

Decision No. 38244**ORIGINAL**

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 WESTERN COMPRESS COMPANY for an Order)
 Authorizing Increases and Reductions) Application No. 26582
 in Rates on Less than Thirty Days')
 Notice.)

BY THE COMMISSION:

Appearances.

Ray J. Coleman, L. J. Brungs and I. E. Blohm,
 for applicant.
 C. G. Minson, for Los Angeles Warehousemen's
 Association, interested party.
 Benjamin Chapman, for Chester Bowles, Adminis-
 trator, Office of Price Administration,
 interested party.

O P I N I O N.

By this application Western Compress Company, a corporation engaged in the business of compressing and warehousing cotton, seeks authority to establish, on less than thirty days' notice, certain increased and reduced rates for handling and storing cotton at its public utility warehouses in Fresno and Tulare.

A public hearing was held before Examiner Bryant at Los Angeles and the matter is ready for decision.

In general, applicant seeks to increase its rates for storing compressed cotton from 15 cents to 20 cents per bale; to increase its handling rates from 25 cents to 41 cents per bale; to increase its sampling rates from 10 cents per bale to 23 cents per bale; to establish higher charges for weighing, banding, marking and tagging cotton, and for extra services not otherwise provided for. The

¹ The present and proposed rates and the services to which they apply are shown in detail in applicant's current tariff and in the application, respectively. Similar increased rates were sought by other California warehouses in Applications 26390 (San Joaquin Compress and Warehouse Co.) and 26450 (Producers Cotton Oil Company).

proposed rates are assertedly based upon those promulgated by the Office of Price Administration and by the Commodity Credit Corporation. The application was not protested by these agencies nor by other parties.

Applicant stated that this application for authority to increase its rates was brought about primarily by a need for additional revenue. It declared that the costs of its public utility warehouse operations have increased substantially since 1937 without compensating increases in revenue, and that losses have resulted.

Applicant ascribed its decline in revenues largely to increased labor costs and to additional service requirements in connection with cotton handled and stored under a loan program of the federal government. It stated that minimum hourly wage rates have risen from 40 cents per hour paid in 1937 to 80½ cents per hour established by the War Labor Board on May 2, 1945. It asserted that labor has become less efficient, and that more men are required now than in 1937 to perform similar operations. It said that labor costs of loading rail cars with baled cotton have increased because of the necessity of loading cars to capacity, and because the cotton now shipped is less densely baled and more difficult to handle than formerly. Furthermore, it was claimed that scarcity of labor required overtime employment of available manpower, a fact which of itself was said to result in decreased labor efficiency. Conditions peculiar to the storage of government cotton assertedly require not only extra physical handling of the bales, but also the maintenance of additional records. Applicant stated that although the loan program was instituted in 1937, it did not materially affect the warehouse costs until the 1940-1941 season. Applicant's vice president testified that more than 90 per cent of its business currently consisted of the rendition of services in connection with the handling and storage of government cotton.

It seems clear that in recent years applicant's public utility warehouses have been operated under increasingly adverse cost factors. Figures reflecting results of both the public utility and the nonpublic utility operation were submitted in exhibits of record.² The segregated figures showing the results of the public utility warehouse operation were as set forth in the following table:

	Fiscal Year Ending July 31				
	1941(a)	1942(b)	1943	1944	1945(c)
Operating Revenues	\$474,837	\$472,549	\$264,817	\$322,157	\$304,763
Operating Expenses	305,798	418,538	240,547	268,082	221,836
Depreciation	38,127	65,552	53,877	54,164	54,102
State and Local Taxes	29,861	29,858	12,486	11,328	10,684
Federal Taxes	28,959	15,233	4,474	4,622	8,360
TOTAL EXPENSES	\$402,745	\$529,181	\$311,384	\$338,196	\$294,982
NET OPERATING REVENUES	\$72,092	\$(56,632)	\$(46,567)	\$(16,039)	\$9,781

(a) Fiscal year ended June 30, 1941.

(b) 13 months ended July 31, 1942.

(c) Estimated.

 Indicates loss.

According to this table, the profits from warehouse operations for the 5-year period have been exceeded by the losses. Applicant stated that its average rate of return for the three fiscal years, 1942, 1943 and 1944, measured with respect to original investment cost, was "minus 5.59 per cent." It may be noted that applicant's figures show a profit after income taxes of \$9,781 in the fiscal year ending June 30, 1945. On original investment cost of \$667,984, as shown for

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Operations conducted by Western Compress Company which are assertedly "non-public utility" include the compressing and recompressing of cotton at the locations herein involved, the operation of a cotton compress and warehouse at Phoenix, Arizona, and the leasing of its compress and warehouse at Los Angeles Harbor to the United States Government.

that year in one of the company's exhibits, it may be calculated that such profit represents a net rate of return of 1.46 per cent. Applicant estimated that a revenue increase of \$34,000 would accrue under the proposed rates. After giving effect to the wage rates established by the War Labor Board and to income and excess profits taxes, applicant calculated the increased rates would yield a rate of return of 3.09 per cent on the original undepreciated investment.

Although an upward trend in earnings is evidenced by the table, the company's assistant secretary testified that he could not predict whether the trend would continue. In the application it was stated that no favorable developments of material significance could be anticipated within the foreseeable future.

However, the evidence cannot be properly evaluated without analysis of the figures submitted. On this record some question must be raised concerning the amount charged to depreciation expense which, in the latest fiscal year, accounts for more than 18 per cent of the total expenses. As of July 31, 1945, the investment had been depreciated to \$397,779, or to about 60 per cent of the stated cost of \$667,984. A charge of approximately \$54,000 was made for each of the fiscal years 1943 through 1945, which fact would indicate an average investment life of less than 13 years.³ Since warehouse structures might normally be expected to have a substantially longer service life, depreciation expense based upon an assigned service life of less than 13 years cannot be accepted as reasonable in the absence of an adequate explanation. Although applicant's showing was quite complete in many respects, little or no information was supplied with reference to the cost or value of the depreciable assets, their conditions or remaining useful lives, or the method or methods used in the computation of the depreciation reserves.

³ Figures for prior years are not considered for the reason that results of nonutility operations were not segregated in the earlier figures.

The segregation of federal tax expense between public utility warehouse and other operations is also subject to question. It may be noted that the warehouse operation was charged with federal taxes even in years when losses were shown, and that the federal tax in 1945 seems disproportionately large in relation to the net operating revenue for that year. It appears, and applicant's assistant secretary so indicated, that federal taxes which were properly chargeable to other operations may have been allocated to the public utility warehouse.

Any reduction in the amounts charged to depreciation and tax expense would have the effect of increasing the anticipated rate of return. The extent to which such adjustments might be required for rate-making purposes cannot be determined on this record, and the Commission is therefore without means of knowing whether or not they would obviate any need for the increases sought, or whether they would, if added to the effect of the proposed increases, result in a rate of return which might be deemed to be excessive.

Another reason appears why increased rates may not properly be granted on this record. More than 90 per cent of applicant's warehouse business is currently performed under contract with the Federal Government. The storage rate on government owned cotton is less than the rate proposed to be assessed to the general public, and it was asserted that neither the present nor proposed handling rates would fully compensate for extra services required under the government contracts. It was not explained why charges to the general public should be increased to compensate for reduced or noncompensatory rates assessed on government business.

Where rate increases are involved, it is incumbent upon the applicant to present complete factual data to justify affirmatively the adjustments proposed. Upon the present record the Commission is unable to make a finding that the increases proposed are

justified. The application will be denied.

O R D E R

The above entitled application having been heard and submitted, full consideration of the matters and things involved having been had, and the Commission now being fully advised,

IT IS HEREBY ORDERED that the above entitled application be and it is hereby denied.

This order shall become effective twenty (20) days from the date hereof.

Dated at San Francisco, California, this 20th day of September, 1945.

Harold C. ...
Justice J. ...
Richard ...
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...
 Commissioners