

**ORIGINAL**Decision No. 48137

## BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 ALLEN WAREHOUSE COMPANY OF CALIFORNIA, )  
 a corporation, CALIFORNIA COTTON CO- )  
 OPERATIVE ASSOCIATION, LTD., a non- ) Application No. 33842  
 profit cooperative association, CALWA )  
 COMPRESS COMPANY, a corporation, and )  
 HASLETT COMPRESS COMPANY, a corporation, )  
 for authority to increase rates. )

Appearances

Reginald L. Vaughan, for applicants.

Jack L. Dawson, for California Warehousemen's  
 Association, interested party.

O P I N I O N

Applicants are engaged in the business of compressing and warehousing cotton at various locations in the San Joaquin Valley. By this application, as amended, they seek authority to increase their rates for their warehousing services and to make certain changes in their tariff rules on less than statutory notice.<sup>1</sup>

Public hearing of the application was held before Examiner Abernathy at Fresno on November 18, 1952, and the matter was taken under submission for decision with the filing of a specified exhibit on November 28, 1952.

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<sup>1</sup> Allen Warehouse Company of California and Calwa Compress Company are located at Fresno. Haslett Compress Company is located at Stockton. California Cotton Co-operative Association, Ltd., which operates under the name Calcot Compress & Warehouse, maintains warehouses at Bakersfield and Pinedale. For convenience the companies will be referred to hereinafter as Allen, Calwa, Haslett and Calcot, respectively.

Applicants amended their original proposals to eliminate references to their compressing operations which they perform as non-public utility services. The amendments also include the addition of a proposed increase in charges for drawing extra samples of cotton. Assertedly, this proposed increase was omitted from the application through error.

By their proposals herein applicants seek to effect an increase in their revenues and also to establish common rates, rules and regulations to govern their several warehousing services. They allege that increases in their rates have been made necessary by increases in operating costs. Applicants' present rates and those which they seek to establish are summarized in the table below:

Table 1

Present and Proposed Rates  
(In cents per bale except as indicated)

	Present Rates				Proposed Rates
	Allen	Calcot	Calwa	Haslett	
Storage, per month or fraction					
Uncompressed cotton ...	35	30	30	30	43
Compressed cotton .....	33	28	25	28	43
Handling .....	85	75	75	75	100
Sampling					
In storage .....	40	35	30	35	40
On delivery .....	35	25	25	25	30
Drawing double sample	20	20	15	20	25
Weighing					
In storage .....	40	35	35	35	40
On delivery .....	30	25	25	25	30
Reweighing and resampling at same time					
In storage .....	70	60	55	60	75
On delivery .....	-	50	-	50	55
Delivering uncompressed cotton.....	85	100	75	100	150
Tagging .....	-	6	6	6	7
Removing tags .....	-	6	-	6	7
Extra or special services * #	#	\$1.85	\$1.75	\$1.85	\$2.75

\* Per hour, per man

# Cost plus 20 percent

Evidence in support of the application was submitted by a consulting engineer, by applicants' tariff agent, and by the superintendent of Calcot's operations at Pinedale.

The evidence which was submitted by the engineer consists mainly of a summary of analysis which he had made of the companies'

records and operations to develop (a) the results of their operations for the storage year ended in 1952 and (b) the results which would have been attained had the proposed rates been in effect. The following is a recapitulation of the data so developed:

Table 2

Results of Operations for Storage Year ended in 1952

	<u>Allen</u>	<u>Calcot</u>	<u>Calwa</u>	<u>Haslett</u>	<u>Total</u>
<u>Under Present Tariff Rates</u>					
Revenues	\$154,783	\$ 596,572	\$19,378	\$111,081	\$ 881,814
Expenses	172,208	751,960	22,952	142,706	1,089,826
Net Loss	\$ 17,425	\$ 155,388	\$ 3,574	\$ 31,625	\$ 208,012
Operating ratio	111.3%	126.0%	118.4%	128.5%	123.6%
<u>Under Tariff Rates Herein Sought</u>					
Revenues	\$175,826	782,929	\$24,701	\$142,493	\$1,125,949
Expenses *	173,293	762,564	23,477	142,706	1,102,040
Net revenues	\$ 2,533	\$ 20,365	1,224	\$( 213)	\$ 23,909
Rate base	\$348,601	\$1,426,391	-	\$ 81,872	-
Rate of return	.7%	1.4%	-	-	-
Operating ratio	98.6%	97.4%	95.0%	100.1%	97.9%

( ) Indicates loss

\* Includes allowance for income taxes

The engineer submitted figures to show also the effect upon applicants' operations of certain wage increases which are in the process of negotiation or which are awaiting the approval of the Wage Stabilization Board. The record shows that Allen and Calwa have agreed to increases of 15 cents an hour, retroactive to September 1, 1952, that Haslett has committed itself to an increase of 6 cents an hour, and that the Calcot company has offered an increase of 15 cents an hour in the face of union demands for an increase of 30 cents

an hour. Assertedly, when these wage increases become fully effective, applicants will have to seek further adjustments in their warehousing rates to compensate for the higher wage costs. The engineer's estimates of the companies' operating results under the higher wages are as follows:

Table 3

Results of Operations for Storage Year ended in 1952  
Had Increased Wage Rates Been Paid

<u>Under Present Tariff Rates</u>	<u>Allen</u>	<u>Calcot</u>	<u>Calwa</u>	<u>Haslett</u>	<u>Total</u>
Revenues	\$154,783	\$596,572	\$19,378	\$111,081	\$ 881,814 ✓
Expenses	181,020	789,579*	24,031	144,790	1,139,420
Net Loss	\$ 26,237	\$193,007	\$ 4,653	\$ 37,709	\$ 257,600
Operating ratio	116.9%	132.3%	124.0%	130.3%	129.2%
 <u>Under Tariff Rates Herein Sought</u>					
Revenues	\$175,826	\$782,929	\$24,701	\$142,493	\$1,125,949
Expenses	181,020	789,579*	24,031	144,790	1,139,420
Net Revenues	\$( 5,194)	\$( 6,650)	\$ 469	\$( 2,297)	\$( 13,672)
Operating ratio	102.9%	100.8%	98.1%	101.6%	101.2%

( ) Indicates loss

\* Assumes wage increase of 15 cents an hour

Estimates of future operating results were not specifically provided by any of the witnesses. The engineer and the tariff agent both were of the opinion, however, that the volume of warehousing business for the coming year would be much the same as that for the 1952 storage season. On the one hand they indicated that a decline in volume is not expected. On the other hand they said that the companies' warehousing operations during the 1952 season were conducted at approximately full normal capacity.

Testifying in support of the specific rate and rule proposals, the tariff agent said that the proposed rates are the same, generally speaking, as those which were recently authorized for a cotton warehouseman near Bakersfield;<sup>2</sup> that the sought storage rate of 43 cents a bale corresponds to the rate which generally applies nationally and is the same rate as is recognized by the Commodity Credit Corporation in its warehousing contracts; that cancellation of present reduced rates for the storage of compressed cotton is sought because very little of such cotton is stored and because the lower rate is not justified from a cost standpoint; and that the proposed rates for handling, sampling, weighing and for miscellaneous services allegedly reflect the judgment estimates of the warehousemen of the costs involved. Regarding the proposed rules and regulations, the tariff agent asserted that they were developed from a study of applicants' tariffs and reflect prevailing practices in connection with the warehousing of cotton. The testimony of the manager of Calcot's operations at Pinedale was directed toward substantiating the sought increases for delivering uncompressed cotton. He asserted that this service cannot be integrated with normal handling procedures and that the additional work involved justifies the sought charge.<sup>3</sup>

The record shows that notices of the hearing in this proceeding and of the specific rate proposals involved were sent by applicants to their various patrons. In addition notices of the hearing were sent by the Commission's secretary to persons and organizations believed to be

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<sup>2</sup> Decision No. 47849, dated October 21, 1952, in Application No. 33642, San Joaquin Compress & Warehouse Company.

<sup>3</sup> The term "uncompressed cotton" as used herein means bales of cotton which have been subjected only to a primary compression process in conjunction with ginning of the cotton. Such bales in trade parlance are designated also as "flat" bales.

interested. No one entered an appearance to oppose granting of the application.

Applicants have undertaken to show that under present rates their revenues are not sufficient to permit them to operate profitably and that increases in their rates should be authorized. The record indicates, however, that the losses which applicants have reported have been overstated and that in certain respects rate increases as great as those sought are not necessary to produce reasonable results.

The cost data of the consulting engineer were developed on a basis of allocations. In submitting these data, the engineer explained that he had found that applicants had commingled expenses of their public utility warehousing operations with expenses of their compressing and other operations which are not conducted as public utility services. He said that in order to arrive at the expenses of the warehousing services only he had allocated costs between the warehousing and other operations according to the use of the properties, the time spent in performing the various services or other appropriate bases. It appears that in making his allocations the engineer in some instances did not distinguish sufficiently between the nature of the public utility and nonpublic utility services with the result that he assigned expenses to warehousing that should have been charged against the compress operations and conversely he assigned compression expenses to the warehousing operations.

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The engineer charged warehousing with expenses incurred in moving cotton between compress and rail car or truck and he charged the compressing operations with the expenses of moving cotton between warehouse and compress. This method of allocation was followed on the theory that it was necessary in order to arrive at the costs of a full cycle of warehousing service. However, the public utility service should not be charged with expenses after the cotton has passed beyond or before it has come under the control of the public utility function. On the other hand, it appears that the movement of cotton between warehouse and compress is largely a public utility function and that the applicable costs should be allocated accordingly.

Correction of the allocations, it appears, would result in a reduction of the expenses charged against applicants' warehousing functions.

Excessive charges against the warehouse operations were assigned by the engineer for depreciation expense also. With regard to this expense item the engineer reported that his analysis of applicants' records had disclosed that the companies have computed their charges for depreciation in conformity with schedules allowed by the Bureau of Internal Revenue for tax purposes and that as a consequence the charges have been higher than they would be if based upon the service lives which may be anticipated reasonably for the properties involved. The engineer said that for the purposes of his study he had recalculated the depreciation expense to the basis of the expected service lives. However, in his calculations he did not take into consideration the charges which the companies have made to their depreciation accounts heretofore. Consequently, the basis used by the engineer results in an overstatement of the applicable charges. It results also in an overvaluation of the warehouse properties for rate base purposes.

For a further reason the data of the engineer do not support authorization of all of the rate increases which are herein sought. As shown hereinbefore, the engineer reported a loss of \$31,625 from the warehousing services of Haslett for the 1952 storage year which ended with June 30. In contrast Haslett reported a loss of but \$8,199 in its annual report to the Commission for the same period. The engineer had not reconciled the difference between his figures and those of the company and was unable to advance any specific reasons for the difference. The company's report to the Commission was submitted by its president and by its treasurer as being a complete and correct statement of its affairs for the year.

The figures therein may not be disregarded in the absence of a showing of substantial error. Since such a showing was not made, they will be used as basis for our conclusions herein.

With adjustment of the engineer's data to exclude excessive depreciation charges, and charges applicable to the compressing services, the indicated earnings, both under present rates and those sought, would be somewhat more favorable than shown hereinbefore. Detailed discussion of the effect of the adjustments upon the expense figures of Allen, Calwa and Calcot is not necessary, however, since the adjustments would not be so great as to require modification of the rate proposals. It appears that the return which these companies would realize from the sought rates would be less than 6 percent and would not be excessive. With respect to Haslett the return would be substantially greater. The following is an estimate of Haslett's operating results under the sought rates:

Table 4

Estimated Results of Operations under Proposed Rates, Haslett  
(Estimate based on revenues and expenses for  
storage year ended in 1952)

Revenues	\$ 131,500
Expenses *	107,000
Net operating revenues	\$ 24,500
Income taxes	8,035
Net income	\$ 16,465
Rate base**	\$ 75,000
Rate of return	21.9%
Operating ratio	87.4%

\* Includes allowance for increased wage expense

\*\* Includes allowance for materials and supplies



It is evident from the figures in the foregoing table that earnings as great as those which the sought rates would yield would be excessive. Applicants' rate proposal herein, insofar as it applies to Haslett, should be modified to produce more reasonable results.

With minor exceptions the greatest increases which applicants seek are in their rates for storage and handling which together account for approximately 80 percent of their revenues. In order to bring about more equitable earnings for Haslett than would result from the sought rates, it appears that the necessary modifications should be made in the storage and handling rates. Adjustment of Haslett's proposal to provide for a storage rate of 38 cents a bale and a handling rate of 95 cents a bale in lieu of the sought rates of 43 cents and \$1.00 a bale, respectively, would result in the same percentage of increase in the storage and handling rates and would yield earnings as shown in Table 5 below:

Table 5

Estimated Results of Operations under Proposed Rates (Modified) Haslett  
(Estimate based on revenues and expenses for storage year  
ended in 1952)

Revenues	\$122,000
Expenses *	<u>107,000</u>
Net operating revenues	\$ 15,000
Income taxes	<u>4,920</u>
Net Income	\$ 10,080
Rate base **	\$ 75,000
Rate of return	13.4%
Operating ratio	91.7%

\* Includes allowance for increased wage expenses

\*\* Includes allowance for materials and supplies

Some allowance being made for the showing of the engineer, by which he asserts in effect that Haslett has understated its warehousing expenses in its report to the Commission for the storage year ended in 1952, it appears that the earnings which the company would realize from the sought rates, modified as indicated, would not be excessive.

We turn now to consider briefly the individual rate and rule proposals. Aside from applicants' showing of anticipated earnings under the sought rates, but little evidence was submitted to establish the reasonableness of the individual rate proposals. For this reason the sought rates and charges have been considered primarily in the light of their over-all revenue aspects and the conclusions herein regarding the reasonableness of the earnings from the rates hereinafter authorized should not be construed as a finding of reasonableness with respect to the individual adjustments.

Mention must be made, nevertheless, of the proposed increases in the rates which apply to cotton which has not been compressed by applicant companies. These increases appear unreasonable. The service involved is designated as "delivering" and consists of the removal of the cotton from warehouse and the loading thereof in rail cars at compress siding or the delivery to trucks at compress platform. For this service Calwa charges 75 cents a bale, Allen charges 85 cents a bale, and Calcot and Haslett each charge \$1.00 a bale. These charges apply in addition to the normal handling charges. Applicants propose to increase the charges to \$1.50 a bale. It may be that "delivering" requires deviation from normal handling procedures and thereby results in additional expense, but in view of the amount of service which is performed in "delivering" in relation to that which is performed as "handling" for about the

same rate, it appears that the present charges should be amply compensatory.<sup>5</sup> Denial of the sought increases in the rates for "delivering" would not greatly affect applicants' earnings, for the service accounts for only a small part of the companies' total revenues.

Generally speaking, the revisions in rules which are sought would not result in substantial changes in applicants' operating practices. It appears that the major rule change which is proposed relates to the establishment of a time limit for filing claims. In this respect applicants propose to adopt a rule observed by numerous other California warehousemen, providing that claims for loss or damage must be presented within thirty days after the merchandise is delivered from warehouse. By their proposals Haslett and Calcot also would adopt rules of Allen and of Calwa by which they would reserve to themselves the right to store cotton in open yards without notice to the storers when the storage facilities ordered are not available or when conditions warrant. It appears that the rule changes are desirable from the standpoint of bringing about uniformity of practices among competing warehousemen and that they should be authorized. In publishing such changes applicants should apprise their patrons fully of the effect thereof, particularly those changes affecting applicants' liability or responsibility.

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"Handling" includes the services of unloading bales of cotton from rail car or receiving from truck, handling in, tagging, weighing, sampling upon arrival, and loading out compressed cotton to car or delivery to truck. In the case of each of the companies except Haslett it includes also the issuance of a negotiable warehouse receipt.

Despite the various infirmities of applicants' showing which have been noted herein, the record as a whole is convincing that the companies are confronted with an urgent need for additional revenues to sustain their operations and that increases in their rates and charges should be granted now in order that needed revenue relief can be realized during the present cotton storage season. It appears that the earnings which would be attained under applicants' rate proposals, modified as indicated above, would be reasonable. Upon careful consideration of all of the facts and circumstances of record, the Commission is of the opinion and finds as a fact that the increases in applicants' rates and charges and the sought rule changes have been shown to be justified to the extent that they are authorized in the order which follows. To this extent the application will be granted.

The record in this proceeding will be reopened. It appears that the deficiencies and conflicts in the evidence which have been noted hereinbefore should be resolved and that the Commission should be fully informed with respect thereto. To this end the matter of the separation of costs between applicants' public utility and other services, and related matters, will be studied by the Commission's staff. At a date to be set hereafter further hearing or hearings in this proceeding will be held for the receipt of the results of the staff's studies and for the receipt of such additional evidence as applicants may wish to submit to supplement their present showing.

O R D E R

Public hearing having been held of the application in the above-entitled proceeding, the evidence received therein having been considered carefully, and good cause appearing,

IT IS HEREBY ORDERED that Allen Warehouse Company of California, California Cotton Co-operative Association, Ltd., Calwa Compress Company and Haslett Compress Company be and they are hereby authorized to amend their respective tariffs, on not less than five (5) days' notice to the Commission and to the public to establish, except as hereinafter specified, the proposed rates, charges, rules and regulations which are set forth in Exhibit "A", as amended, which exhibit is attached to the application in this proceeding and which is made a part hereof by this reference.

EXCEPTIONS:

- a. In the exercise of the authority herein granted, Haslett Compress Company shall not establish a rate in excess of 38 cents a bale for the service of storage of cotton nor a rate in excess of 95 cents a bale for the service designated as "Handling."
- b. The authority hereinabove granted does not apply in connection with the increased rates which are proposed for the service designated in said companies' tariffs as "delivering".

IT IS HEREBY FURTHER ORDERED that the authority herein granted is subject to the express condition that applicants will never urge before this Commission in any proceeding under Section 734 of the Public Utilities Code, or in any other proceeding, that the opinion and order herein constitute a finding of fact of the reasonableness of any particular rate, charge, rule or regulation and the filing of rates, charges, rules and regulations pursuant to the authority herein granted will be construed as consent to this condition.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall expire unless exercised within sixty (60) days after the effective date of this order.

IT IS HEREBY FURTHER ORDERED that except as hereinabove provided, the application, as amended, in this proceeding be and it is hereby denied.

IT IS HEREBY FURTHER ORDERED that the record in this proceeding be and it hereby is reopened and that further hearing or hearings be scheduled at a date or dates to be set hereafter for the purpose of receiving evidence to be submitted by the Commission's staff and by applicants, if they so desire, relating to the matters referred to in the last paragraph of the above opinion.

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

Dated at San Francisco, California, this 6<sup>th</sup> day of January, 1953.

A. J. Zimmerman  
President  
Justus F. Coe  
Harold Hulse  
Harriet P. Potter  
John L. Mitchell  
Commissioners