

ORIGINALDecision No. 67661

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of) WESTERN COMPRESS COMPANY, a) corporation, for an increase in) rates.)	Application No. 46713
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Vaughan, Paul & Lyons, by John G. Lyons, for
 applicant.
C. V. Shawler, Arthur F. Burns and Leonard F.
Avery, for the Commission's staff.

O P I N I O N

Western Compress Company, a corporation, operates as a public utility warehouseman in the storage and handling of cotton at Fresno and Tulare.^{1/} By this application, as amended, it seeks authority to increase certain of its rates and charges.

Public hearing of the application was held before Examiner Bishop at Fresno on July 7, 1964.

Applicant's rates, the record discloses, were last adjusted pursuant to Decision No. 48108, dated December 22, 1952, in Application No. 33755. Assertedly, the utility has experienced substantial increases in operating costs since the effective date of that adjustment in 1953. The revenues derived from the utility's current rates, it is said, are insufficient to offset the augmented operating costs.

The proposed rate adjustments are set forth in Exhibit B of the application, as amended. The percentages of increase sought

^{1/} Applicant also operates warehouses for the storage and handling of cotton at Phoenix and Eloy, Arizona.

in the charges for the various warehouse services rendered by applicant range from 4 percent to 43 percent. Most of the proposed increases, including that for storage, are in the neighborhood of 10 percent. In a few instances no increase is sought, and in one item, which names a rate for the weighing of cotton at time of shipment or compression, a slight reduction is contemplated. Applicant proposes to replace the present indefinite basis of "cost plus 20 percent" for all services not specifically provided for in its tariff with a specific rate of \$3.50 per man per hour. According to applicant's general manager, who testified on behalf of applicant, the proposed basis will produce approximately the same revenue as results under the present tariff provision at current wage rates. The utility proposes also to add to its tariff a charge of 15 cents per sample for segregating cotton samples in storage by tag number. According to the witness, the company has been rendering this service at the indicated charge, which it now proposes to cover by specific tariff publication.

The sought increased charges, the general manager stated, are the same, with one exception, as those currently in effect at competing public utility cotton warehouses in the Fresno-Bakersfield area. Those charges as to which no increase is sought, he explained, are, in the opinion of applicant, compensatory at present levels or cannot be increased because of the competitive situation.

In Exhibit C of the application are set forth results of public utility operations at the two warehouse locations in question for the 12-month period ended July 31, 1963.^{2/} The exhibit also

^{2/} The general manager stated that the fiscal period hereinabove indicated was the latest for which a report had been filed with the Commission.

contained applicant's estimate of the operating results which would have obtained had the rate increases herein sought been in effect during the same fiscal period.

The above-described operating results under present and proposed rates are summarized in Table I, below:

Table I

Operating Results Under Present and Proposed Rates Based on Volume of Traffic and Operating Expenses for the 12-month Period Ended July 31, 1963.

	<u>Fresno</u>	<u>Tulare</u>	<u>Total</u>
<u>(A) Under Present Rates</u>			
Revenue	\$342,470.50	\$198,395.54	\$540,866.04
Expenses	<u>341,705.83</u>	<u>222,292.64</u>	<u>563,998.47</u>
Net Before Income Taxes	764.67	(23,897.10)	(23,132.43)
Income Taxes	<u>397.63</u>	-	-
Net After Income Taxes	\$ 367.04	\$(23,897.10)	\$(23,132.43)
Operating Ratio (Percent)#	99.9	112.0	104.3
Net Property & Equipment	\$513,163.36	\$209,627.81	\$722,791.17
Working Capital			<u>511,717.61</u>
Rate Base			\$1,234,508.78
Rate of Return			-
<u>(B) Under Proposed Rates</u>			
Revenue	\$376,112.32	\$217,681.07	\$593,793.39
Expenses	341,705.83	222,292.64	<u>563,998.47</u>
Net Before Income Taxes			29,794.92
Income Taxes			<u>15,493.36</u>
Net After Income Taxes			14,301.56
Operating Ratio (Percent)#			97.6
Rate Base			\$1,234,508.78
Rate of Return (Percent)#			1.2
#After income taxes			
() Indicates red figure			

As hereinbefore stated, applicant also operates cotton warehouses at Phoenix and Eloy, Arizona. Additionally, it engages at all of its plants in certain nonutility operations, chief among which is the process of compressing the bales of cotton to high densities. The operating results set forth in Table I purport to relate solely to the public utility warehouse operations of applicant at Fresno and Tulare. In developing the actual results for the test period, as well as the estimated results under the proposed rates, it was necessary to make appropriate separations of revenues and expenses.

The general manager testified regarding the methods employed in making the separations. Separations of revenues presented no problem, and the utility's expense records were sufficiently detailed to enable it to segregate the direct expenses for public utility operations from those attributable to nonutility services on a direct basis. Where necessary, overhead expenses were allocated between utility and nonutility on various bases which appeared to be reasonable.

It will be observed from Table I that applicant has included in its rate base estimated working capital in the amount of \$511,717.61. This figure, the general manager stated, was developed in the following manner: A working capital estimate for the company's operations as a whole was constructed by adding to the

amount of its earned surplus a figure reflecting the amount of a cash advance to applicant from its parent company, which is still outstanding. The figure included in Table I reflects that percentage of the total amount of working capital thus developed which the assets assignable to the California public utility operations bear to the company's total assets.

According to the record, the foregoing estimate of working capital was developed by applicant's controller. On cross-examination the general manager stated that, in his opinion, working capital of \$300,000 would be a reasonable amount for the operations here in issue. If this latter amount were substituted for the figure utilized in applicant's estimated rate base, the estimated rate of return under the proposed rates would be 1.4 percent, instead of 1.2 percent as shown in Table I.

A financial examiner from the Commission's Finance and Accounts Division testified concerning an examination which he had made of applicant's accounting records, reports and related data. The purpose of the examination was to verify the financial statements filed in the application and to determine results of operation under present tariff rates and, on a pro forma basis, under the proposed rates, for the same fiscal period as that utilized by applicant. The results of the staff study are set forth in an exhibit.

The revenue, expense and investment figures developed by the staff for the test period are largely in agreement with the corresponding amounts shown in Table I above. With respect to projected revenues under the proposed rates, the staff estimate is about \$4,500 less than that of applicant as set forth in Table I.

Under these rates, the staff witness developed an estimate of net revenue after income taxes of \$20,050 and a rate of return of 2.774 percent. In the calculation of income taxes he gave effect to an investment tax credit of \$8,587.70^{3/}, while applicants' estimate did not take this credit into account. Moreover, the staff's rate of return estimate was predicated on a rate base which did not include an amount for working capital.^{4/} The staff estimate of operating results under the proposed rates reflects an operating ratio of 96.6 percent after income taxes. If an allowance of \$300,000 for working cash (the amount which applicant's general manager considered reasonable) were included in the rate base estimate, the resulting rate of return under the proposed rates would be 1.96 percent.

No one opposed the granting of the application. Members of the Rate Branch and Economic Engineering Branch of the Commission's Transportation Division staff assisted in the development of the record through examination of applicant's witness.

The record indicates that the volume of public utility business at the Fresno and Tulare warehouses is expected to be about the same for the coming cotton storage season (which will commence about September 1) as it was in the test period utilized in this proceeding. The record discloses, moreover, that applicant's current

^{3/} The Internal Revenue Act of 1962 prescribes a business investment tax credit based generally on the purchase of equipment. In a letter dated December 18, 1962, this Commission instructed all utilities and carriers to account for this tax credit in accordance with the method commonly known as "flow through."

^{4/} The rate base estimate utilized by the staff is, in other respects, the same as that utilized by applicant.

wage agreement expires September 15, 1964 and that the management does not anticipate any reduction in operating expenses during the coming season. According to the general manager, applicant has taken every practicable means to increase its operating efficiency.

Upon consideration we find:

1. Revenues derived by applicant from its public utility warehouse operations at Fresno and Tulare are, and will be, insufficient to adequately compensate applicant for said operations.
2. The proposed rates will reflect a return to the utility which is not unreasonable or excessive.
3. The proposed increased rates have been justified.

We conclude that the application, as amended, should be granted.

Because of the imminence of the 1964-65 cotton storage season, applicant requests that the increased rates and other proposed tariff adjustments be made effective on five days' notice to the Commission and to the public. The request appears reasonable. The order which follows will so provide.

O R D E R

IT IS ORDERED that:

1. Western Compress Company is authorized to establish the increased rates proposed in Application No. 46713, as amended. Tariff publications authorized to be made as a result of the order herein, and the other proposed tariff adjustments, may be made effective not earlier than five days after the effective date hereof on not less than five days' notice to the Commission and to

the public.

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

The effective date of this order shall be ten days after the date hereof.

Dated at San Francisco, California, this 4th day of August, 1964.

Frederick B. Hallock
President
Carol A. Hayes
George A. Grover

Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner William M. Bennett, being necessarily absent, did not participate in the disposition of this proceeding.