

Decision No. 37889

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 BRIETIGAM WAREHOUSE (H.S. Brietigam,
 Owner), J. H. BROTHERS WAREHOUSE
 (George E. Brothers, Owner), BUTTON-
 WILLOW WAREHOUSE CO., a partnership,
 CENTRAL VALLEY WAREHOUSE & MILLING CO.,
 a corporation, CHINN WAREHOUSE, a
 partnership, SAM CROOKSHANKS WAREHOUSE
 (Sam Crookshanks, Owner), CHAS. J.
 CUMMINGS WAREHOUSES, a partnership,
 DUCOR WAREHOUSE (Francis J. Muller, Owner),
 DYER TRUCKS (E.O.Dyer, Owner, FRESNO GRAIN
 WAREHOUSE COMPANY, a corporation, HECK
 BROS. WAREHOUSE, a partnership, HELM WARE-
 HOUSE (B.W. Kilby, Owner), JAMES & WEBSTER,
 a partnership, SOUTH LAKE FARMS, a partner-
 ship, STRATFORD WAREHOUSE COMPANY (W.J.
 Schneider, Owner), TERRA BELLA WAREHOUSE,
 a corporation, TULARE LAKE ELEVATOR, a
 partnership, VISALIA MILLING COMPANY, a
 corporation, and CAL. F. WOOD GRAIN AND
 MILLING CO., (Cal. F. Wood, Owner), for an
 increase in warehouse rates.

ORIGINAL

Application No. 26430

BY THE COMMISSION: .

Appearances

- Reginald L. Vaughan, for applicants.
- H. S. Brietigam, for Brietigam Warehouse.
- George Brothers, for J. H. Brothers Warehouse.
- Sam Crookshanks, for Sam Crookshanks Warehouse.
- H. E. Dyer, for Dyer Trucks and Warehouse.
- C. F. Fraysher, for Buttonwillow Warehouse Company.
- G. C. Harnish, for Tulare Lake Elevator.
- G. B. Hill, for Fresno Grain Warehouse Company and South Lake Farms.
- O. P. McClasky, for Terra Bella Warehouse and Milling Company.
- Francis J. Muller, for Ducor Warehouse.
- E. M. Reberson, for Central Warehouse and Milling Company.

O P I N I O N

Applicants operate public utility warehouses situated in
 the lower San Joaquin Valley. They seek authority to increase
 their rates for the storage of grain, flaxseed and hay, and for the

The territory they serve extends from Fresno to Bakersfield.

performance of accessorial services; to standardize rates, rules and regulations for these operations; and to cancel rates for the storage and handling of other commodities.

A public hearing was had at Fresno on March 30, 1945, before Examiner Mulgrew.

Virtually all of the storage involved consists of grain. A small amount of flaxseed, less than 3 per cent of the grain tonnage, is handled. Only one applicant stores hay. Service is provided on a per-season basis (June 1 to the following May 31 for grain and flaxseed and May 1 to the following April 30 for hay). On grain, applicants seek authority to increase the first-season rate from \$1.50 to \$2, and the subsequent-season rate from \$1.25 to \$1.75; on flaxseed, the corresponding increases are from \$1.50 to \$2.25 and from \$1.25 to \$2.² These rates include receipt, weighing, storage and delivery. The hay rates are \$1 for the first season and 75 cents for each subsequent season. Under applicants' proposals the former would remain unchanged and the latter would be raised to \$1. Unlike the grain and flaxseed rates, the hay rates are exclusive of receiving and delivering services. Storers are permitted to perform these services for themselves. The rate assessed when they do not do so is proposed to be raised from 75 cents to \$1.25 per man per hour. The high minimum charge of \$25 now in effect and which was established to meet a particular situation is, however, proposed to be reduced to a nominal minimum of 35 cents.

Applicants provide a "shipping through warehouse" service which involves receipt, weighing, and delivery to rail cars or other vehicles for reforwarding. On sacked grain, a uniform rate of 50

2

Except as otherwise noted, rates are stated in amounts per ton of 2,000 pounds throughout this opinion. There is relatively little subsequent-season storage. Most of it has been grain handled by the warehousemen maintaining a rate of \$1.25. The \$1 and \$1.50 subsequent-season grain rates maintained by other applicants have not been important factors in the storage situation in issue.

cents is proposed in place of rates ranging from 25 to 50 cents. For a similar operation in which detention or storage at the warehouse for not more than 48 hours is permitted, the rate of two of the applicants is 75 cents, another has a 50-cent rate, and the others do not provide such service. A 75-cent rate is proposed for all. For corresponding services involving bulk grain, the rate of two of the three warehouses equipped to handle such grain is 35 cents. The other warehouse maintains a 25-cent rate. No detention is permitted under these rates. Applicants propose to establish a 75-cent rate which will include not more than 48 hours storage and a \$1-rate for more than 48 but not more than 96 hours.

Increases in accessorial service charges are involved in the readjustments recommended for reweighing, repiling, resacking, stencilling and sampling rates. For reweighing, applicants' rates range from 10 cents to \$1. They propose to establish a uniform rate of 25 cents. Repiling rates, which vary from 50 cents to \$1, would be replaced by a 75-cent rate. Most of them provide resacking service at "cost," three of them maintain a rate of 75 cents per man per hour and one has a rate of \$1 per ton. In lieu of these rates, they recommend a uniform rate of \$1.25 per man per hour. Some of the applicants provide stencilling service at "cost," others at rates ranging from 1/2 cent to 25 cents per package, still others at 75 cents per man per hour and one at \$1 per ton. As in the case of resacking, applicants recommend a uniform rate of \$1.25 per man per hour. For sampling, the present rates, varying from 25 to 50 cents per sample in the case of some of the warehouses and the "cost" rates of the others, are proposed to be superseded by a 25-cent per sample rate.

Applicants represent that their present rates are unduly low and insufficient. Rates no lower than those proposed are said to be necessary to enable them to continue in the warehouse business.

Studies of applicants' financial position and the costs necessarily incurred in providing service were presented by a consulting engineer with many years' experience in cost-finding in warehouse and other public utility operations. Exhibits were submitted covering the 1943 experience of nine applicants handling more than 80 per cent of the grain stored in public warehouses in the territory involved. The exhibits, which are summarized below, cover a calendar year in all but two cases (Fresno Grain Warehouse Company and Stratford Warehouse Company) where they reflect operations for fiscal years ending May 31, 1944.

	Volume of Storage (Tons)	Revenues	Expenses	Net	Operat- ing Ratio
Brietigan Warehouse	8,869	\$14,580	\$19,247	(\$4,667)	132.0
Buttomwillow Warehouse Co.	3,339	6,217	10,619	(4,402)	170.8
Central Valley Whse. & Milling Co.	13,904	20,958	33,212	(12,254)	158.5
Sam Crookshanks Warehouse	1,873	2,810	4,157	(1,347)	147.9
C.J. Cummings Warehouses	6,837	11,986	18,321	(6,335)	152.8
Fresno Grain Warehouse Company	11,580	17,382	21,730	(4,348)	125.0
James & Webster	5,670	8,505	11,764	(3,259)	138.3
Stratford Warehouse	5,441	8,310	8,176	134	98.4
Terra Bella Warehouse Company	4,981	7,707	9,423	(1,716)	122.3
All warehousemen studied	62,494	98,455	136,649	(38,194)	138.8

These warehousemen are also engaged in a variety of nonutility operations including farming, grain brokerage, milling, cleaning and treating grain and seed and manufacturing feed. Because many expenses were not segregated between utility and nonutility operations in the applicants' records, the engineer said that it had been necessary to make numerous expense allocations. These allocations, he explained, were made after study of the individual operations and properties involved and reflect his judgment based upon experience in such matters.

No 1944 figures were used, the engineer explained, because in most instances they were not available when the studies were made. Study of such 1944 figures as were available, he said, indicated that "the 1943 operations (were) possibly a little better than the 1944." Figures enclosed within brackets in the tabulations in this opinion are deficits.

They are incorporated in the figures shown in the following tabulation of expenses as disclosed by the engineer's studies:

	<u>Labor</u>	<u>Adminis- tration</u>	<u>Dopro- ciation</u>	<u>Other</u>	<u>Total</u>
Brietigam Warehouse	\$10,742	\$ 2,900	\$ 688	\$4,917	\$ 19,247
Buttonwillow Warehouse Co.	8,166	850	304	1,299	10,619
Central Valley Warehouse & Milling Co.	13,174	7,219	886	11,933	33,212
Sam Crookshanks Warehouse	2,007	1,000	184	966	4,157
C.J. Cummings Warehouses	9,907	2,726	529	5,159	18,321
Fresno Grain Warehouse Company	12,756	2,760	2,890	3,324	21,730
James & Webster	5,670	1,800	*3,213	1,081	11,764
Stratford Warehouse	5,421	730	726	1,299	8,176
Terra Bella Warehouse Company	5,346	2,000	333	1,744	9,423
All Warehousemen Studied	73,189	21,985	9,753	31,722	136,649

*Rental charges on property and equipment.

Except in one instance where minor adjustments were made, the labor expense figures were taken directly from applicants' books. Administrative expenses reflect the actual cost of this service based on the time devoted by managers and other executives to the warehouse business. Depreciation was allocated to the warehouse business on a use basis. Annuities were recomputed by the engineer because they assertedly had been generally either over or understated, and adjustments were said to be necessary in order to place all of the appli-
4
cants on the same basis. In other expenses are grouped such cost items as supplies, power, light, insurance, taxes and maintenance, allocated to utility operations on the basis of the responsibility of these operations for the expenses. Maintenance, the engineer said, had been understated because it had been largely deferred due to shortages in manpower and materials.

4

In determining depreciation charges, the engineer used an annuity rate of 2½ per cent on warehouse buildings, other than elevators; 4 per cent on elevators; 7 per cent on elevator machinery; 4 and 5 per cent on other warehouse equipment; and 20 per cent on autos and trucks

The engineer testified that similar studies were not submitted for the other applicants, which collectively handle some 20 per cent of the total storage involved, because basic data were not available. He explained that most of these warehousemen had not segregated their utility and nonutility expenses. Their failure to do so, coupled with the circumstance that their nonutility businesses were substantial and their utility operations relatively small, he said, would have made allocating expenses difficult and the results inaccurate.⁵ He testified that they use warehouses and pay wages similar to those used and paid by the other applicants and that in these and other important respects operations were conducted under generally identical conditions. The best available evidence of their costs, he asserted, was the weighted average cost of \$2.21 per ton based on the operations of the applicants maintaining records reasonably adequate for cost-finding purposes.

Applicants' engineer also submitted the following estimate of operating results under the proposed rates, assuming the same storage volume and expenses as those which obtained in 1943.

	<u>Revenues</u>	<u>Expenses</u>	<u>Net</u>	<u>Depre- ciated Rate Base</u>	<u>Rate of Return</u>	<u>Operating Ratio</u>
Erietigam Warehouse	\$19,438	\$19,247	\$ 191	\$ 26,304	0.7%	99.0
Buttonwillow Whse.Co.	8,694	10,619	(1,925)	11,249	-	122.1
Central Valley Whse. & Milling Co.	27,910	33,212	(5,302)	46,375	-	119.0
Sam Crookshanks Whse.	3,746	4,157	(411)	8,456	-	111.0
C.J.Cummings Whse's.	15,568	18,321	(2,753)	21,148	-	117.7
Fresno Grain Whse.Co.	23,279	22,117	1,162	77,274	1.5	95.0
James & Wobster	11,471	11,764	(293)	*	-	102.6
Stratford Warehouse	11,323	8,963	2,360	26,290	#9.0	79.2
Terra Bella Whse.Co.	10,266	9,633	633	9,934	6.4	93.8
All Warehousemen Studied	131,695	138,033	(6,338)	227,030	-	104.8

*Warehouse property and equipment rented.

\$730 was charged for the time of the manager and the warehouse foreman. The engineer expressed the opinion that a conservative estimate of the value of these services to the utility operations would be \$1,730. If such an amount had been used the rate of return would be approximately 5 per cent.

⁵ The public utility warehouse revenue of these applicants ranged from less than 1/10 of 1 per cent to 2½ per cent of their total utility and nonutility income. In the extreme case, of a total income of \$1,337,000, only \$864 accrued from utility service.

He testified that in 1943 the warehouses were generally filled to capacity and that, therefore, no consequential additional storage volume could be expected. This was corroborated by the testimony of a number of the warehousemen. They also said that reduced operating expenses could not reasonably be anticipated for the next few years at least. They predicted that should there be a material change in costs it would in all probability be an increase rather than a reduction. The warehousemen testified further that the substantial savings which the producers can effect by using bulk storage and bulk "shipping through" services had created a growing demand for these services; that the present rates are too low to warrant investment in additional bulk warehouse facilities to meet this demand; and that authorization of the sought increases would tend to encourage the construction of such facilities.

Studies prepared by a rate and tariff expert retained by applicants indicate that the proposed grain storage rates are generally lower than the nationwide country storage rates paid by agencies of the United States Department of Agriculture and lower than the Office of Price Administration's ceiling prices for Idaho, Oregon and Washington. The witness said that applicants considered that they would have been justified in seeking higher rates than those proposed but had not done so because such rates might encourage the installation of farm storage facilities, because their warehouse service attracts some patronage for their other businesses, and because the operation of the warehouses in connection with other enterprises enables them to retain their key men by employing them on an annual basis.

As previously indicated, the warehouse services in issue are predominantly the storage and handling of grain. The proposed

storage rates on flaxseed, 25 cents higher than the corresponding grain rates, were said by applicants' rate expert to be relatively unimportant from a revenue producing standpoint. He stated, however, that they were considered necessary in order to give proper recognition to the less favorable storage characteristics of flaxseed, including higher value, greater susceptibility to damage and more difficult handling and piling. Studies submitted by the witness show that, on the basis of November-1944 prices, the present first-season storage rate on flaxseed amounts to 1.3 per cent of the value of the commodity and the proposed rate would amount to 1.9 per cent. On barley, representative of the grains stored, the increase in percentage of value would be from 3.4 to 4.5 per cent.

Initially, it was proposed that, on hay, the first-season rate be raised from \$1 to \$1.35 and the subsequent-season rate from 75 cents to \$1.10. At the hearing it was explained that the cost records of the one applicant handling this commodity had not segregated even basic expenses between grain and hay storage and that costs for hay could not now be determined with reasonable accuracy. The rate witness said that it had therefore been decided that no increase would be sought for first-season storage. In regard to the proposed increase in the subsequent-season rate from 75 cents to \$1, he asserted that the 75-cent rate was manifestly too low for the storage of so bulky a commodity; that this was evidenced by comparison with rates for like storage of grain and flaxseed by applicants and of hay by other warehousemen; and that \$1 and higher subsequent-season hay rates had been maintained in the upper San Joaquin Valley and elsewhere throughout the state for some time. The present rate of 75 cents per man per hour for handling hay, he said, is less than the out-of-pocket payroll cost.

According to the witness; compensation and unemployment insurance, pension taxes, nonproductive labor, supervision and incidental general overhead expenses are, in the aggregate, at least as great as basic payroll expenditures. The proposed \$1.25 rate, he claimed, would do no more than cover current wages and related expenses.

With respect to the proposed "shipping through" rates, the rate witness testified that the demand for this service for sacked grain had been negligible for a considerable period and that the proposal was intended to bring the rates of the applicants maintaining a lower rate than 50 cents up to that level for the sake of uniformity not only with other lower San Joaquin Valley warehousemen, but upper San Joaquin Valley warehousemen as well,

In connection with the bulk operation, it was pointed out that the providing of detention under "shipping through" rates would amount to a reduction in those cases where it would be necessary temporarily to hold the grain for consolidation, as under the existing tariffs the season storage basis is applicable. Applicants' engineer submitted a study showing that the cost of "shipping through" service for bulk grain at Central Warehouse and Milling Company's plant was 64.3 cents per ton. This company was said to be the low-cost operator. Its facilities, built in 1940 and 1941, assertedly are more modern and efficient than those of the two other applicants providing bulk grain service.

The rate witness claimed that the proposed rate of 75 cents per ton including 48 hours detention was justified not only from a cost standpoint but also on the ground that a rate of this volume

6
One of the partners operating the Tulare Lake Elevator at Stratford, another bulk storage plant, testified that from his examination of the bulk storage facilities maintained by Central Valley Warehouse he believed that its facilities could be operated "for a great deal less" than those of his own concern.

is essential to the establishment of the additional bulk handling facilities necessary to meet the increasing demands for this service. The rate of \$1 per ton with 96 hours detention, he stated, would in all cases result in a reduction from the season-storage rates applicable for such service. It, he said properly evaluates the additional 48 hours available for accumulating shipments for reforwarding.

Competition between warehouses within the same production area, the rate witness urged, makes uniform rates imperative. He referred to the "chain-like" effect of competition which he said was illustrated by the situation which arose in the Sacramento Valley when a warehouse situated at Marysville reduced its rice rate. This reduction, he pointed out, not only forced corresponding reductions at nearby warehouses, but also required like reductions throughout the valley.⁷ The rate witness testified that the competitive situation in the lower San Joaquin Valley area is similar to that in the Sacramento Valley and that rate uniformity would be advantageous to the storers as well as to the warehousemen. The operating heads of several of the applicant warehouses confirmed this testimony.

The primary purpose of the changes proposed for accessorial services, the rate witness testified, is to bring about rate uniformity. These services are performed only upon the storer's specific request and the demand for them was said to be negligible. Charges

⁷ The competitive relationship between warehousemen in the Sacramento Valley was discussed at some length in Decision No. 35333 of May 5, 1942, in Application No. 23608 and Case No. 4544. The Commission, in authorizing increased grain and rice storage rates for applicant warehousemen and requiring warehousemen not proposing similar increases (defendants in Case No. 4544) to establish similar increases, stated: "Applicants' allegation that defendants' need for increased revenue is as great as applicants' appears well supported. Moreover, it is clear that competition between applicant and defendant warehousemen makes it essential that defendants' rates *** be similarly increased."

produced by the present rates were estimated as aggregating "something less than 3% of the total." It is proposed that applicants' individual tariffs be canceled and one tariff established for all. This would involve, as previously indicated, both increases and reductions in accessorial service rates but would have little effect, on an over-all basis, upon warehouse revenues or upon the costs incurred by the storers. Rate studies submitted by the witness show that for reweighing most of the applicants now maintain the proposed rate and that for repiling only two of them have a lower rate than that recommended. They also show that practically all of the warehousemen perform resacking at "cost" and that approximately one-half of them provide stencilling service on this basis. As heretofore stated in connection with the discussion of a similar rate proposed for handling hay, the rate of \$1.25 per man per hour sought to be applied to resacking and stencilling assertedly would do no more than make provision for current basic labor costs and the incidental insurance, taxes and overhead expenses.

The contemplated tariff revision would also involve adjustment of existing rules and regulations to the extent necessary to provide uniformity therein and to harmonize them with operations as they are now conducted. The standardization of accessorial service rates and of rules and regulations was said to be important to the stabilization of applicants' operations. It was also said to be in the public interest from the storers' standpoint, because it would do away with the confusion attending varying tariff provisions covering similar service provided by the warehousemen.

In regard to the rates on alfalfa meal, dried beans, cottonseed and other agricultural products which the applicants propose to cancel, the rate witness said that the demand for public storage of

these commodities had disappeared and that none of the rates had been used during the past year. Some of them, he said, had not been used for a considerably longer time. The nonuse of these rates, he also said, was not because of the prevailing abnormal conditions. He testified, moreover, that it was not anticipated that storage of these commodities would again be required and that the cancellation of the rates would result in highly desirable tariff simplifications.

Granting of the application was not opposed. Shipper interests and the Office of Price Administration were notified of the hearing but did not participate therein. The record shows that the 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.

It is clear from the record that for the most part applicants' operations are being conducted at substantial losses; that the existing rates are unduly low and insufficient; and that, on the whole, the proposed rates may be expected to do no more than produce revenues approximating the cost of performing service. Authorization of the proposed increases also appears necessary in order to avoid impairment of essential storage service, to effect the adjustment of inequitable rates and to provide rates which will encourage the establishment of additional bulk handling facilities reasonably necessary to meet demands for bulk storage service. Cancellation of obsolete rates and the adjustment of governing rules and regulations in connection with the replacement of the individual tariffs by a single tariff participated in by all of the applicants is justified for the reasons advanced in support of these changes. Applicants have pointed out that the storage season for grain and flaxseed commences on June 1. They urge that the relief sought be granted in sufficient time to allow the tariff containing the changes to be made effective on that date,

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

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 three (3) 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 ten (10) days from the date hereof.

Dated at San Francisco, California, this 15th day of May, 1945.

Richard C. Anderson
Justus Z. Cooper
Richard Sachs
Frank W. Cronin
Scott Russell
Commissioners