ORIGINAL

Decision No. 45922

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Ben Aker, an individual, et al., for an increase in warehouse rates.) Application No. 32384

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.

OPINION

By this application, 25 public utility warehousemen operating in the upper San Joaquin Valley seek authority to increase their rates and charges for storage, handling and accessorial services.[1]

A public hearing was held at Modesto on June 15, 1951, before Examiner Mulgrew.

Bean storage is applicants' principal utility operation. Grain, fertilizer and other agricultural commodities and supplies are also stored. For the most part, service is provided on a per-season basis and under rates varying with the commodity stored but not with the length of time it is in storage.[2] The general level of the upper San Joaquin Valley warehouse rates was last adjusted in 1948, pursuant to Authority No. 63-19410 of May 25, 1948.

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[1] The general territory served by applicants is in San Joaquin, Stanislaus and Merced Counties. Their warehouses are situated at Carbona, Crows Landing, Denair, Escalon, Harp, Hilmar, Hughson, Livingston, Manteca, Modesto, Newman, Oakdale, Patterson, Rhodes Station, Ripon, Tracy, Turlock, Valley Home, Vernalis and Westley. The northern section of the San Joaquin Valley in which these points are located was referred to at the hearing as the "upper San Joaquin Valley." This description will be used throughout the opinion.

[2] On beans, the storage season is from August 1 to July 31, inclusive; on grain, excluding corn, it is from June 1 to May 31, inclusive; and on corn, it is from September 1 to August 31, inclusive.

Applicants propose to increase their season storage rates, except on alfalfa seed, by 75 cents per ton and to increase other storage rates and accessorial service charges generally by 30 percent.[3] On beans, the principal commodity involved, the present rate would be raised under applicants' proposals from $2.50 to $3.25 per ton per season. On grain, the next most important commodity, the sought increases are from $2.00 to $2.75 on sacked grain and from $2.50 to $3.25 on bulk grain. The season storage rate on alfalfa seed is proposed to be increased from $3.00 to $4.00. For weighing and re-piling the present rate for the combined services is $1.25 per ton. Applicants propose to cancel this combination rate and to apply the 30 percent increase to the separate rates for these services. No change is sought in the "shipping through" rate of $1.50 per ton nor in the "re-elevating" and the "restricted piling" rates of 50 cents per ton.

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

Applicants allege that the sought increases are necessary if they are to continue in the warehouse business and render adequate and efficient service. They claim that operating expenses have increased substantially since their rates were last adjusted and that their existing rates are now unduly low and insufficient.

Studies of the operating results of 9 of the 25 applicants were submitted by a consulting engineer retained by the warehousemen.

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[3] Adelbert Pflaging, doing business as W. H. Sisk Warehouse, operates a warehouse located at Harp. He maintains storage rates for beans and grain established in 1922. These rates are lower than the general level. He seeks authority to raise his rates to the higher general level here sought.

The studies cover the last fiscal year of each applicant.[4] The consultant explained that similar studies were not made for the remaining 16 applicants because their utility storage operations were relatively small; because, in addition to their utility operations, they conducted nonutility operations; and because their utility and nonutility expenses were not segregated.[5] He testified that the 9 warehousemen studied accounted for more than 80 percent of the public storage in the territory involved. Estimates based on their experience, he asserted, were more representative of the probable results of future operations than the figures which could be developed in any other manner. The aggregate annual revenues and expenses for the 9 warehousemen, the rate base developed by the consultant, and his estimates of annual operating results under the proposed rates are shown in the following table:

	Present Rates	Proposed Rates
Revenues	$174,609	$227,671
Expenses, including income taxes	197,515	204,911
Net Revenues	($ 22,906)	$ 22,760
Operating Ratios after income taxes	113.1%	90.0%
Rate Base*	$496,279	$496,279
Rate of Return	----	4.6%

( ) - Indicates loss

* - The depreciated value of the properties devoted to public utility operations plus necessary working capital.

[4] Studies for 2 of the warehousemen reflect operations for their fiscal years ended in 1951; for the others they reflect fiscal years ended in 1950.

[5] The 9 warehousemen studied handled in the aggregate 68,205 tons. The witness estimated that the 16 applicants not covered by his operating result figures handled in the aggregate only 16,000 tons. Fifteen of them, he said, handled less than 1,000 tons each.

The studies of operating results of the individual warehousemen show that the present rates resulted in profitable operations for only one of the nine warehousemen. Operating ratios, after income taxes, as shown by the studies range from 86.2 to 133.4 percent. The warehouseman who handled the greatest tonnage had an operating ratio of 100.0 percent. The rate of return for the one warehouseman who operated at a profit was 4.4 percent.

Under the proposed rates, the studies show that all but one of the warehousemen would operate profitably; that operating ratios would range from 72.0 to 102.2 after income taxes; and that the rates of return for the eight warehousemen who would operate on a profitable basis would range from 1.3 to 12.4 percent.[6] The operator who handled the greatest tonnage and who also has the highest depreciated rate base would have an operating ratio of 82.7 percent and a rate of return of 9.9 percent.

The operating results for individual warehousemen as disclosed by his studies, the consultant said, should be considered as "working papers" in reaching the over-all answer. The warehousemen with a favorable showing one year, he claimed, may have an unfavorable showing the next. A year's results, he asserted, would not reasonably show average conditions for any operator. He testified that for the period studied the available public warehouse space was generally used to its full capacity; that more favorable operating results would not therefore be experienced because of the handling of increased tonnage; and that he had based his estimates of future operating results under the proposed rates on the current high level of patronage.

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[6] The estimated rates of return for all of the eight warehousemen are: 1.3, 1.8, 4.7, 5.9, 6.0, 9.9, 11.6 and 12.4 percent.

The consultant said further that successful public utility warehouse operations required that the operators achieve rates of return in excess of 6 percent. The business, he claimed, is highly competitive, is subject to wide fluctuations in the volume of business handled, and is financially hazardous. Better-than-normal years, according to the consultant, will not offset subnormal years. He said that warehousemen should be permitted to earn a greater return than utilities which are not faced with the adverse circumstances and conditions surrounding public storage operations.

With respect to costs, the consultant said that the applicants' total expenses were higher than corresponding expenses experienced in other country warehouse operations. He said that this was so largely because of higher labor costs, because the average lot stored in the upper San Joaquin Valley area was small, and because this type of storage requires the extensive use of "short-lived" equipment and facilities.

The secretary of the warehousemen's association corroborated the consultant's testimony with respect to higher labor costs, with respect to the character of the operations involved, and with respect to the warehousemen generally operating at full capacity during the storage years covered by the consultant's studies. Additionally, he said, that there was some prospect of a smaller bean crop for the coming season.

The secretary also pointed out that in the central coast counties area, where bean storage is also an important operation, the Commission authorized in 1948 a season rate equal to the rate here proposed in the upper San Joaquin Valley.

With respect to the proposed storage rate on alfalfa seed, the secretary testified that the value of this seed, its susceptibility to loss and damage, and the special handling necessary to accommodate it require establishment of the sought rate in order to give proper recognition to the storage characteristics of the commodity.

The secretary also testified with respect to the proposed cancellation of the combination weighing and repiling charge. The combined service, he said, was rarely encountered in commercial storage. He claimed that there was no valid reason for any lower charge than the aggregate of the charges for each service.

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

Applicants have established that an upward adjustment of their rates is necessary in order for them to maintain adequate public storage service. They have not, however, justified increases as great as those sought. A 25 percent increase in place of applicants' higher basis would change the estimated operating results for future operations to the following:

Revenues	$218,263
Expenses, including income taxes	202,969
Net Revenues	$ 15,294
Operating Ratios after income taxes	93.0%
Rate Base	$496,279
Rate of Return	3.1%

As hereinbefore noted, under applicants' proposals one of the warehousemen would have an estimated operating ratio of 102.2 percent. Under a 25 percent increase, his operating ratio would be 106.7 percent, and another of the warehousemen would have a ratio of 101.2 percent. The operating ratios for all of the nine warehousemen studied, under a 25 percent increase, would range from 74.0 to 106.7

percent. The rates of return for the seven who would operate at some profit would range from 0.9 to 10.4 percent. As shown in the above table, the aggregate operating ratio for the nine warehousemen would be 93.0 percent and the over-all rate of return would be 3.1 percent. Three of the nine warehousemen would have rates of return exceeding 6 percent; of the remaining six, four would have lesser rates of return and two would have no return. The warehouseman who handled the greatest tonnage, 19,384 tons out of a total of 68,205 tons, and who has the largest depreciated rate base, $113,666 out of an aggregate of $496,279, would have an operating ratio of 84.9 percent and a rate of return of 8.3 percent.

In our judgment, and in consideration of the showings covering the individual warehousemen, as well as the average showings and other facts of record, an increase of 25 percent in applicants' rate level, rather than the greater increases proposed, is justified.[7] For the reasons advanced by the secretary of the warehousemen's association, applicants will be authorized to establish a season storage rate of $4.00 per ton on alfalfa seed and to cancel the combination rate for weighing and repiling.

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

Applicants stressed the fact that the storage season for beans commences August 1. They urged that the relief sought be granted as early as possible in order that all concerned might know

[7] The present rates are set forth in California Warehouse Tariff Bureau Warehouse Tariff No. 6-C, Cal.P.U.C. No. 134 (L. A. Bailey series), of Jack L. Dawson, Agent.

the rates for the next season in due time and in order that there would be sufficient time to compile and file the tariff changes effective on that date. They requested short notice authority in connection with the tariff filing and authority to depart from the provisions of Rule 9 of General Order No. 61 requiring each individual rate change in the tariff be indicated by a separate symbol. These requests are reasonable in the circumstances and will be granted.

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 on the 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, 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, to establish increased rates and charges, except "re-elevating," "shipping through" and "restricted piling" rates and charges and season storage rates on alfalfa seed, not higher than 25 percent above the corresponding rates and charges in California Warehouse Tariff Bureau Tariff No. 6-C, Cal.P.U.C. No. 134 (L. A. Bailey series), Jack L. Dawson, Agent; to establish a season storage rate of $4.00 per ton on alfalfa seed; to cancel the combination rate for weighing and repiling provided for in the aforesaid tariff; and to depart from the provisions of Rule 9 of General Order No. 61 in establishing the adjustments herein authorized.

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 San Francisco, California, this 3rd day of July, 1951.

R. E. [illegible]

Justus F. Craemer

Harold P. Huls

Kenneth Potter

Peter E. Mitchell

Commissioners