

ORIGINAL

Decision No. 77730

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of FLOUR, INC.,
a California corporation, under
Section 454 of the Public
Utilities Code for authority to
increase public utility warehouse
rates.

)
Application No. 51641
(Filed January 22, 1970;
amended April 15, 1970.)

INTERIM OPINION AND ORDER

Applicant is engaged in operations as a public utility warehouseman, a highway common carrier, a radial highway common carrier and as a highway contract carrier in the Los Angeles metropolitan area. By this application it seeks ex parte authority to effect various increases in its warehousing rates.

It alleges that its present warehousing rates have not been adjusted for many years, and that by reason of greatly increased operating costs over the years, its rates are "so low as to be unrealistic, unjust and unreasonable". It further alleges that its present tariff must be completely revised before it can reasonably expect to earn a fair return on its warehousing operations and investment.

The rates which applicant seeks to assess are rates which the Commission has authorized for a number of other public utility warehousemen in the Los Angeles area, and which are published in California Warehouse Tariff Bureau Warehouse Tariff No. 28-A, Cal. P.U.C. No. 193. The rates in said tariff were most recently

adjusted pursuant to authority granted by Decision No. 77334, dated June 9, 1970, in Application No. 51473.

Data which applicant submitted to show financial results of its warehouse operations under present rates are set forth in the following table:

Table No. 1

Revenues, Expenses and Operating Results of
Warehouse Operations under Present Rates
for Year Ending with June 30, 1969

Revenues	\$225,425
Expenses	<u>249,894</u>
Operating Loss	\$ 24,469
Operating Ratio	110.8%

Applicant alleges that since June 30, 1969, it has experienced significant increases in operating costs, particularly in those for labor, and that it is confronted with further cost increases in the near future. It represents that its present annual level of operating expenses is \$272,774, or \$22,880 more than its operating expenses for the year through June 30, 1969. It estimates that under the sought rates it would realize an increase of \$120,578 in its annual revenues. Its estimates of operating

results under present costs and the proposed rates are as follows:

Table No. 2

Revenues, Expenses and Operating Results
of Warehouse Operations under Proposed
Rates and Present Operating Costs
(Based on Year Ending with June 30, 1969)

Revenues	\$346,003
Expenses	<u>272,774</u>
Net Operating Revenues	\$ 73,229
Income Taxes	<u>35,149</u>
Net Income	\$ 38,080
Operating Ratio	89.0%
Rate Base	\$ 50,674
Rate of Return	59.9%

The financial data which are set forth in Table No. 1, above, and the increases in expenses which applicant represents it has experienced since June 30, 1969, indicate a need for an increase in applicant's revenues if the warehousing operations are to be sustained. It appears, however, that applicant's need for increased revenues is not as great as alleged.

The losses which applicant ascribes to its warehousing operations reflect, in part, expenses which either should be charged to applicant's carrier services or which are not properly chargeable as operating expenses of the warehouse.

According to financial data included in the application, about 53.6 percent of applicant's total expenses are attributable to the warehousing operations and the remaining expenses are

attributable to carrier operations. In allocating its expenses between the warehousing and carrier operations, applicant assigned a charge of \$3,500 for profit sharing to the warehousing operations. Such charge was not a proper charge to the warehousing services. If made at all, it should have been applied against the carrier services. Almost \$1,200 was charged against the warehouse operations for interest expense. Interest expense is not an operating expense. Expenses for officers' salaries, office supplies and various miscellaneous expenses were divided evenly between the warehouse and the carrier operations. Assertedly, these allocations were made on the basis of either revenue and/or payroll. It is evident, however, that had the allocations been made as alleged, the charges to the warehouse operations would have been reduced.

In addition to the fact that applicant's need for additional revenues from its warehousing operations is overstated, it appears that there is serious question concerning the propriety of the specific increases in rates which would be made.

By said rate increases applicant is seeking to increase its total revenues by almost 50 percent. The principal rate increases which are sought are approximately as follows:

62 to 114 percent in storage charges;
62 to 114 percent in handling charges.

It appears that the disparity between the increase in revenues which applicant seeks to achieve and the rate increases by which the additional revenues would be produced is due to

applicant's evident intention to continue charging its present rates for services for so-called volume accounts -- services that produce about 38 percent of applicant's total revenues.^{1/} In effect, applicant is proposing to continue, for some accounts, rates which are so low as to be "unrealistic, unjust and unreasonable", and concurrently to make disproportionate increases in other of its rates.

Such actions are not compatible with the prohibitions against undue preference or prejudice in Section 453 of the Public Utilities Code.^{2/}

For the foregoing reasons it appears that authorization of the sought rate increases by ex parte action is not justified. Public hearing on the application should be held for the purpose of further investigation of applicant's revenue needs and the steps to be taken thereon. Nevertheless, the application is convincing that pending said further investigation and such action as may be taken in response thereto, applicant should be afforded some relief from its financial exigencies in order to preserve the continuity of the warehousing services involved.

^{1/} The application does not show what rates would be retained at their present level.

^{2/} "No public utility shall, as to rates, charges, service, facilities, or in any other respect, make or grant any preference or advantage to any corporation or person or subject any corporation or person to any prejudice or disadvantage. No public utility shall establish or maintain any unreasonable difference as to rates, charges, service, facilities, or in any other respect, either as between localities or as between classes of service ..."

Section 453, Public Utilities Code

It appears that an increase of 30 percent in applicant's rates and charges would produce additional revenues which would be sufficient to meet its present operating costs and to realize net operating revenues (before provision for income taxes) as represented by an operating ratio of about 90 percent. Increases of this amount should be authorized by ex parte order pending public hearing on the application concerning what further increases, if any, should be authorized.^{3/}

Findings

The Commission finds that:

1. Applicant's revenues under its present rates and charges for its warehousing services are not sufficient to sustain said services.
2. Increases in said rates and charges by ex parte order have been shown to be justified to the extent hereinafter provided.
3. In other respects, increases in said rates and charges by ex parte order have not been shown to be justified.
4. Public hearing should be held for the receipt of evidence on what further increases, if any, in applicant's rates and charges should be authorized pursuant to this application.

^{3/} Not all of the rate increases which are identifiable in the application are as great as, or more than, 30 percent. For example, the increase which applicant seeks in its special labor rate for stencilling or for reporting serial numbers is about 10 percent. The rate increases herein authorized should be limited accordingly.

Conclusions

The Commission concludes that:

1. Applicant should be authorized by ex parte order to increase its rates and charges to the extent hereinafter provided.
2. In view of the urgent needs of applicant for additional revenues to meet its operating costs, applicant should be permitted to exercise the authority hereinafter granted on not less than five days' notice to the Commission and to the public.

IT IS HEREBY ORDERED that:

1. Pending further order of the Commission, and subject to the limitation herein noted, Flour, Inc., is authorized to effect an increase of 30 percent in the rates and charges which are set forth in its Warehouse Tariff No. 1, Cal. P.U.C. No. 1. Tariff publications authorized to be made by 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.

NOTE: The increased rates and charges which are established under the authority herein granted shall not exceed those which apply for like services under provisions published in California Warehouse Tariff Bureau Warehouse Tariff No. 28-A, Cal. P.U.C. No. 193 (Jack L. Dawson, Agent) pursuant to Decision No. 77334, dated June 9, 1970, in Application No. 51473.

2. The authority herein granted is subject to the express condition that applicant 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 or charge, and that the filing of rates and charges pursuant to the authority herein granted will be construed as consent to this condition.

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 five days after the date hereof.

Dated at Los Angeles, California,
this 15th day of SEPTEMBER, 1970.

[Signature]
Chairman

[Signature]

[Signature]
Commissioners

Commissioner A. W. Gator, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner Thomas Moran, being necessarily absent, did not participate in the disposition of this proceeding.