

Decision No. 81293

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of: }
BEKINS WAREHOUSING CORP., CITY TRANS- }
FER, INC., CRESCENT WAREHOUSE CO., }
LTD. and WEST COAST WAREHOUSE CORPO- }
RATION for authority to increase }
rates and charges as warehousemen in }
the Los Angeles-Long Beach area, and }
for interim order. }

Application No. 53741
(Filed December 7, 1972)

Russell and Schureman, by Carl H. Fritze, for applicants.
Herbert W. Hughes, Arlo D. Poe,
Attorney at Law, and Richard W. Smith, Attorney at Law, for
California Trucking Association,
interested party.
Lionel B. Wilson, Attorney at Law,
Edward C. Crawford, George L. Hunt,
and Tom Monji, for the Commission
staff.

INTERIM OPINION

In this application four public utility warehousemen in the Los Angeles-Long Beach area seek authority to increase their warehouse rates and charges, as set forth in California Warehouse Tariff Bureau, Warehouse Tariff No. 13-B, Cal. P.U.C. No. 211, issued by Jack L. Dawson, agent (Tariff 13-B).^{1/} Specifically, applicants propose to increase storage rates by 20 percent and other rates and charges by 35 percent. Applicants contend that the tariff rates they maintain are inadequate under current conditions to produce sufficient revenues to cover operating expenses, pay income taxes, and return a reasonable profit to shareholders.

^{1/} Applicants will be referred to herein as Bekins, City Transfer, Crescent, and West Coast.

Applicants request authority to place the sought increase into effect immediately as a surcharge to Tariff 13-B.^{2/} Applicants state that immediate rate relief is necessary because they have been required to absorb substantial increases in labor and certain other costs that have occurred since the last general adjustment in their warehouse rates was authorized by Decision No. 75284 dated February 4, 1969 in Application No. 50458. That decision authorized a ten percent increase in storage rates and a 40 percent increase in other rates and charges in Tariff 13-B.

Public hearing was held before Examiner Norman Haley at Los Angeles on February 22, 1973, and the matter was submitted on an interim basis. In other respects the application was adjourned to permit the staff to complete study of applicants' records and to make its findings.

Exhibit A attached to the application contains recorded balance sheet and income statement (operating) data of the applicants for the year 1971. Exhibit A also contains operating data for an estimated rate year ending June 30, 1973 reflecting current operations of Bekins, City Transfer, and West Coast under present rates and increased expenses, as well as operations under proposed rates and increased expenses.^{3/} Exhibit B to the application

2/ City Transfer, and West Coast also maintain rates for storage of merchandise under customs bond in California Warehouse Tariff Bureau, Warehouse Tariff No. 28-A, Cal. P.U.C. No. 193, issued by Jack L. Dawson, agent (Tariff 28-A). The rates in Tariff 28-A were recently increased approximately ten percent pursuant to authority granted by Decisions Nos. 80549 and 80989 dated September 27, 1972 and January 30, 1973, respectively. No further adjustment of applicants' rates in Tariff 28-A is sought herein.

3/ These three applicants are the same warehousemen whose operating statements were utilized in justification of the rate increase in the prior proceeding (Decision No. 75284). A balance sheet was included in Exhibit A hereof for Crescent. However, the operations of that applicant were not given weight in the operating estimates because it was not considered representative, having earned only \$250.00 revenue under Tariff 13-B in 1971.

shows the average number of employees of each applicant for the years 1971 and 1972. Exhibit C contains a proposed method for developing rates where requested increases result in fractions of a cent. Exhibit D is a verified statement of Rudolph A. Lubich, consulting engineer, alleging that the facts presented with the application demonstrate that applicants face a dire financial emergency.

Evidence was presented by the consulting engineer, and by officers of Bekins, City Transfer, and West Coast. The Commission staff participated in the development of the record through examination of applicants' witnesses.

The engineer testified concerning Exhibits A through D. He stated that he inspected the warehouses of each of the applicants to gain familiarity with operating facilities and practices, and to discuss with management economic problems related to individual operations. The witness also examined the formal records and accounts of each of the applicants, as well as other operating data, as a basis for estimating revenue needs and the nature of the rate adjustments to be sought.

The engineer explained that prior to developing the financial data in Exhibit A he reviewed the record in the previous proceeding which culminated in Decision No. 75284. He stated that operating statements in support of the rate increases sought in that proceeding were presented on an historical basis for the year 1967, and on an adjusted basis for a test year to reflect wage increases effective April 1, 1968. At that time it was estimated that the proposed increase of 10 percent in storage rates and 40 percent in other rates would result in a composite operating ratio of 97.4 percent after income taxes.

To arrive at the actual operating results for 1971 the engineer determined the actual amounts of revenue earned by Bekins, City Transfer, and West Coast under Tariffs 13-B and 28-A. He made certain allocations and adjustments in recorded

1971 expense figures of Bekins and City Transfer, principally for the purpose of substituting ownership costs for plant rent. The allocations and adjustments made are generally pursuant to procedures adopted or approved by the Commission in prior proceedings involving the rates of these applicants, and are generally consistent with those which were considered and approved in Decision No. 75284. In Table 1, below, are summarized the operating results for the three applicants for 1971. Table 1 shows that in 1971 each of the three operators had a loss, and that the composite operating ratio was 107.1 percent.

Table 1

Results of 1971 Public Utility Warehouse Operations
Reflecting Actual Revenues and Adjusted Expenses

	<u>Bekins</u>	<u>City Transfer</u>	<u>West Coast</u>	<u>Composite</u>
Tariff 13-B Revenue:				
Storage	\$38,890	\$36,455	\$220,925	\$296,270
Other Than Storage	<u>49,189</u>	<u>17,400</u>	<u>161,047</u>	<u>227,636</u>
Total	\$88,079	\$53,855	\$381,972	\$523,906
Tariff 28-A Revenue:	<u>\$</u>	<u>\$24,660</u>	<u>\$139,547</u>	<u>\$164,207</u>
Total P.U. Whse. Rev.	\$88,079	\$78,515	\$521,519	\$688,113
Total P.U. Whse. Exp.	\$95,530	\$88,325	\$553,305*	\$737,160
Operating Loss	\$(7,451)	\$(9,810)	\$(31,786)	\$(49,047)
1971 Operating Ratio	108.5%	112.5%	106.1%	107.1%

(Red Figure)

* West Coast expenses not adjusted

To reflect current operations (present revenues and increased expenses) the engineer made upward revisions in the actual revenues of the three warehouses to reflect the recent increase of seven percent in Tariff 28-A. He stated that he had measured the effect of the subsequent three percent increase in Tariff 28-A and found that the impact on the applicants herein would be negligible. He made no further adjustment for that revenue increase. The adjusted 1971 expense figures were increased to reflect the measured increases in wages, payroll costs, and other costs which applicants have experienced since the last proceeding.^{4/} Total warehouse labor for City Transfer and West Coast has increased from \$5.403 to \$8.258 per hour (52.8 percent) from April 1, 1968 to June 30, 1973. Bekins is subject to a different wage scale which is approximately 25 percent less than for the other two warehouses. Clerical labor cost for West Coast was considered representative. The base rate for clerical labor increased from \$3.46 to \$5.56 per hour (60.7 percent) during the same period.^{5/} The estimated results of current operations under present rates are shown in Table 2, below. Current operations under the engineer's estimates result in operating ratios ranging from 112.3 percent to 119.1 percent.

^{4/} No increases were included in the operating expenses for plant maintenance or plant materials and supplies. The engineer stated that significant increases will be incurred in these expenses by applicants during the year ending June 30, 1973.

^{5/} The contracts with labor unions became effective in 1970 and expire in 1973. They provided for scheduled increases in wages and employee benefits in the intervening period. Applicants are or soon will be engaged in further bargaining with unions which will be determinative of labor costs for the future.

Table 2

Estimated Results of Public Utility Warehouse Operations
For Year Ended June 30, 1973 At Present Rates
And Increased Expenses

	<u>Bekins</u>	<u>City Transfer</u>	<u>West Coast</u>	<u>Composite</u>
Total P.U. Whse. Rev.* (Tariffs 13-B & 28-A)	\$88,079	\$79,792	\$528,748	\$696,619
Increased Expenses	\$98,924	\$94,365	\$629,727	\$823,016
Operating Loss	\$(10,845)	\$(14,573)	\$(100,979)	\$(126,397)
Operating Ratio	112.3%	118.3%	119.1%	118.1%

(Red Figure)

* Revenue estimate includes seven percent increase in Tariff 28-A authorized by Decision No. 80549. Additional three percent increase authorized by Decision No. 80989 would reduce composite operating ratio from 118.1% to 118.0%.

To reflect operations of the three warehousemen under proposed rates the engineer increased Tariff 13-B storage revenue for 1971 by 20 percent and revenue for other than storage by 35 percent, and again applied the increased expenses. The estimated operating results show that the proposed rates would return Bekins a profit, but that City Transfer and West Coast would experience a loss. The composite operating ratio would be 98.5 percent before income taxes and 98.9 percent after income taxes. The estimated results under proposed rates are shown in Table 3.

Table 3

Estimated Results of Public Utility Warehouse Operations
For Year Ended June 30, 1973 At Proposed Rates
And Increased Expenses

	<u>Bekins</u>	<u>City Transfer</u>	<u>West Coast</u>	<u>Composite</u>
Tariff 13-B Revenue:				
Storage (1)	\$ 46,668	\$43,746	\$265,110	\$355,524
Other Than Storage (2)	<u>66,405</u>	<u>23,490</u>	<u>217,413</u>	<u>307,308</u>
Total	\$113,073	\$67,236	\$482,523	\$662,832
Tariff 28-A (1971 Actual)	-	24,660	139,547	164,207
Tariff 28-A 7% Incr. - D. 80549	<u>-</u>	<u>1,277</u>	<u>7,229</u>	<u>8,506</u>
Total P.U. Whse. Rev.	\$113,073	\$93,173	\$629,299	\$835,545
Increased Expenses	\$ 98,924	\$94,365	\$629,727	\$823,016
Operating Income (Loss)	\$ 14,149	\$(1,192)	\$ (428)	\$ 12,529
Operating Ratio Before Income Taxes	87.5%	101.3%	100.1%	98.5%
Operating Ratio After Income Taxes	90.9%	101.4%	100.1%	98.9%

(Red Figure)

(1) 1971 storage revenue increased 20%.

(2) 1971 revenue, other than storage, increased 35%.

The engineer stated that the operators are continually looking for new ways of stacking to achieve better utilization of their facilities. It was his opinion that the warehousemen have exerted every effort to effect economies, but that in the light of the wage agreements under which they must operate there is a limit to the extent economies can offset losses. He said that applicants are experiencing added costs in order to comply with environmental ordinances and regulations requiring them to improve air circulation and to make other changes. He said he did not increase expenses for these costs which are being incurred.

The engineer compared a number of basic rates in Tariff 13-B with comparable rates in Tariff 28-A. The Tariff 13-B rates used in his examples ranged from approximately one-fifth to three-fourths of comparable rates in Tariff 28-A. He explained that applicants are in competition in the area with political subdivisions which maintain tariff rates lower than those in Tariff 28-A.

Officers of Bekins, City Transfer, and West Coast testified in support of the application. Their testimony tended to confirm the operating results and other data in Exhibit A to the application, including the allocations and adjustments made by the engineer. Other testimony of the operators can be summarized as follows: Expense allocations which they have made between public utility warehousing and other functions have been conservative insofar as the warehousing is concerned. Public utility warehouse operations are losing money and should not be required to be supported by trucking or other business activities of applicants. Efficiencies resulting from new rack systems, mechanical handling equipment, and other improvements are constantly sought after. However, due to high costs of improvements and sometimes questionable results, they have been

implemented cautiously. An example is the purchase by one operator of a new L-5000 Burroughs bookkeeping machine in the hopes of reducing some salaries. However, surveys indicate that improvident use of such machines can add salaries. More stringent fire regulations require wider side aisles and wider and more frequent internal aisles, and in some cases lower pile heights. These are factors that tend to offset advantages gained by new mechanical handling equipment and some of the other improvements. Most known improvements and efficiencies have been effectuated.

The operators also testified that they must compete with the municipal storage tariffs of the cities of Los Angeles and Long Beach, which are substantially below Tariff 28-A. Because of competition from the municipal tariffs, and because of costs involved in rate increase applications, the operators seek rate adjustments less frequently than is done in connection with Tariff 28-A. The operators using Tariff 13-B have been able to maintain rates at a low level because of low rent and low taxes in the past. However, rent and taxes have increased substantially. Labor costs of City Transfer and West Coast are the same as those experienced by operators under Tariff 28-A. Comparisons were made between certain rates in Tariff 13-B with rates maintained by the city of Los Angeles. The rates compared were higher in the Los Angeles tariff, and some would continue to be higher under the proposed increase in Tariff 13-B. A thorough audit of Bekins, City Transfer, and West Coast was made by the Commission staff at the time of the last proceeding (Decision No. 75284), and there were only minor differences between the figures of applicants and the staff at that time.

Applicant's principal storers were notified of the proposals in advance of the hearing. No one appeared in opposition to the sought increases in rates.

Findings

1. Present rates and charges which applicants maintain in Tariff 13-B do not provide revenues sufficient to enable applicants to cover the expenses of performing the public utility warehouse operations here involved.

2. Applicants are in need of additional revenues to offset the increases in operating costs they have experienced since the rates here in issue were last adjusted in 1969.

3. The estimates of operating results of applicants under the proposed rates and increased expenses, as summarized in Table 3 in the preceding opinion, should be adopted on an interim basis.

4. Applicants should be authorized to establish the proposed 20 percent increase in storage rates and 35 percent increase in other rates and charges in Tariff 13-B on an interim basis.

5. Applicants' request for authority to establish the increased rates and charges by means of a surcharge supplement to Tariff 13-B is reasonable and should be authorized on an interim basis.

6. The interim increase authorized herein is consistent with Rule 23.1 of this Commission's Rules of Procedure:

- a. The proposed rate increase is cost justified. The increased revenue sought in this proceeding is to offset increases in costs, principally wages, occurring since rates were last adjusted.
- b. The increased wage and other costs sought to be recovered in this phase of the proceeding are those currently being experienced by the applicant warehousemen.

- c. The proposed rate increase is the minimum required to assure continued, adequate, and safe service of applicants.
- d. The proposed rate increase will achieve the minimum return needed to attract capital at reasonable costs and not impair the credit of the applicant warehousemen.
- e. The proposed rate increase takes into account expected and obtainable productivity gains, efficiencies, and savings. The record does not show that there are any productivity gains, efficiencies, or savings susceptible to quantitative measurement available to the applicant warehousemen which have not been reflected in their current operations.
- f. No public utility warehouseman appeared at the hearing to present evidence expressing a willingness and capacity to provide the current services of applicants at existing rates.

7. The procedures of the Commission provided for reasonable opportunity for participation by all interested persons or their representatives.

The Commission concludes that the sought increase should be granted on an interim basis and that permanent relief should be considered at the further hearings now scheduled on the Commission's calendar. We also conclude that the interim rates should be subject to a refund provision, in the event the final level of increased rates is less than the interim rates authorized herein.

INTERIM ORDER

IT IS ORDERED that:

1. Applicants are authorized to establish an interim surcharge of 20 percent in rates for storage and 35 percent in other rates and charges in California Warehouse Tariff Bureau, Warehouse Tariff No. 13-B, Cal. P.U.C. No. 211, issued by Jack L. Dawson, agent.

2. Tariff publications authorized as a result of the order herein shall contain the following provisions:

In the event any increases resulting from the application of this interim surcharge exceed the increases subsequently approved or prescribed by the Public Utilities Commission, the warehousemen will refund the differences between the increases resulting from the application of this interim surcharge and any increases which may be subsequently approved or prescribed by the Commission.

In the event an increase resulting from the application of this interim surcharge is disapproved by the Commission and no increase is authorized, warehousemen will refund the full amount of the increase collected.

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 10 days after the effective date hereof on not less than 10 days' notice to the Commission and to the public.

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

The effective date of this order is the date hereof.

Dated at San Francisco, California, this
17th day of APRIL, 1973.

Vernon L. Sturgeon
President
William Synovis, Jr.

[Signature]
[Signature]
Commissioners

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