

ORIGINAL

Decision No. 75284

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
BEKINS WAREHOUSING CORP., CITY TRANS-
FER, INC., doing business as City
Warehouse & Storage Co., CRESCENT
WAREHOUSE CO., LTD., J. D. TRANSPOR-
TATION CO., doing business as Harbor
Truck Lines, and WEST COAST WARE-
HOUSE CORPORATION, for authority to
increase their rates and charges as
warehousemen in the Los Angeles Long
Beach Area.

Application No. 50458
(Filed August 2, 1968;
Amended October 9 and
November 26, 1968.)

Russell & Schureman, by Carl H. Fritze,
for applicants.
Jackson W. Kendall, for Bekins Warehousing
Corp., applicant.
James Quintrall, for Los Angeles Warehouse-
men's Association, interested party.
Dale R. Whitehead, Robert W. Stich and
Kenji Tomita, for the Commission staff.

O P I N I O N

By this application, as amended, five public utility ware-
housemen,^{1/} operating at Los Angeles Harbor and Long Beach, seek
authority to increase their warehouse rates and charges, as set
forth in California Warehouse Tariff Bureau Warehouse Tariff No.13-B,
issued by Jack L. Dawson, Agent. Specifically, applicants propose
to increase storage rates by 10 percent and other rates and charges
by 40 percent.

^{1/} The applicants will be hereinafter referred to, respectively,
as indicated parenthetically, viz.: Bekins Warehousing Corp.
(Bekins), City Transfer, Inc., doing business as City Warehouse
and Storage Co. (City), Crescent Warehouse Co., Ltd. (Crescent),
J. D. Transportation Co., doing business as Harbor Truck Lines
(Harbor), and West Coast Warehouse Corporation (West Coast).

Public hearings were held before Examiner Bishop at Los Angeles on October 29 and December 3, 1968. Evidence on behalf of applicants was presented through the district manager of Bekins Van and Storage Co., ^{2/} by that company's chief accountant for the Long Beach area, and by a public accountant. Representatives of the Commission's Transportation Division and its Finance and Accounts Division and of the Los Angeles Draymen's Association participated in the development of the record through examination of applicants' witnesses. At the adjourned hearing a staff representative introduced a document in which were summarized the results of studies made of the involved warehouse operations and book records of applicants and in which was set forth a statement of the staff's position in the matter. The staff studies were made by a member of the Finance and Accounts Division and by members of the Cost and Rate Sections of the Freight Economics Branch of the Transportation Division. The document was received in evidence. ^{3/}

The original application, including tables purporting to reflect operating results for 1967 and estimated results of operation, for a rate year, under present and proposed rates, was filed on August 2, 1968; however, near the end of August staff members were orally advised by a representative of Bekins that some of the figures in the application were not correct, that additional preparation would be necessary and that an amended application would be filed. That pleading was filed on October 9, 1968, completely

^{2/} Applicant Bekins Warehousing Corp. is a subsidiary of Bekins Van and Storage Co. The above-mentioned witness also manages the plant of applicant Bekins involved herein.

^{3/} The staff representative stated that, if requested, the staff members who prepared the data in the staff report would be made available for questioning under oath regarding the contents of the report. No such request was made.

superseding the original application. Thereafter, the staff was in a position to proceed with its studies and the adjourned hearing was scheduled for receipt of the staff evidence.^{4/}

The record shows that the present rates and charges have been in effect, as to all applicants except Harbor, since September 30, 1963, when increases were authorized pursuant to Decision No. 66066 in Application No. 45056. Said rates and charges became applicable in connection with Harbor in 1965 when that utility was made a party to the aforesaid Tariff No. 13-B by Decisions Nos. 68650 and 68917 in Application No. 47226. Since 1963 warehouse operating expenses have increased substantially. Contracts with labor unions have provided for scheduled increases in wage rates and in employee benefits. Renegotiations of labor agreements have included provision for the continuation of such upward adjustments.

A series of exhibits prepared by the public accountant shows the history of wage rates and other labor contract provisions from July 1, 1962 to, and including, the latest wage rate increase, effective July 1, 1968. Under the Teamsters agreement, for example, applicable at the West Coast and Harbor warehouses, the basic hourly rate for freight handlers increased during this period from \$2.740 to \$3.945 (44 percent), and the corresponding rate for forklift operators increased from \$2.910 to \$3.965 (36.25 percent). Under the van and storage contract, applicable at the Bekins plant, the hourly rate for "warehousemen" increased 23.9 percent and under the longshoremen's contract, applicable at Crescent, the rate for warehouse laborers increased 26.8 percent. Under one contract series

^{4/} In the amendment filed on November 26, 1968 authority is sought to publish the proposed increase in rates as a surcharge.

the pension fund rate per man per hour increased 150 percent during the same period. Increases in operating expenses other than labor have also been experienced.

The 40 percent increase sought in rates and charges for services other than storage, the Bekins manager testified, are intended to offset the increases in labor costs which have occurred since 1963. To accomplish the same result with respect to storage rates, he said, would require increases of from 15 to 20 percent in those rates. It was management's decision to seek an increase of only 10 percent.

System operating results for each of the five applicants, for the year 1967, were set forth in exhibits introduced through the public accountant. He also presented the summary of a study of estimated operating results for the public utility warehouse services covered by the aforesaid Tariff No. 13-B, for three applicants deemed to be representative of the industry, namely, Bekins, City and West Coast. These exhibits were for the calendar year 1967 and for the first six months of 1968. They show estimated results both under present rates and proposed rates and at current expense levels.^{5/} The exhibits show composite operating results for the three operators as a group, as well as individual results.

The witness explained that operations of Crescent were not considered representative because they are devoted almost entirely to longshore business; a like conclusion was reached regarding Harbor because its public utility warehouse operating

^{5/} The witness had made a detailed analysis of the book records of West Coast. Generally, figures for the other from applicants were supplied by the respective utilities. Testimony regarding the figures shown for Bekins was given by the aforesaid Long Beach area chief accountant of Bekins Van and Storage Company.

expenses far exceeded revenues, the rental charges alone, in fact, substantially exceeding revenues. However, estimated operating results for Crescent and Harbor were also presented.

In Table I below, the accountant's estimate of operating results of the "representative" operators, for the calendar year 1967, for the services here in issue, are summarized. These are compared with the results developed by the staff for the same period.

TABLE I

Public Utility Warehouse Operating Results at
Involved Warehouses for Calendar Year 1967,
As Developed by Applicants and Staff, Respectively.

	<u>Bekins</u>		<u>City</u>		<u>West Coast</u>		<u>Composite</u>	
	<u>Appl.</u>	<u>Staff#</u>	<u>Appl.</u>	<u>Staff</u>	<u>Appl.</u>	<u>Staff</u>	<u>Appl.</u>	<u>Staff</u>
Revenues	\$83,809	\$83,809	\$18,915	\$18,915	\$382,180	\$382,180	\$484,904	\$484,904
Expenses	97,283	86,737	20,464	21,849	387,272	413,934	505,019	522,520
Net Before								
Income Taxes	(13,474)	(2,928)	(1,549)	(2,934)	(5,092)	(31,754)	(20,115)	(37,616)
Income Taxes	100	100	100	100	100	100	300	300
Net After In-								
come Taxes	(13,574)	(3,028)	(1,649)	(3,034)	(5,192)	(31,854)	(20,415)	(37,916)
Oper. Ratio	116.2%	103.6%	108.7%	116.0%	101.4%	108.3%	104.2%	107.8%

(Red Figure)

Adjusted by substitution of landlord expenses
of affiliate for rent expense of applicant.

In Table II, below, are shown the 1967 operating results as adjusted to give effect to rate increases, effective April 1, 1968, on storage and other services performed at the West Coast Long Beach warehouse under another tariff (C.W.T.B. Tariff No. 28-A) and to give effect for a full 12-month period to current wage scales applicable at the respective warehouses.

TABLE II

Operating Results for Year 1967 Adjusted
to Give Effect to 1968 Rate Increases and
to Reflect Current Wage Scales.

	<u>Bekins</u>		<u>City</u>		<u>West Coast</u>		<u>Composite</u>	
	<u>Appl.</u>	<u>Staff#</u>	<u>Appl.</u>	<u>Staff</u>	<u>Appl.</u>	<u>Staff</u>	<u>Appl.</u>	<u>Staff</u>
Revenues	\$ 83,809	\$83,809	\$18,915	\$18,915	\$384,278	\$384,278	\$487,002	\$487,002
Expenses	101,089	91,194	21,009	22,425	394,993	423,456	517,091	537,075
Net Before								
Income Taxes	(17,280)	(7,385)	(2,094)	(3,510)	(10,715)	(39,178)	(30,089)	(50,073)
Income Taxes	100	100	100	100	100	100	300	300
Net After								
Income Taxes	(17,380)	(7,485)	(2,194)	(3,610)	(10,815)	(39,278)	(30,389)	(50,373)
Oper. Ratio	120.7%	108.9%	111.6%	119.1%	102.8%	110.2%	106.2%	110.3%

(Red Figure)

Adjusted by substitution of landlord expenses
of affiliate for rent expense of applicant.

In Table III below are shown the 1967 results of operation adjusted as in Table II but reflecting the proposed rates in lieu of present rates.

TABLE III

Operating Results for 1967 Adjusted to
Reflect Present Wage Scales, Tariff No. 28-A
1968 Increases and Proposed Tariff No. 13-B Increases

	<u>Bekins#</u>		<u>City</u>		<u>West Coast</u>		<u>Composite</u>	
	<u>Appl.</u>	<u>Staff</u>	<u>Appl.</u>	<u>Staff</u>	<u>Appl.</u>	<u>Staff</u>	<u>Appl.</u>	<u>Staff</u>
Revenues	\$101,790	\$101,699	\$23,550	\$23,550	\$444,040	\$444,040	\$569,380	\$569,289
Expenses	89,902	91,194	21,595	23,011	405,680	434,143	517,177	548,348
Net Before								
Income Taxes	11,888	10,505	1,955	539	38,360	9,897	52,203	20,941
Income Taxes	3,508	3,099	577	159	14,371	2,920	18,456	6,178
Net After								
Income Taxes	8,380	7,406	1,378	380	23,989	6,977	33,747	14,763
Oper. Ratio	91.8%	92.7%	94.1%	98.4%	94.6%	98.4%	94.1%	97.4%
Rate Base	\$ 77,434	\$ 76,715	\$ 1,705	\$ 1,918	\$ 55,911	\$ 59,817	\$135,050	\$138,450
Rate of Return	10.8%	9.7%	80.8%	19.8%	42.9%	11.7%	25.0%	10.7%

Adjusted by substitution of landlord expenses
and investment of affiliate for rent expense and
investment (working capital) of applicant.

In Table IV below are shown estimated operating ratios of the "representative" applicants for the first six months of 1968, under the sets of circumstances on which the operating results for 1967 were developed and summarized in Tables I, II and III, respectively. These figures were developed by the public accountant. The staff did not prepare similar estimates.

TABLE IV

Estimated Operating Ratios for
6-month Period Ended June 30, 1968
 (after income taxes)

	<u>Bekins</u>	<u>City</u>	<u>West Coast</u>	<u>Composite</u>
Table I	130.6	93.1	108.1	110.4
Table II	131.0	93.8	108.6	110.9
Table III	94.8#	82.9	97.7	96.4

Adjusted by substitution of landlord expenses of affiliate for rent expense of applicant.

The public utility warehouse revenues of Crescent and Harbor for the services here in issue, for the year 1967, were \$7,468 and \$20,389, respectively. Together, they comprised only 5.4 percent of the total such revenues of the five applicants. Because of the unusual circumstances attending the utility operations of Crescent and Harbor, the accountant's estimate of their operating results under the proposed rates and at current expense levels produces operating ratios for these applicants, after income taxes, of 29.7 and 220.4 percent, respectively. The staff did not set forth in its exhibit any data relative to the operations of Crescent or of Harbor.

In developing their estimates of operating results, applicants and the staff found it necessary to segregate operating expenses, and in some instances make allocations on various bases to the operations the rates and charges for which are sought to be increased. These procedures were necessary because of other types of business being conducted by the operators, such as trucking or longshore activities, or of nonutility warehousing, or of public utility warehousing conducted under tariffs other than that for which increases are sought.

One adjustment consistently made by the staff in the foregoing tables was to substitute affiliate's landlord expenses for applicant's rental expense and to include in applicant's rate base affiliate's depreciated investment in land, building and equipment. These adjustments were possible only with respect to Bekins, which is the only applicant involved herein which conducts its operations in premises owned by an affiliate (Bekins Van and Storage Company). Applicant's accountant witness made such adjustments only in connection with its estimate of operating results under proposed rates and current expense levels (Table III above). The Commission has consistently held that such adjustments, where the landlord figures are available, should be made. Thus the effect of excessive rental charges is avoided and a more realistic rate base is developed for rate of return purposes. Where the depreciated investment in land, buildings and equipment devoted to public utility use is not included in the utility's rate base, the resulting rate of return is of little value, if any, for rate-making purposes.

Table II, above, shows that, under estimates of both the applicant accountant and of the staff, under present rates and

current expense levels all three of the "representative" applicants are operating the services in question at a loss. Table III shows that both the applicants and the staff estimate that under proposed rates and current expense levels the subject operations of these three utilities would be conducted at a profit, the estimated results of applicants being, in each case, more favorable than those of the staff. Applicants' estimates range from 91.8 to 94.6 percent, with a composite ratio for the three utilities of 94.1 percent. The corresponding ratios estimated by the staff are 92.7, 98.4 and 97.4.

The record shows that, in respect to some expense items, there are differences in the methods of allocation utilized by applicants and the staff, respectively. However, in view of the fact that the estimated results in the more favorable set of ratios are not unreasonable, it is not deemed necessary to discuss those differences.

The staff position, as set forth in its exhibit, is that applicants appear to be in need of additional revenues, that the proposed rate increases would not produce unreasonable operating ratios and rates of return and that applicants' volume of storage would not be adversely affected. The staff recommends that the sought rate increases be authorized.

Notices of the applicants' proposals were mailed to all storers in advance of the hearing. No one appeared in opposition to the sought increases in rates.

We find that:

1. Present rates and charges do not provide revenues sufficient to enable applicants, other than Crescent, to cover the expenses of performing the public utility warehouse operations here involved.

2. It is essential, since applicants are in competition with one another, that a parity of rates and charges as among the several applicants be maintained.

3. Revenues to be derived under the proposed increased rates and charges will not be excessive.

4. The proposed increases in rates and charges are reasonable and justified.

5. Applicants' request for authority to establish the increased rates and charges by means of a surcharge supplement to the involved tariff is reasonable and should be authorized, subject to the condition that within ninety days after the effective date of the order which follows applicants shall incorporate the increases specifically in the affected individual rates and charges set forth in said tariff.

In view of the urgent need for additional revenues authority should be granted, as requested in the amended application, to establish the increased rates and charges found justified herein on not less than ten days' notice to the Commission and to the public.

We conclude that the application, as amended, should be granted.

O R D E R

IT IS ORDERED that:

1. Applicants are authorized to establish the increased rates and charges proposed in Application No. 50458, as amended. The tariff publications authorized to be made as a result of the order herein shall be filed not earlier than the effective date of this order and 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 Exhibit 11 in this proceeding, 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 said increased rates and charges may be determined without the use of a surcharge provision, said further amendment to be completed within ninety days after the effective date hereof.

3. In establishing the increased rates and charges authorized in paragraph 1 hereof, disposition of fractions shall be made as proposed in said Exhibit 11 in this proceeding.

4. 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.

5. The authority herein granted will 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 _____ day of FEBRUARY, 1969.

William Symons, Jr.
President
Augusta
Harold P. Monussey
Thomas M. ...
Commissioners

Commissioner J. P. Vukasin, Jr., being necessarily absent, did not participate in the disposition of this proceeding.