

Decision No. 37671

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
ECKHART SEED COMPANY, a partnership,
FARMERS ALLIANCE BUSINESS ASSOCIATION,
a corporation, HUENEME WHARF & WARE-
HOUSE CO., a corporation, KING CITY
WAREHOUSE CO. (Lawrence A. Hearne,
Owner), MITCHELL SILLIMAN COMPANY, a
corporation, PELTON WAREHOUSE (Ray D.
Pelton, Owner), SAN MIGUEL FLOURING
MILL COMPANY, a corporation, SANTA
YNEZ WAREHOUSE & MILLING CO., a part-
nership, and SOUTHERN PACIFIC MILLING
COMPANY, a corporation, for an in-
crease in warehouse rates. *W*

ORIGINAL

Application No. 26431

BY THE COMMISSION:

Reginald L. Vaughan, for applicants.

O P I N I O N

Applicants are public utility warehousemen. Collectively, they operate numerous warehouses situated throughout Monterey, San Luis Obispo, Santa Barbara and Ventura Counties. They seek authority to increase their storage rates and accessorial service charges and to standardize rules and regulations governing the operations involved.

A public hearing was had at San Luis Obispo on January 8, 1945, before Examiner Mulgrew.

The record shows that more than 95 per cent of applicants' storage consists of grain and beans and that the remainder consists of other agricultural products, burlap bags, feed and flour. For many years most of the grain and bean storage has been handled under season storage rates.¹ Rates are also maintained on a monthly basis.

Applicants' season storage rate on grain and beans and on alfalfa meal, feed, millstuff, mustard seed and peas is \$1.25.²

¹ On grain the season begins June 1 and ends May 31 of the following year and on beans it begins August 1 and ends July 31 of the following year.

² Except where specifically otherwise indicated, rates and charges throughout this opinion are stated in amounts per ton of 2,000 pounds.

Their season rate on hay is \$1.50. It is \$2.00 on dried fruit, flour, hay, honey, nuts in the shell, onions and potatoes. Each of these rates is proposed to be increased 25 cents. A 25-cent increase is also generally proposed in monthly storage rates for these commodities as well as in the rates on shelled nuts for which no season rate is provided.³ Burlap bags and wool are handled only under season rates and on a per-package basis. Applicants propose to increase their 50-cent rate on bales of 500 bags or less and on half bags of wool to 60 cents and their 75-cent rate on larger packages to 87½ cents.

The present and proposed rates for both season and monthly storage include the services of receiving, weighing-in and piling. They do not, however, include delivery service (loading rail cars or making deliveries to highway vehicles). Most of the applicants now maintain a rate of 25 cents for this service.⁴ All of them seek authority to establish a 50-cent delivery rate. The minimum charge per lot for storage is proposed to be increased from \$1 to \$2. Increases are also proposed in connection with accessorial services for stenciling, reweighing, sampling, reconditioning and other miscellaneous services. Generally speaking, these increases range from

³ On grain and beans and the commodities grouped therewith in applicants' tariffs, they propose to increase their monthly rates for storage during the first season from 75 cents to \$1 for 1 month and from \$1 to \$1.25 for 2 months. During subsequent seasons the rates of all applicants except Huenome Wharf & Warehouse Co. are 50 cents for 1 month, 75 cents for 2 months and \$1 for three months. Huenome's rates for storage during subsequent seasons are 25, 50 and 75 cents and \$1 for the first, second, third and fourth months, respectively. The subsequent season rates proposed for all applicants are 75 cents for the first month, \$1 for the second and \$1.25 for the third. The season rate of \$1.50 would be applied for storage for longer than three months. On shelled nuts, the \$2 rate for the first month's storage would, under applicants' proposals, be raised to \$2.25 and the \$1.50 per month rate for subsequent storage would remain unchanged.

⁴ The exceptions are Pelton Warehouse which makes no charge in connection with delivery service other than a weighing-out charge of 25 cents, and Huenome Wharf & Warehouse Co. which has a 15-cent rate for delivery of grain and a 25-cent rate for delivery of beans.

5 to 50 cents. For example, reweighing rates would be increased from 15 to 25 cents in connection with handling from pile to rail cars or highway vehicles; from 50 to 75 cents when repiled in the warehouse; from 25 to 50 cents when dumped in the warehouse; and from 60 cents to \$1 when dumped and subsequently repiled.

Grain and bean producing areas in the vicinity of San Luis Obispo and Santa Maria are also served by Coast Counties Warehouses and Santa Maria Valley Warehouse Company. These warehousemen, pursuant to authority granted by Decision No. 36932 of March 8, 1914, in Applications Nos. 25783 and 25800, have established increased storage and accessorial service rates on beans, grain and mustard seed identical with those here proposed. They do not handle the other commodities involved in the application now before us. Applicants explained that originally it had been planned to cover all of these matters with a single application but that this had not been feasible because of the broad scope of the necessary investigations. They further explained that it was subsequently decided to file the Coast Counties and Santa Maria Valley applications when the studies of their operations were completed rather than to defer the submission of those studies until completion of all of the investigations.

Applicants urge that their existing rates are unduly low and insufficient; that these rates do not reflect the costs necessarily incurred in providing service; and that rates no lower than those proposed are necessary to enable them to remain in the warehouse business. Adoption of the uniform rates, rules and regulations proposed, they contend, will serve the public interest by stabilizing the public warehouse business in the area involved.

Studies showing the financial results of applicants' operations were submitted through their consulting engineer. His studies are based upon an investigation of applicants' warehouse properties and their operating methods and practices. In the main, revenues

and expenses were taken directly from applicants' records. Where necessary, estimates and allocations were made by the engineer. They were resorted to chiefly because the applicants are engaged in other enterprises such as merchandising and grain and bean cleaning, and to some extent because applicants' records were not fully adequate for cost-finding purposes. The costs so developed are based on the information disclosed by the engineer's investigations and upon his analyses of the circumstances and conditions under which the expenses were incurred. A summarization of the engineer's studies of operations under existing rates and charges follows:

For explanation of Column Heads See Note.	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Volume of Storage (Tons)	6,490	13,422	15,106	1,900	3,966	122,992	168,876
Revenues	\$ 9,343	\$23,326	\$34,173	\$2,373	\$6,205	\$184,739	\$260,159
Expenses	16,359	23,606	39,449	3,337	9,420	305,642	397,813
Net	(7,016)	(280)	(5,276)	(964)	(3,215)	(120,903)	(137,654)
Operating Ratio	175.1	101.2	115.4	140.6	151.8	165.4	152.9

Note - Columns (1) to (6), inclusive, portray operating results of Eckhart Seed Company, Farmers Alliance Business Association, Mitchell Silliman Company, Felton Warehouse, San Miguel Flouring Mill Company and Southern Pacific Milling Company, respectively. Column (7) portrays the aggregate results for the six warehousemen.

Operations for the year 1943 formed the basis of the studies of all of the warehousemen except Southern Pacific Milling Company. Its fiscal year of June 1, 1943 to May 31, 1944 was used. The expenses incurred in applicants' public utility operations during the periods studied were shown in detail in exhibits prepared by the engineer. He also summarized applicants' costs under the headings shown in the following tabulation:

	<u>Direct Labor</u>	<u>Admin- istra- tion</u>	<u>Depre- cia- tion</u>	<u>Other</u>	<u>Total</u>
Eckhart Seed Company	\$ 6,500	\$ 3,900	\$ 1,779	\$ 4,180	\$16,359
Farmers Alliance Bus- iness Association	12,464	3,369	1,681	6,092	23,606
Mitchell Milliman Company	25,251	7,894	2,180	4,124	39,449
Pelton Warehouse	961	900	319	1,157	3,337
San Miguel Flouring Mill Co.	4,589	3,000	240	1,591	9,420
Southern Pacific Milling Co.	154,293	75,133	20,674	55,542	305,642
All warehousemen studied	204,058	94,196	26,873	72,686	397,813

Sharp increases in labor costs, the engineer testified, had been experienced since 1940. The experience of Southern Pacific Milling Company, as shown below, was used to illustrate this condition:

<u>Year</u>	<u>Tonnage</u>	<u>Revenue</u>	<u>Labor Expense</u>	<u>Cost Per Ton</u>
1940	107,808	\$177,078	\$ 87,282	\$.81
1941	102,704	164,013	86,946	.85
1942	109,151	146,352	103,452	.95
1943	115,434	186,806	143,355	1.24
1944	122,992	183,674	154,099	1.25

The engineer stated that had complete information concerning applicants' operations in prior years been available he would have presented it. He pointed out that labor expense of Southern Pacific Milling Company in 1940 amounted to approximately 50 per cent of the company's warehouse revenue while in 1944 this expense amounted to more than 80 per cent. The Milling Company's experience, he said, is typical. It indicates, he testified, the trend of revenues and expenses for all applicants since 1940.

In determining administrative costs, miscellaneous expenses and depreciation chargeable to warehouse operations, it was necessary

for the engineer to segregate the aggregate sums involved between the utility service and applicants' other enterprises. In making these segregations the engineer exercised his informed judgment based largely on many years of cost-finding experience in connection with the regulation of warehouses and other public utilities. With respect to the administrative expenses of Eckhart Seed Company, for example, he made an allocation out of the total compensation paid three executives to cover time they devoted to warehouse operations. The engineer estimated that \$3,600 would be a proper allocation for this administrative expense. Miscellaneous expenses, which include supplies, maintenance, power and light, telephone, telegraph, taxes and insurance, were also treated by making allocations to the utility operations based upon the extent to which these operations were responsible for the incurring of such expenses. A similar method was used for depreciation, the engineer estimating what proportion of the total value of each of the applicant's property should be assigned to its utility operations. As an illustration, he assigned 75 per cent of the value of the buildings of Eckhart Seed Company to utility operations on the basis of the use of these buildings in public storage service. In determining depreciation on buildings, the engineer used an annuity rate of $2\frac{1}{2}$ ⁵ per cent.

The engineer claimed that in certain respects the indicated expenses were less than those which would prevail in more normal times. Certain maintenance expenses, such as painting, he explained, had been deferred because of material and manpower stringencies.

The cost figures of three of the applicants, King City Warehouse Company, Santa Ynez Warehouse & Milling Co. and Hueneme

5. This rate was generally used for the other warehousemen as well. The annuity used throughout the studies for most of the other utility property was 5% for warehouse equipment, 20% for automobiles and 4% for miscellaneous items.

Wharf & Warehouse Co., were not included in the engineer's studies. He said that, although King City Warehouse's records were otherwise adequate, its labor expenses were not segregated between warehouse and nonutility operations. Santa Ynez Warehouse was excluded, he said, because its utility warehouse operations involved a relative insignificant volume. Full information relative to Hueneme Wharf & Warehouse Company's operations was received by the engineer too late to incorporate in his studies. The operating results of these three warehousemen were said to be accurately reflected in the figures of the other applicants. The engineer testified that the studies of the other warehousemen "tell the story very clearly of all of the applicants in this case."⁶

Variations in the aggregate expenses experienced in the individual warehouse operations studied were attributed more to the volume and character of the storage than to operating efficiency. From season to season there are assertedly fluctuations in the demands for storage both in regard to the aggregate quantity and the type of service required. A greater percentage of small-lot storage, for example, was said to be a circumstance which would be reflected in increased costs per ton even though the storage volume remained unchanged. The engineer pointed out that the expenses he had developed amounted to \$2.44 per ton for the 46 warehouses operated by Southern Pacific Milling Company, while those for the other warehousemen whose operations were confined to particular areas ranged from \$1.82 to \$2.66 and averaged \$2.32. In the proceedings involving Coast Counties and Santa Maria Valley warehouses the corresponding figures were \$2.42 and \$2.20, respectively, and averaged \$2.35.

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Out of the annual storage of some 190,000 tons handled by all of the applicants and Coast Counties and Santa Maria Valley warehouses in the four counties involved, less than 15,000 tons were handled by the three warehousemen for which costs were not submitted.

For future operations, the engineer submitted the following estimates based upon revenues under the proposed rates and storage volumes similar to those which obtained in 1943:

For Explanation of Column Heads See Note.	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Volume of Storage (Tons)	6,490	13,422	15,106	1,900	3,966	122,992	163,876
Depreciated Rate Base	\$47,823	\$42,321	\$75,918	\$8,634	\$13,477	\$579,202	\$767,375
Revenues	\$12,591	\$30,806	\$42,624	\$3,798	\$ 8,188	\$250,760	\$348,767
Expenses	16,359	25,406	40,243	3,452	9,420	305,642	400,522
Net	(3,768)	5,400	2,381	346	(1,232)	(54,882)	(51,755)
Operating Ratio	129.9	82.5	94.4	90.9	115.0	121.9	114.8
Return on Rate Base	-	12.8%	3.1%	4.0%	-	-	-

Note - Columns (1) to (6), inclusive, portray operating results of Eckhart Seed Company, Farmers Alliance Business Association, Mitchell Silliman Company, Pelton Warehouse, San Miguel Flouring Mill Company and Southern Pacific Milling Company, respectively. Column (7) portrays the aggregate results for the six warchousmen.

Witnesses for applicants testified that the demands for storage in 1943, which formed the basis of the engineer's revenue estimates, were somewhat greater than those experienced in an average year. They predicted that normal tonnage volume would be less than that on which the revenues and costs were based. One of them explained that in the territory served all of the land suitable for cultivation is now in use. Some of this land, he indicated, has already been withdrawn from the raising of crops requiring storage (chiefly grain and beans) and devoted to such crops as seeds and produce which are not stored to any appreciable extent in applicants' warehouses. Further withdrawals of land from crops requiring warehousing is expected.

A rate and tariff expert retained by applicants submitted certain comparisons of prices for the commodities involved. He compared United States average prices with California prices for November 15, 1944. He also compared the proposed season rates with the average prices received by California farmers as of that date. The source of his price information was a publication of the United States Department of Agriculture dated November 29, 1944 and entitled "Agricultural Prices -- Prices Received and Paid by Farmers and Parity Prices." The comparisons, in so far as the principal commodities stored by applicants are concerned, are shown in the tabulation below:

Commodity	Unit	United States Average Prices Per Unit				California Prices 11/15/44		Proposed Warehouse Rate Per Ton	% of Warehouse Rate To Price
		5 year Average		11/15/43	11/15/44	Per Unit	Per Ton		
		Aug. 1909 July 1914	Jan. 1935 Dec. 1939						
Barley	Bushel	\$.619	\$.533	\$1.03	\$.96	\$1.06	\$44.20	\$2.00	4.5%
Wheat	"	.884	.837	1.37	1.43	1.48	49.28	2.00	4.0
Dried Beans	100 Lbs	3.37	3.52	6.06	6.26	7.00	140.00	2.00	1.4

The foregoing, the witness claimed, demonstrates that the value of the commodities stored is such that there can be no question of the ability of the storers to stand the proposed increased rates. He also pointed out that rates provided for in a uniform grain storage agreement of the United States Department of Agriculture, under which grain is stored at country points for agencies of that department, were generally higher than the proposed rates. Comparisons of these rates with grain rates which he said had been authorized by the Office of Price Administration for application within the states of Idaho, Oregon and Washington, and with the rates herein proposed, follow:

	NUMBER OF DAYS STORED							
	15	30	50	75	100	150	200	300
Proposed Rates	\$1.50	\$1.50	\$1.75	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00
<u>Agreement Rates:</u>								
Barley	\$1.67	\$1.88	\$2.15	\$2.50	\$2.85	\$3.54	\$4.24	\$5.69
Wheat	1.00	1.17	1.39	1.67	1.94	2.50	3.05	4.17
<u>O.P.A. Rates:</u>								
Idaho (All Grains)	\$1.00	\$1.00	\$1.15	\$1.30	\$1.45	\$1.60	\$1.90	\$2.35
Oregon & Washington								
Barley	1.46	1.46	1.67	1.88	1.88	2.29	2.71	3.34
Wheat	1.17	1.17	1.33	1.50	1.50	1.83	2.17	2.67

The witness also testified that the accessorial services for which increases are proposed are performed only to a limited extent and only at the specific request of the storer. He estimated the gross revenue received from accessorial services to be "something much less than 1%." He said that, like the storage and handling rates, the present accessorial service rates have been in effect for many years and were established at a time when pay roll costs were less than one half of what they are today. The increases proposed, he said, are designed to contribute their fair share towards the increased expenses.

In support of applicants' request to establish a uniform tariff containing standardized rules and regulations, it is alleged that the existing rules and regulations not only lack uniformity but also are to some extent no longer in consonance with operations as they are now conducted. It is further alleged that standard practices within the general area embraced by applicants' warehouse operations are in the public interest, important to the stabilization of their operations and an integral part of regulation.

No one opposed the granting of the application. Shipper interests and the Office of Price Administration, although notified

of the hearing did not participate in it.⁷

The record demonstrates that applicants' operations are being conducted at a loss; that, as to the larger operators, this loss has been substantial; and that the existing rates are unduly low and insufficient. It also demonstrates that, on the whole, the proposed rates may be expected to do no more than produce revenues approximating the cost of performing the service. As heretofore stated, they are on the same level as those previously authorized for Coast Counties Warehouses and Santa Maria Valley Warehouse Company, warehousemen also operating in the territory involved in this application.

We are convinced that applicants render essential storage service and that authorization of the proposed increases is necessary to avoid impairment of this service. We are also convinced that to withhold such authorization would subject applicants and the storers dependent upon the service they render to substantial hardship and prevent the adjustment of rates which are inequitable under the circumstances disclosed by the record.

Cancellation of applicants' individual tariffs and the publication and filing of standardized rules and regulations appears warranted for the reasons advanced in support of this proposal.

Upon consideration of all the facts of record, we are of the opinion and find that the establishment of the proposed increased rates and the standardization of applicants' rules and regulations have been justified. The application will be granted.

⁷ The record shows that applicants gave the Office of Price Administration the required 30 days' notice of the filing of their application with the Commission and consented to that office's intervention in this proceeding.

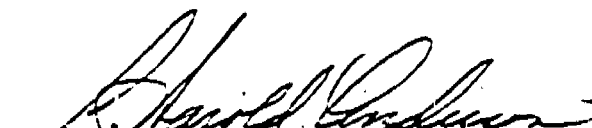
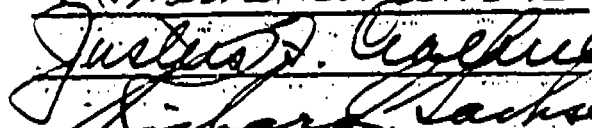
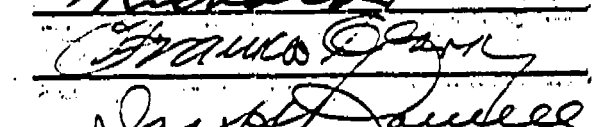
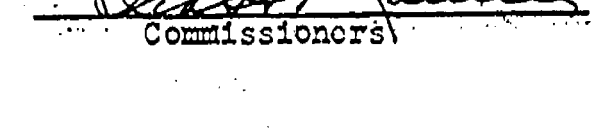

O R D E R

A public hearing having been had in the above entitled application 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 applicants 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 application, 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 9th day of February, 1945.






 Commissioners