

ORIGINAL

Decision No. 34344

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of the)
 SACRAMENTO VALLEY WAREHOUSEMEN'S ASSO-)
 CIATION and the CALIFORNIA WAREHOUSE-)
 MEN'S ASSOCIATION in behalf of BUTTE)
 COUNTY WAREHOUSE CO., a corporation;)
 HASLETT WAREHOUSE COMPANY, a corporation;)
 LINCOLN GRAIN GROWERS, INC., a corpora-)
 tion; NORTHERN CALIFORNIA WAREHOUSE CO.,)
 a corporation; OLD PIONEER MILL &)
 WAREHOUSE CO., a corporation; PLANT)
 WAREHOUSES, INC., a corporation; SAC-)
 RAMENTO RIVER WAREHOUSE CO., a corpora-)
 tion; TARKE WAREHOUSE CO., a corpora-)
 tion; ARTHUR F. and JENNIE D. JAUCE,)
 doing business as ELK GROVE MILLING CO.,)
 MRS. GEORGE D. COOPER and MRS. E. E.)
 ELY, doing business as ELY'S WAREHOUSE;)
 S. S. HINAMAN and G. H. McLEAN, doing)
 business as GRIDLEY WAREHOUSES; J. P.)
 HORNALL and L. P. HENIGAN, doing busi-)
 ness as ROBBINS WAREHOUSE CO.; J. C.)
 HORNALL, doing business as ARBUCKLE)
 and COLLEGE CITY WAREHOUSES; EDWIN H.)
 ROBINSON, doing business as BRETONA)
 WAREHOUSE; J. G. BRATTON, doing busi-)
 ness as HARRY A. BROWN CO.; HARRY E.)
 CURTIS, doing business as CURTIS WARE-)
 HOUSE; ELVA DePUE MATTHEWS, doing busi-)
 ness as DE PUE WAREHOUSE COMPANY;)
 R. DONNELL, doing business as DONNELL)
 GRAIN & WAREHOUSE CO.; H. E. SAVAGE,)
 doing business as DOTY BRICK WAREHOUSE)
 and RICETON WAREHOUSE; WARD HUNT, doing)
 business as DUNNIGAN WAREHOUSE; EUGENE)
 J. METZGER, doing business as FARMERS)
 WAREHOUSE (Zamora); P. J. and GLENN J.)
 HIATT, doing business as HIATT and HIATT;)
 Z. L. PARTIAN, doing business as HUSTON)
 WAREHOUSE; W. K. JANSEN, doing business)
 as WALTER JANSEN & SON; GEORGE E.)
 JEFFERY, doing business as JEFFERY'S)
 MILL & WAREHOUSE; F. L. JUNNEY, doing)
 business as JUNNEY WAREHOUSE; MAURICE)
 STRAIN, doing business as STRAIN'S)
 PUBLIC WAREHOUSE; NETTIE B. SUBLETTE,)
 doing business as TREMONT WAREHOUSE;)
 DELLA SCHIMMEL, doing business as TUDOR)
 WAREHOUSE; C. F. QUIGGLE, doing business)
 as VALLEY WAREHOUSE COMPANY; T. E. BROWN,)
 doing business as WOODLAND WAREHOUSES; and)
 L. H. CUMMINS; CHARLES PUGSLEY; R. A.)
 RENAUD; and C. L. WOLCOTT; for an order)
 establishing just and reasonable minimum)
 rates and standard rules and regulations,)
 through L. A. BAILEY, their duly author-)
 ized warehouse tariff agent.

Application No. 23608

SACRAMENTO VALLEY WAREHOUSEMEN'S ASSOCIATION
and CALIFORNIA WAREHOUSEMEN'S ASSOCIATION

COMPLAINANTS

vs.

CATLETT WAREHOUSE CO., a corporation; CONA-
WAY RANCH, a corporation; FARMER'S TRANS-
PORTATION CO., a corporation; GRANGER'S
BUSINESS ASSOCIATION OF DIXON, a corporation;
GROWERS MILLING & ELEVATOR CO., a corporation;
MADISON WAREHOUSE CO., a corporation; TYNDALL
WAREHOUSE CO., INC., a corporation; WILLIAMS
CO-OPERATIVE WAREHOUSE ASSOCIATION, a corpora-
tion; O. R. POWELL and J. M. HALPTON, doing
business as LIVE OAKS WAREHOUSES; J. G. MAST,
MRS. G. MAST, C. S. MAST, JOE MAST and ANNIE
MAST, doing business as MAST BROS. IRON WARE-
HOUSE; L. S. PRITCHARD and R. B. PIERCE,
doing business as PEOPLES WAREHOUSE; J. E.
SULLIVAN and A. C. P. LARSEN, doing business
as SULLIVAN & LARSEN; E. I. BOBB and D. P.
TRAYNEAM, doing business as UNION STORAGE
CO.; C. ORENGO, doing business as CAPAY
WAREHOUSE ASSOCIATION; T. E. TADLOCK, doing
business as CITRONA WAREHOUSE; J. E. PRIEL,
doing business as CONSUMERS FUEL & STORAGE
CO.; L. E. AYERS (Lessee), doing business
as COUNTY LINE WAREHOUSE; H. E. RICHTER and
JOHN DOE RICHTER, doing business as RICHTER
BROS. OR DUFOUR WAREHOUSE; B. L. FOUCH,
doing business as FARMERS WAREHOUSE (of
Williams); A. T. SPENCER, doing business as
GERBER WAREHOUSE; J. L. BROWNING, doing
business as GRAND ISLAND WAREHOUSE; H. R.
KINGSEBURY, doing business as HONCUT WARE-
HOUSE; HAROLD W. HOOBLER, doing business as
HOOBLER WAREHOUSE CO.; WILLIAM BUCHOLZ,
doing business as MARYSVILLE WAREHOUSE; J. L.
GIANELLA, doing business as NORD WAREHOUSE
CO.; R. A. HARELSON, doing business as
NORTHERN STAR MILLS; H. K. WILLARD, doing
business as RED BLUFF FLOUR MILLS; WILLIAM
DOLD, doing business as SIXTEENTH STREET
PUBLIC BEAN AND GRAIN CLEANER WAREHOUSE;
WILLIAM CRAWFORD, doing business as WOODLAND
RICE MILLING CO.; CHRISTIAN BLAKEMORE;
FARMER'S WAREHOUSE, ELMIRA; MACY & CO.; and
C. B. Harter.

DEFENDANTS

Case No. 4544

BAKER, COMMISSIONER:

Appearances

Reginald L. Vaughan, for applicants and complainants.
J. J. Deuel, for California Farm Bureau Federation,
protestant.

Arthur B. Eddy, for Madison Warehouse Company, J. G. Mast, C. S. Mast and Annie Mast, doing business as Mast Bros. Iron Warehouse; E. I. Bobb and D. P. Traynham, doing business as Union Storage Co.; C. Orengo, doing business as Citrona Warehouse; L. E. Ayers (Lessee), doing business as County Line Warehouse, A. E. Byers, (Owner), County Line Warehouse; H. E. Richter and L. H. Richter, doing business as Richter Bros. or Dufour Warehouse; George Jeffery, doing business as Jeffery's Mill & Warehouse; Eula D. Cooper and Farmers Warehouse of Zamora, defendants.

George Sehmeyer, for California State Grange.
R. F. Ahern, for California Rice Industry Marketing Board.

Daniel E. Weyand, for Tyndall Warehouse Co., Inc.
Christian Blakemore, in propria persona.
E. R. Warren, for San Francisco Grain Trade Association and the California Hay, Grain and Feed Dealers Association.

S. Atwood McKeehan, for Catlett Warehouse Co., Inc.

O P I N I O N

By Application No. 23608 the Sacramento Valley Warehousemen's Association and the California Warehousemen's Association (hereinafter termed the Associations) on behalf of their members, public utility warehouse operators in the Sacramento Valley, seek authority to increase rates for the storage and handling of grain, paddy rice, nuts, alfalfa meal, wool, dried fruits and seeds and to standardize rules, regulations and charges for special services incidental to the storage service.

By complaint in Case No. 4544 the Associations ask the Commission to direct the defendants named in the title to establish rates, rules and regulations of the same volume and effect as those

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sought by applicants.

These proceedings were publicly heard on a consolidated record at Sacramento, Woodland, Colusa and San Francisco and submitted on briefs.

The present rates, rules and regulations of applicant and defendant warehousemen for the storage of the commodities involved herein, are shown in their respective tariffs which are by reference made a part of this record. Those sought by the Associations to be established for all warehousemen parties to these proceedings are contained in Exhibit "A", as supplemented, in Application No. 23608.

Of the commodities involved in these proceedings those principally stored by the Sacramento Valley warehousemen are grain and paddy rice and evidence of record deals almost exclusively with these two commodities. The record indicates that, with certain exceptions, the present rate on grain is \$1.25 and on paddy rice \$1.50.² The rate sought by applicants on grain is \$1.50 and on rice \$1.75.

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At the initial hearing Application No. 23608 was amended by removing Old Pioneer Mill & Warehouse Co. from the list of applicants and by adding California Dehydrating Company, Davis Warehouse, Keller Warehouse Company, Eibe & Hoffman Warehouse Company, Paul G. Shulz, Robert M. Upton, Lawrence Warehouse & Distributing Company and Red Bluff Flour Mills; Case No. 4544 was amended by removing Red Bluff Flour Mills from the list of defendants therein.

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For convenience, "paddy rice" will hereinafter be referred to as "rice." Rates are season storage rates, stated in dollars and cents per ton of 2,000 pounds. The proposed rates include the services of receiving, weighing in, piling and delivery. The rates on rice include the additional service of weighing out. Unless otherwise shown, the season storage rates on grain cover the storage period from June 1 to the following May 31, and on rice the period from September 1 to the following August 31. The present rates generally include similar services and storage periods.

Applicants allege in support of their request for increased rates that they are not receiving a fair rate of return on the value of their public utility warehouse property and that the majority of them are operating their public utility warehouse business at an out-of-pocket loss. They allege further that these same conditions exist with defendant warehousemen; that defendants' need for increased revenue is as great as is applicants; and that for these reasons and because of competition assertedly existing between warehousemen in the Sacramento Valley, it is necessary that defendants' rates, charges, rules and regulations be increased to the same level. Applicants request that their prayer for increased rates be denied unless defendants are required to increase their rates.

In support of the allegation that the public utility operations of most of the warehousemen parties to these proceedings recently have been and are being conducted at an out-of-pocket loss, applicants rely strongly upon exhibits presented by the Associations' tariff agent setting forth annual investment, expense and revenue statistics of applicant and defendant warehousemen compiled from their individual annual reports on file with the Commission.³ Annual figures set forth below are taken from these exhibits:

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The annual report figures of a number of warehousemen parties to these proceedings are not included in the exhibits. However, witness stated that their exclusion would not change the result of the exhibits. At the hearing, the annual reports of all warehousemen parties to these proceedings were made a part of the record.

	<u>1930</u>	<u>1934</u>	<u>1938</u>	<u>1939</u>
Number of Warehousemen	77	65	65	65
Cost of Land, Buildings and Equipment	\$2,412,557.30	\$1,705,068.43	\$2,193,145.73	\$2,184,535.73
Cost of Other Property	110,670.95	110,101.22	110,357.97	104,012.51
Total cost of Equipment and Property	2,523,228.25	1,815,169.65	2,303,503.70	2,288,548.24
Operating Revenue	828,417.34	609,362.71	579,712.69	645,649.06
Operating Expenses	639,166.37	511,181.78	654,839.80	719,145.88
Operating Gain	189,250.97	98,180.93		
Operating Loss			75,127.11	73,496.82
Nonoperating Revenue	180,548.38	125,213.63	244,956.43	228,307.94
Gross Company Gain	369,799.35	223,394.56	169,829.32	154,811.12
Nonoperating Expense		56,927.65	116,233.83	85,788.67
Interest Charges		34,143.57	29,769.22	32,994.59
Other Deductions		67,179.52	8,252.93	3,927.71
(1) Total Deductions	246,442.69	158,240.74	154,255.98	122,710.97
Net Company Income	123,356.66	65,153.82	15,573.34	32,100.15

(1) Includes "nonoperating expense," "interest charges" and "other deductions."

The Associations' tariff agent pointed out that the 1938 and 1939 annual figures shown in the exhibits indicated operating losses of over \$70,000 per annum and contended that whatever profits the warehousemen enjoyed were from their nonutility functions. He attributed the alleged financial distress of the Sacramento Valley warehouse industry to the fact that warehousemen assertedly have, since 1933, experienced steadily increasing costs of doing business, without corresponding increases in the storage rates. He testified that these asserted increased costs resulted from increased wages,

The witness explained that many of these warehousemen are engaged in businesses which are incidental to their warehouse storage business. The record shows that the nonutility operations include such activities as drying and cleaning grains, rice and beans; selling bags and twine; buying and selling hay, feed, and grain and grinding feeds.

He testified that from his recent investigation he found that since 1933 the hourly wage for weighers has increased from 35 to 40 cents per hour to from 50 or 60 cents or higher and that the hourly wage for pilers has increased from 50 to 60 cents to from 70 to 75 cents, except in Sacramento where wages were said to be 67 cents for both classes of workers. No testimony regarding wages paid to truckers was given by this witness. However, one applicant warehouseman testified that the hourly wage he paid for truckers had increased from 35 cents in 1933 to 50 cents; a second applicant warehouseman testified to increases of from 40 cents in 1933 to 55 cents for similar labor and a third stated that his hourly wage paid for truckers had increased from 50 to 60 cents.

increases in the price of materials and supplies, increases in the cost of repairs, additional tax burdens in the form of workmen's compensation insurance, unemployment insurance and old age pension reserve taxes and the imposition of warehouse registration fees and increased weighmaster's fees.

The increased cost testimony given by the Associations' witness was, in general, corroborated by applicant warehousemen whose testimony covered this subject. In addition, certain of these warehousemen testified to other increased costs said by them to have been experienced in their individual warehouse business.

As previously stated, the season storage rate on grain and rice generally includes delivery to cars or trucks from storage. The record indicates that in recent years there has been a substantial increase in the amount of grain and rice shipped out of the warehouses by truck facilities and a corresponding decline in rail deliveries. Several applicant warehousemen contended that truck loading is inherently more costly than carloading and that, therefore, their loading costs have increased due to the increase in truck loading. They testified that when loading to rail cars they are ordinarily permitted 48 hours free time within which to load and can thereby load the cars at their own convenience and without loss of time. They stated that because it was sometimes not known when trucks would call to receive grain they experienced difficulties in having sufficient labor available; and that, in instances where an arrival time was set and trucks failed to arrive as scheduled, their warehouse crews would be kept idle awaiting their arrival. They also contended that trucks often take smaller lots than are loaded out to rail cars; and that the delivery of the smaller lots is more expensive.

Several applicant warehousemen testified that they incurred a new warehouse cost coincident with their establishment of the

practice of fumigating and dusting grain and rice to control rodent and weevil infestation. This practice was said to have begun in 1934 when effective chemicals first became available.

We turn now to the rate proposal. It is applicants' contention that they are not seeking rates that will yield revenue sufficient in amount to enable applicants to realize a fair rate of return on the capital invested but only rates which will yield revenues returning to the utilities their cost of doing business with an opportunity to earn a small return upon their investment. The Associations' witness stated that the rates proposed were designed for that purpose, and, in his opinion, would not yield a reasonable return.

Referring to the proposed rate of \$1.75 on rice, he pointed out that a rate of \$2.00 had previously been in effect generally throughout the Sacramento Valley when operating costs were allegedly lower than they are today.⁷ With regard to applicants' proposal to increase the rate on grain from \$1.25 to \$1.50, he stated that the present level of grain rates has been unchanged for many years and, hence, does not reflect the alleged higher operating expenses. To support further his opinion that the proposed rates would not be fully compensatory, this witness pointed out that season storage rates of the same volume as here proposed are presently in effect for the storage of grain and rice in the San Joaquin and Salinas

⁶ One of the warehousemen so testifying admitted, however, that his dusting cost was more than offset by the reduction in reconditioning costs occasioned in resacking grain and rice, which costs, under his tariff, he must absorb.

⁷ The \$2.00 rate on rice was the result of a stipulation entered into between Pacific Rice Growers Association and certain public utility warehousemen in the Sacramento Valley. (Pacific Rice Growers Association vs. De Pue Warehouse Company, et al., 18 C.R.C. 179.)

Valleys, and alleged that from his examination of the annual reports of the largest warehouseman in the Salinas Valley and an extensive warehouse operator in the San Joaquin Valley he found that they were not, in his opinion, earning a fair return on their investment. He alleged further that the conditions prevailing in the San Joaquin, Salinas and Sacramento Valleys are sufficiently similar to justify a conclusion that the proposed rates, if established in the Sacramento Valley, would not return, in most instances, more than operating costs.

In support of applicants' proposal to establish a uniform basis of rates for both applicant and defendant warehousemen, the Associations' witness stated that, in his judgment, operating conditions of all Sacramento Valley warehousemen were sufficiently similar to warrant uniformity. Moreover, applicants took the position that competition between warehouses required uniformity. The Associations' witness pointed out that prior to 1931 the rate generally in effect in the Sacramento Valley on rice was \$2; that in 1931 a warehouseman established a rate of \$1.50 on rice at Marysville; and that because of competition between warehouses the rates of nearly all warehousemen storing rice were forced to this lower level.

In all substantial particulars, the testimony of those applicant witnesses touching on these points confirmed the position taken by the Associations' tariff agent concerning the competition said to exist between the Sacramento Valley warehousemen and the extent to which the proposed rates would improve their financial positions.

A group of applicant and defendant warehousemen testified regarding the financial condition of their own operations. With few exceptions, these warehousemen testified that they engage in

both utility and nonutility operations. The record shows that the extent of their nonutility operations varies considerably with the individual warehousemen. For example, a witness for defendant Sullivan and Larson explained that its utility warehouse business was but a small item of its entire business, the costs of which are not kept separate on its books, whereas applicant T. E. Brown, doing business as Woodland Warehouses, stated that his nonutility operations considered on a payroll basis amounted to 46.6 per cent of his total business in 1939.

According to the evidence, annual reports submitted to the Commission by applicant and defendant warehousemen are for the most part either unsegregated or only partially segregated. In instances, the reports of certain of these warehousemen were segregated in some years and not in others, Thus, witness Brown explained that he engages in both utility and nonutility operations and that prior to 1938 they were not segregated on his books. Witness Christian Blakemore, doing business as Blakemore Warehouses, a defendant in Case No. 4544, testified that his annual reports for 1938 and 1939 included, in addition to his utility revenues and expenses, the revenues and expenses from his cleaning operations, and that his 1937 report represented utility operations only, for the reason that he did not commence his cleaning business until 1938. Certain of the warehousemen segregated the utility and nonutility revenue, expense and property cost items at the hearings. Thus, applicant G.H. McLean, doing business as Gridley Warehouses, explained that

\$10,956.54 of the \$21,325.66 total warehouse expenses shown in his

The witness who reviewed applicant Tarke Warehouse Company's annual report of 1939 stated that the items of office expenses, insurance and taxes, included both utility and nonutility expenses, of which amounts, according to the witness, 41½ per cent were chargeable to utility storage. The item of interest shown in the report of T.E. Brown was said to be properly chargeable in part to nonutility operations. Numerous other examples could be given.

1939 annual report were utility expenses.

As already indicated, much of the testimony served to clarify, explain and correct certain of the items in applicants' and defendants' annual reports. For example, the 1939 annual report of applicant Walter K. Jansen & Sons omitted certain large nonoperating revenues, although expenses thereof are shown. Moreover, the annual report figures shown for cost of warehouse land, buildings and equipment included nonutility costs. In this regard, only \$11,375.27 of the \$90,651.16 shown as the value of warehouse equipment represented equipment used in the warehouse operations. Witness for Sullivan and Larsen stated that the labor expense item shown in the annual report was merely an arbitrary figure.

According to the testimony of the witnesses supplementing and explaining these annual reports, and on the basis of these annual reports considered in the light of such testimony, certain of both applicant and defendant warehousemen earned rates of return exceeding 7 per cent in 1938 and 1939, and some earned more than this return in both these years.⁹ Thus, applicant De Pue Warehouse Company's rate of return on a depreciated book cost plus working capital basis, as evidenced by its annual reports, is 7.81 per cent for 1939.¹⁰ Its rate of return for 1938 is higher. Witness

9 The greatest emphasis was placed upon, and much of their testimony deals with, their operations and earnings and losses experienced during 1938 and 1939. Although some of the testimony touched on preceding years, it was, for the most part, limited to a recital of the operating gains or losses allegedly incurred.

10 A depreciated rate base is used because no data on sinking fund depreciation are available. All exhibits of record employ straight line depreciation, which is also used by the industry as a whole. For the purpose of this and following estimates, six months' operating expenses, less depreciation charges, have been allowed as working capital.

for this warehouseman testified that it operated fifteen warehouses during 1939, and that it performed a small nonutility business of cleaning and grain grinding which is included in the annual report. Applicant G. H. McLean, doing business as Gridley Warehouses, realized a rate of return of 7.96 per cent on his utility warehouse business in 1939. Defendant Williams Cooperative Warehouse Association, a warehouseman engaged in public utility warehouse operations exclusively, realized a rate of return of 8.10 per cent in 1939 and a higher return in 1938.

Certain other of these applicant and defendant warehousemen, their testimony indicates, are operating at an out-of-pocket loss or are earning rates of return which are wholly inadequate. Included in this group is applicant Sacramento River Warehouse Company. The record shows that this company operated 19 warehouses in 1939, as well as cleaning and drying equipment. The annual reports as constructed indicate an operating loss of 0.55 per cent in 1939 and an operating gain of 0.12 per cent in 1938. The financial experiences of the individual warehousemen do not run uniformly year by year. Thus, applicant Brown's rate of return in 1939 was 2.61 per cent. In 1938 this warehouseman testified that he lost money. Also included in this group is Ward Hunt, doing business as Dunnigan Warehouse, who testified that he lost about \$1,000 in 1938, and \$1,438 in 1939, whereas in prior years his operations had always shown a profit. This witness' annual report for 1939 includes as expense figures the items of interest in the amount of \$735, and dividends in the amount of \$692.17. After deducting these items, the report would reflect a loss of \$73.83 instead of the \$1,438 testified to. After making similar adjustments in this witness' annual report for 1938, it would reflect a profit of \$1,455.20. Other warehousemen in this group are defendants H. I.

Bobb and D. B. Traynham, doing business as Union Storage Company
and Grangers Business Association.

The testimony of a substantial number of applicant and defendant warehousemen is incomplete and contradictory. For example, applicants Walter K. Jansen & Sons and C. F. Quigglo, doing business as Valley Warehouse Company, alleged that their utility storage business was unprofitable but offered no evidence of probative value to sustain their testimony. Neither can their financial condition be determined from their annual reports for the reason that, as witnesses testified, they include both their utility and

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H. I. Bobb testified that Union Storage Company engaged in both utility and nonutility operations; that, computed on a fiscal year basis, they earned "right around" 5 per cent return on their investment in 1935, 1936 and 1937; that in 1938 and 1939 they just about covered their operating costs due to lack of storage occasioned by crop shortages; and that in 1940 they would earn approximately 5 per cent on their investment. In response to a request for the specific items of expense upon which witness' 5 per cent earnings were computed, an exhibit was introduced which indicates profits of \$2,519.58 in 1935; \$327.29 in 1936; \$2,188.14 in 1937; and losses of \$254.09 and \$379.98 in 1938 and 1939, respectively. However, the witness failed to show most of the separate items of expense from which the total yearly expense figures shown were computed.

According to the testimony, Grangers Business Association also acts as agent for Poultry Producers of Central California, and the agency expenses are included with the utility warehouse expenses in the annual reports. However, the agency expenses were said to be known. It was stated that while the annual reports of all years except 1938 showed dividend payments, a greater portion of these payments represented agency profits. The dividends reported for the years 1934 to 1939, inclusive, are as follows: 1934, \$3,000; 1935, \$3,000; 1936, \$4,000; 1937, \$2,000; 1938, none; 1939, \$1,000. Witness stated the net gain from the agency was \$1,476.76 in 1938, and \$1,261.64 in 1939. The annual report for 1938 shows a net operating gain of \$1,001.85 and for 1939 a net operating loss of \$292.50. He stated the warehouse business was operated at a loss in 1938 and 1939 due to crop shortages caused by unfavorable climatic conditions. Witness expressed the opinion that in 1940 they would about break even.

nonutility operations. They stated further that their books are likewise unsegregated as between utility and nonutility operations.

Several defendant warehousemen contended with regard to the alleged increase in labor costs experienced by the Sacramento Valley warehousemen that they had not experienced such increases. A witness for Union Storage Company testified that the wage scale in 1932, on an eight-hour day basis, was 60 cents per hour for floor men and 80 cents for pilers; that this scale had remained unchanged until about 1936 or 1937, when it became 55 cents for floor men and 75 cents for pilers, with time and a half pay for overtime; that this scale was in effect today; and that under it the present aggregate wages paid amounted to about 60 cents for floor men and 80 cents for pilers.

Christian Blakemore, owner and operator of five warehouses in Solano County, testified that he paid his steady labor \$4 or \$5 a day during the summer and \$3.50 a day in the winter season. He stated further that 50 cents a ton would cover the cost of handling his grain in and out of the warehouse, including the weighing-in service. He also stated that, in his belief, the savings experienced in handling costs due to improvements in handling would be at least 50 per cent. In this connection, he outlined the physical changes he had experienced in handling grain during his twenty-four years as a warehouse operator. He explained that when he first began operations as a warehouseman grain was piled by manual labor; that the first improvement in handling resulted from the use of "sack tongs" which pick up a sack and hoist it to the top of the pile, one sack at a time. The next improvement for handling sacked commodities was said to be the gasoline elevator, which has since been replaced by faster loading machines electrically operated. He testified further that now

grain is generally handled by truck; and that trucks can be brought into the warehouse and the grain handled directly between the truck and the pile, enabling the warehousemen to dispense with their floor men. He testified that when grain was transported to the warehouse in wagons only 30 to 40 sacks could be handled in one load, whereas trucks hauling to his warehouses average from 70 to 100 sacks per load, with the result that labor crews do not have to jump from pile to pile in handling.

Although certain applicant warehousemen testified that they had experienced higher costs in loading out to trucks than to rail cars, witness Blakemore testified that he employs less labor when loading to trucks. He explained that the truck drives alongside the pile from which it will be loaded; that the truckman loads his own truck; and that the warehouseman needs to supply only the labor to handle the grain from the pile to the truck.

This witness took exception to applicants' contention that a reduction in rates by one warehouse required similar reductions by warehousemen throughout the Sacramento Valley. He stated that warehouses located within a mile or two of each other would be in competition, but that he did not believe competition exists where warehouses are five or more miles apart, and explained that the difference in hauling costs tends to limit such competition. He pointed out that the rate at his Rio Vista Junction warehouse is \$1, whereas a warehouseman at Dixon maintains a rate of \$1.25, and that despite the disparity in rates, the dividing line of competition between the two warehouses was about one half of the distance separating them.

Applicant and defendant warehousemen and other witnesses testified that the practice of selling grain in the field and thereafter transporting it direct to the consuming markets is common in the

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Sacramento Valley today. This practice was said to have become well established because of (1) the development of truck transportation; and (2) the low prices farmers have been receiving for their grain and rice; and (3) the farmers' increased desire, because of their alleged unsatisfactory financial condition, to reduce their growing and handling costs whenever possible.

Certain defendant warehousemen expressed the opinion that the increase in revenue accruing under the proposed rates would be more than offset by an anticipated decrease in the storage volume. 13
Their opinion was assertedly based upon statements made to them by their patrons that if the rates were increased they would resort to an intensified program of selling their grain in the field and in increasing their home storage facilities.

Certain farmers testified that they would, if the rates were increased, resort to proprietary storage of their commodities. A witness who, in partnership with his father and brother, farms 6,000 acres of land in Colusa County stated that they, believing the rates proposed were to have become effective September 1, 1940, had

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A defendant warehouseman testified that, despite the fact that there has been no material decrease in the acreage planted to grain, there has been a decrease in active warehouses in Solano County from 21 in 1916 to 7 today. He believed the principal reason for the decline was due to the farmers' practice of selling their grain in the field. Another witness testified that the total grain crop of approximately 200 tons produced on his father's farm was disposed of in that manner. A defendant warehouseman stated that in his area this practice had increased from 2,000 sacks in 1936, the lowest in any year of which he had knowledge, to 20,000 sacks in 1939.

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Witness for Grangers Business Association concurred with other defendant warehousemen in their belief that an increase in rates would divert storage from the warehouses but believed that under a uniform increase in rates the effect of the diversion would be more than offset. He stated the increase was necessary to compensate for increases in the cost of operation. Applicant warehousemen who testified in this regard did not believe the practice of selling in the field would increase if the rates proposed became effective. They felt that the increase would be beneficial to the warehouse industry.

provided home storage facilities for 750 to 800 tons of grain by renovating an unused farm building. He stated further that while they allegedly could, at the present grain rate of \$1.25, store on their farm cheaper than they could in a warehouse, they did not propose to increase home storage facilities unless the proposed increased rates become effective. He stated that in a normal year they can raise a grain crop of 2,000 tons, and that should the increased rates become effective they had additional vacant buildings suitable for reconditioning purposes to store this amount and the financial means to cover the renovating costs. He pointed out further that their home warehousing would result in reduced transportation costs, explaining that in hauling to the public warehouse an 8-mile haul at established minimum rates is involved, whereas in moving the grain to their ranch warehouse there is only a 4-mile farm haul involved.

Farmers and other witnesses familiar with the financial condition of the farmers in the Sacramento Valley testified in opposition to any increase in warehouse rates at this time. They testified that the farmers generally throughout the Sacramento Valley had experienced severe flood conditions in 1938 and a drought in 1939, which considerably curtailed production of grain and rice; that the market price of grain and rice has been and is very low; and that they have experienced increasing costs of doing business. They declared that, as a result of these factors, the farmers have not been earning their out-of-pocket farming expenses and consequently they are presently not in a position to pay increased costs of any kind.

It should here be stated that all parties of record were generally in accord that prices of grain and other farm commodities have been and presently are low and that the financial condition of the farmers is unsatisfactory. However, applicants contend that these

circumstances have no bearing where, as they here allege, the warehousemen are earning less than their costs of doing business and are seeking by the volume of the rates proposed only to regain their operating losses.

Witness for San Francisco Grain Exchange and California Hay, Grain and Feed Dealers Association testified that they have no objection to the granting of increased rates if the rates could be justified by a showing that they were necessary to enable the Sacramento Valley warehouse industry to render adequate and satisfactory service. ¹⁴ However, he suggested that the increased rates proposed might defeat applicants' own purpose by diverting more ¹⁵ tonnage from the warehouses.

The witness objected to applicants' proposal that the full second season storage rate of \$1.50 on grain be applied on grain moving out of storage the first month of the second storage season. He stated that a great deal of grain which is held over into the second season will move out of storage in June, many times before the new crop comes in. He contended that the added cost, to the warehousemen, of storing grain an additional month is practically nothing and that warehousemen are not entitled to the full second season storage rate in such instances, particularly under a rate of \$1.50 as proposed. He believed 50 cents a ton would be a

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He stated that there are some very good warehouses in the Sacramento Valley but that there are some "which can very materially improve their methods of operation, cleaning up their warehouses and getting rid of weevil and running the warehouses a little more efficiently." He pointed out further that when grain gains in weight while in storage some warehousemen will keep the amount of the gain themselves, although it rightfully belongs to the storer. He did not disclose the names of any warehouses complained of, nor does it appear that such matters are property in issue in these proceedings.

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He pointed out that within the last 10 years there has been a gradual tendency to transport grain direct from the producing ranches to the consumer without stopping at the warehouse. He said this practice was becoming more common each year, and pointed out that the ability of trucks to serve the ranches also produced more farm storage.

sufficient rate for storage in June. He stated that storers would not be as prone to remove grain before the expiration of the first season storage period under a 50-cent rate as under a full second season rate. This would produce additional warehouse revenues, he stated.

The Associations' objection to this proposal was predicated upon the possibility of the warehousemen losing a full season storage by having space ordinarily available for such storage occupied by grain held over into the second season under the incentive of a 50-cent charge for the month of June. However, in response to the proposal of the San Francisco Grain Exchange and California Hay, Grain and Feed Dealers Association the Associations amended their proposed warehouse tariff to provide in effect that grain remaining in storage after termination of a full season but not longer than one month thereafter would be subject to an additional charge of 75 cents. If remaining in storage longer than one month after termination of the preceding storage period the full subsequent season storage rate would be assessed.

On brief, a group of defendant warehousemen expressed their opposition to any reduction in rates for grain storage below their present level.

The present season storage period on rice covers the period from September 1 to August 31 of the following year. A witness, testifying on behalf of the California Rice Industry Marketing Board, proposed that the season storage period be changed to provide for (1) a general storage season beginning October 1 and ending September 30 of the following year, and (2) a storage period beginning September 1 and ending the following August 31, to provide for rice stored during the month of September.

In support of this proposal, the witness testified that when September was established as the start of the rice season in the Sacramento Valley there was a much larger percentage of early rices grown, whereas today the harvesting of rice does not ordinarily commence until mid-October. He stated the official reports of the California Rice Industry Appraisal Committee show that but 4.058 per cent of the total rice crops for 1937, 1938 and 1939 was warehoused in September.¹⁶ He contended that under present producing conditions rice receives a maximum of 10¹/₂ to 11 months' storage, whereas the season rate should permit a full year's storage. It was his further contention that the proposed change to October 1, 1940, would allow warehousemen about two weeks to prepare their warehouses for the incoming season's crop.

The Associations objected to this proposal.¹⁷ Nevertheless, at a later hearing they amended their proposed warehouse tariff to

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The total crop and quantities warehoused in September for the years shown were said to be as follows:

Year	Total Crop	Warehoused in September	
	Bags	Bags	Per Cent
1937	4,098,100	113,236	2.763
1938	4,095,000	68,999	1.685
1939	4,050,000	314,651	7.769
	<u>12,243,000</u>	<u>496,886</u>	4.058 Average

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The Associations did not explain the basis for their objection at the hearings. In their reply brief it was explained that they object to the proposal because it would result in a reduction in rates and would not give the warehousemen sufficient time to clean and fumigate their warehouses against weevil infestation. Several of the applicant warehousemen expressed their opinion that under it they would find it impossible to control weevil and other infestation in rice. They pointed out that, under a season storage period ending August 31, rice is moved out of their warehouses during August in order that it may escape a second season storage charge. This practice, they testified, enables them before arrival of the next season's rice to fumigate the warehouse and the rice remaining therein. They stated that, under a season storage period beginning October 1 and ending September 31, there would be no interval during which the weevil control work could be done. They felt that it would not be to the producers' benefit to forego the weevil control benefits. Another warehouseman objected to a change in the season storage period because he believed the proposed rate of \$1.75 insufficient under what, in effect, would be a longer first season period.

provide in effect that grain and rice remaining in storage after termination of a full season, but not longer than one month thereafter, would be subject to an additional charge of 75 cents. If remaining in storage longer than one month after termination of the preceding storage period the full subsequent season's storage rate would be assessed.

On brief, the California Rice Industry Marketing Board stated the tariff amendment would not be satisfactory for the reason that rice which is not moved out of storage prior to the termination of the storage season ordinarily remains in the warehouse more than one additional month and that therefore the proposed rate of 75 cents per ton for one additional month would not benefit them.

Certain defendant warehousemen objected to the proposal of the California Rice Industry Marketing Board and to the Associations' counter proposal for the reason that both were tantamount to a reduction in rates.

Section 63(a) of the Public Utilities Act provides that no public utility shall raise any rate or charge or so alter any rule or regulation as to result in an increase in any rate or charge except upon a showing before the Commission and a finding by the Commission that such increase is justified. Let us then discuss and analyze the showing made in support of the increase proposal.

In support of applicants' allegation that the warehousemen involved in these proceedings are not receiving a fair rate of return and that the majority of them are operating at an out-of-pocket loss, they rely strongly upon exhibits compiled from the sworn annual reports of individual warehousemen. With respect to these annual reports, we find that although they call for a separation of warehouse and nonutility operating expenses, it has not been the practice of the majority of the testifying warehousemen, who were engaged in both

warehouse and nonutility warehouse operations, to make this breakdown. In other instances, the operating expense items were shown to be only partially segregated. Still other reports were found to contain estimated and arbitrary expense items. Likewise, in many cases the warehousemen engaged in warehouse and nonutility businesses made no segregation of the cost of their land, buildings and equipment dedicated to the two types of operation. Also, the annual reports in instances did not reflect the testimony of the witnesses as to their operating income, operating expenses and resulting profits or losses incurred. Thus, while the exhibits purport to show that the warehousemen as a group experienced operating losses of more than \$70,000 yearly in 1938 and 1939, it is apparent that the over-all picture of the Sacramento Valley warehouse industry, which the exhibits are intended to convey, is inaccurate, and that as a result of the use of the unadjusted annual reports the exhibits have little probative value and are, at least in some instances, misleading.

The applicant and defendant warehousemen who testified regarding the financial condition of their own operations may be readily divided into two groups. The first group consists of those who have made no showing from which any conclusions can be reached regarding the financial status of their utility warehouse operations.

The testimony of the second group of warehousemen will be reviewed as it relates to the years 1938 and 1939, and to the period preceding these two years, for the reason that most emphasis was placed on the earnings experienced in the years 1938 and 1939.

As has been pointed out, the record indicates great variations in the rate of return which these warehousemen realized during this two-year period. Thus, some of them lost money and others realized varying rates of return, some of which were substantial. Furthermore, it can be fairly said that the record of all warehousemen

in this group indicates that as a group more of them show operating gains than losses, and that the degree of operating gains is greater in proportion than the losses shown.

Turning to the period preceding 1938 and 1939, we find that, in proportion to the extent warehousemen testified regarding their financial condition during this period, they generally realized more than operating expenses, and that the volume of their operating profit was in excess of the 1938-1939 period. Some of the warehousemen testifying contributed the fact that the earnings realized by warehousemen during 1938 and 1939 were much lower as an average than earnings experienced in the preceding years due to the drought and flood conditions, which resulted in below-average crops and in less demand for warehouse space, and not to the volume of the storage rates.

Thus, the record shows that one group of warehousemen is either operating at a loss, or at a profit which is wholly inadequate, and that another group is earning a substantial profit. As to a considerable number, their showing is either so incomplete or so contradictory as to make it impossible to know where they fall. In this regard, it must be pointed out that it is incumbent upon applicants and complainants in these proceedings to sustain the burden of proving the allegations upon which they rest their prayer for increased rates. Furthermore, I am not satisfied that it is as important as applicants contend that uniformity in rates is necessary where warehouses are located some distance from each other. For warehouses located side by side, when the transportation cost to either is approximately the same, uniformity in rates is undoubtedly necessary. The record does not indicate, however, that the transportation costs from any particular locality to warehouses located in different sections of the Sacramento Valley are the same and is

not sufficiently clear that uniformity of rates is a prerequisite to assuring competitive equality between all warehouses. Under these circumstances, I would be disposed to recommend the granting of the right to make increases to those warehousemen whose operations are being conducted at a loss, or where earnings are unduly low, but for the fact that applicants have stated they do not want increased rates unless all warehousemen are required to increase their rates to a uniform level. The record is far from convincing that the increases proposed are justified for the warehousemen as a group. Applicants and complainants have not sustained the burden of proof and all that can be done is to deny the application and dismiss the complaint.

The record contains testimony in opposition to certain of the rules and regulations set forth in applicants' proposed tariff. Applicants' request to standardize the tariff rules, regulations and incidental charges was made primarily, the record indicates, to insure the uniform basis of rates sought and from the standpoint of the desirability of uniformity in and of itself. Except in several instances, the Associations made no attempt to justify their propriety in any other respect. Although the increased rates proposed have not been found to be justified, I am of the further opinion that reductions in existing rates should not be permitted. Applicants' request to establish uniform tariff rules, regulations and incidental charges will be denied.

In view of the strong opposition existing to the proposal of the California Rice Industry Marketing Board to change the rice storage season, I am of the opinion that the showing made in support of the proposal is insufficient to warrant an order requiring its adoption.

I recommend the following form of order:

O R D E R

Public hearings having been held in the above entitled proceedings, and based upon the evidence received at the hearings and upon the conclusions set forth in the preceding opinion,

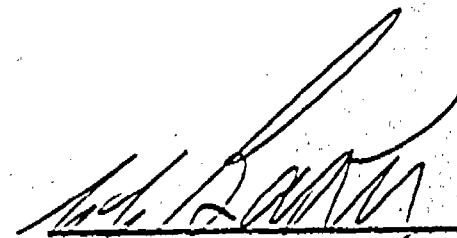
IT IS HEREBY ORDERED that Application No. 23608 be and it is hereby denied.


IT IS HEREBY FURTHER ORDERED that the complaint, Case No. 4544, be and it is hereby dismissed.

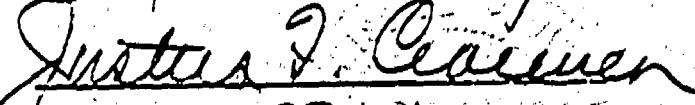
The effective date of this order shall be twenty (20) days from the date hereof.

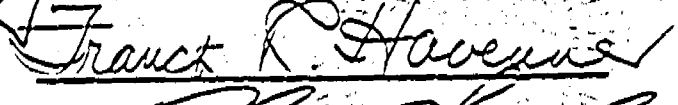
The foregoing opinion and order are hereby approved and ordered filed as the opinion and order of the Railroad Commission of the State of California.


Dated at San Francisco, California, this 24th day of June, 1941.










Commissioners.