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ORIGINAL

Decision No. 82800

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
RED LINE WAREHOUSES, INC. for an
increase in rates.

Application No. 54675
(Filed February 21, 1974)

INTERIM OPINION AND ORDER

Red Line Warehouses, Inc. operates approximately 50,000 square feet of public utility warehouse space for the storage of general merchandise at San Jose, California. Applicant seeks ex parte authority to increase its present storage rates and charges by 18-1/2 percent.

Applicant's present rates, rules, and charges have not been generally revised since June 1, 1971. At that time it became a party to California Warehouse Tariff Bureau Warehouse Tariff No. 55, Cal. P.U.C. No. 231 of Jack L. Dawson, Agent, pursuant to Decision No. 78656 dated May 11, 1971 in Application No. 52512. It is contended that since June 1, 1971 applicant's operating costs have steadily increased to a point where Tariff No. 55 rates and charges no longer yield revenues sufficient in amount to allow applicant to conduct its warehouse business at a profit.

In support of the sought relief, financial data pertaining to the 1973 operating results of Red Line Warehouses, Inc. were submitted in the form of exhibits attached to the application. A statement of income for the year ended December 31, 1973 indicates Red Line Warehouses, Inc. experienced a net loss of \$5,614. An analysis of applicant's results of operations for a 9-month period ending December 31, 1973, under actual and proposed revenues and adjusted expenses, was also presented. A summary of such analysis follows:

TABLE 1

Red Line Warehouses, Inc. Results Of
Operations Under Present and Proposed
Rates and Adjusted Expenses for a
9-Month Period Ending December 31, 1973

	Actual Revenue And Expenses 9-Month Period	Expenses As Adjusted 9-Month Period	Revenue & Expenses Expanded to 1 Year With Rate Increase
Warehouse Utility Revenue	\$69,663	\$ 69,663	\$110,067
<u>Warehouse Utility Expenses</u>			
Whsemen wages 4/1 to 6/30	8,448 (1)	8,921 (1)	11,892
7/1 to 12/31	20,430	20,430	27,239
Whsemen welfare expense	2,510 (2)	2,640 (2)	3,520
Materials, supplies, & repairs	1,763	1,763	2,351
Equipment depreciation	5,858	5,858	7,810
Whse. rent to affil. co.	12,820 (3)	6,920 (3)	9,226
to other	12,820	12,820	17,093
Office wages 4/1 to 6/30	2,233 (4)	2,389 (4)	3,185
7/1 to 12/31	3,934	3,934	5,245
Miscel. expenses	5,588	5,588	7,450
Payroll taxes & insurance	1,462	1,462	1,949
Other taxes	<u>1,533</u>	<u>1,533</u>	<u>2,044</u>
Total expenses	79,399	74,258	99,004
Net operating profit or (loss)	(9,736)	(4,595)	11,063
Federal & state income taxes	-	-	3,211
Total expenses after taxes	79,399	74,258	102,215
Profit or (loss) after taxes	(9,736)	(4,595)	7,852
Operating ratio after taxes	114%	106.6%	92.9%
Net value, property, & equipment	20,453 (5)	103,188 (6)	103,188 (6)
Working capital	<u>16,342 (7)</u>	<u>14,257 (8)</u>	<u>15,062 (9)</u>
Rate base	36,795	117,715	118,250
Rate of return after taxes	-	-	6.6%

- (1) Warehousemen's labor rate increased on 7/1/73 from \$6.27 to \$6.62, or by 5.6%.
- (2) Welfare adjusted to 9 months at levels which came effective on 7/1/73 - Pension Fund, 2 men 39 weeks at \$17, \$1,326. Health Insurance, 2 men 9 months at \$73, \$1,314.
- (3) For the rent paid to the affiliate, substitute the actual expenses of affiliate.
- (4) Office wages increased on 7/1/73 from \$5.02 to \$5.37, or by 7.0%.
- (5) As of 12/31/73, book cost of equipment owned by warehouse company \$76,847, less accumulated depreciation \$56,394 - net \$20,453.
- (6) Total of net value of affiliated landlord's property used in the public warehouse operation plus net value of equipment owned by warehouse company.
- (7) Working capital based on 2 months' expenses excluding depreciation expense.
- (8) Working capital based on 2 months' expenses excluding depreciation of \$5,858 (warehouse company) and \$3,027 (affiliate's depreciation for 9 months).
- (9) Working capital based on 2 months' expenses excluding depreciation of \$7,810 (warehouse company) and \$4,036 (affiliated depreciation for one year).

Applicant states that the 9-month test period is representative of its business operations under present conditions. Table 1 shows that Red Line Warehouses, Inc. experienced an operating ratio, after taxes, of 114 percent for the 9-month period. When the actual results of operations are adjusted to reflect current cost of labor, the elimination of rent paid to an affiliate, and the substitution of landlord costs in lieu of affiliated rent, Table 1 indicates Red Line Warehouses, Inc. adjusted results of operations would reflect an operating ratio, after taxes, of 106.6 percent. Under revenues anticipated from the proposed rates and adjusted expenses for a projected full year's operation, applicant expects to experience an operating ratio of 92.9 percent after taxes, and a rate of return of 6.6 percent. While the proposed rates and charges are deemed by applicant to fall short of enabling its operations to enjoy an overall satisfactory rate of return, it is felt that for the present such operations can be conducted at the proposed rate levels.

The Commission's Transportation Division staff has reviewed the relief sought. It recommends, in the absence of protest, a 10 percent interim increase in all rates and charges, other than those pertaining to storage, be authorized at this time pending hearing for the receipt of evidence relative to the overall sought increase and full disposition of Application No. 54675.

Findings

1. Applicant's established rates and charges were last generally adjusted by Decision No. 78656 dated May 11, 1971 in Application No. 52512.
2. Since applicant's rates, rules, and charges were last generally adjusted it has experienced substantial increases in operating costs due primarily to upward adjustments in the costs of labor and allied payroll expenses, materials, and supplies.

3. Applicant has demonstrated that its sought 18-1/2 percent increase in its tariff rates and charges will generate approximately \$17,183 in additional annual revenues for the 1973 projected test year. On this basis applicant expects to experience an operating ratio of 92.9 percent, after taxes, and a rate of return of 6.6 percent.

4. An interim 10 percent surcharge increase in applicant's tariff rates and charges at this time would generate additional annual revenues of some \$9,284, thereby increasing Red Line Warehouses, Inc. utility warehouse revenues for the 1973 test year to approximately \$102,172 in lieu of \$110,067 as proposed.

5. A 10 percent interim surcharge increase in applicant's rates and charges will offset its total operating expenses for the test year pending hearing in this matter.

6. An interim surcharge increase of 10 percent in all of applicant's tariff rates and charges involved herein, pending hearing for the receipt of evidence relative to the further relief sought in Application No. 54675 has been shown to be justified.

The Commission concludes that, pending hearing on Application No. 54675, applicant should be authorized, on not less than five days' notice, to increase all of its tariff rates and charges by a 10 percent surcharge.

IT IS ORDERED that:

1. Red Line Warehouses, Inc. is authorized to increase its tariff rates and charges as described in Application No. 54675 by the application of a 10 percent surcharge.

2. Tariff publications authorized to be made by the order herein may be made effective not earlier than five days after the effective date of this order on not less than five days' notice to the Commission and to the public.

3. The authority granted by this order is subject to the express condition that applicant will never urge before this Commission in any proceeding under Section 734 of the Public Utilities Code, or in any other proceeding, that this opinion and order constitute a finding of fact of the reasonableness of any particular rate or charge. The filing of rates and charges pursuant to this order will be construed as a consent to this condition.

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

5. A public hearing shall be scheduled in this proceeding for the receipt of evidence relative to Application No. 54675 and full disposition thereof.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 30th
day of APRIL, 1974.

William J. Sturgeon President
Vernon L. Sturgeon
Charles J. Sturgeon
Edward J. Sturgeon Commissioners

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.