

Decision No. 66588

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 Alco Transportation Co., H. Good,)
 doing business as American Warehouse,)
 Charles A. Pearson, doing business as)
 Anaheim Truck & Transfer Co., Atlan-)
 tic Transfer Co., B & M Terminal)
 Facilities, Inc., Bekins Warehousing)
 Corp., California Cartage Warehouse)
 Co., a division of California Car-)
 tage Company, Inc., Daniel C.)
 Fessenden Company, doing business as)
 California Warehouse Co., Central)
 Terminal Warehouse Co., H. G. Chaffee)
 Company, Charles Warehouse Co., Inc.,)
 Citizens Warehouse Trucking Company,)
 Inc., Columbia Van Lines, Inc., of)
 California, Consolidated Warehouse)
 Company of California, Davies Ware-)
 house Company, Freight Transport)
 Company, G-K Distributing, Inter-)
 american Warehouse Corporation,)
 Jennings-Nibley Warehouse Co. Ltd.,)
 Law Express, Inc., Los Angeles)
 Transport & Warehouse Co., Lyon Van &)
 Storage Co., M & M Transfer Company,)
 Merrifield Trucking Company, Metro-)
 politan Warehouse Co., Moser Trucking,)
 Incorporated, Overland Terminal Ware-)
 house Co., Pacific Coast Terminal)
 Warehouse Co., Pacific Commercial)
 Warehouse, Inc., Paxton Trucking)
 Company, Peerless Trucking Company,)
 Redway Truck & Warehouse Co.,)
 Sierra Moving Service, Signal Truck-)
 ing Service, Ltd., Star Truck &)
 Warehouse Co., Superior Fast Drayage,)
 Torrance Van & Storage Company,)
 Union Terminal Warehouse, and West)
 Coast Warehouse Corp., for authority)
 to increase their rates as warehouse-)
 men in the City of Los Angeles and)
 other Southern California points.)

Application No. 45521
 (Filed July 13, 1963;
 Amended July 19, 1963
 and August 19, 1963)

Arlo D. Poe and Jack L. Dawson, for applicants.
Harold J. Blaine, E. R. Booth, Richard Brandt,
Roland Chaffee, John T. Dando, Alexander M.
Dickie, Harold Drury, W. C. Elliott, Elmus M.
Ely, Jav Frederick, Clyde R. Hoagland, H. B.
Johnston, Jr., James E. Matinas, Morgan
Stanley, J. R. Thomas, Harry True, A. C. Wegner,
James A. Williams, for various public utility
 warehousemen, applicants.
W. H. Rinkenbach, for Arvin Industries, protestant.
Russell E. Horn, for R. N. R. Trucking, Inc.;
Carl F. Peters, for Los Angeles Warehousemen's
 Association; and James Quintrall and J. C.
 Kaspar, for California Trucking Association,
 interested parties.
E. C. Crawford, R. J. Carberry and Leonard Diamond,
 for the Commission staff.

O P I N I O N

Applicants operate public utility warehouses for the storage of general commodities, within Los Angeles and at other Southern California points. By this application, as amended, they seek authority to increase by five percent all rates and charges applicable at their warehouses in the aforementioned area or, in the alternative, to increase all such rates and charges, except those provided for storage, by eight and one half percent.¹

Public hearing in this matter was held before Examiner Bishop at Los Angeles on August 7, 8 and 9, 1963. The proceeding was submitted upon the filing of Second Amendment of Application on August 19, 1963. By this amendment, Terminal Storage Corporation was added as an applicant.²

Evidence was introduced at the hearing on behalf of applicants through their tariff publishing agent, the assistant director of the research division of the California Trucking Association, and the executive secretary-treasurer of the Los Angeles Warehousemen's Association.

The rates and charges of applicants were last adjusted pursuant to Decisions Nos. 63517 and 63775 dated April 3 and June 4, 1962, respectively, in Application No. 43849 (59 Cal. P.U.C. 516 and unreported, respectively). The decisions authorized the utilities to increase all rates and charges, except those provided for storage, by seven and one half percent..Charges for handling and accessorial

1 The rates and charges sought to be increased are published in California Warehouse Tariff Bureau Warehouse Tariffs Nos. 28-A and 29-A (Cal. P.U.C. Nos. 193 and 194, respectively), M & M Transfer Company Warehouse Tariff No. 5) and Torrance Van & Storage Company Warehouse Tariff No. 3 (Cal. P.U.C. No. 3). The tariffs are all issued by Jack L. Dawson, Agent.

2 Attorney for applicants has stated that he was informed by R. K. Graham, president of Terminal Storage Corporation, that said corporation will be terminated immediately, and that he therefore assumes that Terminal Warehouse Corporation intends to abandon warehouse operations.

services were also increased in 1959 and 1960.³ Storage charges have not been increased since 1957.⁴

According to the record herein, the costs of providing warehouse services by applicants have increased since April 13, 1962, the effective date of the rate increases authorized by Decision No. 63517, supra. Such cost increases, the application states, are attributable primarily to increases in wage rates and fringe benefits payable to all categories of warehouse employees. Assertedly, revenues under present rates and charges are insufficient to meet operating expenses and leave a reasonable profit.

The tariff publishing agent testified that the requested five percent overall increase is applicants' prime proposal. He stated that increases have been experienced in storage expenses since the rates for this service were last increased in 1957. In this regard, he pointed out that the tax rate in the Los Angeles area has increased 22 percent during this period. Additionally, he testified that a certain amount of labor cost is directly chargeable to the storage operation although there is no uniformity of agreement among warehousemen as to what percentage of the labor expense should be assigned to this function; that many applicants are of the opinion that handling services are actually accessorial to their storage business, which is their main source of income; and that customers look to the overall storage bill rather than to the individual charge for any particular service included therein. An exhibit presented by the tariff agent showed that 70 percent of the total operating expenses experienced by applicants are attributable to labor costs.

³ Decision No. 61781, dated April 4, 1961, in Application No. 42592 (58 Cal. P.U.C. 624); Decisions Nos. 57992 and 58663, dated February 9 and June 23, 1959, respectively, in Application No. 40688 (both unreported).

⁴ Decision No. 55198, dated July 2, 1957, in Applications Nos. 37663, 38646 and 38715 (unreported).

The various wage agreements entered into by applicants in 1961, the record discloses, provided for certain increases in wage rates and "fringe" benefits in 1962 and 1963. The cumulative increases from November 1, 1961 to July 1, 1963, under the warehouse agreement to which most of the major warehouses were signatories ranged from 10.9 and 11.6 percent for various categories of warehouse labor and amounted to 20.0 percent for pension fund contributions by employers. Substantial increases were also experienced by the remaining warehousemen under the particular teamster contracts to which they were parties.⁵ The above-mentioned wage and related increases involved the utilities' clerical employees as well as their warehouse workers. Corresponding increases in payroll expenses were likewise involved.

The purpose of the sought increase, 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 above-mentioned upward adjustments in labor costs.⁶

The research director presented exhibits in which were summarized studies he made of the financial results of the operations of 16 of the applicants who derive their public utility revenue exclusively under the aforementioned Tariffs 28-A and 29-A. According to the record, these warehousemen accounted for 85 percent of the total revenues received by all applicants for public utility warehouse operations rendered under all tariffs involved in this proceeding, and provide 82 percent of all the public utility warehouse space so involved. In Table I which follows are shown the

⁵ The applicants whose operations are predominantly truck transportation are parties to teamster contracts, and those who are primarily engaged in household goods moving and storage are parties to teamster contracts governing the movement of used household goods.

⁶ According to exhibits, the estimated increases in wages and related costs, for the 16 principal applicants as a group, amount to \$278,927 per annum. The estimated revenue under the applicants' prime proposal of a five percent increase in all rates and charges and under their alternative proposal of an 8½% increase in all rates and charges, except those provided for storage, for the same group of utilities would total \$263,093 and \$275,933 per annum, respectively.

revenues, expenses, and net operating income and operating ratios, after state and federal income taxes, of the aforementioned 16 applicants for the fiscal year October 1, 1961 to September 30, 1962,⁷ as developed by the research director, and as further adjusted by the elimination of intercompany rents and the substitution of landlord expenses therefor in those instances where such information was available.

TABLE I

Results of Operations for 16 Warehousemen
for 12-month Period Ended September 30, 1962
(After Elimination of Intercompany Rents and
Substitution Therefor of Landlord Expenses)

<u>Warehouseman</u>	<u>Revenues</u>	<u>Adjusted Expenses Including State & Federal Income Taxes</u>	<u>Net After Taxes</u>	<u>Operating Ratio Percent</u>
*California Warehouse	\$334,165	\$316,255	\$ 17,910	94.6%
*Central Terminal	82,332	76,045	6,287	92.4
H. G. Chaffee	82,869	76,449	6,420	92.3
Citizens	63,392	61,968	1,428	97.8
Consolidated	60,900	58,296	2,604	95.7
Davies	219,508	217,854	1,654	99.3
*Interamerican	305,712	273,259	32,453	89.4
*Jennings-Nibley	114,650	101,535	13,115	88.6
L. A. Transport	166,915	175,497	(8,582)	105.1
*Metropolitan	775,306	696,477	78,829	89.3
Overland Terminal	586,000	576,159	9,841	98.3
*Pacific Coast	739,989	712,229	27,760	96.3
*Pacific Commercial	191,542	195,599	(4,057)	102.1
Signal Trucking	241,934	282,384	(40,450)	116.7
Star Truck	424,675	415,938	8,737	97.9
*Union Terminal	727,994	845,313	(117,319)	116.1

(Red Figure)

* Landlord expenses substituted for intercompany rents.

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

⁷ Hereinafter sometimes referred to as the rate year.

hand, were made by substantially the same methods as were employed in the last rate increase proceeding which was heard in December 1961 and similar earlier proceedings involving generally the same group of warehousemen. To the extent to which applicants herein engage in public utility warehouse operations in areas other than that for which charges are provided in the tariffs herein involved, 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 under a continuation of present rates, under the proposed five percent increase in all rates and charges, and under the alternative proposal of an eight and one half percent increase in all rates and charges, except storage. Under the three bases, the revenues and expenses for the rate year were adjusted to give full effect, on an annual basis, to the 1962 rate increases and to the 1961, 1962 and 1963 wage and related increases. In estimating the results under the sought general five percent increase and also under the alternative proposal, the director further adjusted the revenue figures to reflect the additional revenue expected to be generated should either proposal be granted.

In Table II following are shown the operating ratios, after state and federal income taxes, as estimated for the rate year by the director under present rates and under both bases of proposed rates. As in the case of Table I, in those instances where utilities lease their land and buildings, and where the necessary figures were available, the operating ratios have been adjusted to reflect the elimination of rents, and the substitution therefor of landlord expenses.

TABLE II

Comparison of Estimated Operating Ratios (in Percents) Under Present and Proposed Rates, After State and Federal Income Taxes, for the Rate Year

Warehouseman	Under	Under Proposed Rates	
	Present Rates (Percent)	(Percent)	
		(1)	(2)
*California Warehouse	96.9%	94.3%	94.2%
*Central Terminal	93.1	90.3	90.6
H. G. Chaffee	93.4	90.6	90.9
Citizens	98.7	95.6	95.6
Consolidated	97.6	94.5	95.2
Davies	100.7	97.3	97.0
*Interamerican	90.3	88.6	88.9
*Jennings-Nibley	90.0	87.3	87.6
L. A. Transport	107.4	102.3	101.0
*Metropolitan	91.7	89.9	89.8
Overland Terminal	100.8	97.4	97.5
*Pacific Coast	97.2	95.2	95.2
*Pacific Commercial	108.3	103.1	102.6
Signal Trucking	120.7	114.9	115.1
Star Truck	99.7	96.5	96.1
*Union Terminal	119.8	114.1	113.3

(1) Proposed increase of 5% in all rates and charges.

(2) Alternative proposed increase of 8½% in all rates and charges, except storage.

* Landlord expenses substituted for intercompany rates.

As hereinbefore indicated, many 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.⁸

⁸ The allowance for working capital reflects the difference between current assets and current liabilities assignable to the utility warehouse operations, except that in those instances where an unusual difference resulted ~~in~~ one-twelfth of the utilities' current liabilities was utilized. This latter formula was adopted in connection with Consolidated, Interamerican, Jennings-Nibley, L. A. Transport, Metropolitan, Signal Trucking and Star Truck.

In Table III below are shown the rates of return on investment, under present rates and under both rate increase proposals, 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 September 30, 1961, and September 30, 1962. The director's estimates of rates of return under present rates 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</u> <u>Present Rates</u> <u>(Percent)</u>	<u>Under Proposed Rates</u> <u>(Percent)</u>	
		(1)	(2)
*California Warehouse	8.0%	13.5%	13.9%
*Central Terminal	7.1	10.4	10.0
H. G. Chaffee	3.1	4.7	4.5
Davies	-	2.9	3.2
*Interamerican	3.8	4.7	4.5
*Jennings-Nibley	5.9	7.9	7.7
L. A. Transport	-	-	-
*Metropolitan	12.6	16.0	16.4
Overland	-	5.3	5.0
*Pacific Coast	3.0	5.4	5.5
*Pacific Commercial	-	-	-
Star Truck	0.7	7.1	7.9
*Union Terminal	-	-	-

(1) Proposed increase of 5% in all rates and charges.

(2) Alternative proposed increase of 3½% in all rates and charges, except storage.

* Intercompany rents eliminated and landlord expenses substituted therefor.

In addition to the principal study involving the aforementioned group of 16 applicants, the record contains estimated results of operations of the remaining 24 applicants, except

Merrifield Trucking Company and Terminal Storage Corporation, both of which did not operate during the period October 1, 1961 to September 30, 1962. Many of the warehousemen in this latter group rendered only a small amount of public utility service during this period, being principally engaged in other business activities. Excluding those utilities with negligible warehouse revenues, the operating ratios based on current expense levels of this second group of applicants, as estimated by the research director, range from 84.0 to 109.6 percent under the requested five percent rate increase and from 83.8 to 111.3 percent under the alternative proposal. As previously indicated, the aggregate warehouse revenues of the 24 applicants not included in the major study amounted to only 15 percent of the total revenues for the rate year involved herein.

Notices of the hearing, the record indicates, were sent by all applicants to their storers, and by the Secretary of the Commission to other parties believed to be interested. Only the Arvin Industries, Inc., appeared as a protestant. This concern manufactures radios and numerous other consumer durable items, including television sets, phonographs, tape recorders and furniture. The manager of Western Marketing Operations for protestant testified that certain public warehouse storage charges and in particular minimum per unit charges for radios and related articles are higher in the Los Angeles area than in other parts of the county. He pointed out that the market in which Arvin sells is highly competitive. He further stated that the protest was directed primarily at the proposed five percent increase which includes storage and that if an increase were to be authorized, the alternative eight and one half percent increase, which does not include storage, should be granted.

A Financial Examiner, Senior Transportation Engineer and Associate Transportation Rate Expert of the Commission staff participated in the development of the record through extensive examination of applicants' witnesses. No evidence was presented by the staff at the hearing.

Discussion

Table I, above, shows that the public utility warehouse operations of four of the 16 applicants included therein were conducted at a loss during the fiscal year ending September 30, 1962, and that six of said applicants experienced operating ratios, after state and federal income taxes, of between 95 and 100 percent. Table II indicates that under a continuation of present rates and with operating costs at the July 1, 1963 level, the estimated operating ratios, after state and federal income taxes, would range from 90.0 to 120.7 percent; that six operators would experience losses with one more barely below the break even point; and that five of the 16 utilities would have operating ratios between 95 and 100 percent.

Under proposed rates, Table II indicates that the estimated operating ratios of the 16 utilities in question would, after state and federal income taxes, range from 87.3 to 114.9 percent under the requested general five percent increase and from 87.6 to 115.1 percent under the alternative proposal of an eight and one half percent increase in all rates and charges, except storage. Table II also shows that nine of the operators would have operating ratios in excess of 95 percent under the five percent proposal, and that 10 would exceed a 95 percent operating ratio under the alternative proposal. In those instances where variations in estimated operating results under the two proposals are disclosed for any of the utilities, such differences are not

substantial. As stated above, the operating results estimated by the director for all 16 warehousemen as a group would be a bit more favorable under the alternative proposal than under applicants' main proposal.

Decision No. 63517, supra, and earlier decisions, as well as the record established herein, point out that substantial uniformity of rates among warehousemen operating in the Los Angeles area is a business necessity. This requirement is dictated by the force of competition prevailing 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 increased labor costs, is justified.

There remains for decision the question of whether the rates and charges for storage should be increased. As stated above, the record developed herein reveals that there is no uniform procedure among warehousemen regarding the allocation of labor costs between storage and handling. The record further indicates that it is impossible to determine with certainty what percentage of each dollar of labor cost should be allocated to the storage function and what percentage should be allocated to the handling function. The testimony and documents in evidence show that this allocation has been arbitrarily determined by each individual warehouseman based upon its preconceived notion as to the amount of labor expense that is attributable to each function. It is clearly established, nevertheless, that a certain amount of labor expense is chargeable to storage. Furthermore, the record shows that all costs attributable to storage have risen since the rates for this service were last adjusted in 1957. Based upon the foregoing, it appears an increase in rates and charges for storage is

justified. However, applicants are placed on notice that should an increase in storage rates be sought in any future proceeding before the Commission, they will be required to present detailed facts and data in support thereof.

It will be noted that Table III shows a wide divergence in estimated rates of return. However, in this proceeding as in prior applications, because of the peculiar facts and circumstances surrounding the regulation of the warehouse industry, the Commission is disposed to place greater emphasis 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.

While the Commission appreciates the problems experienced by protestant manufacturing concern, the evidence does not justify an exemption of radios and related articles from the increase in storage charges found herein to be justified.

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 operations herein in issue.

2. The estimated operating results of applicants under their primary proposal for an overall increase of five percent in all warehouse rates and charges, except as provided in Finding 3, are reasonable.

3. The sought five percent increase in all rates and charges, including storage, provided in the aforementioned tariffs has been justified; the alternative proposal has not been justified; and the evidence does not justify an exemption of radios and related articles from the increase in storage charges found herein to be justified.

4. Applicant Terminal Warehouse Corporation has indicated to its attorney that said corporation will be terminated immediately. Therefore, Findings 1, 2 and 3 do not relate to it, and the application should be denied insofar as it relates to Terminal Storage Corporation.

Based upon the foregoing findings of fact, the application should be granted as provided in the ensuing order.

In view of the need for immediate relief, the effective date of the order which follows will be 10 days after the date hereof, and applicants will be permitted to establish the increased rates on not less than 10 days' notice to the Commission and to the public.

O R D E R

IT IS ORDERED that:

1. Applicants, except Terminal Storage Corporation, are authorized to increase all rates and charges, including those provided for storage, by five percent as proposed in Application No. 45521. The increased rates and charges authorized may be established by the publication of a surcharge rule with disposition of resulting fractions as set forth in Paragraph I of Exhibit No. 2 in this proceeding. Tariff publications authorized to be made as a result of the order herein may be made effective not earlier than ten days after the effective date hereof and 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.

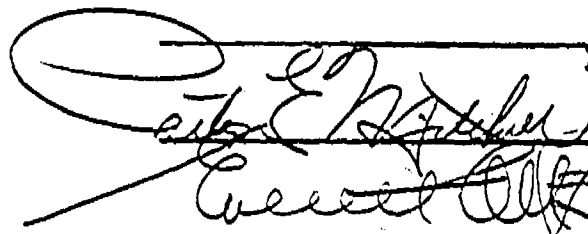
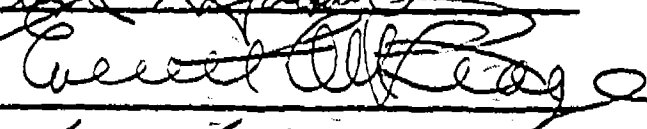
3. The alternative proposal in Application No. 45521 to increase all rates and charges, except storage, eight and one half percent is denied.

4. As to Terminal Storage Corporation, Application No. 45521 is denied.

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

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

Dated at San Francisco, California, this 7th day of JANUARY, 1964.

 President

George J. Hoover
Fredrick B. Halbluff Commissioners

Commissioner William M. Bennett, being necessarily absent, did not participate in the disposition of this proceeding.