

ORIGINAL

Decision No. 63932

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of B-LO
 COLD STORAGE CO., BURBANK REFRIGERATING
 COMPANY, CALIFORNIA ICE AND COLD STORAGE
 COMPANY, IMPERIAL ICE COMPANY, LOS ANGELES
 COLD STORAGE CO. (dba Los Angeles Ice &
 Cold Storage Co., Pasadena Ice Company,
 Pomona Valley Ice Co.), NATIONAL ICE &
 COLD STORAGE CO. OF CALIFORNIA, NATIONAL
 STORAGE COMPANY, ONTARIO ICE & COLD
 STORAGE COMPANY (W.W. Stevens, dba),
 PACIFIC COLD STORAGE INC., SANTA MONICA
 COLD STORAGE COMPANY (B.F. Killam and
 M. C. Hernage, dba), SERVICE COLD
 STORAGE CO. (David Treguboff, dba),
 TERMINAL REFRIGERATING COMPANY,
 TRIANGLE COLD STORAGE CO., UNION ICE
 AND STORAGE COMPANY, and U. S. GROWERS
 COLD STORAGE, INC., for an Increase in
 Rates.

Application No. 43986

Vaughan, Paul and Lyons, by John G. Lyons;
Jack L. Dawson, for applicants.
Bart A. Chio, for Southern California
 Fishing Association, interested party.
C. V. Shawler, E. C. Crawford, Robert J.
Carberry and John R. Laurie, for the
 Commission's staff.

O P I N I O N

By this application B-Lo Cold Storage Co. and 15 other cold storage public utility warehousemen operating in the Los Angeles area and San Diego seek authority to increase rates and charges.

Public hearing of the application was held before Examiner Carter R. Bishop at Los Angeles on February 7 and 8, 1962. Evidence was presented by applicants through their tariff agent, a certified public accountant and several of their officers and employees. Members of the Commission's staff assisted in the development of the record.

The rates here in issue were last adjusted pursuant to Decision No. 58169, dated March 24, 1959, in Application No. 40384. That decision, which was an interim order, authorized the major portion of the proposals advanced in said application. The proceeding in question was held open, pending the completion of extensive studies which the warehousemen had undertaken relating to the development of operating costs in all phases of their business. By Decision No. 60078, dated May 9, 1960 in the same proceeding, the Commission made final its ^{interim} order. ~~In Decision No. 58169~~ Such action was prompted by the fact that unforeseen problems had delayed completion of the aforesaid studies.

In filing the instant application on December 5, 1961, the utilities stated that their studies had been completed. Based on the results of their cost analysis applicants seek authority herein to make the following changes in their rates and charges: (1) increase their lot withdrawal charge from 35 cents to 50 cents per delivery on all deliveries of less than 1,000 pounds; (2) establish minimum charges of \$2.50 per month for handling and \$2.50 per month for storage; (3) increase special labor rates in the tariff from \$4.00 to \$4.40 per man per hour straight time, and from \$6.00 to \$6.60 per man per hour overtime; (4) increase the bill of lading charge from 30 cents to 40 cents; (5) increase to 5,000 pounds the present tonnage minimum of 2,000 pounds in connection with small lot rates, and to establish as minimum a rate of 37½ cents per 100 pounds for the handling of small lots; (6) cancel all handling rates which are subject to the provision which reads "Applies only to lots received in quantities of 46,000 pounds or more which are delivered in quantities of 20,000 pounds or more";^{1/} (7) increase certain allegedly

^{1/} In Decision No. 58169, above, the Commission found that increases in handling rates proposed in Application No. 40384 were not justified for lots received in quantities of 46,000 pounds or more which are delivered in quantities of 20,000 pounds or more. Thus, the old, unincreased rates were retained in the tariff for those quantities. The action now proposed would make lots of the quantities in question subject to higher handling rates which now apply, or are herein sought to apply, to lesser quantities.

depressed rates to more compensatory levels.

According to the application, the warehousemen involved herein have experienced increases in operating costs since the effective date of the rate increases authorized by Decision No. 58169. Assertedly, under current cost levels the revenues generated by the presently effective cold storage warehouse rates are insufficient to permit applicants to conduct their operations at a reasonable profit.

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

TABLE I
Results of Operation for 12-Month
Period Ended December 31, 1960
(Except as Noted) After Income Taxes

<u>Warehouseman</u>	<u>Revenues</u>	<u>Expenses (Including Income Taxes)</u>	<u>Net</u>	<u>Operating Ratio (Percent)</u>
B-Lo (1)	\$ 40,345	\$ 40,190	\$ 155	99.6
Burbank (2)	314,295	262,278	52,017	83.4
California	601,910	539,544	62,366	89.6
Federal	642,890	601,132	41,758	93.5
Imperial	3,462	6,004	(2,542)	173.4
Los Angeles (3)	1,070,605	940,470	130,135	87.8
National Ice	246,906	215,230	31,676	87.2
National Storage (4)	502,156	475,690	26,466	94.7
Ontario	59,383	# 45,417	13,966	76.5
Pacific	469,254	402,436	66,818	85.8
Santa Monica (5)	14,809	12,442	2,361	84.0
Service	39,929	43,279	(3,350)	108.4
Terminal	1,172,811	1,102,053	70,758	94.0
Triangle	98,418	109,393	(10,975)	111.2
Union	701,161	730,932	(29,771)	104.2
U. S. Growers	519,368	477,012	42,356	91.8
All Companies	<u>\$5,497,702</u>	<u>\$6,003,502</u>	<u>\$494,200</u>	92.4

(1) New Operation; figures are for 6-month period ended June 30, 1961

(2) For 12-month period ended October 31, 1960.

(3) For 12-month period ended June 30, 1961.

(4) For 12-month period ended April 30, 1961.

(5) For 12-month period ended December 31, 1958.

Does not include provision for operator's salary.

() Indicates red figure.

The figures in Table I purport to exclude all non-utility warehouse revenues and expenses and to include only those revenues and expenses which relate to cold storage public utility operations carried on at the plants embraced by the application herein.^{2/} The basic data, the tariff agent testified, were furnished him by applicants. Table I reflects those data as modified by the witness in certain respects. The modifications included the elimination of interest, the conversion of depreciation expense to a straight-line basis in those instances where other than a straight-line basis was employed by the utilities,^{3/} 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 also developed estimates of operating results under the proposed rates. These 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 compensate for increased costs of warehouse labor and of property taxes.

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

^{2/} It is to be noted that some of the applicant warehousemen conduct cold storage public utility warehouse operations also at locations not involved in the instant proceeding.

^{3/} According to the record this adjustment was made with respect to only three applicants and was, in each instance, very minor.

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 Income Taxes)</u>	<u>Net</u>	<u>Operating Ratio (Percent)</u>
B-Lo	\$ 42,765	\$ 41,009	\$ 1,756	95.9
Burbank	332,234	274,886	57,348	82.7
California	635,959	560,915	75,044	88.2
Federal	659,663	615,263	44,400	93.3
Imperial	3,669	6,004	(2,335)	163.6
Los Angeles	1,152,003	988,214	163,789	85.8
National Ice	258,022	222,710	35,312	86.3
National Storage	520,214	491,304	28,910	94.4
Ontario	62,946	#46,623	16,323	#74.1
Pacific	485,405	413,537	71,868	85.2
Santa Monica	15,697	*12,742	*2,955	*81.2
Service	42,325	43,279	(954)	102.3
Terminal	1,261,191	1,163,110	98,081	92.2
Triangle	100,088	110,176	(10,088)	110.0
Union	769,050	760,183	8,867	98.8
U. S. Growers	557,308	506,692	50,616	90.9
All Companies	\$6,898,539	\$6,256,647	\$641,892	90.7

() - Indicates red figure.

Does not include provision for operator's salary.

* Now operated under agreement with creditors, supervised by
Credit Managers' Association of California.

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 were 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} ~~and~~ straight-line basis in those instances where assets have been depreciated on some other basis. It is to be noted that the witness had included in the rate base estimates an allowance for working capital, calculated on two-months' operating expenses, less depreciation.

In a separate schedule the tariff agent showed, among others, the extent to which the investment of the ten principal applicants in plant and equipment had depreciated as of the year 1960.

Thus he found that the aggregate investment of the group had been depreciated down to 52 percent of the original investment cost. This figure would have been lower, but for the fact that three of the operators had recently made substantial additions to their plants.

In Table III below are shown rate base, rate of return and operating ratio estimates for all applicants, as developed by the tariff agent under proposed rates, together with the depreciation percentage figures for the above-mentioned ten operators.

TABLE III

Estimated Rate Bases, Extent to Which Depreciated, Rates of Return and Operating Ratios, Under Proposed Rates

<u>Warehouseman</u>	<u>Rate Base</u>	<u>Percent By Which Original Investment Depreciated</u>	<u>X Rate Of Return (Percent)</u>	<u>X Operating Ratio (Percent)</u>
Burbank	\$ 353,703	60.0	16.2	82.7
California	935,560	42.1	8.0	88.2
Federal	453,246	70.0	9.8	93.3
Los Angeles	1,795,202	+ 38.6	9.1	85.8
National Ice	370,012	53.8	9.5	86.3
National Storage	620,855	45.6	4.7	94.4
Pacific	792,762	28.4	9.1	85.2
Terminal	423,032	79.5	23.2	92.2
Union	1,419,887	+ 44.0	0.6	98.8
U. S. Growers	785,875	+ 38.0	6.4	90.9
B-Lo	193,383	-	0.9	95.9
Imperial	37,483	-	-	163.6
Ontario	29,712	-	# 54.9	# 74.1
Santa Monica	3,169	-	9 93.2	9 81.2
Service	22,915	-	-	102.3
Triangle	32,524	-	-	110.0
All Companies	\$8,269,320	* 48.0	{ 7.8 {* 8.0	{ 90.7 {* 90.4

X After provision for income taxes.

Predicated on expense estimates which made no provision for operator's salary.

* Weighted average figure for first ten operators in table (whose gross public utility cold storage revenues exceeded \$90,000 during the fiscal periods used.)

+ Large additions to plant recently made.

9 Book records of this company not complete. Utility now operated under supervision of Credit Managers' Association of California.

The witness pointed out that, over the years, the plant investment of applicants is, on the average, steadily declining. He was of the opinion, therefore, that the use of rate of return on depreciated investment cost was not a proper measure of the financial well-being of the operators. He then proceeded to develop operating ratios, for the aforesaid group of operators, which would reflect profits, after taxes, of 7, 8, 9 and 10 percent. The corresponding weighted average operating ratios thus arrived at for the group were 85.8, 84.6, 83.2 and 82.1 percent, respectively. For the purposes of his calculations the witness used an undepreciated rate base by assuming that the total original cost of plant and equipment of each applicant studied had been incurred at the beginning of the test year, 1960. The above figures, the witness stated, do not reflect any allowance for working capital. Considering the peculiar hazards of the public utility warehousing business,^{4/} the witness was of the opinion that a reasonable rate of return for applicants should be something in excess of that found reasonable for such public utilities as gas, electric and water companies.

From figures supplied by the principal applicants the tariff agent developed also average over-all labor costs per man per hour and the cost, per delivery, of office and dock clerical expense. The weighted average costs so ascertained were for the operators as a group, \$4.88 per man per hour and 85.3 cents per lot delivery. These costs are to be compared with the proposed straight time special labor rate of \$4.40 per hour and the proposed lot delivery charge of 50 cents, respectively.^{5/}

^{4/} The hazards in question are those to which this same witness testified in the hearing in Application No. 40324, above. They are recounted in Decision No. 58159 in that proceeding (57 Cal. P.U.C. 81 at pages 85 and 86).

^{5/} The above-mentioned hourly labor cost of \$4.88, the record shows, does not include an increase of 4 cents per hour in payroll taxes which became effective on January 1, 1962.

In this proceeding applicants introduced, for the first time in the Los Angeles area, cold storage unit cost studies based on (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 exhibits in which were set forth the results of said studies.^{6/}

One of the objectives of the cost analysis, the accountant stated, was to separate applicants' cold storage handling costs from the costs of all other operations. Allocations of those expenses which could not be assigned to particular functions were made in accordance with the procedures set forth in a cost accounting manual which had been prepared by the accounting firm. 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 ascertaining storage costs to the extent that the latter were involved in this proceeding.

The accountant developed weighted aggregate operating ratios for the ten principal operators as a group, 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.

^{6/} The results of similar studies of Northern California cold storage warehouses were introduced in the hearings in Application No. 43877 and related matters, involving said warehouses. The background for, and the procedures employed in the accounting firm's cost studies are set forth in Decision No. 63787, dated June 4, 1962, in the aforesaid application.

TABLE IV

Weighted Average Operating Ratios of Ten Principal Applicants, After Income Taxes, for Year 1960, and for the Rate Year Under Proposed Rates at Current Expense Levels (Percents)

Department	Year 1960*		Rate Year Under Proposed Rates	
	Tariff Agent	Accountant	Tariff Agent	Accountant
Handling		113.5		108.2
Storage		76.3		76.2
All Other Utility Departments #		123.2		118.6
Total All Utility Departments	92.4	92.2	90.7	90.4

Includes quick freezing, refrigeration and special services.

* Or other fiscal period.

Other exhibits prepared by the accountant purported to show the costs of handling in and out (exclusive of partial lot deliveries), handling and storage costs for small lots, extra handling costs for partial lot deliveries,^{7/} and labor costs per man-hour. These cost studies were presented or suggested as evidence in justification of certain of the sought rate increases, such as the minimum per lot handling and storage charges, and the hourly accessorial or special labor charge. In Table V, below, these costs, and the above-mentioned costs developed by the tariff agent are compared with the corresponding proposed charges.

TABLE V

	Proposed Charge	Estimated Costs	
		Tariff Agent	Accountant
Minimum Storage Charge (per lot)	\$2.50	-	\$4.41
Minimum Handling Charge (per lot)	\$2.50	-	\$5.91
Small Lot Delivery Charge	\$.50	\$.853	-
Hourly Labor Rate (straight time)	\$4.40	\$4.88	\$5.71

^{7/} According to the accountant, the cost entailed in making partial lot deliveries is not now being recovered and will not be recovered by any charge proposed in the application herein.

The hourly labor cost, as estimated by the accountant is substantially greater than that developed by the tariff agent. The latter figure includes an allowance for direct supervision and general overhead, but not all of the indirect costs. The accountant's estimate is intended to reflect full costs.

The testimony of the operating witnesses tended to show that competition among the various applicants necessitates uniformity of rates within the area embraced by the application; that applicants have taken all practicable steps to reduce handling costs through plant modernization and mechanization; that provision for working capital is essential in their operations; and that working capital ~~is~~ equivalent to two months' operating expenses less depreciation would be a minimum requirement.

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 shows, were sent by the aforesaid tariff agent to some 2,300 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 | Discussion

Tables I and II, above, show a wide range in operating results, as among the various applicants, for the year 1960 (or other fiscal period), and under the proposed rates for the projected rate year. For 1960, the operating ratios, after taxes, range from 83.4 percent. to 173.4 percent.^{8/} Six of the ratios are below 90 percent,

^{8/} The operating ratios of Ontario Ice and Cold Storage Company, 76.5 percent and 74.1 percent for 1960 and the projected rate year, respectively, have been excluded from this analysis because in their development, no provision has been made for the operator's salary. Also, the record indicates that the operating ratios of Santa Monica Cold Storage Company, 84.0 and 81.2, are not reflective of actual circumstances, since not all expenses are shown on its books. The utility is being operated under supervision of a credit managers' association. Moreover, the fiscal period (1958) selected for the Santa Monica operator is too remote to be of value in this proceeding.

four are above 100 percent and the remainder are between 90 and 100 percent. The estimated operating ratios for the projected rate year, under proposed rates range from 81.2 percent to 163.6 percent. The general distribution is the same as indicated above for 1960 except that there is one less ratio in the over-100 group and one more in the 90-to-100 group. The weighted average operating ratios developed by the tariff agent for applicants as a group are 92.4 and 90.7 percent for 1960 and for the projected rate year under proposed rates, respectively. No presentation was made of estimated operating results under a continuation of present rates at current cost levels.

The weighted average group operating ratios developed by the accountant, as shown in Table IV, above, differ only slightly from those which the tariff agent estimated. According to the accountant's breakdown of revenues and expenses among the different utility service departments, also shown in Table IV, the handling operations of applicants as a group were, in 1960, conducted at a loss and would still reflect a loss under the increased handling rates. The quickfreezing, refrigeration and special services show even greater losses, both for 1960 and under the proposed rates. This latter group, however, generates a relatively small portion of the total revenues involved. The storage department, according to Table IV, showed a substantial profit in 1960, with a group operating ratio, after taxes, of 76.3 percent. Because increases sought herein for storage rates are negligible, this figure remains practically unchanged in the accountant's estimate of operating results under the proposed rates.

With respect to the individual rate increases herein sought, it appears that applicants have endeavored to assign the greater increases, percentagewise, to those charges which they believe have not heretofore recovered the costs 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 and clerical cost studies of the tariff agent lend support to the propriety of the proposed rate increases.

As hereinbefore stated, one of the proposals here in issue is the cancellation of all handling rates which apply "only to lots received in quantities of 46,000 pounds or more which are delivered in lots of 20,000 pounds or more". In Application No. 40384, above, the warehousemen proposed that the rate increases sought therein should not apply to the rates for handling of frozen deciduous fruits, berries and vegetables in boxes, cartons or crates, in the above-specified quantities. The Commission, in Decision No. 58169, in that proceeding, pointed out that presumably the handling of other commodities in the same volume would be subject to the same economies as allegedly obtained in connection with the fruits, berries and vegetables. The Commission, accordingly, required the lower levels of rates to be maintained on all commodities for which quantity handling rates were provided. In the instant application any question of discrimination or undue preference is eliminated since the proposal is to cancel the old rates for the above-indicated quantities of frozen fruits, berries and vegetables as well as for other commodities. In support of this proposal the tariff agent testified that the conditions attached to the rates in question are unworkable. While merchandise is received in quantities of 46,000 pounds or more, he indicated, the outbound lots are less than the required 20,000 pounds. According to the record, these rates are, in effect, so-called "dead rates".

With respect to the tariff agent's testimony, and accompanying exhibits, relative to the question of return on depreciated warehouse investment versus return on original cost, it is only necessary to point out that, while the investment of applicants in

their warehouses has, on the average, depreciated by approximately one half, such depreciation has been taken into account as an allowable operating expense for rate-making purposes in past rate proceedings and that applicants have, therefore, been "made whole" with respect to the decline in value of their investment arising from depreciation. This issue has been raised many times in proceedings before this Commission. We have consistently held and again reaffirm that original cost less accrued depreciation is the reasonable and equitable investment basis for determination of a reasonable and adequate rate of return for public utilities.

In Decision No. 58169, above, the Commission admonished the applicant warehousemen to give consideration to making such tariff changes as would eliminate uncertainties and inequalities of certain provisions then applicable.^{9/} The record in the instant proceeding indicates that the desired tariff adjustments have been made.

Upon careful consideration of all the evidence we hereby find that the increased rates and other tariff adjustments proposed in Application No. 43986 have been justified. The application will be granted.

O R D E R

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

IT IS ORDERED that:

1. Applicants are hereby authorized to establish the increased rates and other tariff changes proposed in Application No. 43986. Tariff publications authorized to be made as a result of the order herein may be made 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.

^{9/} The portion of Decision 58169 to which reference is made will be found at pages 89-91 of ~~the volume hereinabove cited~~ 57 Cal.P.U.C.

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. 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 twenty days after the date hereof.

Dated at San Francisco, California, this
10th day of July, 1962.

George A. Trover
President
Everett C. McKeage
E. Lynn Fox
Fredrick B. Hallock
Commissioners

Commissioner Everett C. McKeage, being necessarily absent, did not participate in the disposition of this proceeding.