

Decision No. 35780

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of SAN JOAQUIN COMPRESS AND WARE- )  
HOUSE COMPANY, a California Cor- )  
poration, for Authority to Increase )  
its Warehouse Rates at Bakersfield, )  
California. )

Application No. 25220

BY THE COMMISSION:

**ORIGINAL**

Appearance

L. H. Stewart, for applicant.

O P I N I O N

Applicant is engaged in the business of compressing and storing cotton for the public generally. Its facilities are situated in the vicinity of Bakersfield. By this application, as amended, it seeks authority to increase its handling rate from 25 to 35 cents and its sampling and weighing rates from 10 to 15 cents for each service. It also seeks authority to cancel a rate of 75 cents maintained for so-called "second compressing" service and to provide that the storage rate for cotton compressed to high density will not

---

<sup>1</sup> Throughout the opinion, rates are stated in cents per bale. The services rendered under the handling rate are described in applicant's tariff as including "unloading, handling in, weighing and sampling upon arrival, tagging and issuing negotiable warehouse receipts, and loading out if compressed by this company." The 10-cent sampling rate is applied to all sampling service except that performed upon arrival of the cotton for storage. The 10-cent weighing rate is applicable to weighing service performed subsequent to the initial weighing when service except resampling service is also being performed.

be applicable until the compression charges are paid. In addition, applicant requests permission to publish and file the proposed changes on not more than ten days' notice to the Commission and to the public.

A public hearing was had at Los Angeles on September 1, 1942, before Examiner Mulgrew. No one opposed the granting of the application.

Applicant's present rates are generally the same as, and in no case higher than, those observed in 1937. Since that time costs are said to have increased substantially due to advance in labor and salary expenditures and to abnormal marketing conditions. Prior to 1940, compressing and handling operations were conducted on a larger scale than that possible under present conditions. Cotton now generally remains in storage for materially longer periods, thus reducing the number of bales which may be accommodated in

<sup>2</sup> The 75-cent rate for "second compressing" is applicable to compression service when rendered subsequent to an initial compression by the applicant. The cancellation of this rate would make all compression service rendered by applicant subject to the 110-cent rate now provided for the initial compression.

<sup>3</sup> The labor and salary expenditures referred to are as follows:

Year July 1 to June 30	Number of Bales Stored	Wage and Salary Costs Exclusive of Adminis- trative salaries		Wage Rates Per Hour*	
		Amount	Per Bale	Minimum	Maximum
1936 - 1937	130,268	\$ 74,065.08	\$ .57	\$ .35	\$ .55
1937 - 1938	193,029	104,961.79	.54	.40	.55
1938 - 1939	98,292	88,246.60	.90	.47½	.60
1939 - 1940	116,363	116,153.41	1.00	.50	.65
1940 - 1941	43,621	73,942.25	1.70	.50	.65
1941 - 1942	74,555	104,047.75	1.40	.67½	.85

\* Wage rates were increased in June, 1942, to 70 cents minimum and 87½ cents maximum and applicant has agreed to wage rates of 72½ cents and 90 cents, respectively, to become effective in September, 1942. No overtime arrangements were in effect in 1937 while under present wage agreements time and one-half is paid for overtime and Sunday and holiday work. Increases corresponding to the wage increases were said to have been experienced in salary costs.

applicant's facilities and curtailing applicant's revenues from compressing and handling services.

A witness for the applicant testified that only some 37,500 bales of cotton could be stored at one time in the company's facilities without creating an overcrowded condition which would seriously hamper efficient operations and increase expenses out of all proportion to the additional revenue which might be derived from the storage of a greater quantity. He said that under prevailing conditions not more than 75,000 bales per year could be handled with reasonable efficiency, that during the 1941-1942 year the company had handled 74,555 bales, and that approximately that quantity was expected to be stored in the 1942-1943 year.

The rates proposed to be increased, applicant's witness testified, cover operations where considerable amounts of labor are required and these operations, he pointed out, are thus particularly sensitive to wage adjustments. Based upon the company's 1941-1942 experience, said to be representative of operations under present conditions, the witness estimated that for the 1942-1943 year wage and salary expense would be increased \$11,445.25 while the proposed increased rates would return additional revenue amounting to only \$8,149.91.

Applicant also submitted statements showing its revenues and expenses for 1940-1941 and 1941-1942 and its operating assets and depreciation reserves. Results from operations, as disclosed by these statements, follow:

	<u>1940-41</u>	<u>1941-42</u>
Original cost of land, buildings machinery and equipment	\$314,618.85	\$315,461.13
Depreciation for year	15,897.68	14,836.94
Total reserve for depreciation	140,363.62	154,750.56
Depreciated value of property	174,255.23	160,710.57
Operating Capital	99,740.70	109,731.19
Total invested capital	273,995.93	270,441.76
Revenues	190,074.59	210,860.23
Expenses	155,379.07	186,218.32
Net Income before depreciation	39,695.52	24,641.91
Net Operating Income	23,797.84	10,254.97

On the basis of these figures, applicant calculated its rate of return before depreciation as 14.4 per cent in 1940-41 and 9.1 per cent in 1941-42, and its rate of return after depreciation as 8.7 per cent and 3.7 per cent, respectively. Applicant contends that a return of 3.7 per cent is inadequate and that the proposed rate increases would afford only partial relief from unduly low earnings.

In further justification of the volume of the proposed increased rates, it was claimed that these rates had been approved for nationwide application by the Office of Price Administration, effective August 25, 1942, by "Amendment 14 to Supplementary Regulation 14 to General Maximum Price Regulation."<sup>4</sup> In this connection applicant's witness testified that it is generally recognized that California wages are substantially higher than those paid in other cotton producing areas. Higher rates more consistent with local conditions, the witness indicated, would have been sought in this proceeding were it not for the question of whether such rates would conflict with regulations of the Office of Price Administration.

In regard to the proposed cancellation of the 75-cent rate for "second compressing" it was said that for the last three years there had been no demand for this service; that there is little or no prospect of any consequential future demand; and that costs for the service would be in no case less than those for other compressing operations under the 110-cent rate.

Applicant's proposal that the 15-cent monthly storage rate on high density cotton be restricted to lots on which compression

---

<sup>4</sup> Examination of the amendment referred to, however, indicates that while it deals with the 35-cent handling rate here proposed by applicant it does not deal with the 15-cent rate proposed for resampling and reweighing nor with limitations upon the applicability of storage rates such as the limitation here sought to be established.

charges had been paid was said to be necessary to cure abuses and to remove discriminations between storers. The effect of this proposal would be to increase rates on high density cotton from 15 to 20 cents per month, or fraction thereof, for the period of time the cotton is stored after its compression but prior to the payment of charges therefor. The witness for the applicant explained that until recently compression to high density ordinarily had not been demanded by the storers in advance of disposition of the cotton and this service had then been rendered in connection with the removal of the cotton from the warehouse. However, it was represented that since heavier demands for storage had prevailed certain storers had ordered this service in advance of disposition of their cotton and that these orders had been placed during peak periods when, as the storers had anticipated, applicant had been unable to perform the service promptly. These storers, it was also represented, had insisted upon being given the benefit of the lower rate for storage of high density cotton during the time applicant had been unable to fill their orders to compress the cotton. Compression during storage, applicant's witness said, is attended by materially higher costs than those incurred when the service is rendered upon arrival or delivery. These higher costs, he said, are occasioned by the additional handling involved.

From the evidence of record it is clear that wages and salaries paid by applicant have reached materially higher levels than those which prevailed in 1937. It is also clear that because of the nature of handling, resampling and reweighing operations the effect of increased wage levels upon their aggregate costs is more pronounced than the effect of the same increases upon the aggregate costs of other operations requiring less labor. However, the only

specific data submitted with respect to labor costs are the aggregate sums paid by applicant for wages and salaries during each year of the 1936-42 period, and the increases experienced in the levels of wage and salary rates during that period.

The results from applicant's operations prior to its 1940-1941 fiscal year were not included in its showing of revenues and expenses. Prior to that year, it was conceded, conditions more favorable to the applicant had prevailed and, it was admitted, applicant's net operating revenues had been greater.

With respect to applicant's estimate of \$11,445.25 for higher labor and salary expense for 1942-1943, it has not been shown that this expense will be increased to that extent. According to the record, the wage rate increases, on a mathematical average, are approximately 6 per cent, and on this basis applicant's labor and salary expense would be increased only \$6,242.87. In regard to estimated future revenues and expenses, analysis of applicant's showing concerning the additional revenues expected to be produced by the proposed increased rates indicates that it has under-

The results from applicant's operations from July 1, 1936 to June 30, 1942, as disclosed by its annual reports filed with the Commission and the statements submitted in this proceeding, follow:

YEAR July 1 to June 30	REVENUES	EXPENSES (Including Depreciation)	NET OPERATING REVENUES
1936 - 1937	\$250,618.47	\$161,057.57	\$ 89,560.90
1937 - 1938	376,989.00	255,267.60	121,721.40
1938 - 1939	209,344.13	172,414.34	36,929.79
1939 - 1940	239,214.63	192,599.79	46,614.84
1940 - 1941 #	196,049.59	168,813.56	27,236.03
*	195,074.59	171,276.75	23,797.84
1941 - 1942	210,860.23	200,605.26	10,254.97

# From annual report.  
\* From Exhibit No. 2 in this proceeding.

estimated the probable effect of these increases by at least  
6  
\$4,057.39.

After making allowances for the underestimate of increased revenues and the overestimate of increased expenses, it appears that instead of the reduction of at least \$3,295.34 in net revenues anticipated by applicant under the proposed higher rates, these rates would produce increased net revenues amounting to \$5,964.43 or more. In any event, after giving full effect to the anticipated increased wage and salary costs for 1942-1943 operations, it appears that those operations would still be conducted at something above full operat-  
7  
ing costs, including depreciation, at the present rate levels.

6

For handling service, increased revenue was estimated at \$7,455.50, based on this service being rendered in connection with 74,555 bales, the total volume of anticipated storage. However, revenue which would be derived from handling service in connection with that number of bales under the proposed 35-cent rate would be \$26,094.25, an amount \$11,165.68 higher than the \$14,928.57 1941-1942 revenue from that service shown in applicant's statement of revenues and expenses, and \$3,710.18 higher than its estimate of the increase involved. Applicant's estimate of the additional earnings amounting to \$694.41 which would be produced by the higher resampling and reweighing rates is based on a 33-1/3 per cent increase in those rates instead of upon the 50 per cent increase involved in the proposed adjustment from 10 to 15 cents. Allowance for this miscalculation raises the estimate of increased revenues \$347.21. In addition, imposition of the proposed restriction of the 15-cent monthly storage rate on high density cotton to instances where compression charges had been paid would produce increased earnings to the extent that it might be necessary to charge the 20-cent monthly rate because of this restriction. However, applicant made no provision in its estimates for additional revenue from this source.

7

Inasmuch as this conclusion is supported by applicant's own figures, and in view of the further conclusions hereinafter reached, no useful purpose would be served by detailed discussions of the various factors of expense and operating capital shown in applicant's estimates. However, the omission of discussion of these factors is not to be considered as verification of their correctness or as approval of the methods or allocations which have been employed by the applicant in determining the sums involved.

Although it is apparent that during the last fiscal year applicant's earnings were appreciably lower than those it had previously enjoyed, it is also apparent that this single year of impaired revenues has followed several years in which operations were conducted on a much more profitable basis. Indeed, considering the abnormal general conditions prevailing during the year in which the lower earnings were experienced, we are constrained to view these operations and the results therefrom as not representative of past operations and not necessarily representative of what reasonably may be expected in the future. Moreover, while some attempt was made to demonstrate that the rates proposed to be increased are unduly low and not properly related to other rates, these showings fall far short of being convincing. Under these circumstances, the fact that applicant's 1941-1942 earnings and its prospective 1942-1943 earnings may well be somewhat less than those which would produce a maximum reasonable return is not controlling in determining the reasonableness, lawfulness and propriety of the proposed increased rates. These rates have not been shown to be justified on this record.

In regard to the proposed cancellation of the present rate for "second compressing" service, it appears that there has been no demand for this service for some time, that there is no reasonable prospect of the service being required in the future, and that applicant should therefore be granted the authority sought.



Applicant's proposal that the storage rate for high density cotton be restricted so that it would be inapplicable until compression charges have been paid has not been shown to be a reasonable limitation upon the applicability of that rate. That applicant has permitted abuses and discrimination under the existing tariff arrangements, does not, standing alone, justify the imposition of higher storage rates in the manner proposed. Applicant should take such steps as may be necessary properly to cure the abuses and remove the discriminations said to result from its present practices. Its proposal, however, has not been shown to be justified.

Upon consideration of all the facts of record we are of the opinion and find that the proposed cancellation of the 75-cent rate for "second compression" service should be authorized and that in all other respects applicant's proposals have not been shown to be justified and should be denied.

O R D E R

The above entitled application having been duly heard and submitted and basing this order upon the conclusions and findings contained in the preceding opinion,

IT IS HEREBY ORDERED that San Joaquin Compress and Warehouse Company, a corporation, be and it is hereby authorized to cancel the rate of 75 cents per bale for "second compression" service published in Item 6 of its Tariff No. 6, C.R.C. No. 6, provided this authority is exercised within ninety (90) days from the effective date of this order.

IT IS HEREBY FURTHER ORDERED that in all other respects  
the above entitled application be and it is hereby denied.

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

Dated at San Francisco, California, this 22<sup>nd</sup> day of  
September, 1942.

Justus J. Gaumen  
W. H. Baker  
Francis C. Havenner  
Richard Lachse

Commissioners