent)</u>
*California Warehouse	13.0	26.0
H. G. Chaffee	4.1	8.0
Davies	6.3	13.3
*Jennings-Nibley	-	1.1
*Metropolitan	5.9	12.1
Overland Terminal	-	9.9
*Pacific Coast	5.7	13.7
Star Truck	6.1	19.6
*Union Terminal	-	6.3
*Westland	2.6	9.2
L. A. Transport	-	8.5

*Intercompany rents eliminated and landlord expenses substituted therefor.

⁵ These estimates, the record shows, reflect the difference, in each instance, between current assets and current liabilities assignable to the utility warehouse operations.

In addition to the principal study involving the aforementioned group of 16 applicants, the record contains estimated results of operation of most of the remaining 28 applicants. Most of the warehousemen in this latter group, however, did not commence public utility warehouse operations until August, 1959, so that the periods on which the revenue and expense estimates for these particular warehousemen are predicated are too short to be of value. Other applicants in this second group rendered little, if any, public utility warehouse service in 1959, being principally engaged in other business activities.

Granting of the application was opposed by Carnation Company and by Curtiss Candy Company. No evidence was offered by the latter. Carnation Company's general traffic manager testified that his company, in addition to having storage facilities of its own, uses a considerable number of public warehouses throughout the United States and Canada. He introduced exhibits purporting to show that warehouse charges on canned milk presently are higher at Los Angeles than at any other of eight Pacific Coast points at which Carnation utilizes public warehouses. Included were the costs which would be experienced at Los Angeles under the rates proposed herein. The witness explained why any increases in warehousing costs could not be passed on to Carnation customers. He mentioned several alternatives open to his company in the event this application should be granted. These included: diversion of tonnage to warehouse facilities at other points where the charges are substantially lower than at Los Angeles; diversion to proprietary storage; and increased use of pool-car distribution. In another exhibit the witness listed a large number of public warehouses located in the eastern half of the country, the use of which Carnation had given up in favor of proprietary storage.

Counsel for the Commission's staff, assisted by a transportation engineer and a transportation rate expert, participated in the development of the record through extensive examination of applicants' witnesses. The staff had not made an independent investigation or study of the warehousemen involved and did not present any evidence at the hearings.

Briefs were filed by applicants, by protestant Carnation Company, and by the Commission's staff. It is not deemed necessary to review in this opinion the arguments advanced by the respective parties. The briefs have all been given careful consideration.⁶

Conclusions

Table I, above, shows that the public utility warehouse operations of seven of the 16 applicants included in the study were conducted at a loss in 1959 and that more than half of the remainder experienced operating ratios between 95 and 100 percent. Table II indicates that under a continuation of present rates and with operating costs at the May 1, 1960 level, the estimated operating ratios, after income taxes, would range from 90.4 to 110.4 percent, that seven operators would experience losses, with an eighth barely below the break-even point, and that all the operators would be in a worse position than is reflected by the 1959 figures.

It has been clearly established in prior decisions, and is supported by evidence of record herein, that substantial uniformity of rates as among the various warehousemen operating in the Los Angeles area is a business necessity. Uniformity is dictated by the force of competition which prevails among said warehousemen. Bearing this fact in mind, it is apparent from the figures in the first column of Table II that some upward adjustment in the rates of applicants is justified.

⁶In its brief, protestant Carnation Company appeals a ruling of the hearing examiner in which objection of Carnation's counsel to receipt in evidence of Schedule K of applicants' Exhibit No. 3 was overruled. The examiner's ruling is hereby affirmed.

The estimated results shown in the second column of Table II, however, do not support the reasonableness of the full amount of increases sought herein. The estimated operating ratios under the proposed rates, after taxes, range from 79.6 to 97.8 percent, the bulk of the ratios lie below 94 percent, and three of them are between 79.6 and 88.9 percent. Table III, moreover, shows rates of return, for those utilities for whom realistic rate base estimates could be established, ranging as high as 26 percent.⁷

As previously stated, applicants' witnesses testified that most of the charges for accessorial services had been only slightly increased since 1937, whereas labor costs had, during the same period, greatly advanced. A review of the tariffs shows that, while some accessorial charges have been increased from time to time, the assertion of the witnesses is correct with respect to many of such charges. It is because of the past failure of the warehousemen to keep these charges abreast of rising costs that the major portion (58 percent) of the additional revenues expected under the total increases sought in this proceeding would come from these accessorial charges.⁸ It appears that the major increase in revenue should come from the accessorial charges, but a lesser amount than proposed by applicants.

The record shows that labor costs have increased nearly 8 percent since applicants' last rate adjustment. Since the cost increases in handling property in and out of the warehouse are practically because of labor, we find that the sought increase of

⁷ As hereinbefore stated, applicants' rate base estimates included allowances for working capital, which reflect the difference, in each estimate, between current assets and current liabilities. It is to be understood that the Commission is not herein indicating its approval of the method employed.

⁸ As previously stated, the proposed increases in accessorial charges would result in an estimated 28 percent increase in aggregate revenues from those charges for the 16 operators in the study.

five percent in handling rates has been justified. It will be authorized by the order which follows.

It appears, on the other hand, that labor expense constitutes only a small part of the costs entailed in the storage function of warehousemen. Moreover, the storage rates of applicants have, in years past, been increased from time to time in response to rising costs of all categories. On this record there is no concrete evidence of advances in costs since the last adjustment in storage rates, other than for labor. In view of the foregoing, we are of the opinion and hereby find that the sought increase of 10 percent in storage rates has not been justified. This portion of the request will be denied.

There remains for decision the increases to be accorded in the accessorial rates and charges (including the minimum charges named in that section of the tariffs). As previously stated, these charges vary widely in the percentages of increase proposed. Each charge was considered individually and the amounts of increase to be sought were, in the absence of specific cost data of the service involved, determined on the basis of informed judgment. The revenue estimates under the proposed increases in these charges were developed by applicants' accounting witness from a study of charges actually assessed by the 16 warehouses during a representative period. The data showing the charges assessed and the volume of traffic associated therewith are not of record. In view of this fact, the only feasible method by which we can estimate the revenue effect of an alternate basis of rate increases in the accessorial charges is to apply a uniform percentage increase to all such charges, observing, of course, the sought increases as maximum.

If all rates and charges in the accessorial charge section of the tariffs were increased by 20 percent, the resulting estimated revenue, coupled with that to be derived under a five percent increase in handling rates would produce, after income taxes, operating ratios and rates of return as set forth in Table IV below.

TABLE IV

<u>Warehouseman</u>	<u>Operating Ratio (Percent)</u>	<u>Rate of Return (Percent)</u>
* California Warehouse	90.7	20.4
Central Terminal	99.5	#
H. G. Chaffee	87.3	5.7
Citizens	103.8	-
Consolidated	95.6	#
Davies	90.9	10.4
* Jennings-Nibley	104.7	-
* Metropolitan	91.1	9.3
Overland Terminal	97.4	4.4
* Pacific Coast	92.5	9.8
Pacific Commercial	95.3	#
Signal Trucking	94.8	#
Star Truck	93.4	5.5
* Union Terminal	97.2	2.9
* Westland	92.7	6.6
L. A. Transport	94.5	6.7

* Landlord expenses substituted for intercompany rents.

Proper rate base estimate not available.

The estimated results set forth in Table IV are predicated, as are those shown for the proposed rates in Tables II and III, on an assumption that the business for each applicant, both as to kind and amount of services rendered, would be the same in the projected rate year as it was in 1959. The actual experience may reasonably be expected to be somewhat different. Moreover, the operating results shown in Table IV are somewhat more favorable than would be experienced, since the increases sought for some of the accessorial

charges are less than 20 percent and any increases authorized would not exceed those sought by applicants.

The two warehousemen which, under the basis reflected by Table IV, would still have operating ratios above 100 percent, and the applicant for which an estimated operating ratio of 87.3 percent is shown, are all relatively small operators, as far as their public utility warehousing business is concerned.

It will be noted that Table IV shows an estimated rate of return as high as 20.4 percent. It appears, however, that, in view of inability to secure proper rate base estimates from some of the operators, more reliance must be placed on operating ratios as a measure of the reasonableness of the rate increases under consideration. In any event, in appraising the reasonableness of prospective rate increases to be uniformly applied to a large group of utilities, such as are involved herein, it is necessary to look at the effect of such increases on the group as a whole.

Upon careful consideration of the evidence and argument of record, we are of the opinion and find that an increase of 20 percent in all rates and charges set forth in the "rules and accessory charges section" of the tariffs here in issue, but not to exceed, as to any such rate or charge, the increase proposed in the application herein, has been justified as to all applicants in this proceeding except as to G. I. Trucking Company.

We further find that as to G. I. Trucking Company, Application No. 42592 should be dismissed.

We further find that, except as to proposed Rule No. 35(c) in the aforesaid Tariff No. 29, the changes in language of rules proposed by applicants herein have been justified. The language proposed for said Rule No. 35(c) (relating to charges for labor furnished for Saturday, Sunday and holiday work) lacks that clarity and preciseness required by General Order No. 61 and by the statutes. We find that proposed Rule 35(c) not justified.

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, except G. I. Trucking Company, are hereby authorized, on not less than five days' notice to the Commission and to the public, to increase rates and charges published for their account in California Warehouse Tariff Bureau Tariffs Nos. 28 and 29, Cal. P.U.C. Nos. 165 and 166, respectively, issued by Jack L. Dawson, Agent, as follows:

- (a) Increase by 5 percent all handling charges, except those provided in the Rules and Regulations of said tariffs.
- (b) Increase by 20 percent all rates and charges set forth in the Rules and Regulations (hereinbefore referred to as the "Accessorial Charges" section) of said tariffs, except that no such rate or charge shall be increased by a greater amount than that proposed in the application filed herein.
- (c) Revise the language of the Rules and Regulations of said tariffs as proposed in the application filed herein (as amended at the hearing), except as to proposed Rule No. 35(c) of said Tariff No. 28.

2. The increased rates and charges authorized by numbered paragraph 1 of this order may be established by the publication of a surcharge rule. 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.

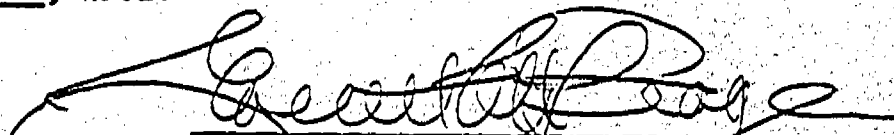
4. As to applicant G. I. Trucking Company, Application No. 42592 is dismissed.


5. In all other respects Application No. 42592 is denied.

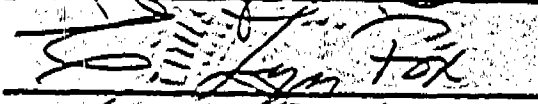
6. The authority herein granted shall expire unless exercised within one hundred twenty days of the effective date of this order.


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

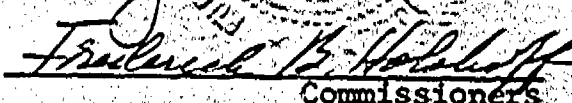
Dated at San Francisco, California, this 4th day of April, 1961.



President








Commissioners