

Decision No. 38253

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the Matter of the Application of)
PRODUCERS COTTON OIL COMPANY, Fresno,)
California, for Authority under Sec-)
tion 63 of the Public Utilities Act)
to Increase its Present Existing)
Warehouse Rates.)

Application No. 26450

BY THE COMMISSION:

Appearances

- F. W. Docker and J. Richard Townsend, for applicant.
- John Gallagher and John R. Bliss, for Chester Bowles,
Administrator, Office of Price Administration,
interested party.
- L. H. Stewart, for San Joaquin Compress & Warehouse
Company, interested party.

OPINION ON FURTHER HEARING

By this application Producers Cotton Oil Company, a corporation engaged among other things in the business of conducting a cotton storage warehouse and compress at Fresno, seeks authority under Section 63 of the Public Utilities Act to increase certain of its rates and charges. The application was denied, after public hearings, for the reason that the Commission was unable to make a finding upon the available record that the increases proposed were justified (Decision No. 38243, September 25, 1945). Thereafter, upon applicant's petition, a further hearing was had before Examiner Bryant, at Los Angeles on November 13, 1945. Applicant has since filed a brief in accordance with understanding reached at the hearing. The matter is now ready for decision. This decision is based upon all of the evidence of record.¹

¹ Evidence introduced at the original hearings, having been described in Decision No. 38243, *supra*, will not be further discussed in this opinion except as necessary for clarity.

Producers Cotton Oil Company, is engaged in a number of businesses, including financing growers, ginning cotton, milling cottonseed oil, merchandising cotton, merchandising oil mill products, operation of a cotton compress, and operation of a cotton warehouse. Only the warehouse business is deemed by applicant to be that of a public utility subject to the jurisdiction of this Commission. The warehouse services involved in this application are the storage, handling, sampling, weighing and delivering of cotton, in bales.

Applicant's desire to establish higher rates for these services is based primarily upon asserted revenue needs. The charges which it seeks authority to increase were established on December 16, 1940, when applicant commenced its warehousing operations, and have not been changed since that date. In the meantime it appears that many of the operating expenses have increased materially. Applicant declares that it "has been losing too much money from its warehouse operations for the last several years and must have more revenue to avoid even more serious losses in the future." According to applicant's Exhibit No. 12, the warehouse revenues and expenses may be summarized as follows:

TABLE 1

<u>Year Ended</u>	<u>Revenue</u>	<u>Expenses</u>	<u>Net Profit or Loss*</u>
6/30/41	\$27,260.82	\$20,232.95	\$ 7,027.87
6/30/42	23,351.58	22,127.42	1,224.16
6/30/43	26,053.41	25,895.04	1,158.37
6/30/44	57,891.84	66,649.43	-8,757.59
6/30/45	53,751.02	58,879.44	-5,128.42
6/30/46-Estimated:			
Present Rates	31,939.00#	43,909.00	-11,970.00#
Proposed Rates	48,402.00	43,909.00	4,493.00

* Minus sign indicates net loss.

Calculation error corrected.

Prior to January 7, 1944, the company treated compression as a public utility function under its warehouse tariff, and the

revenues and expenses were therefore combined in the books and reports. For the purpose of developing the separate figures shown in the foregoing Table 1, applicant deleted all compression revenues and expenses. The revenues were readily separated without arbitrary allocations; the expenses were allocated by the secretary-treasurer of the company on what he considered to be the best bases available.² Thus the record now contains completely segregated figures which presumably disclose comparable financial results of the warehouse operation, exclusive of compression services, for a number of years.³

At the further hearing applicant introduced, for the first time, a segregated balance sheet showing the assets and liabilities allocated to the warehouse utility operations.

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Details of the expense allocations are fully explained in Exhibit No. 10.

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The financial showing on the original hearings was inadequate for the reason that the expenses were not segregated for the periods prior to January 7, 1944. Completely segregated figures were available for a period of only 10 months, and in the absence of comparative figures for earlier periods or of data from which a rate base might be determined, there was no satisfactory basis for measuring the asserted inadequacy of the current revenues or the reasonableness of the revenues that would accrue under the rates proposed. See Decision No. 38243, supra.

As shown in Table 1, those operations have resulted in substantial losses since June 30, 1943, and if the present rates are continued until June 30, 1946, the estimated net loss for the fiscal year ending on that date will be almost \$12,000. The rate proposal herein considered may not be readily modified to provide different selected rates of return, inasmuch as the present and proposed charges, and the revenues therefrom, vary according to the several services performed.

We turn then from the over-all financial requirements to a consideration of the specific rates, in order that it may be seen whether, aside from their net effect upon applicant's revenues, they may be reasonable by other standards. The proposed rates are based upon those assertedly maintained by cotton warehouses in other states, and are similar to those sought by other California warehousemen in related proceedings. The present and proposed rates, as modified at the hearings and set forth in applicant's Exhibit No. 8, are shown in the following table:

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Application No. 26390 of San Joaquin Compress & Warehouse Company, submitted November 13, 1945, on further hearing; and Application No. 26582 of Western Compress Company, denied by Decision No. 38244 of September 25, 1945, for lack of justification.

TABLE 2

Item	Charge Per Bale	
	Present	Proposed
1. STORAGE		
<u>Present:</u>		
a. Unexpired part of month in which cotton is received	Free	
b. High density compressed cotton, not otherwise specified, per month or fraction thereof	\$.15	
c. Uncompressed cotton, per month or fraction thereof	.25	
<u>Proposed:</u>		
a. Uncompressed cotton - Per month or fraction thereof - See NOTE in this Item		\$.20
b. Compressed cotton - Standard density or high density - Per month or fraction thereof - See NOTE in this Item		.18
<p>(NOTE - For the purpose of this Item, the term "month" shall cover the period commencing with the date of the month on which the cotton was received and extending through the day immediately preceding the same date in the next succeeding month.)</p>		
2. HANDLING		
Including unloading, handling in, weighing and sampling upon arrival tagging and issuing negotiable warehouse receipt, and loading out of warehouse by this company	.25	.41
3. SAMPLING		
In storage	.10	.23
On delivery or when other service is being performed	.10	.12
4. WEIGHING		
In storage	.25	.23
On delivery or when other service is being performed	.10	.12
5. SAMPLING AND WEIGHING, At Same Time:		
In storage	*	.35
6. DELIVERING		
Cotton removed without being compressed by this company, including loading on railroad cars on compress siding and/or to trucks at compress platform	.50	.58

* No such item in present tariff

It will be seen from Table 2 that no charge is made under the present tariff for storage during the unexpired part of the month in which the cotton is received, whereas under the proposed tariff all cotton will be charged a monthly rate, computed from the date of receipt to the corresponding date of the next month. Applicant's assistant secretary and treasurer declared that the proposed basis would be more fair, since all storage customers would be assessed the same charge for the same period of storage.⁵ The principal proposed increases in charges, apart from the elimination of free storage time, are in the storage charges on compressed cotton, standard density or high density, from 15 to 18 cents per bale per month; in the handling charge from 25 to 41 cents per bale; and in the sampling-in-storage charge from 10 to 23 cents per bale. With respect to the last mentioned increase, the witness stated that the existing charge of 10 cents was really an error in the tariff, since the charge should be the same as that applicable to weighing in storage, and should exceed the charge for sampling on delivery because sampling in storage requires extra labor for tearing down the piles to obtain the correct bale.

The change in the handling charge from 25 to 41 cents per bale would be the most important increase from the standpoint of

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Applicant pointed out, on brief, that at present one customer storing his cotton for twenty days, for example, would not be required to pay any charge for storage if he placed his cotton in storage before the tenth day of the month, whereas another customer storing his cotton for twenty days would be required to pay a full month's storage just because he happened to place his cotton in storage after the tenth day of the month and it remained in storage for one or more days after the end of the month.

total cost to the public and total revenue to the warehouse.⁶ The handling charge includes the services of unloading, handling in, weighing and sampling upon arrival, tagging and issuing negotiable warehouse receipt, and loading out of warehouse. The witness testified that these services are entirely labor operations. He pointed out that the charge would be increased 64 per cent, and showed (Exhibit No. 13) that the rates of pay to compress and warehouse labor had increased more than 67 per cent since the present charge was established. It was stated that, in addition to the actual advance in wage rates, the cost of performing labor operations had been further increased by reason of substantially decreased efficiency of the employees.

As shown in Table 2, the monthly storage charge on uncompressed cotton would be reduced from 25 cents per bale to 20 cents per bale. The witness explained that this would not actually result in a net reduction, because it would be offset by the proposed elimination of the free storage period now allowed. He stated that the 20-cent charge was proposed in order to place this item in line with charges maintained by other cotton warehouses throughout the United States under ceiling prices established by the Office of Price Administration.

⁶ Applicant's estimates of the revenue to be expected for the current fiscal year under the present and proposed rates are as follows:

	<u>Present Rates</u>	<u>Proposed Rates</u>
Delivering	\$ 250.00	\$ 290.00
Handling	17,000.00#	27,880.00
Reconditioning Cotton	3,000.00	3,000.00
Sampling and Weighing	850.00	1,020.00
Storage	10,539.00	15,912.00
Patches	300.00	300.00
	<u>\$ 31,939.00#</u>	<u>\$48,402.00</u>

Calculation error corrected

An officer of the company introduced an exhibit showing the relationship between the value of the cotton and the present and proposed warehouse charges. According to this exhibit the average price of cotton produced in California increased from 11.97 cents per pound in the 1940-1941 season to 22.63 cents per pound in the 1945-1946 season. On the basis of bales averaging 525 pounds each, the value per bale increased from \$62.84 to \$118.80, or nearly 100 per cent. The witness testified that most of the cotton is assessed only two of the charges set forth in the warehouse tariff, i.e. for handling and storage. He calculated that the warehouse charge for handling and storing cotton for one month would average 32.5 cents per bale under the present tariff and 59 cents per bale under the proposed tariff. If the cotton remained in storage for a full year the warehouse charge for handling and storage would be \$2.05 per bale under the present tariff and \$2.57 per bale under the proposed tariff. The witness pointed out that the proposed increase would amount to less than one-quarter of one per cent of the current value of the commodity if the cotton were stored for one month, and less than one-half of one per cent of the value if the cotton were stored for one year.

The same witness stated that although Producers Cotton Oil Company would prefer to have uniform rates established by the several cotton warehouse facilities in the San Joaquin Valley, his company would put the proposed rates into effect if authorized to do so, whether or not the other warehouses were authorized to make corresponding increases (see Footnote 5, supra). He declared that the revenues were so deficient from the company's warehouse operations that it would be forced to go ahead regardless of the charges of other warehousemen. He said that the company would not fear competition under existing conditions.

The record developed by applicant prior to the latest hearing indicated that the company's revenue deficiencies might have been due in some measure to the use of subnormal rates on substantial quantities of cotton stored under contract with an agency of the federal government. At the latest hearing it was testified that applicant has stored government cotton on only two occasions, and does not expect to store any government cotton in the future. It was explained that the company has such a small amount of space that its facility is not a real storage warehouse, but is primarily suitable for the handling of cotton which moves in from various gins on concentration-in-transit rail rates and remains at the warehouse only long enough to make up outbound carload lots. Government cotton ordinarily requires long-term storage, and applicant has normally been unable to handle such cotton because of the necessity of keeping its facility available for concentration of cotton in transit. An officer of the company testified, moreover, that because of an increase in the price of cotton recently, all of the cotton is now being sold privately and none of it is going into the government program. He believed that, because of changes in market conditions incident to termination of the war, the applicant will not be called upon to handle any government cotton in the future.

Three public hearings have been held in this proceeding, one at Fresno and two at Los Angeles. The customary notices have been given to parties believed to be interested. No one has

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One occasion was toward the end of the fiscal year 1942-1943 when, as a result of certain unusual circumstances, applicant had some storage space available and took a few thousand bales of government cotton into storage. The other occasion was during the fiscal year 1944-1945 when a substantial quantity of government cotton was stored in an open storage yard which was leased for the purpose.

appeared to interpose any objection to the proposed rates. The Office of Price Administration was represented at the initial hearing. Its representative stated that the rates would in no case be higher than those heretofore approved by his agency for the same services when performed by cotton warehouses in other states, and that the agency was not opposed to granting of this application.

From the full record now before the Commission it appears that the present rates of Producers Cotton Oil Company are insufficient to return to it the full cost of performing the warehouse services involved; that the revenue which may reasonably be anticipated from the proposed rates and charges will not be excessive; and that the rates and charges now proposed by applicant will be reasonable. Upon careful consideration of all the facts and circumstances of record the Commission finds as a fact that the increased rates and charges proposed by the applicant in this proceeding, as set forth in Table 2 of this opinion, are justified. The application will be granted.

ORDER

Further hearing having been had in the above entitled application, the proceeding having been duly submitted, full consideration of the matters and things involved having been had, and the Commission now being fully advised,

IT IS HEREBY ORDERED that Producers Cotton Oil Company be and it is hereby authorized to establish, on not less than ten (10) days' notice to the Commission and to the public, rates and charges as specifically provided in Table 2 of the opinion which precedes this order.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall be void unless the rates and charges authorized in this order are published, filed, and made effective within ninety (90) days from the effective date of this order.

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

Dated at San Francisco, California, this 29th day of January, 1946..

David C. Quinn
Justin J. Quinn
Francis W. Quinn
James H. Quinn
Harold A. Quinn
Commissioners.