

ORIGINALDecision No. 75285

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of ACE CITY DELIVERY, doing business as ACE CITY WAREHOUSE, KROWN TRANSPORTATION CO., doing business as AMERICAN WAREHOUSE, CHARLES A. PEARSON, doing business as AHAHEIM 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, COMMERCE WAREHOUSE COMPANY, CONSOLIDATED WAREHOUSE COMPANY OF CALIFORNIA, DART PUBLIC WAREHOUSE, INC., DAVIES WAREHOUSE COMPANY, FREIGHT TRANSPORT COMPANY, INTER-AMERICAN WAREHOUSE CORPORATION, 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., PEERLESS TRUCKING COMPANY, QUALITY WAREHOUSE & DISTRIBUTING, REDWAY TRUCK AND WAREHOUSE COMPANY, TORRANCE VAN & STORAGE COMPANY, doing business as S. & M. TRANSFER & STORAGE CO., SIGNAL TRUCKING SERVICE, LTD., STAR TRUCK & TRANSFER COMPANY and PIONEER TRUCK COMPANY, doing business as STAR TRUCK AND WAREHOUSE CORPORATION, STORE-CENTER, INC., SUPERIOR FAST DRAYAGE, TRULOVE TRANSFER & STORAGE, INC., UNION TERMINAL WAREHOUSE, VELTMAN WAREHOUSE CO., VERNON CENTRAL WAREHOUSE, INC., doing business as VERNON WAREHOUSE COMPANY, WEBER TRUCK AND WAREHOUSE, 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. 50558
(Filed September 18, 1968)

Arlo D. Poe and James Quintrall, for all applicants.
Harold Drury, for Pacific Coast Terminal Warehouse; Jackson W. Kendall, for Bekins Warehousing Corporation; Larry Pittman, for Interamerican Warehouse Corporation and Star Truck and Warehouse Corporation; Alexander M. Dickie, for California Warehouse Corporation; W. E. Prusa and Elmus M. Ely, for Overland Terminal Warehouse Company; Clyde R. Hoagland, for Redway Truck & Warehouse Company; Charles L. Shuken, for Metropolitan Warehouse Company; and Harold W. Topham, for Union Terminal Warehouse, applicants.
Jack L. Dawson, for California Warehouse Tariff Bureau; and E. J. Langhofer, and Melton W. Flack, for Miller Traffic Service, interested parties.
Kenji Tomita and Robert W. Stich, for the Commission staff.

O P I N I O N

Applicants operate as public utility warehousemen for the storage of general commodities within the Los Angeles Metropolitan area. In this application they seek authority to increase all rates and charges other than storage rates by 5-1/2 percent. The tariffs involved are California Warehouse Tariff Bureau Tariffs Nos. 28-A and 29-A; M & M Transfer Company Warehouse Tariff No. 13; Torrance Van & Storage Company, dba S & M Transfer & Storage Co., Warehouse Tariff No. 7; Vernon Central Warehouse Inc., dba Vernon Warehouse Company, Warehouse Tariff No. 5; and Union Terminal Warehouse Tariff No. 1.

Public hearing was held before Examiner Mallory at Los Angeles on December 10 and 11, 1968. The matter was submitted on the latter date. Evidence was adduced on behalf of applicants and the Commission staff.

Notices of the proposed increases were mailed by applicants to all their respective storers early in November 1968. No storers, or other consumer interests, appeared in opposition to the proposals.

The rates and charges of applicants were most recently increased pursuant to Decision No. 73851, dated March 12, 1968, in Application No. 49761. Applicants allege that since said decision the costs to applicants of providing warehouse service have increased. The principal cost increase experienced by applicants has been in wages paid for warehouse and clerical labor. Applicants further allege that the present rates and charges for services other than storage will be inadequate to meet operating expenses and provide a reasonable return to applicants.

Applicants' Showing

Evidence on behalf of applicants was presented through an accountant who is also the executive secretary and treasurer of the Los Angeles Warehousemen's Association and through the tariff publishing agent of the California Warehouse Tariff Bureau.

The accountant testified that the sought rate increases are intended to offset wage and related cost increases which have transpired since July 1, 1967.^{1/} These increases occurred on various dates in 1968, according to the labor organization involved.^{2/} For example, as of July 1, 1968 the starting hourly wage rate for warehouse laborers in Local 598 (Los Angeles) was 6.22 percent higher than the corresponding rate in effect on July 1, 1967.

This witness introduced a series of exhibits designed to show the impact of the increased operating costs upon the operating results of applicants and the rate increases deemed necessary to provide additional revenues sufficient to compensate the warehousemen for the augmented operating expenses. One exhibit, embracing the operations of eleven of the largest of the applicant warehousemen,^{3/} showed the operating results for the year 1967, and those results as adjusted to reflect, on an annual basis, revenues at present rates and current cost levels, also under the proposed rates and current cost levels.

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- 1/ The wage rates considered in Decision No. 73851, supra, were those effective on April 1, 1967 and July 1, 1967.
- 2/ General Warehouse Union Local 598, Local Teamsters' Union Joint Counsel 42, and three van and storage locals are involved. Basic wage rates in agreements with all of these locals experienced increases in 1968.
- 3/ The warehousemen in question are the same as those utilized as representative both in applicants' and the Commission staff's studies in Decision No. 73851, supra, and in Decision No. 70589 dated April 19, 1966, in Application No. 47175. According to the record, the eleven warehousemen account for about 75 percent of the revenues of all 42 applicants.

For those operators, as a group, the witness had developed the total additional operating expenses on an annual basis, by reason of the cost increases heretofore mentioned, to be \$235,013. The aggregate of additional revenues for these same warehousemen under the proposed rates he calculated would amount to \$242,727. In other words, he found that an increase of 5-1/2 percent in all rates and charges, exclusive of those for storage, would produce additional revenues which would approximate the aggregate of increased expenses.

Table I, below, summarizes the estimated public utility warehouse operating results for the selected group for a projected rate year at present and proposed rates.

TABLE I

Applicants' Estimated Results of Operations
For 11 Representative Warehousemen for a Rate Year
Under Operating Expense Levels as of July 1, 1968
(After Income Taxes)

Warehousemen	Under Present Rates		Under Proposed Rates	
	Net Income	Operating Ratio(%)	Net Income	Operating Ratio(%)
H. G. Chaffee	\$ 3,294	97.31	\$ 6,050	95.22
Davies	25,555	93.51	32,028	92.16
Interamerican	6,316	98.56	38,398 *	91.49*
Metropolitan	27,853	97.81	67,453 *	94.89*
Overland	17,615	97.69	28,897	96.33
Pacific Commercial	19,411	93.37	34,037 *	88.71*
Star Truck	43,312	93.70	53,865	92.43
Union Terminal	(75,089)	105.94	(36,766)*	102.81*
Subtotals	\$ 68,267	98.69	\$223,962	95.86
Calif. Warehouse**	\$(59,566)	122.19	\$(50,905)	118.38
Pacific Coast **	22,295	98.25	41,943	96.81
Redway Truck **	4,007	98.43	10,260	96.12
Totals	\$ 35,003	99.50	\$225,260	96.90

(Red Figure)

* Reflects substitution of affiliates' expenses in lieu of rent paid by applicants.

** Warehouse facilities rented from nonaffiliates.

The procedures employed in developing the projected operating results in Table I were consonant with those employed in applicants' presentation made in Applications Nos. 47175 and 49761. The witness pointed out that, while under existing labor agreements further increases in labor and related expense will be experienced in 1969, such increased costs have not been taken into account in developing the estimates summarized in Table I.

The accountant also prepared an exhibit showing estimated operating results for the projected rate year for 26 of the applicants not included in the group of eleven operators, above.^{4/} Three other applicants rendered no public utility warehouse service in 1967. The accountant testified that many of the 26 warehouses in the second group primarily engaged in other business activities, such as drayage and the storage of household effects, during 1967. He asserted that the operating results of these concerns in the field of public utility warehousing are not typical. Some reflect extremely favorable, and others very unfavorable operating ratios. The aggregate operating ratios estimated for this second group of 26 applicants were 94.7 percent under a continuation of present rates, and 93.3 percent under the proposed rates, after income taxes.

The tariff agent presented in evidence an exhibit showing the proposed method of increasing the rates and charges in the various warehouse tariffs. Specific charges for accessorial services in Tariffs 28-A and 29-A and rates and charges in other tariffs are to be increased by 5-1/2 percent; rounding to the nearest mill for charges of less than 7-1/2 cents, and to the nearest cent for charges of 7-1/2 cents or more. Handling rates in Tariffs 28-A and

^{4/} Operating results for Signal Trucking Service and Veltman Warehouse were not included in this study.

29-A are to be subject to a surcharge of 5-1/2 percent. The witness stated that there are numerous separate handling rates involved and that it will require a great deal of time to revise the tariffs to reflect the increase in each rate, thus delaying by several weeks the date that the increases could be made effective.

The tariff agent also presented in evidence an exhibit designed to show that the separate categories of warehouse expenses bear the same percentagewise relationship to total expenses in the current fiscal period as in the prior fiscal period.

Staff Showing

A joint report was prepared and presented in evidence by a financial examiner and by a transportation engineer representing the Commission's Finance and Accounts Division and Transportation Division, respectively.

The financial examiner testified as to his analysis of historical year revenues and expenses, and adjustments made thereto, for the same eleven warehousemen used in applicants' presentation. Two periods were used in this analysis; the year 1967, the last calendar year for which recorded data were available; and the 12-month period ended June 30, 1968. The witness made certain accounting adjustments to the data extracted from books and records of applicants. The two principal adjustments were to give effect to the substitution of ownership costs for rents paid to affiliates, and to reclassify certain expenses as between utility and nonutility operations.

The following table depicts the historical period operating results, adjusted, as developed by the financial examiner.

TABLE II

Commission Staff Historical Year Operating Results,
Adjusted, for 11 Representative Warehousemen
(After Income Taxes)

Warehousemen	Year 1967		Year Ended 6/30/68	
	Net Income	Operating Ratio(%)	Net Income	Operating Ratio(%)
R. G. Chaffee	\$ 5,188	95.6	\$ 10,723	90.9
Davies	23,513	93.7	23,388	94.2
Interamerican	47,783 *	88.6*	56,952 *	88.8*
Metropolitan	99,572 *	91.8*	95,385 *	92.2*
Overland	19,574	97.3	7,480	99.0
Pacific Commercial	38,177 *	86.4*	40,928 *	86.1*
Star Truck	47,424	92.7	40,906	93.4
Union Terminal	(57,209)*	104.8*	(162,017)*	114.1*
Subtotals	\$224,022	95.5	\$113,745	97.7
Calif. Warehouse**	\$(66,780)	126.1	\$(76,466)	135.9
Pacific Coast **	22,996	98.1	31,070	97.6
Redway Truck **	2,184	99.1	NA	NA
Totals	\$182,422	97.3	\$ 68,349	99.0

(Red Figure)

* Reflects substitution of affiliates' expenses in lieu of rent paid by applicants.

** Warehouse facilities rented from nonaffiliates.

NA= Not Available.

The Commission staff engineer presented in evidence estimated operating results for a projected rate year at present and proposed rate levels. These data were developed by adjusting historical year expenses to reflect wage costs and payroll taxes in effect January 1, 1969, and adjusting historical year revenues to give effect for a full year to the increases in rates granted by Decision No. 73851, supra. These estimates are set forth in the following table.

TABLE III

Commission Staff Estimated Operating Results
For Projected Rate Year
At Present and Proposed Rates
(After Income Taxes)

Warehousemen	Present Rates		Proposed Rates	
	Net Income	Operating Ratio(%)	Net Income	Operating Ratio(%)
H.G. Chaffee	\$ 11,486	90.6	\$ 14,197	88.7
Davies	25,282	93.9	31,727	92.7
Interamerican	57,467 *	88.9*	64,430 *	87.9*
Metropolitan	89,081 *	93.0*	109,905 *	91.7*
Overland	3,864	99.5	19,993	97.4
Pacific Commercial	40,908 *	86.6*	44,923 *	85.7*
Star Truck	38,421	94.0	47,473	92.9
Union Terminal	(177,452)*	114.9*	(134,359)*	110.9*
Subtotals	\$ 89,057	98.3	\$198,289	96.3
Calif. Warehouse**	\$(80,720)	136.6	\$(73,793)	132.4
Pacific Coast **	30,338	97.7	51,134	96.3
Redway Truck **	(8,980)	103.4	(62)	100.0
Totals	\$ 29,695	99.6	\$175,568	97.6

(Red Figure)

* Reflects substitution of affiliates' expenses in lieu of rent paid by applicants.

** Warehouse facilities rented from nonaffiliates.

The Commission staff witnesses also presented comparisons of operating results for historical periods and for the forecast year for the selected group of warehousemen, excluding California Warehouse Co. and Union Terminal Warehouse Co. The staff urged that the operations of the latter two warehousemen are conducted at a substantial loss, and also, are not typical of applicants as a

group. ^{5/} The following tabulation set forth in the staff report depicts the operating results of the selected warehousemen both including and excluding the operating results of California and Union Terminal warehouses.

TABLE IV

Commission Staff Estimated Results of Operation
For Historical Year Ended June 30, 1968, And
For Forecast Year of Selected Warehousemen
Excluding California and Union Terminal
(After Taxes)

	<u>Owned Warehouses Subtotal</u>	<u>Subtotal Excluding Union</u>	<u>Total All Companies</u>	<u>Total Excluding Union & Calif.</u>
<u>Historical Year</u>				
Operating Ratio - %	97.7	92.9	99.0	94.1
Rate of Return - %	3.9	12.0	2.1	12.2
<u>Rate Year</u>				
<u>Adjusted Historical Revenues</u>				
A. <u>Present Rates</u>				
Operating Ratio - %	98.3	93.4	99.6	94.9
Rate of Return - %	3.0	11.5	0.9	11.1
B. <u>Proposed Rates</u>				
Operating Ratio - %	96.3	92.0	97.6	93.4
Rate of Return - %	6.7	14.4	5.3	14.8

^{5/} The following are the reasons set forth in the joint staff exhibit for the conclusion that California and Union Terminal are not typical of the applicants as a group:

California Warehouse Co.

This company's operating revenues have decreased 34.7% between the 12-month periods ended June 30, 1968 and June 30, 1967. The reason for the decline is mainly due to a substantial reduction in business with one customer. The company moved its warehouse facilities in early 1968 and the additional costs of moving merchandise have not been segregated from normal operations.

Union Terminal Warehouse Co.

This company shows a loss year after year. Generally, the reason given for this recurring condition is the high direct labor cost in relation to revenue dollars. This high labor cost is attributable to the type of facilities in which the business has been operated.

However, in the year 1968 a new facility has been occupied by Union with approximately 120,000 square feet of floor space.

Issues

It is the contention of the Finance and Accounts Division representative that, if California and Union Terminal are excluded from the selected group of warehousemen, the operating results for the remaining group were not unfavorable for the historical period, and would not be deficient for the forecast year at present rates. He argued that only if all eleven of the selected group of warehousemen are considered would it be appropriate, from the standpoint of operating ratio and rate of return, to increase warehouse revenues.

Applicants' counsel argued strongly against the position taken by the staff. He stated the group of warehousemen were selected for the purpose of reflecting operations of applicants as a group, following a protracted hearing in Application No. 47175. To exclude the least favorable warehouse operations, for whatever reason, would distort the entire picture of general warehouse operations in the Los Angeles Basin Area. In any group of warehousemen some would have more favorable operating results than others; however, the entire group represents all of the various conditions under which general commodities are stored for the public. Some types of storage are more profitable than other types of storage. From year to year, depending on the shifting of warehouse accounts, one warehouseman or another will have shown poor operating results. Warehousemen in the selected group should not be excluded because of unprofitable operations, nor for the reason that accounts are lost or that the physical location of the warehouse is changed.

Applicants' counsel also argued that in prior decisions involving public utility warehousemen in the Los Angeles area, the

Commission has recognized the necessity, for competitive reasons, of maintaining warehouse rates and charges on uniform levels among the various operators throughout the area. He stated that the record shows the continued necessity for this practice. The operations of California and Union Terminal are substantial and provide a needed service to the public. They are important to the users of the services of those warehouses and adequate service to the public generally could not be performed by the balance of the selected warehousemen.

Findings and Conclusions

The Commission finds that:

1. Applicants have incurred additional wage costs effective in April and July, 1968, under contracts collectively negotiated with their employees and will incur additional payroll taxes effective on January 1, 1969. Said cost increases are over and above those considered in the last rate proceeding involving applicants (Decision No. 73851, supra).
2. Applicants seek authority to increase rates and charges (other than storage rates) by 5-1/2 percent.
3. Such increase in rates will produce additional revenues in approximately the same amount as the increased wages and payroll expenses described in finding 1.
4. The Commission adopted in Decision No. 70589 in Application No. 47175, and considered in Decision No. 73851 in Application No. 49761, a selected group of eleven of the applicants herein as being typical of the public utility warehouse operations of the 42 applicants herein.
5. Selection of the eleven warehousemen involved several objective considerations, none of which involved the profitability

of the warehouse operations concerned. The record herein does not support a change in this selection for the reason of unprofitable operations.

6. Other reasons advanced for the deletion of two warehousemen from the selected group are not sufficient to require their deletion from this group.

7. It will be reasonable for the purposes of this proceeding to continue to use as a measure of the need for increased rates of the 42 applicants herein, the combined operating results of the eleven selected warehouses, as such were used in Decisions Nos. 70589 and 73851, supra.

8. The combined operating results for the eleven selected warehousemen for a forecast year, as set forth in Tables I and III, indicate that operations as a group under present rates will be conducted at an operating ratio in excess of 99 percent (after taxes).

9. The record herein demonstrates the need for an increase in rates.

10. Operations for the selected warehousemen, as a group, will be conducted at an operating ratio of approximately 97 percent (after taxes) under proposed rates in the forecast year. Such operating results will be reasonable for the types of public utility service offered by applicants.

11. The proposed increases in rates and charges are justified.

12. Applicants' request for authority to establish the increased rates and charges by means of surcharge supplements to the involved tariffs 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 tariffs.

Authority should be granted, as requested in the application, to establish the increases in rates and charges found justified herein on ten days' notice to the Commission and to the public.

We conclude that the application 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. 50558. 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 8 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 tariff 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 8 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 4th day of FEBRUARY, 1969.

William Sproull
President

Augustus

J. P. Vukasin, Jr.

Thomas M. ...

Commissioners

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