

ORIGINAL

Decision No. 74548

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

In the Matter of the Application of  
 BAY CITIES WAREHOUSE COMPANY, INC.;  
 BECKMAN EXPRESS & WAREHOUSE CO.;  
 BEKINS WAREHOUSING CORP.; BENTLEY  
 MOVING & STORAGE CO.; CENTRAL WARE-  
 HOUSE & DRAYAGE CO., INC.; CHI-  
 CHESTER TRANSPORTATION COMPANY, INC.;  
 CONSOLIDATED DE PUE CORPORATION;  
 Edgar and Correnah De Pue Osgood,  
 dba DE PUE WAREHOUSE COMPANY OF SAN  
 FRANCISCO; DILLON DRAYAGE & WARE-  
 HOUSE CO., INC.; Chester and George  
 Cassella and Elmo Cresta, dba  
 DISTRIBUTORS WAREHOUSE; Bradford  
 G., Harold F. and Morton G. Baruh,  
 dba EAST BAY STORAGE CO.; EMERY  
 WAREHOUSE; ENCINAL TERMINALS;  
 Charles Lee Tilden, Jr. and Irving  
 S. Culver, dba GIBRALTAR WAREHOUSES;  
 HASLETT COMPANY; INTERLINES-  
 BLANKENSHIP WAREHOUSE CO.; LYON  
 VAN & STORAGE CO.; MARCENTELLI WARE-  
 HOUSE CO., INC.; John F. Fox, Jr.,  
 George F. Fox and Joseph T. Fox, dba  
 JOHN MCCARTHY & SON; PASHA WARE-  
 HOUSES, INC.; RICHMOND TRANSFER AND  
 STORAGE COMPANY; ROBERTSON DRAYAGE CO.,  
 INC.; SAN FRANCISCO WAREHOUSE CO.;  
 STATE TERMINAL CO., LTD.; THOMPSON  
 BROS., INC., dba The Dodd Warehouses,  
 North Point Dock Warehouses and  
 Thompson Bros., Inc.; United Calif-  
 ornia Express & Storage Co., dba  
 U. C. EXPRESS & STORAGE COMPANY;  
 WALKUP'S MERCHANTS EXPRESS; and  
 WALTON DRAYAGE & WAREHOUSE CO., INC.;  
 for an Increase in Rates.

Application No. 49526  
 (Filed July 6, 1967; Amended  
 January 26 and March 12, 1968)

Additional Appearances

(For other appearances see Decision No. 72996)

Jack Scott, for M & M/Mars, and B. M. Cleland, for  
 Parrott & Company, protestants.  
James Quintrall, for Los Angeles Warehousemen's  
 Association, interested party.  
Kenji Tomita and Charles J. Astrue, for the Com-  
 mission staff.

O P I N I O N

By Decision No. 72996, dated August 29, 1967, the Commission granted applicants interim authority to (a) establish the increased rates and charges proposed in Application No. 49526, except for the 12-1/2 percent sought increase in storage rates and charges; and (b) to cancel certain tariff items designated in the application as no longer serving a useful purpose.<sup>1/</sup> The interim relief was granted, pending completion of comprehensive staff studies relative to applicants overall sought relief.

On January 26, 1968, Application No. 49526 was amended to include Walkup's Merchants Express. On March 12, 1968, the application was again amended to include a request for authority to increase further certain specified handling and accessorial service rates and charges in order to offset like upward adjustments in applicants' labor costs and allied payroll expenses, effective generally as of June 1, 1968, and not heretofore considered by the Commission.

The staff studies having been completed, adjourned hearings relative to the remaining sought adjustments in applicants' rates and charges, not heretofore considered or authorized by Decision No. 72996, were held before Examiner Gagnon at San Francisco on April 2, 3 and 5, 1968. Additional evidence was presented by applicants'

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1/ The specific increases originally proposed by applicants are as follows:

1. Increase all storage rates and charges by 12-1/2 percent.
2. Increase all handling rates by 6-1/4 percent.
3. Increase all rates and charges contained in certain tariff rates and accessorial service provisions by designated amounts.
4. Cancel so-called "dead rate" items.

tariff agent and several warehousemen. Comprehensive financial studies conducted by the Commission's Transportation Division and Finance and Accounts Division were introduced into evidence. Storer were notified as to the amended sought relief and one such storer appeared and offered testimony in opposition to the proposed increase.

Under existing labor contracts, effective June 1, 1968, the general merchandise warehousemen in the San Francisco Bay Area experienced a 25 cents per hour wage increase for plant labor and a 15 cents per hour increase in clerical labor. In addition, allied payroll taxes and workmen's compensation insurance have been increased.<sup>2/</sup> In order to offset such increases in warehouse labor and allied payroll expenses, authority is requested to further increase the following handling charges, which are in addition to the 12-1/2 percent increase in storage rates originally sought by applicants in July, 1967, and not heretofore granted by Interim Decision No. 72996:

1. Loading or Unloading Cars: Increase car-unloading minimum of \$1.84 per ton to \$1.93 per ton. Increase minimum per car charge from \$15.33 to \$16.11.
2. Storage Withdrawals: Increase withdrawal charge from 75 cents per withdrawal order plus 10 cents per line item per order, to \$1.00 per withdrawal order plus 15 cents per line item per order.
3. Special Labor: Increase special labor charge from \$6.66 per man-hour straight time to \$7.00 per man-hour; and from \$9.99 per man-hour overtime to \$10.50 per man-hour.

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<sup>2/</sup> Applicants estimate that, as of June 1, 1968, their hourly labor unit cost per minute increased 4.83 percent since June 1, 1967 (Exhibit No. 6 vs. Exhibit No. 8 herein).

It is estimated that the proposed wage offset increases in the above selected handling charges will return the warehousemen covered by Exhibit E of the application, approximately \$186,000 additional revenue; whereas the June 1, 1968 increase in wages and allied payroll expenses will amount to about \$190,000.

The tariff agent presented various financial statements which up-date prior related computations, previously introduced at the initial series of hearings concerning the results of operations of certain representative warehouse operations for the year 1967. The revised financial operating statements are designed to show the estimated results of applicants' utility warehouse operations (1) prior and subsequent to the interim increase authorized by Decision No. 72996; (2) under the originally proposed 12-1/2 percent increase in storage rates; and (3) under the proposed increase in designated handling charges to offset the June 1, 1968 increase in labor and allied payroll expenses.

The staff of the Commission's Transportation Division and Finance and Accounts Division introduced a series of financial statements setting forth the results of their analysis of the books and records of certain applicant warehousemen, selected as representative of all applicants, for a 12-month period ending May 31, 1967. The results of operations for the historic rate year were initially developed by a staff financial witness. His financial analysis is predicated upon an examination of the accounting records of 10 of the 28 applicants.<sup>3/</sup> The selection was made primarily on the basis of gross revenue from warehouse operations. The 10 selected warehousemen had combined revenues equal to 93 percent of the total revenues of all applicant warehousemen. Staff adjustments to the historic

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<sup>3/</sup> San Francisco Warehouse Co. was subsequently excluded from the staff report as their operations for the historic rate year was deemed to be not representative.

recorded book figures of the selected warehousemen were generally as follows:

1. Elimination of revenues and expenses pertaining to nonutility warehouse operations.
2. Substitution of ownership costs for rental payments to affiliates for use of warehouse facilities.
3. Administrative salary adjustments to estimated industry levels.
4. Elimination of charitable contributions and non-industry dues and subscriptions.
5. Reclassification of revenues and expenses to conform with the Uniform System of Accounts.

A summary of results of operations, operating ratios and rates of return of nine representative applicant warehousemen,<sup>4/</sup> for (1) the historic rate year ending May 31, 1967; and (2) the historic rate year adjusted to reflect costs of labor and allied payroll expenses, effective generally June 1, 1968, and the interim increase in rates, authorized by Decision No. 72996, is set forth in Table 1.

TABLE 1

Item	Results of Operations	
	: Historic Rate Year : Ending 5-31-67 : (Exhibit 14, Table B-10)	: Adjusted Rate : Year Ending 6-1-68 : (Exhibit 15, Table C-3):
Revenues	\$4,686,923	\$5,124,519
Expenses	<u>4,434,705</u>	<u>4,796,787</u>
Operating Income	252,218	327,732
Income Taxes	<u>79,589</u>	<u>114,052</u>
Net Operating Income	<u>172,629</u>	<u>213,680</u>
Operating Ratio		
After Taxes	96.3%	95.9%
Rate of Return	6.3%	7.4%
Net Plant Investment	\$2,728,005	-
Rate Base	-	\$2,867,616

4/ The nine applicant warehouse operations selected by the staff as being representative of the overall operations of all applicants are: (1) Bay Cities Warehouse; (2) Central Warehouse & Drayage; (3) De Pue Warehouse; (4) Encinal Terminals; (5) Gibraltar Warehouse; (6) Haslett Company; (7) Thompson Bros.; (8) Walkup's Merchants Express; and (9) Walton Drayage & Warehouse.

It will be noted from Table 1 that, in addition to developing operating ratios as a basis for evaluating the estimated results of applicants' warehouse operation under various circumstances, the staff also computed a so-called net plant investment and a rate base for calculating rates of return. The staff financial witness explained that net plant investment includes gross plant dedicated to utility warehouse operations, less applicable depreciation thereon, as found on the books of applicant warehousement. In addition, gross plant rented by the warehousemen from their affiliates, less accrued depreciation, as shown in the books of said affiliates, was included in the computation of net plant investment. No plant facilities leased from parties other than affiliates nor provisions for working cash were included in net plant investment.

The estimated results of applicants' utility warehouse operations, as determined by the staff engineer, is predicated upon the historic rate year initially determined by the staff financial witness. The engineer brought forward the historic rate year, plus further adjustments he deemed appropriate, to reflect, among other projections, the interim increase authorized by Decision No. 72996; the cost of labor and allied payroll expenses, effective generally as of June 1, 1968; and the estimated results of operations under the initial and subsequently amended proposed increases. A comparison of the estimated financial results of operations, for a projected rate year, as determined by the staff engineer and applicants' tariff agent, is set forth in the following table:

TABLE 2

Comparison of Estimated Operating Ratios  
(After Income Taxes) Under Original and Subsequent  
Amended Proposed Rates; Reflecting Operating  
Expenses as of June 1, 1968 for the Rate Year

	Applicant		Staff	
	Original	Amended	Original	Amended
	Proposed	Rate	Proposed	Rate
Warehousemen	Rates	Proposal	Rates	Proposal
	(Percent)		(Percent)	
Bay Cities	-	-	82.4	-
Walkup	-	-	89.4	-
Central	90.5	88.8	91.2	89.5
De Pue	103.4	100.5	96.4	95.0
Encinal	90.3	90.1	87.9	87.7
Gibraltar	98.2	95.5	98.4	95.7
Haslett	94.9	93.4	95.0	93.5
San Francisco	105.3	100.2	-	-
Thompson	96.4	94.7	91.6	89.8
Walton	96.1	93.8	99.1	96.7
Total	97.7	95.5	93.2	92.6

It will be noted from Table 2 that the tariff agent and the staff engineer both expect the representative warehousemen to experience somewhat comparable operating ratios under the original and amended rate proposal. Should the sought relief be granted, Table 2 indicates that applicants should realize an overall operating ratio of approximately 92 to 95 percent. If, as in prior proceedings of a similar nature, the current and projected operating ratios of applicants were to be stressed as the major criterion for evaluating their rate proposal, the requested relief would meet the standards previously observed by the Commission when finding similar increases to be justified. However, the staff's recommendations are, in this particular instance, predicated upon the present and projected rates of return developed by the staff engineer. The rate base determinations, from which said rates of return are calculated, stem from the net plant investment computed by the staff financial witness plus an allowance for working cash, the approximate equivalent of two weeks operating expenses.

The tariff agent stated that the warehouse operations, with the exception of three,<sup>5/</sup> own no significant rate base due to the fact that their operations are conducted primarily in rented facilities. For this reason, the tariff agent contends that the revenue needs of applicants should be evaluated, as in the past ten years, on the basis of operating ratios found to be justified by the Commission. The tariff agent did, however, introduce in evidence a rate of return study (Exhibit 11) and a study of the estimated cost to finance the capital investment required if the applicant warehousemen were to build their own warehouse plant facilities and thereby replace existing rented warehouse buildings and land (Exhibit 12). It was explained that such studies were intended to show why applicants must rent their warehouse plant facilities. It is not the contention of the tariff agent that the rates of return developed by his study would, in fact, be those actually experienced by applicants.

In order to compute a rate base which would reflect all of the warehouse plant facilities utilized by applicants, the tariff agent first determined the number of square feet of building and land space rented by the representative applicant warehousemen. The replacement value of the rented buildings and land space was determined on the basis of \$5.00 and \$2.00 per square foot, respectively. The tariff agent explained that said replacement costs are understated for the metropolitan area of San Francisco and Oakland. The total cost of the rented buildings and land space thus determined were further adjusted, as indicated in Exhibit 11, in order to determine the net replacement value of the warehouse facilities rented by the representative applicant warehousemen. To this computation was added the net value of the warehouse property and equipment owned by

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5/ Encinal Terminals, Haslett Co., and San Francisco Warehouse Co.



the selected applicants plus an allowance for working cash which was based upon two months' operating expenses minus depreciation.

A summary of the overall results of the rate of return studies conducted by applicants' tariff agent and the staff engineer is set forth in the following Table 3:

TABLE 3

Summary of Rate Base Computations and  
Estimated Rates of Return for Selected  
Representative Applicant Warehousemen  
for a Rate Year

Item	: Applicants :	Staff :
Period-Rate Year	1967	Year Ending May 31, 1967
Working Cash	\$ 811,988	(1)
Warehouse Property and Equipment- Net Value	2,119,219	(2)
(See Note 4)	2,931,207	
Value Rented Property and Equipment	7,438,958	(2)
Total Rate Base	\$10,370,165	\$2,867,616
Rate of Return		
(a) Original Rate Proposal	-	12.9%
(b) Amended Rate Proposal	-	16.7
Note 1	3.3%	-
" 2	5.4	-
" 3	8.0	-
" 4	8.4	-

(1) Working cash included in total rate base.

(2) Net plant investment plus rented facilities from affiliates.

Note 1. Rented warehouse facilities considered to have a replacement value of \$5.00 and \$2.00 per square foot for buildings and land space, respectively.

" 2. Rented warehouse facilities considered to be 50 percent depreciated.

" 3. Rented warehouse facilities considered to be 75 percent depreciated.

" 4. Rate base includes only net value of warehouse plant owned plus working cash.

It will be noted from Table 3 that the total rate base and related rates of return computed by the tariff agent are in substantial disagreement with the like calculations of the staff

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engineer. The rate base and related rates of return determined by the staff do not reflect, as do the like computations of the tariff agent, the value of warehouse facilities rented by the representative warehousemen from parties other than affiliates; which, as shown on Table 3 hereof, constitutes a major portion of the warehouse plant facilities involved. It should also be noted that the tariff agent's allowance for working cash is based upon two months operating expense; whereas the staff's allowance reflects an amount equal to approximately two weeks operating expenses. The comparative differences, together with the dissimilarity in the adjustments to the recorded financial results of operations for the selected applicant warehousemen, deemed proper in the judgment of the tariff agent and the staff, respectively, account for the more favorable overall rates of return developed by the staff. In this connection, it will be noted that from a rate base of \$2,931,207, which compares quite favorably with the total rate base of \$2,867,616 computed by the staff, the tariff agent develops a projected rate of return of only 8.4 percent; whereas the staff anticipates a net rate of return of 16.7 percent should the sought relief be authorized.

At wage levels and allied payroll expenses experienced by applicants as of June 1, 1968, and the interim increase authorized by Decision No. 72996, the staff contemplates that the representative applicant warehousemen will experience an overall operating ratio of 95.9 percent and a rate of return of 7.4 percent (Table 1). Under the original sought increase, which includes a 12-1/2 percent increase in storage rates in addition to the interim increase in handling charges previously authorized, the staff estimates that the applicants, as a group, would attain an operating ratio of 93.2 percent (Table 2) and a rate of return of 12.9 percent (Table 3). Should applicants now be granted the additional sought wage offset increase in handling charges, not heretofore considered by the

Commission, the staff estimates that applicants would achieve an operating ratio of 92.6 percent and enjoy a 16.7 percent rate of return as shown in Table 3 hereof. It is the considered judgment of the Commission's staff that a ten percent overall rate of return would be reasonable for applicants' utility warehouse operations. The staff contends that applicants' earnings under the interim increase were adequate prior to the June 1, 1968 cost of labor and allied payroll expenses. In view of such increases in labor and related expenses, the staff now recommends that applicants be granted a further increase of 6-1/2 percent in storage rates, in lieu of the sought 12-1/2 percent increase in such rates and the additional wage offset increase in handling charges requested by applicants. The staff estimates that its alternative rate proposal will produce an overall ten percent rate of return when predicated upon a rate base of \$2,867,616.

The staff's alternative rate proposal is vigorously opposed by applicants. They contend that the staff recommendation is basically unsound in that it is predicated upon rates of return constructed from a rate base which is assertedly completely unrealistic to the extent it does not include a major portion of the leased plant facilities actually utilized. In view of the fact that applicants assertedly do not own a rate base, it is contended that the Commission should continue its past practice of placing greater emphasis upon applicant warehousemen's operating ratios. Applicants have endeavored to show (Table 3) that if they were to replace all of their leased plant facilities in order to develop a realistic rate base, a rate of return of only 3.3 percent could be expected. From this it is argued that no prudent warehousemen would invest its capital in warehouse plant facilities when the existing financial market will pay a substantially higher interest return than 3.3 percent. Consequently the tariff agent contends that it is essential that

applicants continue the existing practice of renting a major portion of their plant facilities. If applicants were to replace their existing leased warehouse plant facilities with like installations of their own, the tariff agent has shown (Exhibit 12) that the cost to finance the required capital investment would necessitate, in addition to the increase sought herein, consecutive five-year additional increases in rates of 13.2, 9.8 and 5.6 percent, respectively.

The staff engineer's projected rates of return, under the amended rate proposal, for the individual representative warehousemen range from a high of 152.9 percent to a low of 6.0 percent. This wide divergence in the staff's computation is, to a large extent, due to the fact that the staff's rate base determinations include only the relatively small portion of the total warehouse plant facilities involved which is actually owned by applicants or operated through their affiliates. For this and other reasons peculiar to applicants' warehouse operations, the Commission over the past decade has been disposed to place greater emphasis upon the operating ratio, rather than the rate of return, as a significant barometer for evaluating the reasonableness of applicants' rate proposals, and to consider the industry as a whole in any particular locality rather than approach the subject on the bases of the individual warehouse operation. Moreover, to now place major emphasis upon rates of return as a measure of applicants' financial results of operations when determined from a rate base reflecting only a relatively small segment of the total plant facilities involved could, if pursued to its ultimate end, lead to unrealistic conclusions as to what constitutes a reasonable net income.

The tariff agent's rate of return study for individual representative warehousemen, when determined from a rate base

reflecting replacement costs of all rented warehouse plant facilities, range from a high of 7.1 percent to a low of 1.1 percent with, as shown in Table 3 hereof, an overall rate of return of 3.3 percent. If the rented plant facilities were considered to be 50 or 75 percent depreciated, the tariff agent explained that said overall rate of return would be increased to 5.4 and 8.4 percent, respectively. Due to the peculiar facts and circumstances surrounding these warehouse operations, the tariff agent's rate base and rate of return studies appear to be more of a reflection of the potential earning power of the warehouse plant facilities utilized by applicants rather than a measure of the actual amount of net income earned.

Operating ratio and rate of return studies, such as conducted by the Commission's staff and applicants' tariff agent, collectively represent critical indices for evaluating the revenue needs of the warehouse operations. However, such standards for determining applicants' financial need when standing alone or taken out of context from all of the other related facts and conditions surrounding the warehouse functions may be very misleading as to the true financial results of applicants' warehouse operations. ✓

#### Findings and Conclusions

The Commission finds that:

1. Applicants are experiencing increases in their utility warehouse operating expenses which are not reflected in their tariff rates and charges.
2. Applicants have demonstrated a need for additional revenues in connection with their public utility warehouse operations.
3. The estimated results of operations under applicants' amended sought increases in rates and charges, in lieu of the existing interim increase authorized by Decision No. 72996, are reasonable.

4. The sought increase of 12-1/2 percent in storage rates; the requested additional increases in certain handling and accessorial service rates and charges named in specified tariff items to offset recent upward adjustments in the cost of labor and allied payroll expenses, effective generally as of June 1, 1968; and the continued application of the interim authority granted by Decision No. 72996 have been justified.

5. In view of the fact that upward adjustments in applicants' cost of labor and related payroll expenses have been in effect generally as of June 1, 1968, authority should be granted to establish the increased rates and charges found justified herein on 5 days' notice to the Commission and the public.

Based upon the above findings, we conclude that Application No. 49526, 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. 49526, as amended. Tariff publications authorized to be made as a result of the order herein may be made effective not earlier than five days after the effective date hereof on not less than five days' notice to the Commission and to the public.

2. In publishing the increases authorized herein applicants shall dispose of fractions as follows:

- (a) Where the resulting rate is less than ten cents, fractions less than one-half mill will be dropped and fractions one-half mill and greater will be raised to the next whole mill.

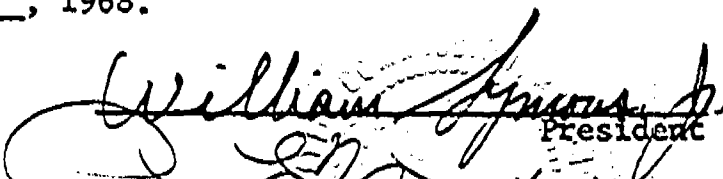

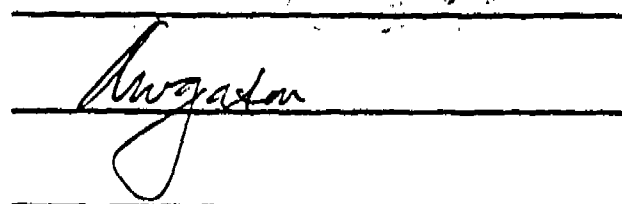
- (b) Where the resulting rate is ten cents or over, fractions less than one-half cent will be dropped and fractions one-half cent or greater will be raised to the next whole cent.

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 constitutes 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 13<sup>th</sup> day of 1 AUGUST, 1968.

  
President  
  
  
Commissioners

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

Commissioner Fred P. Morrissey, being necessarily absent, did not participate in the disposition of this proceeding.