

Decision No. 45677

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
Baker Brothers Rice Drier & Storage ) Application No. 32251  
Company, a corporation, et al., for )  
increases in warehouse rates. )

Appearances

Reginald L. Vaughan, for applicants.  
Jack L. Dawson, for California Warehousemen's  
Association.  
J. J. Deuel and Elden Dye, for California  
Farm Bureau Federation.

O P I N I O N

In this proceeding, 64 public utility warehousemen operating in the Sacramento Valley seek authority to increase their rates and charges for storage, handling and accessorial services.

A public hearing was held at Woodland before Commissioner Mitchell and Examiner Mulgrew on April 16, 1951.

Grain and rice are the principal commodities involved. Beans, seed, wool and other agricultural products and supplies are also involved. Most of the service is provided under season storage rates which vary with the commodity but not with the length of time it is stored.<sup>1</sup>

The general level of the Sacramento Valley warehouse rates was last considered by the Commission in Application No. 28257 in which the warehousemen sought authority to increase their rates and charges. The season storage rates authorized by Decision No. 40181 of April 22, 1947, in that proceeding, for grain and rice, and the increased rates now proposed for those commodities, in amounts per

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<sup>1</sup> On grain, excluding corn, the storage season is from June 1 to May 31, inclusive; on corn it is from September 1 to August 31, inclusive; and on rice it is from October 1 to September 30, inclusive.

ton of 2,000 pounds, are shown in the following tabulation:

<u>Commodity</u>	<u>Decision No. 40181 Rates</u>	<u>Proposed Rates</u>
Grain:		
In bags	\$2.00	\$2.50
In bulk	2.50	3.00
Rice:		
In bags	2.25	2.75
In bulk	2.75	3.25

For other commodities for which season storage arrangements are provided, applicants seek authority to make the same increase, 50 cents per ton per season. Examples of these increases are the sought adjustments of from \$2.25 to \$2.75 for dried beans and dried fruit, of from \$2.50 to \$3.00 for agricultural lime and gypsum fertilizer, and of from \$3.00 to \$3.50 for seed. Applicants propose that field peas now subject to the seed rate of \$3.00 be made subject to the new rate proposed for beans, \$2.75. They also propose to remove alfalfa seed from the season seed rate of \$3.00 and to apply monthly storage rates thereto as is now done in the case of clover and certain other designated seeds.

Monthly storage rates, including those for bags, nut meats, seed and wool, as well as handling and accessorial service rates and charges generally, are proposed to be increased by 20 percent. Illustrative of the increases applied for are the following adjustments in first-month storage rates:

Bags - From 25 to 30 cents per bale.  
 Clover Seed - From 18 to 22 cents per 100 pounds.  
 Nut Meats - From \$1.50 to \$1.80 per ton.  
 Wool - From 20 to 24 cents per bale.

The rate for special labor services is sought to be raised from \$1.50 to \$2.00 per man per hour and the minimum charge therefor from 35 to 40 cents. A minimum charge of 50 cents per ton for any physical handling not otherwise provided for is proposed to be canceled because it has no practical application. No change is sought

in the "shipping through" and "re-elevating" rates of \$1.50 and 50 cents per ton, respectively.

Eleven of the 64 applicant warehousemen commenced operations subsequent to the establishment of rates pursuant to Decision No. 40181, supra. They filed, and have since maintained, rates generally higher than the rates of the other 53 applicants. Some of these 11 newer warehousemen already have most of their rates on the proposed levels. This group seeks authority to raise their rates only to the extent necessary to bring them to the common level sought here for all 64 applicants.

All of the proposed changes are set forth in rate schedules attached to the application.

Applicants represent that their present rates are generally unduly low and insufficient. Rates no lower than those proposed are said to be necessary for applicants to continue in the warehouse business and render adequate and efficient service. The warehousemen claim that operating expenses have increased substantially since their rates were last adjusted.

A consulting engineer retained by the warehousemen submitted studies of the operating results of 39 of the 64 applicants<sup>2</sup> for their respective fiscal years ending in 1950. These 39 applicants, the consultant testified, handled more than 85 percent of the public storage in the territory involved. Their over-all operating results, he said, were representative of the general public warehouse operating results in the Sacramento Valley. The aggregate revenues and expenses for the 1949-50 operations of the 39 warehousemen as developed by the consultant and his estimates

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<sup>2</sup> He explained that studies of the operating results of the 25 remaining applicants were not submitted because some of them commenced operating in late 1950, because others seek only minor adjustments in their rates and charges, and because still others did not handle enough tonnage to warrant a study. For one of the 39 applicants, the witness used estimated results for a fiscal year ending May 31, 1951, because this warehouseman acquired the property at the start of the 1950-51 storage season.

of annual operating results under the proposed rates are shown in the table which follows:<sup>3</sup>

	<u>Present Rates</u>	<u>Proposed Rates</u>
Revenues	\$1,056,571	\$1,279,311
Expenses, including income taxes	<u>1,074,966</u>	<u>1,121,657</u>
Net Revenues	<u>(\$18,395)</u>	\$157,654
Operating Ratios, after income taxes	101.7%	87.7%

(    ) - Indicates loss.

The consultant developed rate bases for only 27 of the 39 warehousemen studied. He explained that he had not developed rate bases for the remaining 12 operators because all or substantial portions of their warehouse space was rented.<sup>4</sup> His rate bases, he said, reflected the depreciated value of the properties devoted to public utility operations plus necessary working capital. The consultant's 1949-50 operating results and his estimated future operating results for the two groups of warehousemen follow:

	<u>27 warehousemen generally owning their facilities</u>		<u>12 warehousemen renting space</u>	
	<u>(1)</u>	<u>(2)</u>	<u>(1)</u>	<u>(2)</u>
Revenues	\$716,900	\$870,101	\$339,671	\$409,210
Expenses, including income taxes	<u>728,463</u>	<u>756,557</u>	<u>346,503</u>	<u>365,100</u>
Net Revenues	<u>(\$11,563)</u>	\$113,544	<u>(\$6,832)</u>	\$ 44,110
Operating Ratios, after income taxes	101.6%	87.0%	102.0%	89.2%
Rate Bases	\$2,124,664		Not developed	
Rates of Return	Loss	5.3%	--	--

(    ) - Indicates loss.

(1) - Present rates.

(2) - Proposed rates.

<sup>3</sup> The warehousemen are also engaged in a variety of nonutility undertakings. In arriving at the utility operating results, the consultant made expense allocations based on studies of the individual operations and properties involved and on his judgment and experience in engineering and cost finding.

<sup>4</sup> Each of these operators rents 20 percent or more of its floor space.

The consultant testified that on the whole he believed the estimated average revenue, expense and rate base figures of the groups of warehousemen studied would be more representative of the probable results of future operations than the figures which could be developed in any other manner. He testified further that he considered the problem not a matter of finding the standing of an individual operator but a matter of finding the standing of the warehousemen in the territory as a group. The operating results for individual warehousemen disclosed by his studies, he said, should be regarded as "working papers" in reaching the over-all answer. The operator with a favorable showing one year, he claimed, may have an unfavorable showing the next year. A year's results, he asserted, would not reasonably show average conditions for any warehouseman.

The studies of individual operating results disclose that for 16 of the 39 warehousemen, the present rates are sufficient to cover their expenses and to provide some net return. Operating ratios after income taxes, as shown by these studies, range from 72.5 to 137.6 percent. The indicated rates of return for the 16 warehousemen shown as operating at some profit range from 0.5 to 8.4 percent.<sup>5</sup> The studies also disclose that under the proposed rates all but six of the warehousemen would have revenues exceeding their expenses; that operating ratios would range from 64.5 to 111.4 percent, after income taxes; and that the rates of return would range from 1.2 to 19.9 percent.

In the light of applicants' over-all operating results, as shown on this record, it is clear that some adjustment of their rates is justified in order for them to maintain adequate public

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<sup>5</sup> Five of these 16 operators are in the group of 12 warehousemen for which rate bases and rates of return were not developed because they rent more than 20 percent of their floor space.

storage service. Only two of the warehousemen are shown as enjoying rates of return higher than six percent under the existing rates. Applicants' witnesses testified that in the 1949-50 period studied, the available public warehouse storage space was generally used to its full capacity. The same tonnage level was used in their estimates for future operations. Their witnesses said that there had been a continuing increase in the demand for bulk storage and that suitable bulk storage facilities required a greater investment than other storage facilities.

The consultant expressed the opinion that the warehouse business could not be conducted successfully at a rate of return as low as six percent. A considerably higher rate of return, he said, was necessary to offer any inducement to investors to go into the warehouse business or to keep the present operators in that business. He explained that the operation of public warehouses is more hazardous than the operation of such utilities as gas and electric companies; that the warehouse business is competitive, while other utilities are protected from competition; and that the warehousemen are in competition not only with each other but with storage on the farm. Warehouse operations, he said, were subject to loss of business through direct sales from the field. He said further, that the warehouse business may fluctuate 25 percent or more in gross revenue in two consecutive years, depending on crop conditions; that the investor in gas and electric company securities has a ready market for these securities whereas the owner of warehouse property has no open market and may find his assets frozen when he wishes to realize on them. Better than normal years, he claimed, will not offset subnormal returns.

The consultant also submitted a study in which he developed that the increases under the proposed rates would average 48 cents per ton, that expenses had increased since the general level of the rates involved was last adjusted by 36 cents per ton, that the

average cost was advanced from \$2.05 to \$2.41 per ton, and that under the proposed rate level the net income of the warehousemen would be raised by 12 cents per ton. He also testified that in the same period the wages of warehouse labor had increased some 15 percent on the average. The over-all increase in costs he estimated as 17.6 percent.

The secretary of the warehousemen's association corroborated the consultant's testimony with respect to the warehousemen generally operating at near capacity during the 1949-50 season, with respect to the trend toward bulk storage to meet public demand therefor, and with respect to the greater investment required in establishing and maintaining bulk storage facilities. The proposed rates, he said, would encourage the expansion of bulk facilities.

The secretary also testified with respect to the proposed adjustment of field pea rates to the bean rate level and the proposed adjustment of alfalfa seed rates to the clover seed basis. He said that the storage characteristics of these commodities would be given proper recognition by these changes.

The California Farm Bureau was represented at the hearing. Its representative participated in the examination of applicants' witnesses.

The record affords no satisfactory justification for increases for the applicants generally as great as those sought. Under an increase of 15 percent in place of applicants' proposals, the estimated operating results submitted by applicants would be changed as follows:

	(1)	(2)	(3)
Revenues	\$1,203,724	\$ 819,040	\$ 384,684
Expenses, including income taxes	<u>1,103,593</u>	<u>745,625</u>	<u>357,968</u>
Net Revenues	\$ 100,131	\$ 73,415	\$ 26,716
Operating Ratios, after income taxes	91.7%	91.0%	93.1%
Rate Bases	Not developed	\$2,124,664	Not developed
Rates of Return	--	3.5%	--

(1) - The 39 warehousemen.

(2) - The 27 warehousemen generally owning their facilities.

(3) - The 12 warehousemen renting space.

Under a 15 percent increase, 12 of the 39 warehousemen (not the group of 12 renting space) would not have sufficient revenues to meet their expenses. As previously pointed out, six of the applicants would be in this situation under the proposed higher increases. An increase of approximately 37½ percent would be necessary to enable the operator with the most unfavorable experience to recover his costs. The range in indicated operating ratios under a 15 percent increase is from 66.6 to 119.7 percent. The operating ratio for the warehousemen as a group, as shown in the foregoing tabulation, is 91.7 percent. The rate of return for the 27 applicants for which this figure is available would be 3.5 percent for that group. However, rates of return for individual warehousemen would range from 0.4 to 16.2 percent. Three warehousemen would have rates of return exceeding 10 percent; five would have rates of return between 6 and 10 percent. For the remainder, the rates of return would be less than 6 percent.

A 15 percent rate increase would, under calculations similar to those made by the consultant, raise revenues by only some 31½ cents per ton as contrasted with the consultant's estimate that increased costs had amounted to 17.6 percent or 36 cents per ton. However, in view of the highly profitable operations disclosed by some of the warehousemen's operating results and in view of the fact that others in the same general business in the same territory incurred substantial losses during corresponding storage periods, we do not believe that the average operating result figures should determine the increases which are necessary and justified. In our judgment, and in consideration of both the average and the individual operator showings, an increase of 15 percent in the generally prevailing rate level

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The rates of return for the eight warehousemen having individual figures exceeding 6 percent are as follows: 6.6, 6.8, 6.9, 7.2, 9.8, 11.5, 13.3 and 16.2 percent.



is warranted.<sup>7</sup> Greater increases are not shown to be justified on this record. The proposed adjustments of field pea storage rates to the bean basis and the alfalfa seed rates to the clover seed basis appear justified for the reasons advanced by the secretary of the warehousemen's association. The sought authority to cancel the unused rate for physical handling is also justified.

The applicants here have requested rate adjustments to common higher levels. Should increases in line with this request prove to result in unreasonably low rates for individual warehousemen, they may, of course, apply for such relief as their particular circumstances may warrant.

Upon consideration of all the facts and circumstances of record we are of the opinion and hereby find that the increases proposed in the above-entitled application, as amended, are justified to the extent hereinbefore indicated and as shown in the order herein, and that, in all other respects, applicants' proposals have not been justified.

#### O R D E R

Based upon evidence of record and on the conclusions and findings set forth in the preceding opinion,

IT IS HEREBY ORDERED that applicants be and they are hereby authorized to establish, within sixty (60) days after the effective date of this order and on not less than five (5) days' notice to the Commission and the public, increased rates and charges, except "shipping through" and "re-elevating" rates and charges, not higher than 15 percent above the corresponding rates and charges in California Warehouse Tariff Bureau Warehouse Tariff No. 22, Cal.P.U.C. No. 132 (L. A. Bailey series), of Jack L. Dawson, Agent; to adjust

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<sup>7</sup> These rates are set forth in California Warehouse Tariff Bureau Warehouse Tariff No. 22, Cal.P.U.C. No. 132 (L. A. Bailey series), of Jack L. Dawson, Agent.

rates on field peas and alfalfa seed to the bean and clover seed bases herein authorized; and to cancel rates and charges for any physical handling not otherwise provided for in the aforesaid warehouse bureau tariff. In determining the increased rates herein authorized fractions of a cent shall be disposed of by increasing fractions of one-half cent or greater to the next whole cent and by omitting fractions of less than one-half cent.

In all other respects the above-entitled application, as amended, be and it is hereby denied.

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

Dated at Los Angeles, California, this 8<sup>th</sup> day of May, 1951.

J. J. Anderson  
Justus J. Gresser  
Harold A. Kula  
Samuel H. Pottel  
Edwin E. McMillan  
Commissioners