

Decision No. 79363**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 ANDERSON CARTAGE, APPLGATE WAREHOUSE
 COMPANY, BEKINS WAREHOUSING CORP.,
 BOONE WAREHOUSES, INC., CONSOLIDATED
 CALIFORNIA TERMINALS, INC., CRISTINA
 WAREHOUSE CO., FORT SUTTER WAREHOUSE
 CO., L. E. Grainger dba L. E. GRAINGER
 WAREHOUSE CO., HASLETT COMPANY, W. E.
 Hibbett & D. Macaulay dba LAWRENCE
 WAREHOUSE & DISTRIBUTING CO., LYON
 VAN & STORAGE CO., MINGLE TRANSPORTA-
 TION & WHESE. CO., MODESTO TERMINALS,
 OWL TRANSFER CO., PACIFIC STORAGE
 COMPANY, STATE CENTER WAREHOUSE, SPEAR
 ENTERPRISES, INC., dba UNITED TRUCK LINE,
 and TRAVIS WAREHOUSE, INC., dba WESTERN
 WAREHOUSE COMPANY, for an Increase in
 Rates.

Application No. 52429
 (Filed February 3, 1971;
 Amended March 3, 1971)

Vaughan, Paul & Lyons, by John G. Lyons, Attorney at
 Law, and Jack L. Dawson, for applicants.
Arvid C. Crabtree, for Keyes Fibre Co., protestant.
John F. Specht and Robert W. Stich, for the Commission
 staff.

O P I N I O N

Applicants are public utility warehousemen operating
 warehouse facilities for the dry storage of general commodities
 at various locations in the Sacramento-San Joaquin Valley and
 San Jose Areas. The utility warehousemen request authority for a
 general 20 percent increase in their storage and handling rates
 and charges plus related upward adjustments in specified charges

for accessorial services.^{1/} Authority is also sought to cancel participation of Consolidated California Terminals, Inc., and Cristina Warehouse Co., Inc., in CWTB Warehouse Tariff No. 55 upon concurrent addition of said applicants as participants in CWTB Warehouse Tariff No. 52, as proposed to be increased herein.

By Decision No. 78496, dated March 30, 1971, in this proceeding, applicants were authorized a 5 percent interim surcharge increase in their rates and charges. This temporary rate relief was granted pending the taking of evidence at public hearing relative to the further sought relief. Public hearings were held before Examiner Gagnon on July 8 and 9, 1971 at Sacramento and the application was submitted on the latter date.

Evidence in support of the requested increases were presented by applicants' tariff agent and by several individual warehouse officials. Financial and accounting studies (Exhibits 2 and 3) were presented by the staff of the Commission's Finance and Accounts and Transportation Divisions. The staff recommends that applicants' request for rate relief in excess of the 5 percent surcharge authorized by Decision No. 78496 be denied. An interested storer also entered an appearance in opposition to applicants' sought additional relief. On or about July 8, 1971, applicants mailed a "Notice to Storers" explaining the rate increase requested in Application No. 52429. Several of the utility warehousemen testified that they received no response to said notice from their storers.

^{1/} Applicants' rates and charges are contained in the following tariffs: California Warehouse Tariff Bureau, Warehouse Tariffs Nos. 52, 53 and 55, Cal. P.U.C. Nos. 224, 225 and 231, respectively, of Jack L. Dawson, Agent; Consolidated California Terminals, Inc., Warehouse Tariff No. 1, Cal. P.U.C. No. 1 and Haslett Company Warehouse Tariff No. 12-F, Cal. P.U.C. No. 231, issued by Jack L. Dawson, Agent.

Applicants' present rates and charges named in California Warehouse Tariff Bureau Tariffs Nos. 52, 53 and 55 (except for San Jose Area) and in Haslett Company Warehouse Tariff No. 12-F were last generally increased, effective November 20, 1967, pursuant to Decision No. 73264, dated October 27, 1967, in Application No. 49432. The rates and charges contained in California Warehouse Tariff Bureau No. 55, applicable in the San Jose Area, have been in effect without a general increase since August 19, 1968, which is the effective date of the increased rates authorized by Decision No. 74439, dated July 23, 1968, in Application No. 50228. Since the establishment of applicants' present level of rates, it is contended that the operating costs for the utility warehouses involved have increased as a result of upward adjustments in labor costs, taxes, rents and in the prices paid for materials, services and supplies required to conduct said utility warehouse operations. It is applicants' contention that the revenue derived from their existing rates and charges is insufficient; that the sought increase is necessary in order to afford applicants an opportunity to earn a reasonable profit and to render an efficient warehouse service vitally required by the public.

In support of the sought increase, applicants attached several financial and statistical statements to their application.^{2/} The principal presentation of the warehousemen and the Commission's staff, however, consists of an analysis of the operating revenues, expenses and income for six test warehouses.^{3/} The historical

^{2/} Exhibit D attached to the application was corrected and introduced as Exhibit No. 1 at the July 8, 1971 hearing.

^{3/} The six selected warehousemen, having combined revenues equal to 92.8 percent of the total revenues of all eighteen applicants, are the Consolidated California Terminals, Inc., Cristina Warehouse Co., Inc., Fort Sutter Warehouse Co., Haslett Company, State Center Warehouse and Western Warehouse Company.

periods employed by the tariff agent and by the staff's financial witness are different. The projected results of operations for the test year, as developed by the tariff agent reflect wage costs in effect during 1970. The tariff agent, however, testified as to the impact of the 1971 wage increases upon his estimated results of operations for the six test warehouses. The staff's projected rate year is predicated upon wage costs effective generally as of July 1, 1971.

The revenue and expense studies introduced by applicants and the staff contain adjustments from book figures to remove non-utility revenues and expenses; where applicable, to utilize straight line depreciation to compute operating expenses (although the staff utilized liberalized depreciation to compute income taxes for rate-making purposes); and, where applicable, to replace plant rent paid to an affiliate with the substituted ownership costs for such facilities. In addition, the staff deleted dues and donations from operating expenses. Applicants computed income taxes as if the warehouse operations under consideration herein were separate companies. Applicants' tariff agent and staff submitted rate base calculations for purposes of showing rates of return estimates. The rate bases and rates of return computations by the respective witnesses for applicants and the staff vary widely and are generally not conclusive.

The recorded results of operations of the six test warehousemen for a historical 12-month period, adjusted in the manner described above by the tariff agent and staff, are summarized below:

Table 1

<u>Warehousemen</u>	<u>Year Ended</u>	<u>Operating</u>		<u>Operating Ratios (%)</u> (After Taxes)
		<u>Revenues</u> (Before Taxes)	<u>Expenses</u> (Before Taxes)	
Consolidated	(A) 9-30-70	\$ 137,268	\$ 157,068	114.5
	(F) 12-31-70	158,282	142,523	92.7
	(T) 12-31-70	158,282	146,294	94.3
Cristina	(A) 6-30-70	615,279	577,711	96.0
	(F) 12-31-70	641,512	639,001	99.7
	(T) 12-31-70	641,512	600,004	95.7
Fort Sutter	(A) 12-31-69	135,388	106,474	84.9
	(F) 12-31-70	213,023	143,606	81.1
	(T) 12-31-70	213,023	149,146	82.5
Haslett	(A) 12-31-69	173,110	186,804	108.0
	(F) 12-31-70	284,739	296,607	103.0
	(T) 12-31-70	180,960	209,353	111.4
State Center	(A) 12-31-69	99,014	111,598	112.8
	(F) 12-31-70	114,494	128,018	111.9
	(T) 12-31-70	114,494	130,409	114.0
Western	(A) 2-28-70	199,197	208,088	104.5
	(F) 12-31-70	240,429	215,179	92.2
	(T) 12-31-70	240,429	220,839	94.1
Total	(A) Various	1,359,256	1,347,743	100.8
	(F) 12-31-70	1,652,479	1,564,934	96.9
	(T) 12-31-70		(Not Computed)	

- (A) Applicants' Exhibit No. 1.
(F) Finance & Accounts Division Staff Exhibit No. 2.
(T) Transportation Division Staff Exhibit No. 3.

The staff of the Commission's Finance and Accounts Division concludes that some rate increase is justified in the light of the staff's 1970 adjusted results of operations for the six test warehousemen. It is further recommended that the suggested rate relief be no greater than is necessary to enable applicants to experience an operating ratio of 94 percent after taxes. It will be noted from Table 1 above that the 1970 adjusted results of operations developed by the Transportation Division staff are less favorable than the like calculation of the staff of the Finance and Accounts Division in all instances except for the Cristina Warehouse Company. Such difference is primarily due to the Transportation Division's efforts to show the annualized effects of the increases in wage costs and related payroll expenses which occurred during 1970. The results of operations for the Cristina Warehouse computed by the Transportation Division staff reflects an adjustment in administrative salaries which the staff believes to be excessive. The staff cost engineer also eliminated from his calculations certain non-utility revenues and expenses from the adjusted results of operations for Haslett Company. In consideration of applicants' presentation, also summarized in Table 1 above, plus other related pertinent information contained in Application No. 52429, the Commission issued an ex parte order, in Decision No. 78496, granting applicants a 5 percent surcharge pending public hearing. As shown in Table 1 of said decision, the surcharge was designed to offset the impact of increases in wages and allied payroll expenses effective generally as of the year ending 1970.

The record now shows that under outstanding wage agreements applicants' plant labor was increased 25 cents per hour as of January 1, 1971. Said labor was again increased, effective generally as of July 1, 1971, by 25 cents per hour plus 8 cents per hour for a cost of living allowance and a 2.4 cents per hour upward adjustment for Workmens Compensation Insurance. Applicants' tariff agent expects like increases to be made in clerical and supervisory expenses. The tariff agent further explained that the projection of the aforementioned 1971 wage increases into his adjusted 1970 results of operations for the six test warehouses would raise said warehousemen's overall operating ratio, after taxes, from 90.8 percent to 93.2 percent under the full 20 percent sought rate increase. The staff's estimated results of operations for the six selected warehousemen, based on adjusted revenues and revised expenses for the 1970 calendar year, were also further adjusted by the staff cost engineer to give effect to projected revenues and expenses estimated for the full 1971 rate year. Such staff estimated results of operations for 1971 were determined so as to show the comparative results under the existing 5 percent surcharge with the full sought 20 percent rate increase. The operating ratios computed by the tariff agent and the staff from the aforementioned estimated results of operations are summarized in the following table:

Table 2

Estimated Operating Ratios (After Taxes) for a 1971
 Projected Rate Year Under Present,
 Interim and Proposed Rates and Adjusted Expenses

<u>Warehousemen</u>	<u>Present Rates</u>		<u>Interim 5% Surcharge</u>	<u>Proposed 20% Rate Increase</u>	
	<u>Applicant</u> (1)	<u>Staff</u> (2)	<u>Staff</u> (3)	<u>Applicant</u> (4)	<u>Staff</u> (5)
Consolidated	119.0	94.3	91.9	95.5	83.1
Cristina	99.0	95.7	95.0	88.4	85.4
Fort Sutter	93.4	82.5	83.3	83.9	76.1
Haslett	114.8	111.4	112.0	95.4	102.4
State Center	121.7	114.0	115.2	100.5	104.8
Western	108.5	94.1	93.6	91.3	89.1
Total	105.6	N/C	N/C	90.8	N/C
				93.2 (6)	

- N/C Not Computed
- (1), (4) Adjusted 1969-70 revenues and expenses reflecting increased wage costs as of 12-31-70.
- (2) Adjusted 1970 revenues and expenses reflecting increased wage costs as of 12-31-70.
- (3), (5) Adjusted 1970 revenues and expenses reflecting increased wage costs as of 7-1-71.
- (6) Adjusted 1969-70 revenues and expenses reflecting increased wage costs as of 7-1-71.

From the operating ratios shown in Table 2 as being computed by applicants and the staff, it is evident that the estimated results of operations of all representative warehousemen tested, except the Fort Sutter Warehouse Company, are considered to be generally unsatisfactory under applicants' present rates and revised 1970 operating expenses. The operating ratios are shown to be materially improved by the staff for all but two of the selected warehousemen when the 1970 estimated results of operations are further adjusted in order to give effect to the 5 percent interim surcharge and 1971 labor cost increases for a full rate year.

It is applicants' contention that their projected estimated results of operations for the six test warehouses, under the proposed 20 percent increase in rates and 1971 level of expenses, are not unreasonable nor otherwise excessive. In Table 2 it is shown that the tariff agent anticipates the representative warehousemen to collectively experience an operating ratio of 93.2 percent under the sought rate proposal. The operating ratios of the individual warehousemen tested by the tariff agent are all within range of the overall operating ratio of 93.2 percent except for State Center Warehouse Company, which is not expected to experience an operating ratio below 100 percent under the full sought relief. The operating ratios computed by the staff, on the one hand, indicate that the six warehouse operations tested will experience, except in two instances, operating ratios well below the staff recommended operating ratio of 94 percent.

Cross-examination of witnesses for applicants reveals that their studies present a most conservative estimate of the results of operations under the proposed rate increase. Conversely, the staff's studies show a more optimistic or favorable estimate of applicants' projected operating experiences under the relief sought herein. For example, calculations by the tariff agent indicate that the wage costs of the six test warehouses increased some \$79,843 as of December 31, 1970. During 1971 the tariff agent estimates such labor costs for the six applicants will increase approximately \$70,458, plus so-called fringe benefits, thereby making a total upward adjustment in labor costs of \$150,303 for the two-year period. Staff Exhibit 3, on the

other hand, includes an upward adjustment of \$32,976 for 1970 and \$53,845 for 1971 in order to reflect the annual increases in wages and allied payroll costs in the estimated results of operations of the six test warehouses. Such adjustments for the two-year period amount to only \$86,821, thereby making the staff's anticipated effects of the sought rate increase upon applicants' operations to be significantly more favorable than the like projected results of operations computed by the tariff agent. The major item of difference is the exclusion of certain increases in salaries for management which the staff considered improper for rate-making consideration.

In Exhibit 3, the staff cost engineer explained he utilized 1971 projected operating revenues for the six test warehouses which were determined by another member of the staff. No subsequent explanation was offered by the staff as to the basis for their operating revenue projections which are \$289,485 higher in total than the like calculations of applicants. On the other hand, the staff's total adjustment in the operating expenses of the six warehouses tested is only \$89,168 lower than the like adjustments made by the applicants' tariff agent. While the reasons for the differences between the conclusions advanced by applicants and the staff relative to the overall effects of the proposed rate increase were not fully explored it appears that some additional revenue in addition to that provided by the interim surcharge is justified.

The tariff agent explained the percentage distribution of the revenues earned under the rates for applicants' various utility warehouse services. A selective increase in rates, spread over applicants' rate structure by said percentage distribution, would afford a basis for appropriate relief. Such a selective increase in applicants' rates is set forth in the following table:

Table 3

<u>Applicants'</u> <u>Source of Revenues</u>	<u>Percentage</u> <u>Distribution</u>	<u>Allocated</u> <u>Increase</u>	<u>Weighted</u> <u>Increase</u>
Storage	35.7%	10%	3.57%
Handling	27.4%	10%	2.74%
Accessorial Services	36.9%	20%	<u>7.38%</u>
Total Weighted Average Increase			13.69%

In lieu of the present 5 percent interim surcharge, a 10 percent increase in applicants' storage and handling rates and charges will provide appropriate rate relief. In addition, applicants should be authorized to publish the proposed changes in accessorial service rules, rates and charges as set forth in Exhibit A of the application, except Item 140 and 185 therein. Said special storage rates and charges should be limited to the same 10 percent increase as suggested for other like storage rates and charges. The alternative selective adjustments in applicants' rates and charges proposed herein will afford the utility warehousemen involved every opportunity to recover increases in labor costs and allied payroll expenses for the 1971 calendar year and experience a favorable overall contribution to overhead.

The Commission finds that:

1. Applicants have experienced increase in their utility warehouse operating expenses which are not reflected in the level of their established tariff rates and charges.
2. Applicants have demonstrated a need for additional revenues to compensate for increased expenses not heretofore considered in the establishment of the interim 5 percent surcharge authorized by Decision No. 78496 in this proceeding.
3. The total overall 20 percent increase in rates and charges requested in Application No. 52429, as amended, has not been shown to be justified.

4. An increase of 10 percent in applicants' storage and handling rates and charges (including the special storage rates and charges in Items 140 and 185 named in Exhibit A of the application) has been shown to be justified. In addition, the sought increases in accessorial service rules, rates and charges contained in Exhibit A of Application No. 52429 (except the sought increases in rates and charges named in Items 140 and 185) have also been shown to be justified.

5. The Consolidated California Terminals, Inc., and Cristina Warehouse Company, Inc., should be authorized to become participants in California Warehouse Tariff No. 52, as authorized to be increased herein.

The Commission concludes that applicants should be authorized, on not less than five days' notice to the Commission and to the public, to increase their utility warehouse rates, rules and charges to the extent set forth in the order herein. To the extent not authorized, Application No. 52429, as amended, should be denied.

The rates authorized are in the lower zone of reasonableness and are consistent with the purposes of the Federal Government's economic stabilization program in that costs of operation have risen due to upward adjustments in wages, taxes, rents and the prices paid for materials, services and supplies.

O R D E R

IT IS ORDERED that:

1. Applicants are hereby authorized to increase their tariff rates and charges as follows:

A. California Warehouse Tariff Bureau Warehouse Tariff No. 52, Cal. P.U.C. No. 224:

1. Amend accessorial service rates, rules and charges as set forth in the House Rules and Regulations to the extent provided in Exhibit A of Application No. 52429, as amended, except increases in Items 140 and 185 special storage rates and charges shall not exceed 10 percent.
2. Rates and charges named in Sections 1 and 2 of the tariff may be increased by 10 percent.

B. California Warehouse Tariff Bureau Warehouse Tariff
No. 53, Cal. P.U.C. No. 225:

All rates and charges may be increased by
10 percent.

C. Haslett Company Warehouse Tariff No. 12-f,
Cal. P.U.C. No. 23:

All rates and charges may be increased not
to exceed 10 percent.

D. California Warehouse Tariff Bureau Warehouse Tariff
No. 55, Cal. P.U.C. No. 231:

Cancel participation of Consolidated California
Terminals, Inc., and Cristina Warehouse Company,
Inc., and add said applicants as participants
in California Warehouse Tariff No. 52, as
authorized to be increased herein.

2. The increases in rates, rules and charges authorized herein are in lieu of the 5 percent interim surcharge authorized by Decision No. 78496 in this proceeding, said surcharge being hereby canceled concurrently with the effective date of the increases authorized herein.

3. In effecting the proposed increases, fractions will be disposed of as follows:

When the resulting rate is under 10 cents, dispose of fractions to the nearest mill, by dropping fractions of less than one-half mill and increasing fractions of one-half mill or greater to the next whole mill.

When the resulting rate is 10 cents or greater, dispose of fractions to the nearest cent, by dropping fractions of less than one-half cent and increasing fractions of one-half cent or greater to the next whole cent.

4. 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 five days after the effective date hereof on not less than five days' notice to the Commission and the public.

5. 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 consent to this condition.

6. To the extent not authorized herein, Application No. 52429, as amended, is hereby denied.

7. The authority herein granted shall expire unless exercised within sixty days after the effective date of this order.

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

Dated at San Francisco, California, this 22nd day of NOVEMBER, 1971.

[Signature]
Chairman
William G. Young Jr.
[Signature]
Thomas L. Sturgeon
[Signature]
Commissioners