

SK

Decision No. 72699

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
VERNON CENTRAL WAREHOUSE, INC.
doing business as VERNON WAREHOUSE
COMPANY, for authority under
Section 454 of the Public Utilities
Code to increase rates in its
Warehouse Tariff Cal. P.U.C. No. 3
(Series of Vernon Warehouse Company).

Application No. 48725
(Filed August 22, 1966;
Amended February 15, 1967)

Richard B. Newton, for Vernon Warehouse
Company, applicant.
James Quintrall, for Los Angeles Ware-
housemen's Association, interested
party.
Charles J. Astrue, Kenji Tomita, and
Norman Haley, for the Commission
staff.

O P I N I O N

Applicant seeks authority to increase its public utility warehouse rates and charges for the storage and handling of corn sugar, glucose, starch, sweetose and refined cane and beet sugar in packages, and for liquid sugar in stationary tanks. Applicant also stores corn syrup in stationary tanks; no increase is sought in rates for that commodity. Applicant also seeks authority to publish and file a tariff covering the storage and handling of general commodities other than the commodities named above.

A duly noticed public hearing was held before Examiner Mallory on March 28 and 29, 1967 in Los Angeles. There were no protests. The matter was submitted on April 17, 1967 upon the receipt of applicant's two late-filed exhibits.

Evidence was presented on behalf of applicant by its president and by its accountant. Evidence was also presented by a Commission staff accountant and a Commission transportation rate expert.

The evidence presented indicates the following with respect to the organization and operations of applicant. Applicant is a corporation which engages in the public warehousing and transportation of corn syrup, sugar, glucose, sweetose and starch in packages and in bulk. Applicant is affiliated, through common ownership and management, with Sugar Products Company (Sugar Products), a sales organization engaging in marketing of commodities stored in applicant's warehouse.^{1/} Applicant's offices and warehouse facilities are located on property adjacent to that of its affiliates. Applicant's warehouse facilities and offices are rented or leased from the applicant's majority stockholder. In turn, applicant rents or leases certain properties to its affiliated companies.

Applicant and Sugar Products have common corporate officers, some of whom are paid salaries and bonuses, and others who are compensated only by bonuses. Such bonuses are determined as percentages of the net incomes of the respective companies. It appears that the principal compensation of officers, as a group, is from bonuses.

Applicant's president testified as to the organization and operations of applicant and its affiliated companies. This witness stated that applicant receives the largest part of its warehouse storage and handling income from bulk sugar and bulk corn syrup.

^{1/} Applicant is also affiliated with Truck Terminal, Inc., and two other concerns.

Applicant constructed new liquid storage tanks for corn syrup, which were placed into operation during the last two months of 1965, and which were in full operation beginning with January 1, 1966. The witness stated that applicant's investment in warehouse facilities was substantially increased by this construction. Also, its warehouse storage and handling revenues were substantially increased. An analysis of warehouse revenues and expenses, following the installation of the new tanks, showed that operating expenses had not increased in proportion to revenues. This indicated to management that liquid commodities stored in the warehouse were contributing more than a fair share of total operating revenues and net profits, and that rates for other commodities should be increased. Said analysis also assertedly showed that overall net operating revenues for applicant's warehouse operations were too low. The witness testified that, with minor exceptions, applicant had made no increases in its warehouse storage and handling rates since beginning its warehouse operations. The decision of management not to seek increases in bulk corn syrup rates was based on the fact that its corn syrup rates are substantially higher than its current bulk sugar rates. Exhibit 1 is a copy of the proposed tariff applicant seeks to file covering the storage and handling of corn syrup, glucose, starch, sugar and sweetose.^{2/}

Applicant's president also testified that all storers had been notified of the increases sought, and that applicant had received no objection to the increases from its storers.

^{2/} Applicant also seeks authority to cancel rates in its current tariff on certain commodities which it has not stored for some time. These are donut flour, glucose in certain packages, soy sauce and soy flour. Rates sought to be established on these commodities, and on other general commodities, are set forth in California Warehouse Tariff Bureau Warehouse Tariff 28-A, Cal. P.U.C. No. 193, Jack L. Dawson, Agent.

Applicant's accountant presented in evidence exhibits designed to show the results of applicant's public utility warehouse operations for the period covered by the first six months of 1966. A projection of revenues and expenses for operations under proposed rates also was presented.

Applicant's accountant testified that warehousing operating revenues and direct warehouse operating expenses as recorded on applicant's books were used except that, with respect to revenues, certain sales commissions earned by Sugar Products were eliminated. With respect to expenses, wage costs for the proportion of time that teamster drivers were employed in the warehouse were added. Certain other expenses, such as purchases of pallets, were added. Such expenses were incurred in the latter half of the year, but none were incurred or recorded on applicant's books during the six-month test period. Administrative and office expenses were allocated between applicant's warehouse operations and its trucking operations, based upon the relationship that warehouse operating revenues bore to applicant's total operating revenues. Officers' bonuses were allocated between warehouse and trucking operations on the basis of the relationship of the net profit of the warehouse operations to applicant's total net profit, before payment of said bonuses and income taxes.

This witness also presented in evidence a schedule designed to show the rate of return and operating ratio for applicant's warehouse operations based on his projection of revenues and expenses for the test period.

Cross-examination by the Commission staff developed that certain changes in said exhibits would be appropriate. Applicant requested and was granted opportunity to make such changes in its exhibits through the filing of late-filed exhibits. Summarizations of applicant's presentation, as contained in its late-filed exhibits, are set forth in the tables below.

Table 1

VERNON WAREHOUSE COMPANY

Applicant's Projected Income Statement
 For Warehouse Operations
 Under Present and Proposed Rates
 (Based on Six-Month Period Ended June 30, 1966, Adjusted)

<u>Warehouse Revenues</u>	<u>At Present Rates</u>	<u>At Proposed Rates</u>
Storage	\$33,496	\$40,209
Handling	<u>39,148</u>	<u>52,227</u>
Total Warehouse Revenues	72,644	92,436
<u>Expenses</u>		
Direct Warehouse Expenses:		
Wages	26,409	26,409
Laundry	1,104	1,104
Demurrage	417	417
Lights, Water, Power	3,566	3,566
Miscellaneous Labor	308	308
Warehouse Supplies	410	410
Pallets	1,739	1,739
Rent	3,960	3,960
Depreciation	13,210	13,210
Maintenance of Buildings	301	301
Reconditioning Equipment	1,242	1,242
Ground Lease - Storage Tanks	600	600
Legal and Auditing Fees	1,613	1,613
Union Welfare Benefits	3,112	3,112
Taxes - Property, etc.	<u>4,210</u>	<u>4,210</u>
Total Direct Expenses	62,201	62,201
Office and Administrative Expense Allocated on the Basis of Total Warehouse and Trucking Revenues	13,318	13,318
Bonuses	-	5,498
State and Federal Income Taxes	<u>100</u>	<u>3,266</u>
Total Expenses	75,619	84,283
<u>Net Warehouse Income</u>	<u>(2,975)</u>	<u>8,153</u>
Operating Ratio (After Taxes)	104.1%	91.2%

() - Red Figure

Office expenses and administration expenses were allocated to warehouse operations in the above table on the basis of 32.45 percent of the total of such expenses. No bonuses were charged to warehouse operations under present rates and 32½ percent of net revenues before bonuses and income taxes were charged as bonuses under proposed rates.

Table 2

VERNON WAREHOUSE COMPANY

Applicant's Estimated Rate of Return on Warehouse Operations Under Proposed Rates (Annualized)

<u>Gross Revenues</u>	\$184,872
<u>Adjusted Expenses</u> (Substituting depreciation of affiliate's improved property in lieu of warehouse rental)	145,494
<u>Bonuses</u>	<u>12,798</u>
Net Operating Income (Before Income Taxes)	26,580
<u>State and Federal Income Taxes</u>	<u>7,604</u>
Net Income	18,976
<u>Operator's Invested Capital</u>	
Fixed Assets (Recorded on Applicant's Books)	297,206
Owner's Invested Capital (Depreciated Values of Leased Warehouse Properties)	<u>49,376</u>
Total	346,582
Return on Investor's Capital	5.48%

The staff accountant presented in evidence an exhibit setting forth the results of a study of applicant's operations. The exhibit contains an adjusted income and expense statement for applicant's public utility warehouse operations covering the same period

A. 48725 ds

used in applicant's presentation and for a similar period in the prior year. Such statement is set forth in Table 3, below.

Table 3

VERNON CENTRAL WAREHOUSE, INC.
dba VERNON WAREHOUSE COMPANY
Adjusted Income Statement, Warehouse Operations
Six-Month Periods Ended June 30, 1965 and 1966
(Commission Staff)

	<u>Six-Months Ended</u>	
	<u>June 30, 1965</u>	<u>June 30, 1966</u>
Warehouse Revenues		
Storage	\$23,451	\$33,495
Handling	<u>33,314</u>	<u>39,554</u>
Total Warehouse Revenues	56,765	73,049
<u>Expenses</u>		
Direct Warehouse Expenses:		
Wages	24,518	17,550
Laundry	368	460
Demurrage	701	55
Lights, Water and Power	862	3,566
Miscellaneous Labor	1,445	308
Warehouse Supplies	456	410
Rent	220	960
Depreciation	7,810	13,210
Maintenance	111	1,543
Union Welfare Benefits	<u>1,533</u>	<u>1,077</u>
Total Direct Expenses	38,024	39,139
Office and Administrative Expenses Allocated on the basis of total direct costs	10,215	10,323
Bonuses	3,458	8,683
Federal Income Tax	<u>1,406</u>	<u>3,700</u>
Total Expenses	53,103	61,845
<u>Net Warehouse Income</u>	<u>3,662</u>	<u>11,204</u>
Operating Ratio Before Income Taxes	91.07%	79.59%
Operating Ratio After Income Taxes	93.55%	84.66%

The staff presentation covering the six months ended June 30, 1966, differs from that of applicant in several respects. The staff showing reflects direct expenses as recorded on applicant's books for the period in question, and does not reflect adjustments made by applicant's accountant in his presentation. Also, the method used by the staff to distribute office and administrative expenses differs from applicant's method. The staff made such allocations based on a percentage of warehouse expenses to total expenses; applicant used a percentage of revenue basis. The staff presentation also eliminates or offsets certain expenses which are partially recovered from applicant's employees or patrons, such as laundry expenses and demurrage.

No projection of operating revenues and expenses was presented by the Commission staff.

A staff transportation rate expert presented an exhibit comparing applicant's proposed rates for sugar and related commodities with rates maintained in California Warehouse Tariff Bureau Tariff No. 29A. Said tariff applies to a limited number of warehousemen who specialize in the storage of such commodities in large volume. Rates in CWTB Tariff No. 29A are lower than those maintained generally by warehousemen operating in the Los Angeles metropolitan area. Applicant's proposed rates are generally higher than those maintained in CWTB Tariff 29A.

The rate expert also presented data showing a breakdown of the volume of storage and revenue earned by applicant under each tariff item and package size during the six-month period ended July 1, 1966.

Discussion, Findings and Conclusion

Section 454 of the Public Utilities Code provides that no public utility shall raise any rate or alter any practice or rule so as to result in any increase in any rate except upon a showing before the Commission and a finding by the Commission that such increase is justified.

This proceeding involves the request of a corporation operating as a public utility warehouseman and highway permit carrier for a general increase in rates for that portion of its business relating to storage and warehouse handling. Applicant's carrier and warehouse operations are conducted in coordination with the sales operations of an affiliate, Sugar Products Corporation, and the stockholders and officers of both corporations are identical.

The Commission considers the following issues material to a determination whether the sought increases are justified:

1. The revenues and expenses reasonably attributable to the public utility warehouse operations for which the increases are sought, considering that jointly incurred expenses must be apportioned or prorated between applicant and its affiliated sales organization and/or between applicant's warehousing and permit carrier operations.
2. The reasonable return for such a public utility, as measured by operating-ratio and rate-of-return method.
3. The rate levels which will produce revenues sufficient to earn a reasonable return by applicant.

Applicant and the staff use different allocation methods to distribute overhead expenses to applicant's warehouse operations. The resulting figures developed by either method are not substantially different; however, applicant's method of allocating overhead expense

and officers' bonuses based on revenue or net income is not sound.^{3/} All expenses should be related as closely as possible to the time devoted to the various functions. The procedure followed by the staff is more reasonable. The record shows that applicant's adjustments covering expense for teamster-drivers, when such personnel are used as warehouse employees, and inclusion of certain other operating expenses incurred annually, but not reflected in applicant's records for the six-month period used in its study, were proper and should be adopted.

Applicant's revenue and expense showing, however, should be modified:

1. By eliminating workmen's compensation insurance and State and Federal payroll taxes on salaries of teamster-drivers used in the warehouse in the amount of \$1,049. Such taxes are contained in the total of expenses allocated under administrative expenses.
2. By reducing laundry expenses by the amount of laundry fees received from its warehouse employees..
3. By reflecting ownership costs of buildings in lieu of rent. Applicant, in its late-filed Exhibit 2-A adopted the depreciation expense set forth in the staff exhibit, which includes depreciation on rented property. To be consistent rental expense should be eliminated for the buildings in question and ownership costs substituted therefor.
4. By eliminating from depreciation expense, the depreciation applicable to the portion of a building owned by applicant and leased to an affiliate, as income from such rental has not been included in applicant's presentation.

3/ 55 Cal. P.U.C., 649 (1957)

5. By amortizing over a three-year period the portion of legal and audit fees covering the current application (\$1,325).

6. By eliminating donations from administrative expense.

7. By adjusting overhead and bonus expenses allocation.

Such changes will require adjustments in income taxes.

Applicant's rate base figures should be adjusted by reducing its recorded plant by \$22,234, covering the value of the portion of the building owned by applicant and leased to an affiliate, and "owners' invested capital" should be reduced in the amount of \$2,502 covering the value of leased land on which the aforementioned building is located.

Table 4, set forth below, depicts applicant's showing as set forth in Table 1, adjusted as indicated above. The operating results set forth in Table 4 are adopted by the Commission for the purposes of this proceeding.

Table 4

VERNON WAREHOUSE COMPANY

Summary of Adopted Results of Operation
For Applicant's Public Utility Warehouse Operations
 (Based on six-months' period ended June 30, 1966)

	<u>At Present Rates</u>	<u>At Proposed Rates</u>
Warehouse Revenues	\$ 72,644	\$ 92,436
<u>Expenses</u>		
Direct Warehouse Expenses:		
Wages	26,409	26,409
Laundry	460	460
Demurrage	417	417
Lights, Water and Power	3,566	3,566
Miscellaneous Labor	308	308
Warehouse Supplies	410	410
Pallets	1,739	1,739

(Continued)

Table 4
(Continued)

<u>Expenses</u>	<u>At Present Rates</u>	<u>At Proposed Rates</u>
Direct Warehouse Expenses:		
Rent	\$ 960	\$ 960
Depreciation	12,810	12,810
Maintenance, etc.	1,543	1,543
Legal and Auditing Fees	880	880
Union Welfare Benefits	2,063	2,063
Taxes, Property, etc.	<u>4,210</u>	<u>4,210</u>
Total Direct Expenses	55,775	55,775
Office and Administrative Expense and Bonus	19,790	26,222
State and Federal Income Taxes	<u>100</u>	<u>2,986</u>
Total Expenses	75,665	84,983
<u>Net Warehouse Income</u>	<u>(3,021)</u>	<u>7,453</u>
Operating Ratio (After Taxes)	104.2%	91.9%
Depreciated Net Plant	321,746	321,746
Rate of Return	---	4.63%

(Red Figure)

The Commission finds as follows:

1. Applicant, a corporation, engages in operations both as a public utility warehouseman and as a highway permit carrier.
2. Applicant and Sugar Products Corporation have common ownership and corporate officers.
3. In determining reasonable revenues and expenses for applicant's public utility warehouse operations it is necessary to distribute office and administrative expenses and income taxes between applicant's warehouse and trucking operations, and to determine the amount of officers' compensation assignable to applicant's

warehouse operations. The method used in Table 4 for the assignment of office and administrative expenses and officers' compensation is the so-called "cost follows cost" method consistently followed in proceedings of this type.

4. The reasonable revenues and expenses for applicant's public utility warehouse operations for the six-month period ended June 30, 1966, and for a projected rate year developed therefrom, are set forth in Table 4 hereof.

5. The reasonable rate base for applicant's warehouse operations is that set forth in Table 4 hereof.

6. As developed in Table 4, applicant's public utility warehouse operations do not provide sufficient revenues to cover expenses under present rates. The estimated operating ratio and rate of return set forth in Table 4 for operations under proposed rates are not excessive and will be reasonable for the future.

7. The increases in rates sought in the application as amended are justified.

The Commission concludes the amended application should be granted.

O R D E R

IT IS ORDERED that:

1. Vernon Central Warehouse, Inc., doing business as Vernon Warehouse Company, is authorized to establish the increased warehouse storage and handling rates and rules as set forth in Exhibit 1 in this proceeding, and is authorized to become a participant in California Warehouse Tariff Bureau Tariff 28-A, Cal. P.U.C. No. 193, Jack L. Dawson, agent, as proposed in the application.

2. Tariff publications authorized to be made as a result of the order herein may be made effective not earlier than ten days after the date hereof on not less than ten days' notice to the Commission and to the public.

3. The authority granted herein shall expire unless exercised within ninety days after the effective date hereof.

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

Dated at San Francisco, California, this 6th day of JULY, 1967.

[Signature]
President

[Signature]
William J. [Signature]
[Signature]
Commissioners

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