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ORIGINAL

Decision No. 79652

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of LOYALTY WAREHOUSE  
COMPANY, a corporation, under  
Section 454 of the Public Utilities  
Code for authority to increase  
Public Utility Warehouse Rates.

Application No. 52677  
(Filed June 8, 1971)

O P I N I O N

Loyalty Warehouse Company (Loyalty), a corporation, operates as a public utility warehouseman in the City of Commerce. In this application applicant seeks an ex parte order of the Commission authorizing it to increase by 25 percent the rates and charges named in its Warehouse Tariff No. 1, Cal. P.U.C. No. 2.

Attached to the application are applicant's balance sheet as of December 31, 1970; an income and expense statement for the 12-month period ended December 31, 1970; an income and expense statement for the months of January, February and March, 1971; and an income and expense statement for the year 1970 adjusted to give effect to increased expenses incurred in 1971, and the increased rates proposed herein.

The application shows that storers were notified of the proposed increase at the time of the filing of the application. There are no protests.

The application alleges that applicant incurred increased operating expenses in 1971 in the wages paid to union storage personnel; in salaries paid to superintendents, foremen, clerical personnel and officers; in payroll expenses for health and welfare benefits and pensions; and in warehouse rents.

On December 7, 1971, applicant's counsel supplied the Commission with revised financial data, which include a balance sheet as of December 1, 1970; an income and expense statement for

the year 1970; a balance sheet as of September 30, 1971; an income and expense statement for the period January 1, 1971 through September 30, 1971; and a statement of estimated income and expenses for the year 1971, showing current expenses and increased rates as proposed herein. The aforementioned data are collectively received herein as Exhibit 1.

The following table sets forth a summary of applicant's revenues and expenses for the nine-month period ended September 30, 1971, compared with applicant's estimates of 1971 full-year operations adjusted to reflect the rate increase sought herein, and estimated 1972 increases in operating expenses including warehouse labor, superintendents' salaries, payroll costs, rent and property taxes.

TABLE 1

LOYALTY WAREHOUSE CORPORATION  
STATEMENT OF INCOME AND EXPENSES

Actual for January 1, 1971 to September 30, 1971  
and Estimated for Full Year

|                                     | Actual<br>For<br>Nine<br>Months | Nine-Month's<br>Data (a)<br>Annualized | Annualized<br>Data Adjusted<br>For Increased<br>Expenses and<br>Proposed<br>Rate Increase |
|-------------------------------------|---------------------------------|--|---|
| Operating Income                    | \$334,013                       | \$ 417,516                             | \$521,895   |
| Operating Expenses                  | <u>\$388,247</u>                | <u>\$ 485,307</u>                      | <u>\$508,501</u>  |
| Profit or (Loss)<br>Before Taxes    | \$(54,234)                      | \$ (67,791)                            | \$ 13,394   |
| Federal and State<br>Income Tax     | <u>-</u>                        | <u>-</u>                               | <u>3.884</u>  |
| Net Profit or (Loss)<br>After Taxes | \$(54,234)                      | \$ (67,791)                            | \$ 9,510  |
| Operating Ratio<br>After Taxes      | 116.24%                         | 116.24%                                | 98.2%   |

(a) Actual Figures for 9 months ending September 30, 1971, increased by 25% to arrive at annualized year of 1971. (To annualize, the 9-month figures should have been increased by 33%.)

The Commission's Finance and Accounts Division has reviewed applicant's books and records. As a result of said review, applicant has reviewed its accounting procedures and records and has supplied the revised data included in Exhibit 1. The report prepared by the Commission's Finance and Accounts Division is included herein as Exhibit 2. Said report questions the salaries paid to applicant's vice president/secretary during 1970 and 1971, for rate-making purposes because of the staff's inability to determine the duties of said officer and the amount of time spent on the job. The effect of eliminating said officer's salary would be a reduction in 1971 estimated operating losses as set forth above.

The staff report shows that recorded results of operations produced a net loss for the year 1970 of \$38,091 and for the six-months ended June 30, 1971 of \$44,169. If the disputed officer's salary was eliminated, the net loss for the six-months ended June 30, 1971 would have been reduced by \$6,800.

The staff report indicates that it is in agreement that there is a need for an increase in utility warehouse rates, but no specific percentage is recommended by it. The report further states that if the test-year operating results, after income taxes (if any), do not produce an operating ratio more favorable than 95 percent, the staff does not oppose the requested increase.

Based on the foregoing, it appears and we find:

1. Applicant's results of operations for the six-month period ended June 30, 1971 (Exhibit 2) and for the nine-month period ended September 30, 1971 for its public utility warehouse service resulted in substantial losses. Applicant is in urgent need of additional revenues to overcome said losses if it is to continue to provide services to the public.

2. Applicant will incur further increased operating costs in 1972, as a result of increases in the following categories of expenses:

- (a) Warehouse handling wages.
- (b) Superintendent's salary.
- (c) Payroll expenses.
- (d) Plant maintenance and repairs.
- (e) Rent for public utility warehouse space.
- (f) Office salaries.
- (g) Office materials and supplies.
- (h) Solicitation expenses.
- (i) Accounting and legal fees.

3. The salary of applicant's vice president/secretary should be eliminated from operating expenses used for rate-making purposes. The amount to be eliminated is \$13,600 per year.

4. Applicant's estimates of its test-year operating results set forth in Table 1 hereof, adjusted to eliminate officer's salaries in the amount of \$13,600 and the related adjustment in income taxes, are reasonable for the purposes of this proceeding. So adjusted said test-year operating results are as follows (income taxes are computed at 29 percent of net profit):

|                                  | Excluding<br>Sought Rate<br>Increase | Including<br>Sought Rate<br>Increase<br>Of 25% |
|----------------------------------|--------------------------------------|--|
| Operating Income                 | \$ 417,516                           | \$ 521,895                                     |
| Operating Expenses               | <u>471,707</u>                       | <u>494,901</u>                                 |
| Profit or (Loss) Before Taxes    | \$ (54,191)                          | \$ 26,994                                      |
| Federal and State Income Taxes   | -                                    | <u>\$ 7,828</u>                                |
| Net Profit or (Loss) After Taxes | \$ (54,191)                          | \$ 19,166                                      |
| Operating Ratio (After Taxes)    | 112.97%                              | 96.33%   |

5. The operating ratio (after taxes) of 96.33 percent under rates sought herein (Col. 2 in tabulation in finding 4) is within the zone of reasonableness and will not produce excessive earnings. Said operating ratio is not more favorable than those authorized to other warehousemen in recent Commission proceedings.

6. The rate increase sought herein is justified (Section 454).

7. Applicant has not heretofore requested an increase in rates from this Commission; therefore, it has not made a prior finding as to reasonable earnings for this warehouseman. The operating ratio authorized herein is not more favorable than that found reasonable for competing warehouses in the Metropolitan Los Angeles Area. The increase in rates of 25 percent authorized herein is estimated to produce an annual increase in gross revenues of \$104,000 and in net profit (after income taxes) of \$73,400, increasing said net profit from an annual loss of \$54,200 to an annual gain of \$19,200.

8. The rate increase authorized herein:

- (a) Is cost-based and does not reflect future inflationary expectations;
- (b) Is the minimum required to assure continued adequate operations; and
- (c) Provides the minimum profit margin needed to attract capital at reasonable costs and not to impair the credit of the public utility.

Therefore, the authorized increase appears to fall within the guidelines established pursuant to the Federal Government's economic stabilization program.

The Commission concludes that the application should be granted.

### O R D E R

IT IS ORDERED that:

1. Loyalty Warehouse Company, a corporation, is authorized to increase by 25 percent the rates and charges for public utility warehouse services set forth in its Warehouse Tariff No. 1, Cal. P.U.C. No. 2.

2. 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.

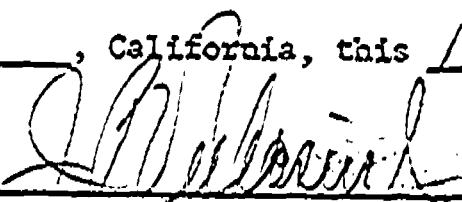
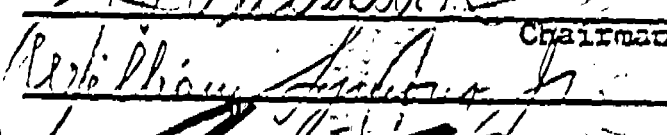
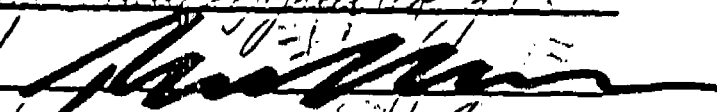


3. Tariff publications authorized to be made as a result of the order herein shall be filed not earlier than the effective date of this order and may be made effective not earlier than five days after the effective date hereof on not less than five days' notice to the Commission and the public.

4. 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 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.

5. 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 10th  
day of FEBRUARY, 1972.

  
Chairman  
  
  
  
  
Commissioners