

Decision No. 70589**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Lyle V. Abbott, doing business as Ace City Warehouse, G.W.A. Incorporated, doing business as Allied Warehouse Company, E. H. Good, doing business as American Warehouse, Charles A. Pearson, doing business as Anaheim Truck & Transfer Co., Atlantic Transfer Co., 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 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, Dart Public Warehouse, Inc., Davies Warehouse Company, Freight Transport Company, G-K Distributing, InterAmerican Warehouse Corporation, Jennings-Nibley Warehouse Co., Ltd., Law Express, Inc., Los Angeles Transport & Warehouse Co., Lyon Van & Storage Co., M & M Transfer 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 Truck & Warehouse Company, Signal Trucking Service, Ltd., Star Truck & Warehouse Co., Superior Fast Drayage, Torrance Van & Storage Company, Union Terminal Warehouse, Veltman Warehouse Co., and West Coast Warehouse Corp., for authority to increase their rates as warehousemen in the City of Los Angeles and other Southern California points.

Application No. 47175

(Filed December 4, 1964;
Amended February 8, 1964;
November 16, 1965)Additional Appearances

(For other appearances see Decision No. 68958)

Jackson W. Kendall, for Bekins Warehousing Corp., applicant.James Quintrall, for Los Angeles Warehousemen's Association, interested party.Kenji Tomita, for the Commission staff.

O P I N I O N

By Decision No. 68958, dated April 27, 1965 (64 Cal. P.U.C. 266), the Commission authorized applicants to establish an interim increase, in the form of a surcharge, of 4 percent in all of their rates and charges, except those provided for storage, governing the public utility warehousing of general merchandise within the Metropolitan Los Angeles Area and vicinity.¹ The interim relief was granted, in lieu of a sought 8 percent increase, pending completion of comprehensive studies by applicants and the Commission's Transportation, and Finance and Accounts Divisions.

These studies having been completed, further adjourned hearings relative to the overall sought adjustments in applicants' public utility storage, handling and other related rates and charges were held before Commissioner Mitchell and Examiner Gagnon, at Los Angeles, on December 15 and 16, 1965, at which time the matter was submitted.

On April 29, 1965 and again on November 22, 1965, a notice was mailed by applicants' tariff agent to customers of general merchandise warehouses in Los Angeles and vicinity relative to both the initial and amended sought increases in rates and charges. No one appeared in opposition. As a result of its studies, the Commission staff concludes that "the proposed increases in rates and charges are justified; that such increases will provide applicants, as a group, with revenues which will not be excessive in relation to the expenses which are expected to be encountered; that the volume of increases has been spread over the rates and charges

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) and M & M Transfer Company Warehouse Tariff No. 6 (Cal. P.U.C. No. 6) and Torrance Van & Storage Company Warehouse Tariff No. 4 (Cal. P.U.C. No. 4). The tariffs are all issued by Jack L. Dawson, Agent.

in reasonable proportion properly to compensate for the services rendered."

The second amendment to the application, filed November 16, 1965, requested increases in rates and charges as follows:

1. Storage Rates and Charges, 10 percent.
2. Handling Charges, 15 percent.
3. Minimum Storage and Handling Charges - sought increases same as authorized for the San Francisco Metropolitan Area by Decision No. 69091, dated May 18, 1965, in Application No. 47107, unreported.
4. Space Rates and Handling Charges - sought increases reduced generally to 10 percent, same as for all other storage rates and charges.
5. Other Rates and Charges - sought increase reduced to 15 percent, in lieu of originally proposed specific increases or overall increase of 25 percent.

The amended sought relief is requested in lieu of the 4 percent interim increase previously granted by Decision No. 68958 and, if authorized, will be applied to the basic tariff rates and charges in effect as of December 4, 1964, when the original application was filed.

In the interim Decision No. 68958, the Commission made the following general observations:

"It is evident, on the basis of the record to date, that applicants' sampling of the results of utility warehouse operations in the Los Angeles Metropolitan Area should be reevaluated. It should be clearly established that any warehouseman, ultimately selected to represent the warehouse industry herein, should reflect current operating revenues and expenses which would be necessarily incurred by reasonably efficient utility warehousemen. Applicants' contemplated 'thorough-going study,' to be presented in evidence at future hearings in this matter, should include the aforesaid confirmation of its sampling procedures and sources of information."

Representative Public Warehouseman

In an effort to comply with the Commission's advice, the Los Angeles Warehousemen's Association, on behalf of applicants,

employed the full-time services of an experienced accountant. The accountant testified that the first task he assumed was to make an independent determination of the public utility warehousing operations of applicants which could be considered as representative of reasonably efficient utility warehouse operations in the Los Angeles Metropolitan Area. He stated that he conducted a personal field study of the warehouse operations of approximately 20 applicants. The selected warehousemen were deemed to be predominantly engaged in public utility warehousing and included both single- and multiple-story structures.

The accountant's field study assertedly included a thorough review and analysis of (1) the warehouse structures, (2) the equipment and facilities and (3) the operating methods or techniques used. The accountant's field investigation of prospective representative warehouse operations included a determination as to whether:

1. The physical characteristics of the warehouse structure were conducive to the particular operation involved;
2. The potential floor load factor was sufficient to permit maximum use of available storage space;
3. The elevators in multiple-story structures were capable of handling maximum loads;
4. Palletized and rack storage methods were utilized where feasible, thereby making efficient use of all available storage space;
5. Mechanized handling methods were employed if feasible to do so;
6. The warehouse operation was unduly restricted as to the kind of commodities stored and the number of public storage accounts handled;
7. The conduct of business indicated a reasonably efficient warehouse operation;
8. The amount of public utility storage was of sufficient volume to be significantly representative;
9. The public utility operation was unduly influenced by nonutility functions;
10. Appropriate accounting procedures were observed.

Pursuant to the accountant's field study, the utility warehouse operations of 11 applicants were selected as being a reasonably efficient and representative sample of all the utility warehousing operations involved herein. The 11 warehousemen thus selected were also included in the original list of 17 warehousemen chosen during the interim phase of this proceeding as allegedly being representative of all applicants. The 11 alleged representative warehousing operations presently selected by the accountant, in effect, constitute a residuum of applicants' efforts to comply with the Commission's advice to upgrade the quality and depth of research in the selection of warehousing operations as a basis for demonstrating applicants' revenue needs in presentations for upward adjustments in rates.

The Commission staff also conducted an independent study relative to a sampling of applicants' utility warehouse operations. A study of the operations of all 40 applicants was made by the staff. Criteria employed by the staff were substantially similar to those utilized by the accountant on behalf of applicants, although not necessarily with the same degree of emphasis in any one particular instance. Pursuant to the staff study, a list of 14 warehousemen were finally selected as being representative of the entire group of applicants. The 14 warehousemen selected by the staff were, as in the case of applicants, all previously included in the group of 17 warehousemen originally proffered by applicants. In addition, the staff selection includes the same 11 warehousemen finally selected by the accountant.

Only one of the warehouse operations considered as representative of all applicants by the staff but deemed nonrepresentative by the accountant would cast a significant influence upon any financial presentation as to the results of operations of a selected

sampling of the utility warehouse activities of applicants. The record discloses that the suggested exclusion by the accountant was based upon the results of his field study which indicated that the physical characteristics of the particular warehouse plant facility involved were not representative; whereas the staff inclusion of the identical warehousing operation in their list of representative utility warehouse activities of applicants was predicated chiefly upon the rather substantial amount of space dedicated to public utility storage and the relatively large amount of utility revenue involved. In this particular instance, we are convinced that the basis advanced by the accountant for his elimination of the warehouse operation from a representative sampling of the utility warehouse functions of all applicants is controlling. For subsequent revenue and expense allocations and projections we shall accept the 11 public utility warehousemen selected by both the accountant for applicants and the Commission staff, in their respective independent studies, as being representative of all the utility warehouse operations of applicants.²

Financial Results of Operations

Applicants' alleged need for additional revenues is based upon the financial results of utility warehouse operations of the 11 selected representative warehousemen for the fiscal year ending December 31, 1964. In the interim phase of this proceeding (Decision No. 68958) we stated in part as follows:

"Applicants assert that their present warehouse rates and charges, as adjusted pursuant to Decision No. 66528, supra, have not been sufficient to provide revenues necessary to meet operating expenses and leave a reasonable profit. Furthermore, since the effective date of such upward adjustments in rates and charges, applicants claim that their costs for providing

² The 11 selected warehousemen are hereinafter set forth, together with their respective financial results of operation.

warehouse services have materially increased. Such increases in costs have assertedly been experienced in various expense items, including wages and salaries. According to the record herein, applicants will also experience further increases in wages and other payroll expenses as of July 1, 1965.

"The tariff publishing agent testified that over 70 percent of the expense dollar of applicants is directly attributable to wages and payroll costs In view of the rather substantial amount of the expense dollars being attributable to labor costs, the tariff agent concludes that any general wage increase has a significant effect upon the financial well being of applicants."

Although the revenue and expense studies of both the applicants and the Commission staff were developed independently, the results of their revenue and expense allocations and projection are substantially alike. For example, the financial evaluations of applicants and the staff are predicated upon the results of the selected utility warehouse operations for the fiscal period ending December 31, 1964. The record indicates that 1964 was the latest available 12-month accounting period which could be used as a base rate year for analysis of subsequent changes in operating revenues and expenses. The 1964 recorded results of operations of the 11 representative warehousemen as subsequently adjusted in both the applicants' and the Commission staff studies are, for all practical purposes, the same. The staff adjusted 1964 operating expenses are somewhat lower than applicants' presentation, mainly because the staff substituted warehouse affiliate's actual expenses, in lieu of rent paid to such affiliates by applicants; whereas similar adjustments by the accountant were restricted to projected results of operations for the test future rate year under present and proposed rates and current expenses (Exhibit 9, Schedules C and E and Exhibit 29).

Applicants analysis of the selected warehousemen's 1964 operating income statement (Exhibit 9, Schedule A) indicates that

for the base year applicants were just below the break-even point or experienced an overall operating ratio of slightly above 100 percent. A like analysis by the Commission staff (Exhibits 32 and 33) indicates that the selected representative warehousemen's overall operating ratio for the base year was 97.3 percent. The staff analysis is summarized in Table 1 below:

TABLE 1
Results of Operations
for 11 Representative Warehousemen
 (12-Month Period Ending December 31, 1964)

<u>Warehousemen</u>	<u>Revenues</u>	<u>Expenses Including Income Taxes</u>	<u>Operating</u>	
			<u>Income (After Income Taxes)</u>	<u>Ratio</u>
*Calif. Warehouse	\$ 335,597	\$ 333,547	\$ 2,050	99.4%
H. G. Chaffee	91,704	79,049	12,655	82.2
Davies	275,575	253,051	22,524	91.8
*Interamerican (1)	313,423	291,255	22,168	92.9
*Metropolitan	793,345	710,522	82,823	89.6
Overland	677,125	660,127	16,998	97.5
Pacific Coast	943,436	922,427	21,009	97.8
*Pacific Commercial	218,257	212,580	5,677	97.4
Redway Truck	159,030	172,268	(13,238)	108.3
Star Truck	465,247	451,992	13,255	97.2
*Union Terminal	966,852	1,011,426	(44,574)	104.6
Total	5,239,591	5,098,244	141,347	97.3

(Red Figure)

* Reflects substitution of affiliate's expense in lieu of rent.
 (1) Fiscal year ending March 31, 1965.

An estimate of the financial results of operations for the 11 warehousemen listed in Table 1 for a test future rate year,

under present and proposed increased rates and charges and current operating expenses, was also developed by applicants and the Commission staff. Such revenue and expense projections were predicated upon the 1964 adjusted results of operations (Table 1) further modified, on an annual basis, to reflect (1) the 5 percent increase authorized by Decision No. 66588, effective in warehouse tariffs as of January 27, 1964; (2) the 4 percent interim surcharges authorized by Decision No. 68958 in the initial phase of this proceeding, effective June 7, 1965; (3) the increases in rates and charges for storage, handling related accessorial services sought by applicants herein in lieu of the 4 percent interim surcharge in (2) above; and (4) the various increases in operating expenses, including wages and allied payroll expenses experienced by applicants between the period July 1, 1964 through January 1, 1966.³ The projected results of operations as developed by applicants and the Commission staff are summarized in Table 2.

³ Known increases in wages and allied payroll expenses, effective July 1, 1965 through January 1, 1966, were not previously considered by the Commission nor included in the interim 4 percent surcharge phase of the instant proceeding (Decision No. 68958).

TABLE 2

Estimated Results of Operations
For 11 Representative Warehousemen
For A Rate Year Under Present and Proposed Rates
And Operating Expenses as of January 1, 1966

Warehousemen		Revenues		Expenses		Operating Ratio	
		Present	Proposed	Before	After	Present	Proposed
		Rates	Rates	Income Taxes	Income Taxes	Rates	Rates
Calif. Whse	A	\$ 344,976	\$ 389,016	349,319		101.3	93.3
	S	344,600	388,000	348,600		101.2	93.3
H. G. Chaffee	A	93,936	109,036	79,529		88.7	80.7
	S	94,000	110,500	78,900		88.2	80.1
Davies	A	284,229	319,084	270,816		96.5	90.5
	S	284,600	317,800	255,800		92.8	88.4
Interamerican	A	316,942	354,399	(300,209*		96.1*	90.7*
	S	318,900	355,800	(353,012		111.4	-
Metropolitan	A	817,114	914,844	298,000		95.2*	90.2*
	S	817,500	912,600	(673,344*		90.6*	86.3*
Overland	A	695,580	779,901	(768,124		96.3	-
	S	696,000	781,900	655,400		90.1*	86.0*
Pacific Coast	A	695,580	779,901	691,943		99.6	93.6
	S	696,000	781,900	693,100		99.7	93.6
Pacific Commercial	A	968,367	1,091,584	974,212		100.6	94.1
	S	969,200	1,088,300	951,800		98.7	93.2
Redway Truck	A	224,735	252,472	(232,817*		103.6*	94.3*
	S	224,900	253,400	(252,624		112.5	-
Star Truck	A	224,900	253,400	219,600		98.3*	90.9*
	S	162,919	181,435	180,027		110.6	99.4
Union Terminal	A	162,900	181,500	185,000		113.6	102.0
	S	479,915	556,391	502,341		104.7	94.1
Total	A	479,900	559,200	472,600		98.9	91.2
	S	995,528	1,103,728	(1,118,280*		112.3*	101.3*
Total	A	995,600	1,103,400	(1,034,878		109.0	-
	S	5,384,241	6,051,890	1,075,500		108.0*	98.2*
Total	A	5,384,241	6,051,890	(5,372,337*		101.3*	93.7*
	S	5,388,100	6,052,400	(5,506,825		102.8	-
	S	5,388,100	6,052,400	5,244,300		99.1*	92.4*

A Applicants.

S Commission staff.

* Substitution of affiliates expense in lieu of rent.

From Table 2 above, it will be observed that, under the sought relief, applicants and the staff both estimate that the selected warehousemen will experience an overall operating ratio of approximately 93 percent after state and federal income taxes. Certain of the applicants have not demonstrated any need for rate relief and have consistently fared better financially than other representative warehousemen. As previously stated in this proceeding, retention of substantial uniformity of rates among the warehousemen operating in the Los Angeles Metropolitan Area is strongly urged by applicants as an economic necessity. In Decision No. 68958 we noted that the Commission has recognized the asserted need for uniformity of utility warehouse rates and charges.⁴

The established rate uniformity will not be disturbed here, but applicants are cautioned that such continuance is conditioned upon the diligence with which the warehousemen involved continue to improve the quality of their joint financial presentations in connection with any sought upward adjustments in rates and charges. Further analysis and study is especially needed in the area of rates of return on capital investment (Rate Base); the segregation and allocation of utility versus nonutility expenses and administrative and joint ownership costs. Applicants' tariff rules and charges should also be thoroughly reviewed for possible future simplification and clarification.

⁴ In Decision No. 68958, the Commission's position relative to rate uniformity was noted, in part, as follows: "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.... Obviously, under a uniform rate structure some warehousemen will ... 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." (Decision No. 66588, 62 Cal. P.U.C. 175, 181-182.)

Minimum Storage and Handling Charges

Applicants seek authority to publish the same minimum storage and handling charges of 75 cents per lot and \$1.50 per lot respectively, previously authorized utility warehousemen in the San Francisco Bay Area (Decision No. 69091, dated May 18, 1965, in Application No. 47107).⁵

In justification of the sought relatively higher increases in minimum storage and handling charges, applicants' tariff agent presented estimated costs for storage and handling small lots of merchandise. Allocation factors employed were developed from a work sampling of actual storage and handling observations over a period of one month at four selected warehouses. Minimum storage costs per lot were developed on the basis that a single pallet load of merchandise constituted a minimum storage lot. The minimum storage costs reflect the costs of operating the storage departments divided by the number of pallet spaces available in the warehouse. The cost of handling minimum storage lots was also developed by the tariff agent. The handling cost per man-hour was first developed for the selected warehousemen. This cost factor was then employed in conjunction with the amount of time attributable to the handling of both inbound and outbound pallet lots in order to arrive at the estimated handling cost per pallet. The estimated costs for minimum storage and handling, as developed by the tariff agent, are summarized below:

⁵ Applicants' present minimum storage and handling charges, named in Rule 31 of warehouse Tariff No. 28-A, are 44 cents per lot and 47 cents per lot, respectively.

TABLE 3

<u>Warehousemen</u>	<u>Minimum Storage Per Lot</u>		<u>Minimum Handling Per Lot</u>
	(1)	(2)	
<u>Multi-Story Warehouse</u>			
Overland	\$1.51	\$0.75	\$4.92
Pacific Coast	2.20	1.10	4.18
Star Truck	1.81	.90	5.86
<u>Single-Story Warehouse (Fully Racked Storage)</u>			
Interamerican	\$0.74	-	\$3.06

- (1) Minimum storage one pallet high.
(2) Partial rack storage two pallets high.

Although the sought increases in the existing minimum storage and handling charges are greater than the overall sought increases of 10 and 15 percent, respectively, it will be noted from Table 3 that the cost estimates are generally well above the sought minimum storage and handling charges. The tariff agent testified that applicants are experiencing a consistent upward trend in small lot storage, which is apparently due to storers' current efforts to maintain their inventories at a minimum level. Any upward trend in small lot storage would, of course, have the effect of increasing the unit cost of storage. The tariff agent testified that storers can readily avoid the assessment of the sought minimum storage charge of 75 cents per lot by merely tendering merchandise for storage in lots of not less than three-fourths of a pallet load. Similarly, the proposed minimum handling charge of \$1.50 per lot can be avoided by storers tendering merchandise for storage in lots of not less than one-half a pallet load. It is the position of applicants, therefore, that the proposed minimum charges are quite conservative when considering the minimum amount of storage required to nullify the application of such charges.

Findings and Conclusions

The Commission finds that:

1. Applicants have demonstrated a need for additional revenues in connection with their public utility warehouse operations.

2. The estimated results of operations under applicants amended sought increases in all rates and charges, in lieu of the existing interim 4 percent surcharge authorized by Decision No. 68958, are reasonable.

3. The sought increases of 10 percent in storage rates, 15 percent in handling and related accessorial charges and the specific increases proposed in other related rates and charges named in specified tariff rules, have been justified.

4. In view of the fact that upward adjustments in applicants' labor costs have been in effect for a period of several months, authority should be granted to establish the increased rates and charges found justified herein on 10 days' notice to the Commission and the public; such increases in rates and charges to be published, on an interim basis, in the form of a surcharge rule as requested by applicants.

Based upon the above findings, we conclude that Application No. 47175, as amended, should be granted as provided in the ensuing order.

O R D E R

IT IS ORDERED that:

1. Applicants are authorized to establish the increased rates and charges proposed in Application No. 47175, as amended. 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 on not less than ten days' notice to the Commission and to the public.

2. Pending establishment of specific rates and charges, increased as authorized in paragraph 1 hereof, applicants are authorized to make effective increases in their rates and charges by means of a tariff surcharge rule as set forth in applicants' Exhibit 30, provided that said increased rates and charges do not exceed the rates and charges authorized in paragraph 1 hereof. Thereafter, applicants shall proceed to further amend their tariffs so that said increased rates and charges may be determined without the use of a surcharge tariff provision, said further amendment to be completed within sixty days after the effective date hereof.

3. The authority herein granted is subject to the express condition that applicants will never urge before the 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 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 19th day of APRIL, 1966.

George E. Hoover President
Dalman
Awgator
Commissioners

Commissioner Frederick B. Holoboff, being necessarily absent, did not participate in the disposition of this proceeding.

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