

**ORIGINAL**Decision No. 63517

## BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
ALCO TRANSPORTATION CO., E. H. GOOD,  
doing business as AMERICAN WAREHOUSE,  
CHARLES A. PEARSON, doing business as  
ANAHEIM TRUCK & TRANSFER CO., ATLANTIC  
WAREHOUSE COMPANY, B & M TERMINAL  
FACILITIES, INC., BEKINS WAREHOUSING  
CORP., CALIFORNIA CARTAGE WAREHOUSE  
CO., a division of CALIFORNIA CARTAGE  
COMPANY, INC., DANIEL C. FESSENDEN  
COMPANY, doing business as CALIFORNIA  
WAREHOUSE CO., CENTRAL TERMINAL WARE-  
HOUSE CO., H. G. CHAFFEE COMPANY,  
CHARLES WAREHOUSE CO., INC., CITIZENS  
WAREHOUSE TRUCKING COMPANY, INC.,  
COLUMBIA VAN LINES, INC., CONSOLIDATED  
WAREHOUSE COMPANY OF CALIFORNIA, DAVIES  
WAREHOUSE COMPANY, FREIGHT TRANSPORT  
COMPANY, G-K DISTRIBUTING, JENNINGS-  
NIBLEY WAREHOUSE CO., LTD., LAW EXPRESS,  
INC., LOS ANGELES TRANSPORT & WAREHOUSE  
CO., LYON VAN & STORAGE CO., M & M  
TRANSFER COMPANY, MERRIFIELD TRUCKING  
COMPANY, METROPOLITAN WAREHOUSE CO.,  
MOSER TRUCKING INCORPORATED, OVERLAND  
TERMINAL WAREHOUSE CO., PACIFIC COAST  
TERMINAL WHSE. CO., PACIFIC COMMERCIAL  
WAREHOUSE, INC., PAXTON TRUCKING COMPANY,  
PEERLESS TRUCKING COMPANY, CLYDE R.  
HOAGLAND, DOING BUSINESS AS REDWAY  
TRANSFER CO., SIERRA MOVING SERVICE,  
SIGNAL TRUCKING SERVICE, LTD., STAR  
TRUCK & WAREHOUSE CO., SUPERIOR FAST  
DRAYAGE, TORRANCE VAN & STORAGE  
COMPANY, UNION TERMINAL WAREHOUSE, 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 California Points.

Application No. 43849

Arlo D. Poe and Jack L. Dawson, for applicants.  
Harold J. Blaine, E. R. Booth, Alexander M. Dickie,  
Harold Drury, W. C. Elliott, Elmus M. Ely,  
Jay Frederick, I. W. Hamilton, Clyde R. Hoagland,  
H. B. Johnston, Jr., A. F. Mortensen, Gordon Ross,  
Richard L. Smith, Morgan Stanley, J. R. Thomas,  
Nicholas N. Weber; for various public utility  
warehousemen, applicants.  
Duke Molner, for Duke Molner Wholesale Liquor  
Company, Inc. and Stewart Reynolds Wholesale  
Liquor Company, Inc., protestants.  
R. A. Dahlman, for R. J. Reynolds Tobacco Company;  
Burt C. Risser, for The Dow Chemical 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, E. C. Crawford, R. A. Lubich and  
Norman F. Haley, for the Commission 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.<sup>1/</sup> By this application they seek authority to  
increase by seven and one-half percent all rates and charges  
applicable at their warehouses in the above-described area, except  
those provided for storage.

Public hearing of the application was held before Examiner  
Carter R. Bishop at Los Angeles on December 12 and 13, 1961. Evidence  
on behalf of applicants was introduced through their tariff publish-  
ing agent and the assistant director of the research division of  
California Trucking Associations, Inc. The comptroller of Bekins  
Van and Storage Company testified concerning results of operation  
of applicant Bekins Warehousing Corp.

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<sup>1/</sup> Effective January 1, 1962, applicant Westland Warehouses, Inc.,  
discontinued operations as a public utility warehouseman,  
under authority of Decision No. 62985 in Application No. 44006.

The rates and charges of applicants were last adjusted pursuant to Decision No. 61781, dated April 4, 1961, in Application No. 42592. By that decision the utilities were authorized to increase their charges for handling in and out by five percent and charges for accessorial services by twenty percent, but not to exceed the amounts specifically requested. No increase in storage charges was authorized.<sup>2/</sup>

According to the record herein, the costs of providing warehouse services of applicants have increased since April 24, 1961, the effective date of the rate increases authorized by Decision No. 61781. Assertedly, such cost increases have been experienced in substantially all items of expense, resulting in revenues under present rates and charges which are insufficient to meet operating expenses and to leave a reasonable profit. This deficiency, the application states, is believed to be attributable almost entirely to rates and charges for handling and incidental services, involving the use of warehouse labor and clerical work. It is for this reason that no increase is requested in the rates for storage, a service in which wage and related costs appear to be an inconsequential factor.

A new wage agreement, the record discloses, was concluded in the fall of 1961, which agreement resulted in increased wage rates and enhanced "fringe" benefits. Some of the provisions of the agreement were made retroactive to July 1, 1961, while others took effect on November 1, 1961. Additionally, a cost-of-living wage increase was accorded applicants' employees on May 1, 1961. The above-mentioned wage and related increases involved the utilities'

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<sup>2/</sup> In Application No. 42592 increases of ten percent and five percent were sought in handling and storage charges, respectively. The increases proposed in accessorial charges varied widely, in terms of percentages. Many of these charges had remained substantially unchanged for many years prior to the filing of said application.

clerical employees as well as their warehouse workers. The increased wages, of course, reflected also corresponding increases in payroll expense.

The purpose of the present application, the record shows, is simply to enable applicants to recover, in increased revenues, the approximate amounts by which their operating expenses have increased by reason of the 1961 wage agreement and of the above-mentioned cost-of-living adjustment.<sup>3/</sup>

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 involved in this proceeding,<sup>4/</sup> and provide 84 percent of all the public utility warehouse space so involved. In Table I following are shown the revenues, expenses, and net operating income and operating ratios, after income taxes, of the aforesaid 16 applicants for the year 1960, as developed by the research director, and as further adjusted by the elimination of intercompany rents and the substitution of landlord expenses therefor.

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<sup>3/</sup> According to exhibits, the estimated increases in wage and related costs, for the 16 principal applicants as a group, amount to \$238,914 per annum. The estimated revenue increase for the same group of utilities under the rate proposals herein would total \$237,476 per annum.

<sup>4/</sup> The tariffs in issue are California Warehouse Tariff Bureau Warehouse Tariffs Nos. 28-A and 29-A, Cal. P.U.C. Nos. 193 and 194, respectively (of Jack L. Dawson, Agent).

TABLE I

Results of Operations for 16 Warehousemen  
for 12-month Period Ended December 31, 1960  
(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	\$304,994	\$287,825	\$17,169	94.4
Central Terminal	71,613	75,436	(\$3,823)	105.3
H. G. Chaffee	75,311	70,822	4,489	94.0
Citizens	57,855	57,803	52	99.9
Consolidated	56,283	54,059	2,224	96.0
Davies	217,121	204,330	12,791	94.1
*Jennings-Nibley	105,644	109,388	(3,744)	103.5
L. A. Transport	202,112	196,362	5,750	97.2
*Metropolitan	657,894	608,587	49,307	92.5
Overland Terminal	577,206	568,848	8,358	98.6
*Pacific Coast	534,373	514,094	20,279	96.2
Pacific Commercial	242,364	231,158	11,206	95.4
Signal Trucking	242,594	252,127	(9,533)	103.9
Star Truck	442,697	418,960	23,737	94.6
*Union Terminal	936,212	930,828	5,384	99.4
*Westland	216,481	216,236	245	99.9

\*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 1960 and earlier rate increase proceedings involving the same group of warehousemen. To the extent that applicants herein engage in public utility warehouse operations in areas other than that for which charges are provided in the aforementioned Tariffs Nos. 28 and 29, the operating results of such operations were excluded by the research director from all of his exhibits.

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 1960 revenue and expense figures were adjusted to give full effect, on an annual basis, to the 1960 rate increases, and to the 1960 and 1961 wage and related increases. In estimating the results under the sought rates, the director further adjusted the revenue figures to reflect the additional revenue expected to be generated by reason of the proposed increases, if authorized.

In Table II following 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 No. 1, in those instances where utilities lease their land and buildings from an affiliated company, and where the director was able to secure the necessary figures, 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

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<u>Warehouseman</u>	<u>Under Present Rates</u>	<u>Under Proposed Rates</u>
*California Warehouse	95.8	93.5
Central Terminal	103.8	99.9
H. G. Chaffee	93.6	91.0
Citizens	99.3	96.5
Consolidated	96.5	94.1
Davies	94.3	91.7
*Jennings-Nibley	105.0	100.7
L. A. Transport	98.0	94.3
*Metropolitan	92.1	90.3
Overland Terminal	98.9	96.4
*Pacific Coast	96.2	94.3
Pacific Commercial	96.4	93.5
Signal Trucking	103.2	99.7
Star Truck	95.6	93.4
*Union Terminal	99.6	97.2
*Westland	101.7	98.3

\*Landlord expenses substituted  
for intercompany rents.

As hereinbefore indicated, many of the applicants lease all, or a major portion of, the facilities which they utilize 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 figures for this latter group of applicants which do not own their facilities, as well as for those applicants which own their facilities, the director included an allowance for working capital.<sup>5/</sup>

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<sup>5/</sup> These allowances reflect, in each instance, the difference between current assets and current liabilities assignable to the warehouse operation.

In Table III below are shown the rates of return on investment, under present and proposed rates, as developed by the director. The rate base estimates on which the rates of return are predicated represent averages of the rate bases as of December 31, 1959 and December 31, 1960. The director's estimates 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>Under Present Rates (Percent)</u>	<u>Under Proposed Rates (Percent)</u>
*California Warehouse	9.1	14.7
H. G. Chaffee	2.4	3.5
Davies	6.0	9.1
*Jennings-Nibley	-	-
L. A. Transport	2.2	6.7
*Metropolitan	9.2	11.9
Overland Terminal	2.0	6.8
*Pacific Coast	4.7	7.5
Star Truck	9.5	14.9
*Union Terminal	0.5	3.2
*Westland	-	1.4

\*Intercompany rents eliminated and  
landlord expenses substituted therefor.

Applicants' showing included summaries of the results of operation of the 16 principal warehousemen for the first quarter of 1961. The operating ratios thus developed ranged from 92.3 to 117.8 percent, nine of the ratios being in excess of 100 percent.

According to the research director, however, a warehouseman's operations for the first quarter of a year could not be considered typical of a year's 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 23 applicants. Many of the warehousemen in this latter group rendered little, if any, public utility warehouse service in 1960, being principally engaged in other business activities or having newly filed warehouse tariffs. Excluding those utilities with negligible warehouse revenues and one owner-operator whose recorded expenses reflected no allowance for his own services, the operating ratios of this second group of applicants, as estimated by the research director, under the proposed rates and at current expense levels range from 82.7 to 122.5 percent. As previously indicated, the aggregate warehouse revenues of the 23 applicants not included in the major study amounted to only 13 percent of the total revenues for 1960 involved herein.

Although notices of the hearing, the record indicates, were sent by applicants to all their storers, and by the Commission's secretary to other parties believed to be interested, only two parties appeared in opposition to the granting of the sought rate increases. These concerns were two wholesale liquor establishments which utilize the facilities of one of the applicants herein. The representative of these protestants testified that they could not stand any further increases in warehouse handling rates. He stated that the market in which protestants sell is highly competitive, that they cannot pass on increased warehouse costs to customers, and indicated that their margin of profit is now so narrow that the proposed rate increases would jeopardize protestants' financial solvency. He added that if the application is granted as to their commodities, protestants may have to consider operating their own storage facilities.

The Commission's staff, through assigned counsel, assisted in the development of the record through extensive examination of applicants' witnesses. In his closing statement counsel stated that while the staff realized that wage advances must be absorbed in some manner, it questioned the propriety, in the light of the record, of authorizing a flat "across-the-board" increase, as herein proposed, for all services involving the expenditure of labor. The staff, he further stated, felt that perhaps the application should be denied with respect to any applicants which had not cooperated in furnishing information required to make a complete showing.<sup>6/</sup>

#### Conclusions

Table I, preceding, shows that the public utility warehouse operations, here in issue, of three of the 16 applicants included in the study were conducted at a loss in 1960 and that eight of said applicants experienced operating ratios, after income taxes, between 95 and 100 percent. Table II indicates that under a continuation of present rates and with operating costs at the November 1, 1961 level, the estimated operating ratios, after income taxes, would range from 92.1 to 105.0 percent, that four operators would experience losses, with two more barely below the break even point, and that nine of the 16 utilities would have operating ratios between 95 and 100 percent.

Under proposed rates, Table II indicates that the estimated operating ratios for the 16 utilities in question would range from 90.3 to 100.7 percent, after income taxes, and that the ratios of seven of the operators would be above 95 percent.

As we pointed out in Decision No. 61781, above, it has been clearly established in earlier decisions that substantial uniformity of rates as among the various warehousemen operating in the

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<sup>6/</sup> Counsel apparently had in mind the situation in which the aforementioned research director, in preparing his revenue and expense estimates, was unable to secure landlord expense data from some of the companies from which applicants rent their facilities.

Los Angeles area is a business necessity. This requirement is dictated by the force of competition which prevails among the warehousemen. Obviously, under a uniform rate structure some warehousemen will, due to a variety of circumstances, fare better than others. Bearing these facts in mind, it is apparent that some upward adjustment in applicants' rates, to offset the increased costs resulting from the 1961 wage agreement, is justified.

It has been established that wage and related expenses are the predominant cost element involved in all utility warehouse services other than storage. While the cost increases may not, on a percentage basis, be uniform for all the services for which rate increases are herein sought, it appears that the proposed method of increasing all the rates in issue by a flat percentage, is, under the circumstances, just and fair. The proposed  $7\frac{1}{2}$  percent increase, as previously stated, is estimated to produce aggregate increased revenues approximately equivalent to the aggregate increased labor costs which applicants have sustained since the last rate adjustment.

It will be noted that Table III shows a wide divergence in estimated rates of return. However, it appears, in this proceeding as in prior applications, that because of the peculiar facts and circumstances surrounding the regulation of the warehouse industry, the Commission is disposed to rely on the operating ratio as a measure of the reasonableness of the proposed rate increases; and to consider the industry as a whole in any particular locality, rather than approach the subject on the basis of the individual warehouse.

It is not clear from the record as to whether or not applicants have, in their studies, shown income taxes as paid. In Decision

No. 59926, dated April 12, 1960, in Case No. 6148, the Commission ordered that, for the purposes of rate fixing, it would not allow a public utility to charge for its operating expense for income taxes any amount in excess of the amount of taxes lawfully assessed by the taxing authority and paid by said utility. Applicants are hereby placed on notice that in any future rate proceeding they will be required to comply fully with the provisions of Decision No. 59926, supra, in computing income tax expense.

While the Commission appreciates the difficulties in which the two protestant liquor concerns find themselves, the evidence does not justify exemption of handling charges on alcoholic beverages from a proportionate share of the burden of increased labor costs experienced in the handling of all commodities which applicants receive for storage.

Upon careful consideration of the evidence and argument, we hereby find as follows:

1. Applicants, except as provided in Finding 3, have shown a need for additional revenues in connection with the public utility warehouse operations here in issue.

2. The estimated operating results of applicants under the sought rates, except as provided in Finding 3, are reasonable.

3. Applicant Westland Warehouses, Inc., discontinued operations as a public utility warehouseman effective January 1, 1962. Therefore, Findings Nos. 1 and 2 do not relate to it.

In the light of the foregoing findings we conclude that, except as to Westland Warehouses, Inc., the sought rate increases have been justified, and that the application should be dismissed insofar as it relates to Westland Warehouses, Inc.

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 ten days' notice to the Commission and to the public.

O R D E R

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

IT IS ORDERED that:

1. Applicants, except Westland Warehouses, Inc., are hereby authorized to establish the increased rates and charges as proposed in the application filed in this proceeding. The tariff publications authorized to be made may be filed not earlier than the effective date hereof, to become effective on not less than ten days' notice to the Commission and to the public.

2. 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.

3. As to Westland Warehouses, Inc., Application No. 43849 is dismissed.

4. The authority herein granted shall expire unless exercised within one hundred twenty days of the effective date hereof.

The effective date of this order shall be ten days after the date hereof.

Dated at San Francisco, California, this 3<sup>rd</sup>  
day of APRIL 1, 1962.

*Clement W. Ray*  
President

*E. Linton*

*George H. Grover*

*Frederick B. Whitoff*

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Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.