

Decision No. 36932

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of COAST COUNTIES WAREHOUSES, a) Application No. 25783
corporation, for an Increase in)
Rates.)

In the Matter of the Application)
of SANTA MARIA VALLEY WAREHOUSE) Application No. 25800
COMPANY, a corporation, for an)
Increase in Rates.)

BY THE COMMISSION:

Appearance

Reginald L. Vaughan, for applicants.

O P I N I O N

Applicants operate public utility warehouses in San Luis Obispo and Santa Barbara counties.¹ They seek authority to increase their rates for the storage of beans, grain and mustard seed, and for accessorial services performed in connection with this storage; and to cancel their storage and accessorial service rates for other commodities. They also seek authority to establish the proposed changes in an agency tariff which would supersede their present tariffs.

The applications were publicly heard on a consolidated record by Examiner Mulgrew at Santa Maria.

The present and proposed storage rates on beans, grain and mustard seed, stated in cents per ton, are listed in the following tabulation:

¹ Both applicants operate warehouses at Santa Maria. Coast Counties Warehouses also operates warehouses at Arroyo Grande, Harris, Los Alamos, Nipomo, Orcutt, San Luis Obispo and Sisquoc, all of which are within a 35-mile radius of Santa Maria.

ORIGINAL

<u>STORAGE PERIOD</u>	<u>PRESENT RATES</u>	<u>PROPOSED RATES</u>
<u>First Season*</u>		
30 days or less	75	100
Over 30 but not over 60 days	100	125
Over 60 days	125	150
<u>SECOND AND EACH SUBSEQUENT SEASON</u>		
1 Month	+ 25 #150	75
2 Months	+ 50 #75	100
3 Months	+ 75 #1.00	125
4 Months	+ 100 #.25	150
Over 4 Months	125	150

*For all three commodities Coast Counties Warehouses' seasons end May 31st of each year; Santa Maria Valley Warehouse Company's seasons end July 31st on beans and May 31st on grain and mustard seed. The latter seasonal rate arrangements are proposed to be adopted by Coast Counties Warehouses. Rates for storage for less than a season are maintained by Coast Counties Warehouses on a calendar month basis. They are proposed to be changed to the 30-day period basis now in effect in Santa Maria Valley Warehouse Company's tariff.

- + Coast Counties Warehouses.
- # Santa Maria Valley Warehouse Company.

Of the several increases proposed for accessorial services, the most important appears to be that relating to delivery from storage. For this service, no charge is provided by the present tariff of Coast Counties Warehouses except in connection with the loading of grain and mustard seed into cars. These rates are 15 and 25 cents per ton, respectively. Santa Maria Valley Warehouse Company, on the other hand, now maintains a rate of 25 cents per ton on all three commodities for either loading cars or delivering to other vehicles. Applicants propose to establish a uniform rate of 50 cents per ton for these commodities and to apply this rate to both types of delivery service.

Various increases are proposed in connection with other accessorial services. Those involving sampling, stenciling and reweighing will be used to illustrate the character of these proposals. For sampling, the present tariff of Coast Counties Warehouses provides no charge other than 10 cents per bag when it provides the bags. For the same service, Santa Maria Valley Warehouse Company makes no charge for drawing one sample from each lot and a charge of 25 cents each for additional samples. Applicants propose to furnish one sample without charge and to make the charge for additional samples 35 cents each. In regard to stenciling, the charges of both applicants are now based on rates of 10 cents per ton for the first line plus 5 cents per ton for each additional line. They propose to increase the 10-cent rate for the first line to 15 cents. The present rate of Coast Counties Warehouses for reweighing is 15 cents per ton; the rates of Santa Maria Valley Warehouse Company are 15 cents in connection with handling from pile to car or truck, 50 cents per ton when repiled in warehouse, 25 cents per ton when dumped in warehouse (space permitting), and 60 cents per ton when dumped in warehouse and subsequently repiled. The latter method of providing rates is proposed to be adopted by Coast Counties Warehouses and applicants seek authority to establish rates of 25, 75, 50 and 100 cents per ton, respectively.

The proposed accessorial rates, aside from those for delivering from storage, cover services not necessarily required in connection with storage and are applicable only when the storer specifically requests that the service be performed.

Applicants allege that their existing storage and accessorial service rates fail to produce sufficient revenues to meet the operating expenses necessarily incurred in rendering their public

utility warehouse services and that the proposed increases are necessary to enable them to continue their warehouse operations. In support of these allegations, they submitted studies made by a consulting engineer and designed to show the financial results from applicants' public utility operations for the fiscal year ended June 30, 1943.

The operating results of Coast Counties Warehouses, as taken from the engineer's exhibit, follow:

Revenues		\$11,108.82	
Operating Expenses:			
Labor	\$8,246.00		
Repairs and maintenance	318.30		
Telephone and utilities	133.11		
Light and power	675.77		
Miscellaneous direct expenses	133.46		
Painting and upkeep	390.00		
Overhead	6,886.99		
Depreciation	1,360.00		
Personal property tax	261.00	<u>18,404.63</u>	
Net Loss			\$ 7,295.81

The revenue and labor expense figures were taken directly from applicant's books and do not involve any of its nonutility operations. These operations involve certain activities which are not incidental to the utility storage including the selling of feed, hardware and other goods. Utility labor costs, which include pay roll taxes, are based on time card records maintained for each operation. Repairs and maintenance, telephone and utilities, light and power, and miscellaneous direct expenses are not segregated between utility and nonutility operations in applicant's records. They are developed on the basis of the percentage of utility labor costs to total labor costs. In regard to painting and upkeep, the engineer testified that applicant's warehouses had been painted in

1942 at a cost of \$6,569; that he had allocated approximately 60 per cent of this expense (\$3,900) to utility operations; and that he had assumed that this expense would be incurred once in every 10 years.

The engineer's treatment of overhead expenses is portrayed by the following tabulation:

	<u>Aggregate Overhead Expenses</u>	<u>Overhead Expenses Allocated to Utility Storage Operations</u>	<u>Percentage of Aggre- gate Ex- penses Used in Making Allocations</u>
Executive salaries	\$2,707.09	\$ 839.20	31
Administrative office salaries	5,082.26	2,725.00	*
Disinfectant	637.21	573.49	90
Insurance	2,469.88	1,481.93	60
Auto repairs and maintenance	415.59	103.90	25
Gasoline and oil	773.55	193.39	25
Telegraph and telephone	630.18	157.55	25
Office supplies	717.40	237.89	33.3
Travel and entertainment	1,166.75	388.52	33.3
Business taxes and licenses	433.63	144.40	33.3
Legal	37.70	--	--
Interest	1,132.18	--	--
Miscellaneous	125.19	41.69	33.3
	<u>\$16,328.61</u>	<u>\$6,886.99</u>	

*The basis of this allocation will be explained in the following paragraph.

As in the case of other expenses, the engineer allocated salaries paid executives to utility operations on the percentage of utility labor expenses to total labor expenses. Administrative office salaries are charged against these operations on the basis of the time this personnel devotes to utility matters. ² Disinfectant expense, the engineer explained, is predominantly a utility operation cost. Insurance is allocated on the basis of his estimate of the value of the property involved. The allocations

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One of these employees, paid \$2,400, devotes 80 per cent of his time to the utility storage phase of applicant's business; the other, paid \$2,100, one-third of his time. The administrative office salary figures, like the labor expense figures, include pay roll taxes.

of the remaining items of overhead expenses are said to reflect the engineer's informed judgment.

The engineer testified that he arrived at his depreciation figure, \$1,360, in the following manner. Because there were no original property cost or depreciation records available, he first set up a property valuation on an estimated original cost basis. Applicant's warehouses, together with other former railroad properties, he said, were purchased from Pacific Coast Railway for a "lump sum." The books of the railway, he also said, were retained by it and were not available. He used, in the absence of actual costs, estimated costs based on his previous study of 25 similar warehouses situated in the Sacramento Valley.³ As a measure of the estimated cost of applicant's warehouses, the witness used the maximum storage space required to accommodate its patrons during the period from 1937 to 1943, inclusive, rather than the actual storage capacity. He explained that he considered the warehouses, which had been built for railroad purposes, somewhat over-built for their present usages.⁴ Thus, based on his experience in previous warehouse investigations and on his investigation and study of the properties involved in the applications here being considered, the engineer made the following estimates with respect to depreciation:

³ His Sacramento Valley study was submitted in Application No. 23608 and Case No. 4544 and was there used by various warehousemen to support their request for increased rates for the storage of grain and rice. Decision No. 35333 (unreported) authorized applicants to increase their rates for this storage.

⁴ The storage capacity of the seven warehouses involved is 20,600 tons, the capacity used by the engineer is 11,338 tons. The estimated cost is calculated on the basis of \$2.20 per ton of capacity.

<u>Description of Property</u>	<u>Original Cost</u>	<u>*Depreciated Cost</u>	<u>Remaining Life (In years)</u>	<u>Annuity</u>
Warehouse buildings	\$25,000	\$13,750	25	\$ 550
Warehouse equipment	7,500	3,000	10	300
Office and miscellaneous equipment	1,200	600	10	60
Automobile	1,800	900	2	450
		<u>\$18,250</u>		<u>\$1,360</u>

*These costs are based upon the engineer's estimates of the present condition of the buildings and equipment. He first expressed these estimates in terms of percentages of original cost. These percentages are 55 per cent for the buildings, 40 per cent for the warehouse equipment and 50 per cent for the other equipment and the automobile.

The personal property tax of \$261 used by the engineer is figured on an estimated depreciated value of \$21,750. This includes \$3,500 for the land and the \$18,250 shown in the foregoing tabulation for the buildings and equipment. It is calculated on a 50 per cent assessment ratio and at a rate of \$3 per \$100 with 80 per cent allocated to public utility operations.

This concludes the discussion of the operating experience of Coast Counties Warehouses as disclosed by the engineer's studies. We will now turn to a discussion of similar evidence with respect to the experience of Santa Maria Valley Warehouse Company. The 1942-1943 fiscal year's utility operating results for that company, as taken from the engineer's exhibit, are reproduced below:

Revenues		\$6,108.07
Operating Expenses:		
Labor	\$4,235.29	
Overhead	3,036.92	
Depreciation	800.89	
Taxes	<u>245.58</u>	
		<u>8,318.68</u>
Net Loss		\$2,210.61

Operating revenues were taken directly from the company's books. Like Coast Counties Warehouses, Santa Maria Valley Warehouse Company performs certain nonutility services and engages in the merchandising business. It does not keep its labor expenses segregated according to the operations in which they are incurred, but has made many tests to ascertain the number of man-hours required to perform various services and to determine labor costs. Warehouse labor costs, this applicant's records disclose, average \$.9068 per man-hour. Calculated on the basis of the tests alone, the labor costs attributable to public utility operations would amount to \$3,396.32. This sum is 36.3 per cent of the \$9,356.24 which would represent applicant's total labor costs on the basis of similar calculations. Its actual total labor cost for the year, however, amounted to \$11,667.46. The tests, the engineer explained, were run under conditions he termed as "ideal" and, accordingly, fall short of the actual pay roll over any given period. A difference such as that between \$11,667.46 and \$9,356.24, he said, is not an unusual experience where tests have been contrasted with actual results. The engineer testified that he had taken 36.3 per cent as the proportion of aggregate labor expenses attributable to utility operations and applied it to the sum of \$11,667.46, applicant's total labor cost, to arrive at his figure of \$4,235.29 for utility labor costs. As so calculated, he pointed out, Santa Maria Valley Warehouse Company's labor expense amounts to \$1.12 per ton for the 3,781.5 tons it handled. This is 5 cents per ton less than the \$1.17 per ton cost developed for Coast Counties Warehouses from the costs taken directly from its books and involving the handling of 7,063 tons.

Santa Maria Valley Warehouse Company's aggregate overhead expense is made up of the following entries in the engineer's study:

Advertising	\$ 55.95	Office pay roll	\$6,800.93
Automobile	685.57	Postage	31.35
Bad debts	32.65	Insurance	960.22
Donations	33.00	Telephone and telegraph	936.47
Dues and subscriptions	304.25	Depreciation*	269.60
Legal and professional	100.00	Credit	(33.50)
Light and heat	110.33		
Stationery and office supplies	1,186.28		\$11,473.10

*This includes only the depreciation on miscellaneous equipment and 50 per cent of the wagon scale depreciation. Other property and equipment are separately treated.

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To allocate the proper share of this expense to the public utility operation, the engineer used as a basis the pay roll of the company's various departments aggregating \$22,802.19. The office pay roll of \$6,800.93, as shown in the foregoing tabulation, is treated as overhead leaving \$16,001.26 for the utility and nonutility operating departments. Of this latter sum \$4,235.29 out of the total labor expense of \$11,667.46 (not including store department pay roll of more than \$4,000) was allocated, as hereinbefore indicated, to utility labor expense. The engineer used this labor expense ratio, 26.47 per cent, in allocating overhead expenses and thus arrived at his estimate of \$3,036.92 for utility operations.⁵

The figures used by the engineer in determining the amount of depreciation to assign to public utility service are shown in the following tabulation:

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In making his calculations the engineer divided utility labor costs between "receiving and piling for storage" and "loading out and delivery from storage." The disposition of fractions by this method and their disposition on the total figures result in unimportant discrepancies in the amounts involved.

Description of Property	Original Cost	Depreciated Cost 6/30/43	Aggregate Annual Depreciation	*Depreciation Allocated to Utility Operations
Warehouse bldg.	\$41,797.81	\$24,950.87	\$835.96	\$607.49
Pontiac coach	1,033.42	365.99	258.36	129.18
Wagon scales	1,325.11	102.01	66.25	33.13
Grain piler	621.84	105.88	31.09	31.09
				<u>\$800.89</u>

*These allocations were made on the basis of 72.67 per cent of the aggregate depreciation in the case of the building, 50 per cent for the automobile and wagon scales and 100 per cent for the grain piler.

The depreciation percentage assigned to the building is the same as the percentage of floor space area devoted to public utility operations; the automobile and the wagon scales are used in connection with both utility and nonutility services; and the grain piler is used exclusively in handling public utility storage.

The share of the taxes assigned to the public utility operations was determined on the percentage of pay roll, as in the case of general overhead. Of the total amount of these taxes (\$927.76), 26.47 per cent or \$245.58 is thus allocated to the utility service.

Turning now from past operations to future operations, applicants' witness testified that the additional revenues which would be produced by the proposed increases would not be sufficient to offset the losses. His exhibits contain revenue estimates which are portrayed below:

	Coast Counties Warehouses	Santa Maria Valley Warehouse
Tonnage (1942-3 fiscal year)	7063	3781.5
*Average rate (per ton)	\$ 1.57	\$ 1.62
Actual revenue	11,108.82	6,108.07
*Average proposed rate (per ton)	2.38	2.12
Estimated increase (per ton)	.81	.50
Estimated additional revenue	5,721.03	1,890.75
Net Loss for 1942-1943		
As indicated by the engineer's figures	7,295.81	2,210.61
On the basis of proposed increased rates	1,574.78	319.86

*Variations in average rates result from the differences in applicants' accessorial service rates and from the circumstance that both present and proposed rate schedules provide for charges based upon the length of time the property remains in storage.

The proposed rates and the estimated rate and revenue increases were determined by the witness on the following bases. Under applicants' proposals, the rate for season storage would be \$1.50 per ton and deliveries to cars or trucks \$.50 per ton. Its witnesses testified that storage of the commodities involved was predominantly seasonal in character and the estimates were made accordingly. With respect to Coast Counties Warehouses, the estimates assume that at least the first season storage and the delivery charges will be assessed (lesser charges would accrue for storage of not more than 60 days' duration); that charges for these services will be based on the sought rates amounting to \$2 per ton; and that the balance of this applicant's future revenues is fairly represented by the sum produced by a rate of \$.38 per ton. This latter rate was calculated by first deducting the present season rate, \$1.25 per ton, from the average rate of \$1.57 per ton under the existing rate structure and increasing the remainder, \$.32 per ton, 20 per cent to represent the proposed increase in the second season storage rate from \$1.25 to \$1.50 per ton. For Santa Maria Valley Warehouse Company, the estimated rate increase, \$.50 per ton, reflects the uniform increase of \$.25 per ton proposed in that applicant's storage rates plus the \$.25 per ton increase sought in its delivery rates.

A detailed showing was not made with respect to the added revenues which the proposed increases in accessorial charges would produce. However, a warehouse rate and tariff expert retained by applicants testified that from his study of this phase of these matters he concluded that the aggregate annual earnings of both warehouses from these accessorial service operations amounted to less than \$1,500; that on the average the sought increases would not

exceed 25 per cent; and that, therefore, less than \$400 per year in aggregate added revenues would be produced by the proposed higher rates.

Witnesses for applicants also testified that Coast Counties Warehouses' storage for the past fiscal year was below average; that, on the other hand, Santa Maria Valley Warehouse Company's storage volume was somewhat better than average; and that all indications were that, for the immediate future at least, applicants would not experience any greater storage volume than that enjoyed in an average year. In this connection, it was shown that the average storage of Coast Counties Warehouses for the past six years amounted to 8,000 tons. The last fiscal year's storage was 937 tons below this average. The estimated rate of \$2.38 per ton under the proposed basis applied to 8,000 tons produces revenue of \$19,040. The cost figures of the warehouse show that labor expense during the past year amounted to \$1.17 per ton. They include, however, compensation for the services of men paid on a monthly basis and, to make allowance for this, it was estimated that \$1 per ton rather than \$1.17 would be representative of increased labor expenses for the handling of the additional tonnage. By adding \$937 in increased costs to applicant's total expense of \$18,404.63 for 1942-3, an estimated cost figure of \$19,341.63 for an average year is developed on this basis. A net loss of \$301.63 is thus reached by the engineer. No estimates were submitted with respect to operations of Santa Maria Valley Warehouse Company under the lesser tonnage it was said to handle in an average year.

The engineer also made certain studies with respect to what he described as "minimum" or "approximate" rate bases for applicants. He explained that, in his opinion, studies as detailed

as he might otherwise have made are not here necessary because his other studies indicated that the increased rates applied to applicant's operations would still result in deficits and no return would be made on any rate base. According to his estimates, the "minimum" or "approximate" rate bases are \$30,250 for Coast Counties Warehouse and \$25,522.45 for Santa Maria Valley Warehouse. In order to offset the present deficits and provide 6 per cent returns on these rate bases, he claimed it would be necessary to increase the rates of applicants \$1.29 and \$.99 per ton, respectively, instead of the indicated increases of \$.81 and \$.50 under their proposals.

In regard to the proposed cancellation of rates for commodities other than beans, grain and mustard seed, a witness for applicants testified that only these three commodities had been offered for storage during the past year. The witness also said that there appeared to be no prospective storage of the other commodities. Cancellation of the obsolete rates and the tariffs in which they are named in favor of a single tariff providing rates only for present operations, he pointed out, is desirable from a tariff publishing and filing standpoint.

Witnesses for applicants testified that a substantial number of their patrons had been interviewed with respect to the proposed increases and that none of those interviewed had objected to the proposals. The granting of the applications was not opposed. The district manager of a seed company testified that if applicants' warehouse service were discontinued it would impose a severe hardship on the producers of beans, grain and mustard seed.

The Office of Price Administration was notified of the filing of the applications and of the setting of the public hearing had thereon and was furnished with a list of applicants' patrons.

It did not participate in the hearing or otherwise make representations to the Commission with respect to these matters, but has since approved the increases.

The uncontroverted evidence of record discloses that revenues derived from applicants' present rates for public utility warehouse operations have not been, and that rates of the same volume applied in connection with future operations would not be, sufficient to meet the expenses incurred in performing the services involved. This would be true even if applicants' aggregate utility costs, exclusive of labor costs, were less than 50 per cent of the corresponding amounts shown in the cost studies of record. Unquestionably, the present rates are unreasonably low and insufficient. Those proposed to be established in their stead, the record demonstrates, may reasonably be expected to do no more than produce revenues approximating the cost of providing service.

The proposed cancellation of applicants' rates for unused services and the publication and filing of rates for the services they now perform in a new tariff appear warranted on the basis of the grounds advanced in support of such action.

Upon consideration of all the facts of record, we are of the opinion and find that applicants' proposals have been justified. The applications will be granted.

O R D E R

A public hearing having been had in the above entitled applications and based upon the evidence received at the hearing and upon the conclusions and findings set forth in the preceding opinion,

IT IS HEREBY ORDERED that Coast Counties Warehouses and Santa Maria Valley Warehouse Company be and they are hereby authorized to establish, in lieu of the rates, charges, rules and regulations maintained in their present tariffs and on not less than ten (10) days' notice to the Commission and the public, the rates, charges, rules and regulations proposed in the above entitled applications, provided this authority is exercised within ninety (90) days from the effective date of this order.

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

Dated at San Francisco, California, this 8th day of March, 1944.

Richard L. Lach
Justin F. Crauer
Frank L. Havens
Harold O. O'Connell
Irish H. Howell
Commissioners