

ORIGINAL

Decision No. 83589

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of COMPASS TRADING CO.,  
INC., a California corporation,  
under Sections 454 and 491 of  
Public Utilities Code for authority  
to increase Public Utility Warehouse  
Rates.

Application No. 54626  
(Filed February 4, 1974)

Silver, Rosen, Fischer & Stecher,  
by John Paul Fischer, Attorney  
at Law, for applicant.  
B. I. Shoda, for the Commission  
staff.

FINAL OPINION

Applicant is a public utility warehouseman as defined by Section 239(b) of the Public Utilities Code of the State of California, holding a certificate of public convenience and necessity to operate 80,000 square feet of storage or warehouse floor space at San Jose.

Decision No. 82773 dated April 23, 1974 in this proceeding authorized Compass Trading Co., Inc. (Compass) to increase its rates and charges by 10 percent on an interim basis pending consideration of its request for a permanent increase of 20 percent. The interim increase was established as a surcharge in Item 5 of Public Warehouse Tariff No. 1, Cal. P.U.C. 2 of Miller Traffic Service, Inc., Agent, effective May 29, 1974.

Public hearing was held and the matter submitted before Examiner Mallory at San Francisco on August 9, 1974. Evidence in support of the request was presented by applicant's operations manager and by a certified public accountant employed by Compass.

The Commission staff assisted in the development of the record. No one appeared in opposition to the relief sought.

The record shows that applicant presently serves 18 storers and that all storers were notified of the proposed increases and have no objection. The record also shows that applicant's warehouse is currently filled to capacity and space has been acquired in another building to store empty pallets and other material.

Exhibit 5, jointly presented by applicant's operations manager and its public accountant contains: a balance sheet as of June 30, 1974; income statements for the year ended December 30, 1973, the six-month period ended June 30, 1974, and for the month of July, 1974; adjustments to annualize the results of operations for the first months of 1974 and to develop a projected income statement for the year ended December 31, 1975; and adjustments of all of the foregoing income statements to reflect estimated increased operating costs and proposed increased revenues.

Analysis of the income statements and cross-examination of applicant's witnesses indicates that revision of the income statements presented by applicant would be in order. For example, interest should be eliminated as an operating expense. Also, operating expense should be adjusted to eliminate a projected 10 percent increase in rent expense and the rental cost of added space in another building and, in substitution, rental expense should include the estimated cost of additional warehouse space in applicant's present building. Such space is proposed to be leased to provide needed additional warehouse floor space to accommodate increased patronage. Other adjustments, hereinafter discussed, also appear appropriate.

The following table sets forth the revenues and expenses of applicant's public utility warehouse operations for the historical periods shown, as set forth in Exhibit 5. Interest has been eliminated from operating expense, and operating ratios have been recalculated.

TABLE I

Compass Trading Co., Inc.  
Statement of Income and Expense  
 (Actual)

	Year Ended December 31, 1973	Six Months Ended June 30, 1974
<u>Operating Revenues</u>	\$444,674	\$263,055
<u>Direct Operating Expenses</u>		
Handling wages	\$153,673	\$ 85,734
Superintendent salary	14,275	7,420
Plant payroll expenses	20,387	28,306
Plant materials and supplies	4,136	4,215
Plant maintenance and repairs	20,516	9,405
Plant depreciation	12,573	6,600
Plant utilities	4,823	2,940
Plant rent	91,647	47,279
Total Direct Operating Expenses	\$322,030	\$191,899
<u>Administrative and General Expenses</u>		
General office salaries	\$ 39,482	\$ 23,465
Payroll expense - office	3,541	3,383
Office materials and supplies	10,746	6,839
Office maintenance and repairs	2,616	830
General insurance	8,417	2,348
Office depreciation	793	1,019
Taxes and licenses	2,832	1,855
Solicitation expense	8,005	2,618
Loss and damage claims	1,393	652
General expense	39,935	20,165
Office rent	3,000	1,500
Total Administrative and General Expenses	\$120,760	\$ 64,674
Total Expenses	\$442,790	\$256,573
Operating Income	\$ 1,884	\$ 6,482
Income Taxes (1)	\$ 200	\$ 246
Net Income	\$ 1,684	\$ 6,236
<u>Operating Ratios</u>		
Before Income Tax	99.57%	97.54%
After Income Tax	99.62%	97.63%

(1) Income taxes give effect to a net operating loss carry-over of \$30,144.

Applicant's estimates of operating results for future periods are based on the annualization of actual operating revenues and expenses for the six-month period ended June 30, 1974. Revenue data have been adjusted to reflect the 10 percent interim increase heretofore authorized and the proposed additional 10 percent increase sought herein. Expenses have been adjusted for the cost of additional warehouse space required for applicant's operations; salaries and related payroll expense for applicant's officers; additional legal and accounting fees related to the application herein; increased wages resulting from labor contracts with warehouse employees and for wage increases granted to general office and supervisory personnel; an estimated increase of 15 percent in the category of general expenses included under Administrative and General Expenses; and an estimated 10 percent increase in warehouse rental costs.

The record shows that legal and accounting expenses are included in the category of general expenses referred to above for which a 15 percent increase is projected. The separate inclusion of the accounting and legal expenses for this application appears to be duplicative of the overall 15 percent increase and should be deleted. Also, the category of general expense includes a \$100 donation to the Heart Fund which, consistent with current Commission policy, also should be deleted. As heretofore indicated, for the 1975 test year, the projected increase of 10 percent in rents for applicant's current building and the \$821 per month included for space in a separate building should be deleted, and there should be substituted an annual cost of \$15,840 to cover the additional 12,000 square feet of floor space to be leased in applicant's present building (at 11 cents per square foot per month). The following table depicts applicant's projected income statements for future periods, with the adjustments described above:

TABLE 2

Compass Trading Co., Inc.  
Statement of Income and Expense  
For Estimated Future Periods Under  
Proposed 20 Percent Increase  
(Adjusted)

	Year Ended December 31, 1974	Year Ended December 31, 1975
<u>Operating Revenues</u>	\$631,332	\$631,000
<u>Direct Operating Expenses</u>		
Handling wages	\$171,468	\$183,000
Superintendent salary	14,840	16,000
Plant payroll expenses	49,528	46,000
Plant materials and supplies	8,430	10,000
Plant maintenance and repairs	18,810	22,000
Plant depreciation	13,200	14,000
Plant utilities	5,880	7,000
Plant rent	97,720	104,000
Total Direct Operating Expenses	\$379,876	\$402,000
<u>Administrative and General Expenses</u>		
General office salaries	\$ 70,930	\$ 83,000
Payroll expense - office	9,077	12,000
Office materials and supplies	13,678	16,000
Office maintenance and repairs	1,660	2,000
General insurance	4,696	5,000
Office depreciation	2,038	3,000
Taxes and licenses	3,710	4,000
Solicitation expense	5,236	6,000
Loss and damage claims	1,304	2,000
General expense	40,230	46,000
Office rent	3,000	4,000
Total Administrative and General Expenses	\$155,559	\$183,000
Total Expenses	\$535,435	\$585,000
Operating Profit Before Tax	\$ 95,897	\$ 46,000
Income Taxes (Note)	\$ 28,124	\$ 4,500
Operating Profit After Tax	\$ 67,773	\$ 41,500
<u>Operating Ratios</u>		
Before Tax	84.8%	92.7%
After Tax	89.3%	93.4%

(Note) Net operating loss carry-over of \$30,174 has been included in the computation of income taxes.

Findings

1. Applicant, Compass Trading Co., Inc., is a public utility warehouseman. Applicant operates 80,000 square feet of floor space in San Jose. The warehouse is leased.

2. At the present time applicant's warehouse is operated at capacity. In order to accommodate its needs and the needs of its customers, applicant will require additional floor space.

3. Applicant engages in no other operations except that of a public warehouseman. No allocations of revenues and expenses are therefore required.

4. Applicant was granted an interim 10 percent increase pending consideration of its request for a 20 percent increase in all rates and charges.

5. Table 2 sets forth the reasonable operating revenues and expenses of applicant for the periods shown. Such operating results are adopted for the purposes of this proceeding.

6. Table 2 indicates that if the 20 percent increase sought herein had been in effect for the full year 1974, applicant's net operating income would have been \$67,773, with a corresponding operating ratio (after taxes) of 89.3 percent.

7. Table 2 shows that under the proposed 20 percent revenue increase and the increased operating expenses estimated for the year 1975, applicant will obtain a net income of \$41,500, as represented by an operating ratio (after taxes) of 93.4 percent.

8. Operations under the proposed 20 percent increase for a test year entirely in the future will not produce excessive earnings.

9. The proposed 20 percent increase in all rates and charges (in lieu of the interim 10 percent increase) is justified.

Conclusion

The balance of the relief requested in the application should be granted.

FINAL ORDER

IT IS ORDERED that:

1. Compass Trading Co., Inc. is authorized to increase the rates and charges set forth in Public Warehouse Tariff No. 1, Cal. P.U.C.2(Miller Traffic Service, Inc., Agent) by 20 percent, in lieu of the interim 10 percent increase established pursuant to Decision No. 82773. In establishing such increase, applicant is authorized to use the form of tariff publication set forth in its Exhibit 4 in this proceeding.
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 herein 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.

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

Dated at San Francisco, California, this 16<sup>th</sup>  
day of OCTOBER, 1974.

William L. Felt  
President  
William J. Brown  
William J. Brown  
William J. Brown  
Commissioners

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