

Decision No. 63787**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of BEALL)
 REFRIGERATING CO., MERCHANTS REFRIGERATING)
 COMPANY OF CALIFORNIA, MODERN ICE & COLD)
 STORAGE CO., NATIONAL ICE AND COLD STORAGE)
 COMPANY OF CALIFORNIA, SANTA CLARA COLD)
 STORAGE & FREEZER CO., UNION ICE & STORAGE)
 COMPANY, and WESTERN REFRIGERATING & COLD)
 STORAGE COMPANY, for an Increase in Rates.)

Application No. 43877

In the Matter of the Application of BERCUT-)
 RICHARDS COLD STORAGE CO., CONE ICE AND COLD)
 STORAGE COMPANY (Oliver W. Chatfield and)
 Frances E. Chatfield, dba) CRYSTAL ICE AND)
 COLD STORAGE WAREHOUSE, LINCOLN COLD STORAGE)
 COMPANY, INC., NATIONAL ICE AND COLD STORAGE)
 COMPANY OF CALIFORNIA, RELIANCE COLD STORAGE)
 WAREHOUSE CO., INC., TRACY ICE & DEVELOPMENT)
 COMPANY, and UNION ICE & STORAGE COMPANY, for)
 an Increase in Rates.)

Application No. 43878

In the Matter of the Application of DREISBACH)
 COLD STORAGE CO., HASLETT WAREHOUSE COMPANY,)
 MERCHANTS ICE AND COLD STORAGE CO., MORRELL)
 HOLLY COLD STORAGE CO. (Morrell Cold Storage)
 Co., dba), NATIONAL ICE AND COLD STORAGE COM-)
 PANY OF CALIFORNIA, and UNION ICE & STORAGE)
 COMPANY, for an increase in Rates.)

Application No. 43879

Vaughan, Paul & Lyons, by John G. Lyons;
Jack L. Dawson; for applicants.
Lloyd Raap, for Merchants Ice & Cold Storage Co.,
 applicant in Application No. 43879.
C. F. Campbell, for California Packing Corporation;
L. A. Campbell, for Stokely-Van Camp, Inc.;
H. J. Gerdes, for Sunsweet Growers, Inc.;
Morton L. King, for Sterling Industries, Inc.;
Fred Plowright, for Gerber Products Co.; Ralph
Hubbard, for California Farm Bureau Federation;
R. Ken Wilhelm, for Santa Clara County Farm
 Bureau; interested parties.
E. C. Crawford, R. J. Carberry, and John R. Laurie,
 for the Commission's staff.

O P I N I O N

Applicants are public utility warehousemen engaged in the storage of commodities requiring refrigeration. Applicants in Application No. 43877 operate in the San Jose-Santa Cruz-Watsonville area; those in Application No. 43878 are located in the Red Bluff-

Sacramento-Stockton area; the warehousemen in Application No. 43879 are located in the San Francisco-Oakland area.^{1/} By these applications said warehousemen seek authority to increase certain of their rates and charges.

Public hearing of the applications was held on a consolidated record before Examiner Carter R. Bishop at San Francisco on January 4 and 5, 1962 and at Sacramento on January 17, 1962.

Increases in rates and charges are sought as follows:

1. In Applications Nos. 43878 and 43879: increase the withdrawal charge per lot from 35 cents to 50 cents on all withdrawals of less than 1500 pounds; establish minimum charges of \$2.50 per month for handling and for storage respectively; increase the special labor rates from \$4.00 to \$4.40 per man-hour for straight time and from \$6.00 to \$6.60 per man-hour for overtime; increase the handling charges on various commodities to the full amount sought in Application No. 41062;^{2/} establish an additional handling charge of 50 cents per ton on volume lots.

2. In Application No. 43877: the present rates are single factor rates, which include both storage and handling services; other single factor rates include storage, handling and freezing services. It is proposed to break up these rates into their functional parts, adopting the same pattern of rate publication as now obtains in the

^{1/} It will be seen that National Ice and Cold Storage Company of California, and Union Ice and Storage Company operate in all three of the above-mentioned areas. By Decision No. 63638 of May 1, 1962, in Application No. 44301, Morrell Cold Storage Co., doing business as Morrell Holly Cold Storage Co., was authorized to cease operations as a public utility warehouseman.

^{2/} By Decision No. 58875, dated August 11, 1959, increases in handling rates sought in Application No. 41062 were granted in part.

areas embraced by Applications Nos. 43878 and 43879, and in other parts of the state. In addition it is proposed generally to make the same upward revisions as are sought in Applications Nos. 43878 and 43879.^{3/} It is to be noted that in none of the applications here in issue is it proposed to increase the rates for precooling.

Applicants also seek authority to cancel certain handling and storage rates which are no longer used and have become obsolete. Additionally, in the San Jose-Watsonville area it is proposed to cancel the present minimum billing charge of \$5.00. This will be superseded by the above-mentioned minimum handling and storage charges.

The additional revenues estimated to be generated under the sought rate increases, the applications state, are 2.8 percent, 3.7 percent and 6.5 percent in the areas embraced by Applications Nos. 43877, 43878 and 43879, respectively.

The most recent general cold storage warehouse rate increases at the locations involved in Applications Nos. 43878 and 43879 took effect on September 1, 1959, pursuant to Decision No. 58875 in Application No. 41062. That decision permitted increases in handling rates up to 50 percent, not to exceed 10 cents per 100 pounds or per package. No increases in storage rates were sought.

^{3/} An exception relates to the proposed additional charge of 50 cents per ton for the handling of volume lots. This increase is not sought in Application No. 43877.

According to Application No. 43877, the cold storage rates applicable in the San Jose area have been the subject of formal rate proceedings but twice since 1926. The first was in 1958 when the first month's storage rate on cannery stock was increased; the second was in 1960, when increases in man-hour rates were authorized.^{4/}

Assertedly, increases in operating costs have nullified the effect of the 1959 rate adjustments in the San Francisco-Oakland and Sacramento-Stockton areas. Likewise, it is alleged that rate increases in the San Jose-Watsonville area have by no means kept pace with increased costs of operation.

At the hearing applicants' tariff publishing agent explained the rate increases sought by the three groups of applicants. He also testified concerning exhibits which he had prepared depicting results of operations of all applicants in each of the three areas involved. These figures in most instances relate to the 12-month period ended December 31, 1960. The results are summarized in Table I below:

^{4/} These two adjustments were made pursuant to decisions issued in Applications Nos. 40117 and 42238, respectively.

TABLE I

Results of Operations for 12-Month
Period Ended December 31, 1960 (Ex-
cept as Noted) After Income Taxes

<u>Warehouseman</u>	<u>Revenues</u>	<u>Expenses (Including In- come Taxes)</u>	<u>Net</u>	<u>Operating Ratio (Percent)</u>
<u>(A) San Jose-Watsonville Area (Application No. 43877)</u>				
Beall	\$129,083	\$123,327	\$5,756	95.5
Merchants Refrig.	888,855	848,526	40,329	95.5
Modern	514,326	480,947	33,379	93.5
National	318,069	318,283	(214)	100.0
Santa Clara	265,808	236,527	29,281	89.0
Union	489,815	451,064	38,751	92.1
Western	<u>200,284</u>	<u>196,686</u>	<u>3,598</u>	98.2
All Companies	\$2,806,240	\$2,655,360	\$150,880	94.6
<u>(B) Sacramento-Stockton Area (Application No. 43878)</u>				
Bercut-Richards ^{1/}	\$163,517	\$204,646	\$(41,129)	125.0
Cone	10,006	#8,863	1,143	#88.6
Crystal ^{2/}	248,956	231,010	17,946	92.8
Lincoln ^{2/}	124,193	110,250	13,943	88.7
National ^{3/}	528,011	510,997	17,014	96.7
Reliance ^{3/}	32,653	33,436	(783)	102.4
Tracy ^{4/}	98,567	88,220	10,347	89.5
Union	<u>428,736</u>	<u>405,261</u>	<u>23,475</u>	94.5
All Companies	\$1,634,639	\$1,592,683	\$41,956	97.4
<u>(C) San Francisco-Oakland Area (Application No. 43879)</u>				
Driesbach	\$211,953	\$202,445	\$9,508	95.5
Haslett	43,059	44,919	(1,860)	104.3
Merchants Ice	533,576	566,106	(32,530)	106.0
Morrell	42,288	41,589	699	98.3
National	808,877	755,475	53,402	93.4
Union	<u>75,314</u>	<u>95,583</u>	<u>(20,269)</u>	126.9
All Companies	\$1,715,067	\$1,706,117	\$8,950	99.5

Does not include provision for operator's salary.

- (1) For 12-month period ended March 31, 1961
- (2) For 12-month period ended June 30, 1960
- (3) For 12-month period ended July 31, 1960
- (4) For 12-month period ended January 31, 1961

() - Indicates red figure.

The figures in Table I purport to exclude all non-utility revenues and expenses and to include only those utility warehouse revenues and expenses which are related to operations at the plants embraced by the respective applications. The basic data, the tariff agent testified, were furnished him by applicants. Table I reflects those data as modified in certain respects by the witness. These adjustments included the elimination of interest, the conversion of depreciation expense to a straight-line basis in those instances where other than straight-line basis was used by the utilities, the elimination of rents and substitution of landlord expenses therefor where facilities are leased from an affiliate, and the calculation of income taxes uniformly on a corporate basis.

The tariff agent had also developed estimated operating results under the proposed rates. The estimates were projected by making certain adjustments in the revenue and expense figures shown in Table I above. The revenues were expanded to give effect to the proposed rate increases. The expenses were adjusted to give appropriate effect to the increased cost of labor and of property taxes.

In Table II below are summarized applicants' estimates of operating results, after taxes, under the proposed rate increase, as thus developed.

TABLE II

Estimated Results of Operation, After
Income Taxes, for the Projected Rate
Periods, Under the Proposed Rates

<u>Warehouseman</u>	<u>Revenues</u>	<u>Expenses (Including In- come Taxes)</u>	<u>Net</u>	<u>Operating Ratio (Percent)</u>
(A) San Jose-Watsonville Area (Application No. 43877)				
Beall	\$131,019	\$124,705	\$6,314	95.2
Merchants Refrig.	926,543	872,825	53,718	94.2
Modern	519,366	487,476	31,890	93.9
National	324,470	326,150	(1,680)	100.5
Santa Clara	275,723	243,885	31,838	88.5
Union	507,048	466,993	40,055	92.1
Western	<u>201,722</u>	<u>198,245</u>	<u>3,477</u>	93.8
All Companies	\$2,885,891	\$2,720,279	\$165,612	94.3
(B) Sacramento-Stockton Area (Application No. 43878)				
Bercut-Richards	\$171,120	\$204,646	\$(33,526)	119.6
Cone	10,401	#8,997	1,404	#86.5
Crystal	278,572	249,332	29,240	89.5
Lincoln	125,063	111,593	13,470	89.2
National	540,841	523,367	17,474	96.8
Reliance	33,939	33,606	333	99.0
Tracy	98,671	89,484	9,187	90.7
Union	<u>436,720</u>	<u>415,482</u>	<u>21,238</u>	95.1
All Companies	\$1,695,327	\$1,636,507	\$58,820	96.5
(C) San Francisco-Oakland Area (Application No. 43879)				
Driesbach	\$222,167	\$207,319	\$14,848	93.3
Haslett	44,686	44,919	(233)	101.0
Merchants Ice	570,320	584,304	(13,984)	102.5
Morrell	45,058	42,527	2,531	94.4
National	864,888	793,689	71,199	91.8
Union	<u>79,068</u>	<u>98,816</u>	<u>(19,748)</u>	124.9
All Companies	\$1,826,187	\$1,771,574	\$54,613	97.0

Does not include provision for operator's salary.

() - Indicates red figure.

The tariff agent had also developed, from data supplied by applicants, rate base and rate of return estimates under present and proposed rates. The rate base estimates are intended to include only those assets which are used in the conduct of public utility cold storage warehouse operations. The estimates reflect adjustments in

the book figures, such as substitution of landlord expenses for rent where the properties in question are leased from an affiliate, and the recalculation of depreciation on a straight-line basis in those instances where assets have been depreciated on some other basis. It is to be noted also that the witness had included in the estimates an allowance for working capital, calculated as two months' operating expense less depreciation.

With respect to the estimated rates of return under proposed rates, as set forth in Table III below, the record indicates that in some instances, such as that of Cone Ice and Cold Storage Company, the investment in facilities is small. Also, in the instance mentioned, the inordinately high rate of return shown is due in part to the lack of provision for operator's salary in estimated operating expenses.

TABLE III

Estimated Rate Bases and Rates
of Return After Income Taxes,
Under Proposed Rates

<u>Warehouseman</u>	<u>Rate Base</u>	<u>Rate of Return (Percent)</u>
<u>(A) San Jose-Watsonville Area</u>		
Beall	\$348,823	1.8
Merchants Refrig.	843,462	6.4
Modern	489,744	6.5
National	516,851	---
Santa Clara	634,710	5.0
Union	838,705	4.8
Western	852,325	0.4
All Companies	\$4,524,569	3.7
<u>(B) Sacramento-Stockton Area</u>		
Bercut-Richards	\$485,106	---
Cone	3,082	#45.6
Crystal	598,698	4.9
Lincoln	376,950	3.6
National	875,524	2.0
Reliance	95,702	0.3
Tracy	260,669	3.5
Union	593,780	3.6
All Companies	\$3,289,510	1.8

TABLE III (Cont'd.)
Estimated Rate Bases and Rates
of Return After Income Taxes,
Under Proposed Rates

<u>Warehouseman</u>	<u>Rate Base</u>	<u>Rate of Return</u> <u>(Percent)</u>
(C) San Francisco-Oakland Area		
Dreisbach	\$409,286	3.6
Haslett	7,487	---
Merchants Ice	1,737,890	---
Morrell ϕ	7,088	635.7
National	1,064,593	6.7
Union	<u>181,947</u>	---
All Companies	\$3,408,290	1.6

Does not include provision for operator's salary.

ϕ Authorized to discontinue operations.

In another series of exhibits the tariff agent had developed, from data supplied by the warehouseman, figures designed to show the average over-all labor cost per man per hour for each of the applicants, and for each of the application areas as entities. The weighted average direct hourly costs for the utilities in each of the three areas were stated to be \$3.68 (Application No. 43877), \$3.52 (Application No. 43878) and \$3.93 (Application No. 43879). To these figures the witness had added 10 percent for supervision^{5/} and additional amounts, depending upon the area, for overhead expense. The hourly full costs thus developed, corresponding to the above-stated direct costs, were \$4.99, \$4.43 and \$5.25, respectively.

In these proceedings the cold storage warehousemen introduced for the first time unit cost studies based upon (1) analyses of plant operations, (2) wage agreement provisions and (3) data from the book records of the utilities. Applicants had engaged the services of a public accounting firm for this purpose. A partner of that firm, a certified public accountant, introduced and testified concerning a series of exhibits in which were summarized the results

^{5/} It appears from the testimony of numerous operating witnesses that the factor of 10 percent for supervision is conservative.

of said studies. His testimony reveals that a preliminary survey was made of selected warehousemen as early as 1959. Later a pilot study was initiated for the purpose of testing certain uniform accounting methods for the cold storage warehouse industry, and for development of cost relationship factors derived from said accounting methods. This study was followed by the preparation of a cold storage warehouse cost accounting manual, of which the accountant witness was a co-author. This manual was distributed nationally.

In 1960, the accounting consultants initiated their cost analysis program for the California cold storage warehouse industry. This study involved 17 warehousemen, operating 39 warehouses and assertedly representing 89 percent of the revenues received by the industry in this state. Cost data were obtained directly from the individual companies and were verified before being consolidated. Members of the accounting firm inspected the records of the utilities and visited their plants during the course of their studies. In 1961 more complete studies were made and observations of the participating utilities were continued.

One of the objectives of the independent cost analysis, the accountant pointed out, was to separate applicants' cold storage handling costs from the costs of all other operations. This involved the making of allocations of portions of those expenses which could not be directly assigned to particular functions. These allocations were made in accordance with the procedures set forth in the above-mentioned cost accounting manual. The accountant's analysis also included the development of handling lot-size factors, which were used in the calculation of handling costs, and storage lot-size factors, for use in finding storage costs to the extent that such were involved in these proceedings.

The accountant developed aggregate operating ratios for each regional group of applicants for the year 1960 and for the rate

year under the proposed rates at current expense levels. According to the record he made the same adjustments as were made by the tariff agent in connection with the results shown in Tables I and II, above. In Table IV below the operating ratios as developed by the two witnesses are compared.

TABLE IV

Operating Ratios, After Income Taxes, for Year 1960, and for Rate Year Under Proposed Rates at Current Expense Levels, by Regional Groups of Applicants. (Percents).

<u>Department</u>	<u>Year 1960</u>		<u>Rate Year Under Proposed Rates</u>	
	<u>Tariff Agent</u>	<u>Accountant</u>	<u>Tariff Agent</u>	<u>Accountant</u>
<u>(A) San Jose-Watsonville Area</u>				
Handling		119.7		112.3
All Others		87.8		88.5
Total Cold Storage				
Utility Operations	94.6	93.6	94.3	93.1
<u>(B) Sacramento-Stockton Area</u>				
Handling		98.6		94.8
All Others		92.8		93.2
Total Cold Storage				
Utility Operations	97.4	94.2	96.5	93.7
<u>(C) San Francisco-Oakland Area</u>				
Handling		140.0		120.0
All Others		85.6		87.2
Total Storage				
Utility Operations	99.5	98.5	97.0	96.1

Differences between the estimates of the two witnesses are to be expected for several reasons, one being that the accountant did not include all warehouses involved in the sought increases in each application, although the plants responsible for the bulk of the revenue are included. Another reason is that expense allocations in the tariff agent's studies were made on bases initiated by the operators^{6/} or in consultation with them. These bases in some

^{6/} Officials of most of the applicants testified regarding the bases on which the allocations were made.

instances undoubtedly were at variance with those set forth in the aforesaid cost accounting manual. It is to be noted in connection with Table IV that the operating ratios developed by the accountant for the handling "department" include not only handling in and out of storage but other handling as well.

Other exhibits prepared by the accountant purported to show, for applicants as groups in each of the three areas, costs of handling in and out (exclusive of partial lot deliveries), handling and storage costs on small lots, extra handling costs for partial lot deliveries, and labor costs per man-hour. These cost studies were either presented or suggested as evidence in justification of certain of the sought rate increases, such as the minimum lot handling and storage charges, the small lot delivery charge, and the hourly accessorial labor charge.

The testimony of the operating witnesses, in addition to that previously mentioned, tended to show that competition among applicants within each of the three application areas necessitates uniformity of rates among the operators within each of said areas; and that applicants have taken all practicable steps to reduce handling costs through plant modernization and mechanization. These witnesses also testified concerning the results of studies they had made of the clerical costs involved in making lot deliveries, regardless of size. These costs varied extremely, depending upon the type of warehouse operation and upon other factors. The cost per lot ranged from a low of 33.8 cents to a high of \$4.29. The figures were adduced in support of the sought charge of 50 cents per lot for deliveries of less than 1500 pounds. Additionally, the operating witnesses for applicants in the San Jose-Watsonville area expressed the view that the proposal to provide separate rates for storage and for handling would not have any material effect on the volume of business of their respective companies.

No evidence was offered by parties other than applicants. Members of the Commission's staff assisted in the development of the record through extensive examination of applicants' witnesses. Although notices of the hearing, the record indicates, were sent by applicants to all their storers, and by the Commission's secretary to other parties believed to be interested, no one appeared in opposition to the granting of the sought increases.

Conclusions

The composite operating ratios, after income taxes, for the year 1960, for the three groups of applicants, Table I shows, were 94.6 percent (San Jose-Watsonville), 97.4 percent (Sacramento-Stockton), and 99.5 percent (San Francisco-Oakland). No estimated operating results under a continuation of present rates at current cost levels were shown. However, the results estimated by the tariff agent under the proposed rate adjustments, as shown in Table II, reflect only a slight improvement, over 1960, with operating ratios of 94.3, 96.5 and 97.0 percent for the three groups of applicants, respectively.^{7/} While the group operating ratios developed by the accountant (Table IV) are more favorable than those of the tariff agent they do not include all of the plants involved in these proceedings.

It is apparent that some upward adjustment in rates in all three areas is necessary in order for applicants to continue to serve the public on a sound financial basis. It appears also that the

^{7/} It is to be here noted that in developing his estimates of current operating expenses, the tariff agent did not give effect to increases in clerical expense which have taken place since the last rate adjustment.

estimated operating results under the proposed rates will not be unreasonable.^{8/}

As hereinbefore stated, in the estimated results of operation, including those shown for the year 1960, income taxes were calculated on a corporate basis. Depreciation expense was computed on a straight-line basis.

With respect to the individual rate increases sought in the three applications it is to be observed that only to a very minor extent are storage rates involved. Practically all increase in revenue under the proposals would accrue in connection with services involving labor expense. It appears, also, that applicants have endeavored to assign the greater increases, percentagewise, to those charges which they believe have not heretofore recovered the costs

^{8/} Table III discloses that even under the proposed rates the cold storage utility operations of Bercut-Richards would reflect substantial losses. According to the tariff agent that applicant's operations are not those of a typical cold storage warehouseman. At the request of staff representatives an exhibit was introduced which showed operating results for 1960 and for the rate year under proposed rates for the Sacramento-Stockton group of applicants, but excluding Bercut-Richards. The resulting operating ratios, after taxes, were 94.4 and 93.9 percent, respectively.

of performing the services to which said charges relate. The studies introduced by the cost accountant have, to some extent, served as a guide for applicants in the formulation of their proposals.

Although it is not to be concluded that the methods by which the accountant developed his cost estimates are hereby endorsed, it appears that those estimates, together with the labor cost analysis of the tariff agent, lend support to the propriety of the proposed rate increases.

Upon careful consideration of all the evidence we hereby find that:

1. The increased rates and other tariff adjustments proposed by applicants in Applications Nos. 43877 and 43878 have been justified.

2. Except for account of Morrell Cold Storage Co., which has been authorized to cease operations as a cold storage public utility warehouseman, the increased rates and other tariff changes proposed by applicants in Application No. 43879 have been justified.

3. Application No. 43879 should be dismissed, insofar as it relates to Morrell Cold Storage Co.

Applications Nos. 43877 and 43878 will be granted. Application No. 43879 will be granted to the extent indicated above.

O R D E R

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

IT IS ORDERED that:

1. Applicants in Applications Nos. 43877, 43878 and 43879, except Morrell Cold Storage Co., are hereby authorized to establish the increased rates and charges, and other tariff changes, as proposed in those applications. The tariff publications authorized to

be made may be effective not earlier than ten days after the effective date hereof, on not less than ten days' notice to the Commission and to the public.

2. 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 or charge, and that the filing of rates and charges pursuant to the authority herein granted will be construed as a consent to this condition.

3. As to Morrell Cold Storage Co., Application No. 43879 is dismissed.

4. The authority herein granted shall expire unless exercised within one hundred twenty days after the effective date of this order.

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

Dated at San Francisco, California, this 4th day of JUNE, 1962.



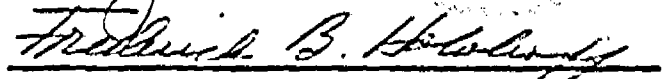
President



Commissioner



Commissioner



Commissioner

Commissioners