

Decision No. 6284

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application)
of LATHROP HAY COMPANY for author-)
ity to increase rates for the stor-)
age of Hay at Hollister.)

Application No. 4434.

R. P. Lathrop, in propria persona.

MARTIN, Commissioner.

O P I N I O N.

Applicant herein owns and operates as a public utility four warehouses, located in the Town of Hollister and devoted entirely to the storage of hay. The rates at present in effect are \$1.25 per ton for the first season and \$1.00 per ton for each subsequent season, extending from May 15th of a given year to the same date of the following year. The present rates cover all necessary handling, including loading to cars or teams. Applicant asks authority to make an increase of 25 cents per ton per season. There is also in effect a loading charge of 50 cents per ton covering the services performed in loading hay direct to cars from teams or from the yard without involving any warehouse service but it is not proposed to increase this rate. On the average hay tonnage handled during the four years ending May 15, 1915, 1916, 1917 and 1918, namely, 10,182 tons, the increased rates should produce an additional revenue amounting to approximately \$2500 per annum.

Applicant, in addition to the storage of hay, also buys and sells this commodity, which business is carried on in conjunction with its warehouse activities, the two enterprises being more or less dependent the one upon the other.

Applicant's reports to the Commission show separately the revenue received from these two sources, but, unfortunately, general or overhead expenses have not been segregated in the same manner. The warehouse business alone is claimed to be unprofitable owing to recent sharp increases in operating expenses and a decline of approximately 50 per cent in the volume of hay stored, due to changing agricultural and horticultural conditions. The truth of this contention seems evident, even in the absence of an allocation of expenses between the warehouse and merchandising business.

While applicant's early reports to the Commission show but slight profits from hay merchandising, the years ending May 15, 1916, 1917 and 1918, respectively, produced handsome returns for the company from its entire activities. Applicant claims to be essentially a warehouse concern, but maintains that its operating expenses in the storage of hay would vary but little were the buying and selling of hay entirely eliminated, and while this may be true, it is also obvious that the possession of the warehouses and offices, properly organized, is of great value in the buying and selling of hay.

As previously indicated, the property devoted to the storage of hay consists of four wooden frame warehouses, with walls and roofs of galvanized corrugated iron, having a value of \$23,000 and a combined capacity for the storing of 19,500 tons of hay. In addition to the value of the warehouses, there should be added the value of about one mile of railroad spur tracks, six draft horses and trappings, stables, track scales, office building and general warehouse equipment, bringing the total investment to approximately \$50,000, exclusive of 27 acres of land on which the buildings are located. The land is valued at \$800 per acre or \$21,600. Applicant's warehouses are widely separated from each

other, being placed at more or less regular intervals over the entire 27 acre tract. This arrangement, it is alleged, is for better fire protection and to secure lower insurance rates. The reasons here assigned, though ordinarily commendable, do not justify the setting aside of so large a tract of valuable land, rendering the entire acreage practically valueless for other uses, and on which the warehouse patrons are expected to pay a return in the way of rates. Were it necessary in this case to undertake to establish a system of rates based upon proper and necessary investment, it would be essential to reduce to a convenient minimum the land here involved and likewise the plant, now 50 per cent idle, but actual operating results, after deducting merchandising profits, result in deficits equal to if not greater than the revenue anticipated from the proposed increase in rates, so that it is not deemed necessary in this proceeding to find a rate base value for the property of applicant, used and useful in the conduct of its public utility business. However, the recommendation is made in the interest of practical economy and the beneficial use of the land that material reduction in plant and land devoted exclusively to hay warehouse purposes is desirable.

This application is based largely upon the claim that the acreage formerly devoted to the production of hay in the vicinity of Hollister is now being turned into orchards or planted to sugar beets, tomatoes, garden seed and other crops not ordinarily stored in warehouses, so that applicant's outlook for the future is not promising in so far as the prospective storage of hay is concerned, said production now amounting to about 45% of the tonnage produced in former years. These facts were abundantly supported by the testimony. It is also alleged that in the loading of hay from applicant's warehouse, it is just as expensive to load one car or eight cars per day, for the reason that the same loading crew is necessary in each case. Testimony introduced at the

hearing shows that the wages of warehouse employees have increased from \$12, \$15 and \$18 per week paid in 1913, to \$18, \$21 and \$24 per week paid in 1918, or a minimum increase of 33 1/3%. Also, that fire insurance has increased 10%; rope 100%; incidentals 40% to 50%; while the reduction in the amount of hay stored, comparing 1913 with 1918, approximates 45%. According to testimony introduced at the hearing, the approaching season will show a further decline in hay tonnage.

The hearing in this proceeding was held at Hollister on April 8, 1919. The usual publicity was given to the proceeding, including the sending of personal notices by registered mail to each of applicant's warehouse patrons, but no one appeared at the hearing to protest against the proposed increase in rates or to otherwise intervene in connection with the changes proposed.

The rate of \$1.50 per ton per season for which applicant asks is now the rate in effect at a number of warehouses engaged in the storing of hay in the Livermore and San Ramon valleys and elsewhere.

It appears fair and reasonable that, under all the conditions surrounding applicant's service, with special reference to increased operating costs, reduction of acreage devoted to the growing of hay and the high class service rendered, the application should be granted and it is so recommended. At the same time it is obvious that the plant, so far as it pertains to both acreage and buildings, is largely in excess of future requirements, especially if the tendency to produce crops not requiring storage continues. Alterations should therefore be made to meet the changing conditions in order that applicant's patrons may not be called upon to pay rates for storage on an investment not now used or useful in the business of storing hay.

Applicant should be commended for the orderly manner in which it keeps its accounts and also for the care and attention given to its entire plant. Applicant, in future, should be required to keep segregated accounts of the expenses between the utility and the non-utility branches of its business, and its reports to the Commission should show earnings and expenses in such a manner that the Commission may determine whether applicant, as a public utility, is gaining or losing in its operations.

I recommend the following form of order:

O R D E R.

LATHROP HAY COMPANY, engaged in the business of warehousing at Hollister, having applied to the Railroad Commission for an order authorizing an increase in rates for the storage and handling of hay, a public hearing having been held, the matter having been submitted and being now ready for decision,

THE RAILROAD COMMISSION HEREBY FINDS AS A FACT that the existing rates are unreasonable and non-compensatory and that the rates hereinafter authorized are just and reasonable rates.

Basing its order on the foregoing finding of fact and upon the further findings of fact contained in the opinion which precedes this order,

IT IS HEREBY ORDERED that Lathrop Hay Company be and it is hereby authorized to establish the following rates for the storage of hay:

	<u>Per Ton</u>
First Season (12 months May 15th to and including the same date of the following year)	\$1.50
Second Season, and each period of 12 months thereafter,	1.25

IT IS FURTHER ORDERED that in future Lathrop Hay Company keep its accounts in such a manner as to show a proper segregation of its income and expenses, separating the income received and the

expenses incurred in connection with the storage business from its non-utility activities.

IT IS FURTHER ORDERED that the rates herein authorized shall not become effective until the same have been published in a tariff, in conformity with the rules and regulations of the Railroad Commission, and shall be filed with the Commission within thirty (30) days from the effective date of this order.

The foregoing opinion and order are hereby approved and ordered filed as the opinion and order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 24th day of April, 1919.

Edwin O. Edgerton

H. J. ...

Frank ...

H. B. ...

... Martin

Commissioners.