

Decision No. 38246

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
SAN JOAQUIN COMPRESS & WAREHOUSE)	
COMPANY, Bakersfield, California, for)	Application No. 26390
Authority under Section 63 of the)	
Public Utilities Act to Increase its)	
Present Existing Warehouse Rates.)	

BY THE COMMISSION:

Appearances

L. H. Stewart, for applicant.
 John Gallagher and John R. Bliss, for
 Chester Bowles, Administrator, Office
 of Price Administration, interested
 party.
 F. W. Docker, for Producers Cotton Oil
 Company, interested party.

O P I N I O N

By this application San Joaquin Compress & Warehouse Company, a corporation engaged in the business of compressing and warehousing cotton at Bakersfield, seeks authority to increase certain of its public utility warehouse rates and charges.

Public hearings were held before Examiner Bryant at Fresno and at Los Angeles. The matter is ready for decision.

Stated purposes of applicant are to adjust its scale of rates to conform to those said to prevail in other states, and to increase its revenues. Applicant's general manager asserted that the proposed rates are used with the approval of federal agencies by about 90 per cent of the cotton warehouses throughout the United States. He declared that these rates have been accepted and adopted by the cotton trade in other states, and that rate uniformity would benefit producers, buyers, and others interested in

the handling of cotton.¹ The principal rate revisions proposed in this proceeding are set forth in the margin below.²

A representative of the Office of Price Administration stated that cotton warehouses in states other than California are subject to maximum price jurisdiction of his agency. He said that the rates herein sought would in no case exceed those authorized for similar services in other states, and that his agency was not opposed to the granting of this application. No one appeared in opposition to applicant's proposal.

¹ Similar rates are proposed by other California warehousemen in Application No. 26450 of Producers Cotton Oil Company, and Application No. 26582 of Western Compress Company.

² Rates sought in the original application were modified at the public hearing to the bases shown under the "proposed" column in this footnote. The present rates and services are set forth in more detail in applicant's current tariff, and the proposed rates are shown in detail in Exhibit No. 2 of record.

	<u>Present</u> 14 days Free time	<u>Proposed</u> No Free Time
Storage, general.....		
Storage, high density compressed cotton, per month or fraction thereof, per bale.....	15¢	18¢
Handling, per bale.....	25¢	41¢
Sampling, in storage, per bale.....	10¢	23¢
Sampling, on delivery or when other service is performed, per bale...	10¢	12¢
Weighing, in storage, per bale.....	25¢	23¢
Weighing, on delivery or when other service is performed, per bale...	10¢	12¢
Delivering cotton not compressed by the company; per bale.....	50¢	58¢
Banding, per band.....	10¢	12¢
Tagging with shipper's tags; or removing tags, per bale.....	03¢	03½¢
Extra Services not otherwise provided for, per man hour.....	100¢	117¢

Financial statements were introduced and explained by the comptroller of San Joaquin Compress & Warehouse Company, who testified that he had direct charge of the company's accounts. The statements included a balance sheet as of June 30, 1944, a schedule of reserves for depreciation, and revenue and expense statements for the fiscal years ending June 30, 1941, 1942, 1943 and 1944. The figures were segregated between warehouse operations, compress operations, and other activities. ³ The witness pointed out that a net loss was recorded from warehouse operations for the year ending June 30, 1944, whereas previous years had shown a profit.

The general manager of the company testified that wage rates for warehouse and compress labor had been increased several times since 1937, the average increase to 1944 being about 111 per cent. He stated that although the cost of labor is one of the principal items of warehouse expense, the company did not increase its rates to the public during the same period. This witness introduced a statement showing relationship of wages and salaries to gross income for the fiscal years ending with June 30 from 1941 through 1944; a comparative statement of present and proposed rates and revenues expected therefrom; and a statement showing rate base and anticipated rate of return under the proposed rates.

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Applicant considers that only the warehouse operation is involved in this application, and that the compression of cotton is a non-warehouse service not subject to the jurisdiction of this Commission. The witness explained that accounts of the different operations have been kept separately on the books of the company since June, 1943. For purposes of this proceeding he allocated the figures for previous years between warehouse and compress services based upon his experience.

The following table shows warehouse income and expenses for the several years as set forth in one of the exhibits of record:

TABLE I.
For Years Ended June 30.

	1941	1942	1943	1944
Bales Handled	60,407	66,665	53,799	57,125
<u>Revenues:</u>				
Storage	\$52,535	\$46,238	\$41,287	\$20,459
Handling	6,585	14,929	17,591	13,283
Other	1,795	3,081	2,792	1,379
	\$60,915	\$64,248	\$61,670	\$35,121
Adjustment of Accruals *		9,272	7,483	
TOTAL REVENUES	\$60,915	\$54,976	\$54,187	\$35,121
<u>Expenses:</u>				
Labor and Salaries	\$17,659	\$24,927	\$27,538	\$30,157
Depreciation	9,524	9,930	9,951	9,726
Other	16,236	11,678	12,129	10,663
TOTAL EXPENSES	\$43,419	\$46,535	\$49,618	\$50,546
NET OPERATING REVENUE (LOSS)	\$17,496	\$ 8,441	\$ 4,569	(\$15,425)

* The nature of the adjustment of accruals was not fully explained.

To show the results which might be expected from warehouse operations under the proposed rates, applicant's general manager made calculations based upon an estimated volume of 48,500 bales of cotton to be handled through the warehouse during the fiscal year ending with June 30, 1945. He called upon his experience for the purpose of determining the probable storage periods per bale, and the number of bales which would require sampling, weighing, and other services. Based upon the expense per bale of 88.46 cents incurred during the

preceding fiscal year, the witness estimated that the warehouse would lose \$859.70 under the present rates, and would earn a net profit of \$7,768.20 under the proposed rates. He calculated that the rate of return on a rate base of \$117,927 would be 6.68 per cent, and that on a rate base of \$190,383 the rate of return would be 4.135 per cent.⁴ The rate bases were determined as shown in the footnote.

The estimate of anticipated revenue under the rates proposed included income in the amount of \$19,885 for handling an estimated volume of 48,500 bales. At prevailing tariff rates the revenue that would accrue from handling 48,500 bales would be \$12,125, or \$7,760 less than that which would be realized from the proposed rates. As defined in applicant's tariff "handling" includes the services of "unloading, handling in, weighing and sampling upon arrival, tagging and issuing negotiable warehouse receipt, and loading out if compressed by this Company." Applicant's comptroller stated that the anticipated handling revenue would include revenue received for the performance of special services in connection with storage of cotton under the Federal Government's cotton loan or purchase program.⁵

4 Rate bases as introduced by applicant:	Based on Book Values, Depreciated	Based on Current Appraised Values
Land	\$ 7,004	\$ 7,004
Buildings and Sprinkling System	159,995	145,302
Warehouse Equipment, Auto, Etc.....	10,960	15,773
Railroad Side Tracks.....	8,418	8,418
	<u>\$186,377</u>	<u>\$176,497</u>
Less - Reserves for Depreciation	82,336	
PROPERTY.....	\$104,041	\$176,497
Supplies - for Six Months.....	914	914
Operating Capital - Based on 4 months' operating Expenses 1944 - Less Taxes and Depreciation.....	<u>12,972</u>	<u>12,972</u>
RATE BASE	\$117,927	\$190,383

5. Applicant's general manager testified that the rates provided by contract with the government for storage of government cotton were 20 cents per bale, less insurance costs of approximately 1½ cents per bale.

According to applicant's general manager, such services include extra sampling, maintaining special records, and assuming certain liabilities and responsibilities. He explained that these services were not considered as "handling" under the tariff, and that if the application were granted the tariff term would have to be broadened to include them. He said that the revenues derived from the performance of these services in 1944, amounting to \$6,997, were credited to compress operations. The comptroller said that this revenue did not compensate for the expenses incurred, but that higher rates could not be assessed because of regulations of the Office of Price Administration. It was estimated that about 75 per cent of applicant's business since July 1, 1943, has been with the government, and that this proportion would probably prevail during the coming year.

Applicant's general manager indicated that there has been and is a shortage in California of cotton warehouse space because the Army and the Navy have requisitioned space that was formerly devoted to cotton storage. He said that the total storage space in the remaining cotton warehouses was approximately one half of that necessary to take care of the current year's crop, and that at the beginning of the current season practically all of the cotton warehouses were filled to capacity. He declared that the cotton warehouses are rendering a valuable public service and that unless they can obtain a better rate of return, it will be practically impossible to expand operations.

Applicant's witnesses indicated that increasing labor costs were largely responsible for the decline in net revenue in 1944, but from the available evidence it seems improbable that such increase in costs could account for the reversal from a profit of \$4,570 in 1943 to a loss of \$15,425 in 1944. It may be seen from Table I that appli-

cant's storage revenue dropped from \$41,287 received in 1943 to \$20,459 received in 1944, and that the handling revenue received during the same years, respectively, dropped from \$17,591 to \$13,283. Undoubtedly, the decline in storage and handling revenues experienced in 1944 was responsible in large measure for the loss in that year. Why the storage and handling revenues dropped abruptly, although the rates in 1944 were the same as those in 1943 and the bales handled in 1944 were in excess of those handled the year before, was not adequately explained.

In its calculations of anticipated operating results, applicant used figures which would produce a gross revenue of 57 cents per bale at the present rates. This is above the revenue of 35.81 cents per bale received for storage service in the fiscal year ending June 30, 1944, but is substantially below the average of 77.44 cents per bale received in the three preceding fiscal years. If applicant's estimates had been based upon a storage revenue of 77.44 cents per bale, with no change in its other figures, the results would have been as follows:

	<u>Present Rates</u>	<u>Proposed Rates</u>
Storage Revenue	\$37,558	\$37,558
Other Warehouse Revenue	14,405	23,033
Total Revenue	\$51,963	\$60,591
Expenses	<u>42,903</u>	<u>42,903</u>
Profit	\$ 9,060	\$17,688

It is recognized, of course, that the storage periods per bale are not the same from year to year, and that the revenue from storage as well as from other warehouse services is necessarily subject to fluctuation even though the rates remain unchanged. However, since applicant's entire showing of the anticipated operating results under the present and proposed rates was predicated upon the use of gross storage revenues per bale considerably lower than those actually received in previous years, other than 1944, applicant should have shown that the relatively low revenue per bale may properly be predicted for the future.⁶

In addition to the matters noted above, as being not adequately explained, justification for the proposed increases was lacking in another respect. From 70 to 80 per cent of applicant's business is under contract with the government under storage rates less than those named in the tariff, and under handling rates which assertedly are noncompensatory. It was not explained why, under such circumstances, rates to the general public should be increased in order to produce adequate aggregate revenues.

Whether or not uniformity of warehouse rates between California and other cotton producing states is desirable, as asserted by applicant, such uniformity may not be brought about unless it is shown that the rate increases proposed to be made in California are justified. (Section 63(a), Public Utilities Act of the State of California.)

⁶ Based upon asserted normal operating storage capacity of 27,500 bales, applicant's annual storage potential is 330,000-bale months. It may be calculated from the storage revenues that about 80 per cent of the potential was attained in the year ending June 30, 1941, 70 per cent in 1942, 63 per cent in 1943, and 31 per cent in 1944; estimates for 1943 allowed only 42 per cent. In view of the asserted shortage of cotton warehouse space in California, it was incumbent upon applicant to explain fully and to justify the relatively low occupancy used in its calculations.

This proceeding was reopened and further hearing had upon applicant's request to permit the submission of additional justification for the increases proposed. Nevertheless, the information furnished the Commission does not enable it to make a finding that the proposed increase in rates is justified. The application will be denied.

O R D E R

AA public hearing having been held in the above entitled application and the matter submitted, and based upon the evidence of record and upon the conclusions and findings set forth in the preceding opinion,

IT IS HEREBY ORDERED that 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 25th day of September, 1945.

David Anderson
Justus J. Crayner
Richard Koshka
Frank Wilson
Joseph Powell
Commissioners