

Decision No. 63728

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of ADAMS, SCHWAB & ADAMS WAREHOUSE CO., Ben Aker, Arbuckle Warehouse, Baker Bros. Rice Drier & Storage Co., Bayles Rice Drier Company, Howard Seeman Warehouse & Drier, Bultema Bros., Butte City Warehouse Co., Buttonwillow Warehouse Co., California Dehydrating Co., California Milling Corporation, California Seed & Fertilizer Co., Camarillo Warehouse Co., Cargill of California, Inc., C.B.C. Warehouse Company, Chico Bean Growers, Citrona Warehouse, Coast Counties Warehouses, College City Warehouse, Collins & Story, Colusa-Glenn Drier Company, Continental Grain Company, County Line Warehouse, N. F. Davis Drier & Elevator, Delta Warehouse Company, Den Dulk Warehouse & Feed Company, Inc., De Pue Warehouse Co., Dompe Warehouse Co., Doty Brick Warehouse, Eckhart Seed Company, Eibe & Suffman Warehouse Co., Inc., El Rey Milling Co., Ernst Bros., Escalon Warehouse Co., Farmers Alliance Business Assn., Farmers Grain Elevator, Farmers Public Warehouse and Hi & Dry Warehouse, Inc., Farmers' Rice Drier & Storage Co., a division of Farmers' Rice Growers Cooperative, Farmers Warehouse, Farmers Warehouse Co., Firebaugh Elevator and Storage Co., C. E. Fowler Warehouse & Elevator, Glenn Growers, Graino Elevator Company, M. D. Green Rice Milling Co., Gridley Warehouses, John F. Grisez, Guadalupe Warehouse, Inc., Harrison Warehouse, Haslett Warehouse Company, Hayrico, Inc., L. A. Hearne Warehouse Company, Victor Hoag Warehouse, Edward Warehouse, Island Elevators, Jalonen Warehouse Co., Walter Jansen & Son, Joost Grain Elevators, Josephine Warehouse, Lacey Milling Company, Lawrence Warehouse Company, Liberty Warehouse, Lompoc Warehouse Corporation, Ralph E. Lowe, Ed J. Lyng

Application No. 42521

Company, Inc., The Lyons Warehouse,
 L. D. Maffei Seed Co., M & H Ware-
 house & Rice Drier, Mast Iron Ware-
 house, Maxwell Delevan Warehouse
 Corporation, Maxwell Grain Storage
 Whses., Mitchell Silliman Company,
 Jim B. Nielsen, Northern California
 Company, Northern Star Mills, Oak-
 land Bean Cleaning & Storage Co.,
 Oceanside Warehouse Company, E. M.
 Olson Warehouse, Pacific Interna-
 tional Rice Mills, Inc., Peoples
 Warehouse Company, Princeton Rice
 Dryer, Rabb Bros. Elevator & Mill,
 Rhodes Warehouse & Supply Co.,
 Riceton Warehouse, Rio Bonito Ware-
 house Corporation, Riverside Eleva-
 tors, The Riz Warehouse Co., Rubke
 Warehouse, Sacramento River, Ware-
 house Company, Sacramento Valley
 Milling Co., Salyer Grain & Milling
 Company, C. F. Salz Co., San Miguel
 Flouring Mill Company, Santa Maria
 Valley Warehouse Co., T. B. Sills
 Storage, Soledad Warehouse Co.,
 Stanislaus Farm Supply, Inc.,
 Stockton Elevators, Stockton Wire
 Products, Sun Valley Supply Company,
 Sutter Basin Growers Cooperative,
 Terhel Farms Drier & Storage Co.,
 Tornell Farm Service, Inc., Tremont
 Warehouse Co., Tres Pinos Grain &
 Supply, Tudor Warehouse, Turlock
 Dehydrating and Packing Co., Tyndall
 Warehouse Company, Inc., Union
 Storage Co., Valley Bean Warehouse,
 Inc., Valley Feed & Warehouse Co.,
 Valley Grain Drier, Valley Warehouse
 Company, Westley Warehouse, West
 Coast Checkerboard Elevator Company,
 West Los Angeles Milling Company,
 West Stanislaus Growers' Association,
 Westside Warehouse Company, Inc.,
 Willows Rice Drier & Storage Company,
 Woodland Warehouses and I. G. Zumwalt
 Company for an increase in rates.

Additional Appearances

John R. Laurie and L. L. Thormod,¹
 for the Commission staff.

¹ Name inadvertently omitted from list of appearances in Decision
 No. 61970.

SECOND INTERIM OPINION

By Decision No. 61970, dated May 9, 1961, in this proceeding, 118 public utility warehousemen, engaged in the operation of so-called "agricultural" warehouses, were authorized, on an interim basis, to increase their rates and charges.² The interim order, predicated on evidence introduced on behalf of applicants, did not authorize in full the increases sought in the application. The proceeding was held open to permit the Commission staff to make a study by which to develop unit costs for the storage and handling of the principal commodities in issue, namely grain, beans and rice, for each of the three geographical areas embraced by the application. This study was to include field observations made during the 1961 harvest season as the commodities moved into storage. It was understood that the results of such study, together with such alternate rate proposals as might appear to be justified in the light thereof, would be presented by the staff at an adjourned hearing.

Adjourned hearing was held on March 12 and 14 and April 4, 5 and 6, 1962, at which evidence relative to the staff's accounting, cost and rate studies on grain was received.³ Some rebuttal evidence of applicants was also adduced. On the last-named date that phase of the proceeding which relates to grain, including safflower, was taken under submission. At the same time, adjourned hearing dates were scheduled for the receipt of evidence relative to the staff studies on the storage of beans and rice. This opinion will relate to the grain and safflower phase, and to the proposed cancellation of "dead" rates.

² With a few exceptions applicants operate in three areas, namely: the Sacramento, San Joaquin and Salinas Valleys.

³ The staff accounting study embraced all commodities involved in Application No. 42521.

As stated in the interim decision, rates of the agricultural warehousemen are stated, for the most part in cents per ton per season or portion thereof, and include the services of handling in and out, as well as storage. While some degree of rate uniformity exists, as to particular commodities, among warehousemen whose rates are published in tariffs of the California Warehouse Tariff Bureau, there is considerable rate variation between those rates, on the one hand, and rates of warehousemen who issue their own tariffs. Applicants seek increased rate levels which shall be uniform, for particular commodities, through the three areas under consideration.⁴

The above-mentioned interim decision permitted increases of 20 per cent in all rates, not to exceed the levels sought in the application. Thus, on bulk grain, other than oats, the "Tariff Bureau" rates of \$2.88, \$3.13 and \$3.25 applicable in the Sacramento, San Joaquin and Salinas (or "Coast Counties Territory") Valleys, respectively, were increased to \$3.46, \$3.50 and \$3.50, respectively, with the sought rate of \$3.50 operating as a maximum in the latter two areas. On the other hand, considerably lower rates are in effect under the interim order at such warehouses as that of Button-willow Warehouse Company in the San Joaquin Valley. Its former rate of \$2 was increased to \$2.40, as compared with the sought rate of \$3.50.⁵

At the hearing a financial examiner from the Commission's Finance and Accounts Division testified concerning the aforementioned accounting study. An exhibit containing the results of that study included financial statements and analyses of operating results,

⁴ As an exception to this proposal, applicants seek no change in those rates which were and are higher than the sought levels.

⁵ By the interim order this operator's rate of \$1.75 for second season storage of grain was increased to \$2.10. Under the full amount of increase herein sought no reduction under the first season rate of \$3.50 is proposed for second season storage.

for the latest fiscal period, of 17 of the applicants, six of which are in the "grain" group. The closing dates of said periods, for that group, ranged from May 31, 1960 to April 30, 1961. The witness pointed out that the accounting records available for analysis were such as had been maintained without benefit of a uniform system of accounts.⁶ A variety of accounting systems were encountered, some of which were overly simplified. The income statements included in the exhibit showed the book figures of the utilities as recorded and as adjusted by the staff. Adjustments had been effected to segregate public utility and nonutility transactions, and to provide restatement of the elements of expense into terms of the subsequently established uniform system of accounts. These adjustments, the witness stated, were determined after review and discussion of staff findings with the owners, managers or supervisory employees of the warehouse companies involved. In the table below are summarized the operating results of the six grain warehouses, as recorded and as adjusted and segregated by the accounting staff. The figures shown are before provision for income taxes.

TABLE

Warehouseman	12-Months Ended	Net Warehouse Income			
		Company Book Recorded	P.U.C. Staff Adjusted		
			Total	Public Utility	Non- Utility
Adams	4-30-61	\$ 55,751	\$ 49,357	\$ (4,309)	\$ 53,666
De Pue	2-23-61	205	(334)	(6,099)	5,765
Oakland	3-31-61	5,390	5,490	(24,962)	30,452
Riverside	5-31-60	64	30,090	53,968	(23,878)
Sacramento	12-31-60	80,334	203,236	156,280	47,006
Salyer	6-30-60	325,805	346,756	366,257	(19,501)

The accountant's study included various other analyses, including relationships of utility revenues to nonutility revenues,

⁶ Effective January 1, 1961, the Commission prescribed a Uniform System of Accounts for Agricultural Warehouses having in excess of \$40,000 annual utility operating revenues.

expenses to revenues, and revenues and expenses per storage revenue ton.

The staff engineer witness introduced a report showing the development of estimated costs for the storage of grain. The basic information for the cost study, the record shows, was obtained by direct observation of warehouse operations. In excess of 70 warehouse plants operated by more than 53 of the applicants herein were visited and inspected. The direct observations included time and motion studies of various agricultural warehouse operations. The functioning of the houses was observed during both harvest season and off-peak season.

By a series of schedules the engineer developed estimated costs per ton for grain storage in each of the three areas. These costs were not those of particular utilities, nor were they weighted average costs of some or all of the warehousemen, in each area, whose operations were observed. They were estimated costs, based on analyses of the warehouse operations involved herein, and designed to reflect those of an operator who performs grain warehousing services in a reasonably efficient manner under existing operating conditions.

The circumstances under which the various applicants operate, the record shows, are markedly diverse, the degree of efficiency depending upon the age of the particular plant, the extent to which it may have been modernized, the size of the operation, and other factors. By utilizing what he considered to be typical unit costs, typical performance factors and a plant of typical size, the engineer developed estimated operating results for a typical grain warehouse operation in each of the three areas. In the formulation of the foregoing factors, the record indicates he considered the pertinent data which he had accumulated in his field studies, and applied thereto informed engineering judgment.

The full costs per ton for seasonal grain storage, exclusive of any profit, as estimated by the engineer were \$2.488 in the Sacramento Valley, \$2.117 in the San Joaquin Valley and \$3.770 in the Coastal (Salinas Valley) Area. Estimated costs per ton were also developed by this witness for "passing through."⁷ These figures were 30.4 cents in the Sacramento Valley, 60.2 cents in the San Joaquin Valley, and \$1.483 in the Coastal Area. It will be seen that the estimated costs in the Coastal Area are substantially higher than those in the San Joaquin Valley, the estimates for the Sacramento Valley falling between those estimated for the other areas.

In addition to developing the estimated full costs per ton referred to above, the engineer calculated the costs for each of the areas expanded to include a return on the net investment in facilities required to provide the service. The differences in operating conditions which he found in the three areas are reflected, in part, in his selection of capacities of 30,000, 60,000 and 10,000 tons for the hypothetical plants in the Sacramento, San Joaquin and Coastal Areas, respectively, with corresponding estimates of tonnage handled as 90, 90 and 60 per cent of capacity.⁸

Strong exception was taken by applicants to the values assigned by the engineer to some of the cost and performance factors utilized in his studies. Officials of two of the Sacramento Valley applicants testified that the basic wage rate used by the engineer in the development of Sacramento Valley costs was far too low, that the vacation allowance was insufficient, that a performance factor

7 "Passing through" relates to grain which is received at the warehouse for early shipment, not for storage.

8 The record discloses that the storage of grain is relatively a minor factor in the operations of the Coastal Area warehousemen. Their principal concern is with the storage of beans.

of 90 tons per hour was too great and that the number of man hours per year assigned to housekeeping was all out of proportion when contrasted with the number of hours estimated for receiving and shipping. Other values assigned by the engineer were also criticized.

An accountant, testifying on behalf of applicants, introduced a series of exhibits in rebuttal to the staff engineering evidence. Using the same format as was employed by the staff engineer, but with some selected quantitative and qualitative differences, he developed a total average cost per ton of \$3.192 for storage of grain in Sacramento Valley warehouses.⁹ This is to be compared with the aforementioned figure of \$2.488 shown in the engineer's study.

A rate expert from the Commission's Rate Branch staff testified regarding a study he had made of the economic and rate aspects of the storage of grain in the areas involved in this proceeding. The results of his study were incorporated in a report which dealt with such topics as facilities, fumigation and sanitation, warehouse services, and trends for the future. In the report were also set forth the conclusions and recommendations of the witness concerning the sought rate adjustments. In the course of his study, the witness had visited many grain warehouses, in all three areas, and had interviewed the warehouse operators, as well as several grain brokers and growers.

In his report the rate witness pointed out that within each of the involved areas applicants compete with one another and with nonregulated storage facilities, such as farm storage,

⁹ Counsel for applicants stated that in so doing applicants were not to be considered as adopting as proper the procedures utilized by the staff engineer.

cooperatives and proprietary warehouses; that competition among applicants militates against different scales of rates in a given area, and that the nonregulated storage facilities tend to set a maximum rate level for public utility warehouses. He testified further that means of transportation had so improved that warehousemen in the area are in competition with those located in the other areas in issue. This situation he found to be indicative of the desirability of uniform rates as among the three areas.

With respect to the sought rate of \$3.50 per ton per season, for the storage of bulk grain, the rate expert pointed out that said rate would produce revenues in excess of the full costs developed by the staff engineer for "typical" warehousemen in the Sacramento and San Joaquin Area, but which would be less than the full costs which the engineer had worked out for Coastal Area operations. The rate expert was of the opinion that the proposed rate was reasonable.

A rate of \$4 per ton is proposed by applicants for the bulk storage of oats, and for the storage of all types of grain in bags. In his field study, the rate witness had found no facts which would justify a higher rate on oats than on other grain and recommended that a parity of rates be maintained.¹⁰ The witness had found no storage of grain in sacks, except for seed purposes, but was of the opinion that a rate higher than that for the storage of grain in bulk was justified, in view of the fact that more labor is involved in the handling of grain in sacks than in the handling of grain in bulk.

The rate witness also recommended the establishment of certain charges for grain received by a warehouseman in advance of

¹⁰ Applicants' tariff agent testified that oats constitute a very small percentage of California grains and that applicants would have no objection to the staff recommendation.

the date on which the storage season begins. He further recommended clarification of provisions, in the proposed tariff, relating to hours of warehouse service, the commencement of the storage season for milo and stenciling of packages. The tariff agent testified that applicants were in accord with these proposals.

Counsel for the California Farm Bureau Federation assisted in the development of the record through examination of the staff witnesses. There was nothing in the record, he argued, that necessitated the uniformity of grain storage rates throughout the three areas. Each utility, he said, should be judged on its own performance, as to its rate requirements.

Counsel for applicants moved that the engineering staff study be stricken from the record. The grounds he cited were those hereinbefore mentioned and others. In his argument he asserted that time and motion studies of grain warehouse operations are of no value because the tonnage received per hour varies widely during a given season and at different houses, depending upon prevailing circumstances. The motion was denied by the examiner.

Counsel for the Commission staff moved that the application be dismissed in its entirety. The motion will be denied.

Conclusions

Increases to the interim level have heretofore been found justified on the record made in the initial series of hearings in this proceeding. The question now before us is whether additional grain storage rate increases, either to the full amount sought by applicants or something less, are justified by the staff evidence adduced at the 1962 series of hearings. With one minor exception the bulk storage grain rates of all applicants in the Coastal Area

are on the sought level of \$3.50 per ton. In the Sacramento Valley the rates of most operators are \$3.46 per ton, requiring a further increase of only 4 cents to bring these rates to the sought level. The rates of several of the operators in this area are now at the sought level. In the San Joaquin Valley the bulk grain storage rates of the majority of the operators are presently at the sought level. The rates which are below that level range from 240 to 330 cents per ton. Additionally, several of the applicants have second season storage rates which are less than their first season rates. In view of the foregoing, the issue resolves itself primarily into whether those San Joaquin Valley applicants whose bulk grain storage rates are less than 350 cents per ton should be authorized to increase said rates to the sought level.

The record shows clearly that wide divergences prevail as to the circumstances under which applicants operate. The operators differ widely, for example, in such matters as the tonnage of grain received per hour and the average hourly rate of pay for warehouse employees. Thus, it is obviously difficult to set up the operations of any warehouseman as being typical of the industry. Nevertheless, there is need for some standard by which to judge the reasonableness of proposed rates. We find that the staff's method of meeting this need by developing the aforesaid estimated costs of "typical" grain warehouse operations in the three areas is a reasonable procedure.

It appears from cross-examination and from rebuttal evidence adduced by applicants, that the estimated costs per ton worked out by the staff engineer may be somewhat understated. For example, two important elements in the development of these costs

are the average base wage rates and the tons per hour of grain received. The record tends to indicate that the values assigned to the former were too low and to the latter may be higher than justified. The total average cost per ton of \$3.19 which applicants' accountant worked out for the Sacramento Valley, using the same procedures as employed by the engineer but with different values for some of the initial factors, is 29 per cent greater than the figure of \$2.49 developed by the staff witness. This is not to say that applicants' figures are to be adopted. As hereinbefore indicated, the estimates of costs per ton of grain handled can serve as a guide in testing the reasonableness of the sought rates.

The record discloses that uniformity of grain storage rates is desirable, not only because of competition existing among the various applicants but also as a convenience to grain buyers. Authorization of the sought increases in season rates for bulk grain storage would not result in complete uniformity among applicants because of a few instances where rates higher than \$3.50 are in effect. Nevertheless, substantial uniformity would be effected by such action.

The record indicates also, that the total quantity of grain available for public utility storage may be expected to decrease as time passes, since the federal government is engaging in disposing of the surpluses on hand under the Commodity Credit Corporation contracts, and because of the federal program to reduce the acreage of grain plantings. Additionally, in certain areas land is being taken from the production of field crops by population and industrial expansion. This trend may reasonably be expected to have an unfavorable effect on the operating results of some agricultural warehousemen.

With respect to the proposed season rate of \$4 per ton for bulk storage of oats, the record is lacking in any evidence that would justify a higher rate for oats than for other grains. A rate of \$4 is also sought for the storage of all kinds of grain in sacks. The record shows that very little grain is stored in sacks in the areas here in issue. However, it appears that the costs of handling grain in sacks are greater than for bulk grain and that consequently, a higher rate is justified for the former than for the latter.

Upon careful consideration of all the evidence and argument, we find as follows:

1. Except as hereinafter provided, the increases in rates and charges, and other tariff adjustments sought in the application, as amended, insofar as they relate to grain and safflower, and to the cancellation of "dead" rates, and insofar as said increases have not heretofore been authorized by Decision No. 61970, are justified.

2. Increases in rates and charges applicable to oats in bulk to levels greater than those found justified in Finding No. 1, above, for the same services for bulk grain other than oats, are not justified.

3. Charges for grain received in advance of season, as recommended by the Commission's rate witness, are reasonable and should be established concurrently with the increased rates and charges hereinabove found justified.

4. The provisions of Rules Nos. 100, 130 and 225 of the proposed tariff should be clarified as recommended by the staff rate witness.

Since the commencement of the grain storage season is imminent, the effective date of the authorizing order will be five

days after the date hereof and applicants will be permitted to establish the increases on not less than two days' notice to the Commission and to the public.

SECOND INTERIM ORDER

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

IT IS ORDERED that:

1. Except as hereinafter otherwise provided, applicants are authorized to establish the increased rates and charges and other tariff adjustments as proposed in Application No. 42521, as amended, insofar as they relate to the storage, and services incidental thereto, of grain and safflower, and to the cancellation of "dead" rates, and insofar as said increases have not heretofore been authorized by Decision No. 61970. Tariff Publications authorized to be made as a result of the order herein may be made effective not earlier than June 1, 1962 on not less than two days' notice to the Commission and to the public.

2. Increased rates and charges applicable to oats in bulk, authorized as a result of this order, shall not exceed those applicable to other grain in bulk for the same services.

3. Concurrently with the establishment of the increased rates and charges hereinabove authorized applicants shall publish charges for grain and safflower received in advance of season, in the amounts and subject to the conditions set forth on page 39 of Exhibit No. 15, in this proceeding.

4. Concurrently with the establishment of the increased rates and charges hereinabove authorized, applicants shall so clarify the provisions of proposed tariff Rules Nos. 100, 130 and 225 as to eliminate the ambiguities therein as indicated on pages 28 and 29 of the aforesaid Exhibit No. 15.

5. Applicants are authorized to deviate from the provisions of General Order No. 61 to the extent necessary to cancel by supplement present rates, charges and rules on grain and safflower from present tariffs concurrently with the publication in a single tariff of the rates, charges and rules authorized by the order herein.

6. The motion of staff counsel for dismissal is hereby denied.

7. The authority herein granted shall expire unless exercised within ninety days after the effective date of this order.

This order shall become effective five days after the date hereof.

Dated at San Francisco, California, this 22nd day of May, 1962.

President

E. J. Fox

George J. Hoover

Frederick B. Hebbhoff

Commissioners