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ORIGINAL

Decision No. _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 GEORGE A. MYERS, KARL D. GENTRY,)
 PERCY MURRAY, and RICHARD M. SMITH,)
 dba TULELAKE COLD STORAGE CO.,)
 Tulelake, and ROSEMARY JUNE MYERS,)
 personally and as Trustee under the)
 will of James L. Myers, for authority)
 to increase certain warehouse rates.)

Application No. 44805

George A. Myers, for applicants.

Eric A. Mohr and John Specht, for the
 Commission staff.

O P I N I O N

George A. Myers, Karl D. Gentry, Percy Murray, Richard M. Smith and Rosemary June Myers, the last-named personally and as trustee under the will of James L. Myers, doing business as Tulelake Cold Storage Co., operate a public utility cold storage warehouse at Tulelake, Siskiyou County.^{1/} By this application, as amended, they seek authority to increase their rates for the storage of potatoes and onions.

Public hearing was held before Examiner Bishop at Tulelake on November 15, 1962. Evidence on behalf of applicants was presented by one of the partners, who is also manager of the business. Members of the Commission's Transportation Division staff assisted in the development of the record.

^{1/} By Decision No. 64937, dated February 13, 1963, in Application No. 44809, which was heard on a common record with the application herein, the interest in the business of the estate of James L. Myers, deceased, was transferred to Rosemary June Myers.

In the following table the present rates are compared with the proposed scales.

<u>Commodity</u>	<u>Rate per Month</u> (in Cents per 100 Lbs.)						<u>Subse- quent Months</u>
	<u>1st Mo.</u>	<u>2nd Mo.</u>	<u>3rd Mo.</u>	<u>4th Mo.</u>	<u>5th Mo.</u>	<u>6th Mo.</u>	
<u>Onions</u>							
(100 lb. sacks or boxes) Present	15	10	10	10	05	05	05
(100 lb. sacks or boxes) Proposed	18	12	10	10	05	05	05
(50 lb. sacks or boxes) Present	18	10	10	10	05	05	05
(50 lb. sacks or boxes) Proposed	21	12	10	10	05	05	05
<u>Potatoes</u>							
(100 lb. sacks or boxes) Present	15	10	10	05	05	05	05
(100 lb. sacks or boxes) Proposed	18	12	10	05	05	05	05
(50 lb. sacks or boxes) Present	18	10	10	05	05	05	05
(50 lb. sacks or boxes) Proposed	21	12	10	05	05	05	05

It will be seen that increases are sought only in the rates for the first and second months of storage. In these rates increases of 20 percent are proposed. Applicants also plan to publish a scale of rates for the storage of horseradish in 75-pound sacks. This is a commodity new to the Tulalake district, for which no storage rates have heretofore been established by applicants. Since the proposed rates on horseradish represent an initial publication, no increase authority is required for that commodity.

Applicants' rates were last adjusted, the manager testified, in 1952. Since that time, he stated, substantial increases in operating costs have been experienced. The wage rate for warehouse labor, for example, has increased from \$1.50 per hour to \$2.00 per hour. During the same period the manager's salary has increased from \$400 to \$790 per month. Assertedly, the cost of materials and supplies has increased 50 percent since 1952.

The length of time that potatoes and onions are kept in storage, one witness stated, depends upon market conditions.^{2/} The latter are affected by the volume of production for the particular year, among other factors. The 1962 crop was not as good as that of the previous year, due to weather conditions. Accurate predictions for the future, he indicated, are difficult. He estimated that if full storage capacity is utilized the sought rate increases would result in \$10,000 of additional annual gross revenue.

Financial statements attached to the application were explained by the witness. The operating results for the 12-month period ended June 30, 1962, after adjustments as hereinafter described, were as follows: operating revenues and operating expenses amounted to \$122,148 and \$89,963, respectively, reflecting net revenue, before income taxes, of \$32,185, and a corresponding operating ratio of 73.6 percent. If income taxes are calculated on a corporate basis, the resulting net operating income figure, after taxes, is \$20,099, and the operating ratio is 83.5 percent.

^{2/} Some pears are also stored in applicants' warehouses, but such storage constitutes only a small part of their business.

The foregoing gross revenue and expense figures reflect the adjustments made in those shown in the application by elimination of rental income from the revenue figure and of interest expense and contributions from operating expenses. The evidence shows that applicants rent a portion of one of their buildings to another concern. The record does not show what portion of operating expenses, such as depreciation, taxes and utilities, is allocable to that portion of the premises. Such portion should also be eliminated from the total operating expense figure in order to get an accurate picture of utility operating expenses for the indicated period.

From the balance sheet attached to the application we develop a rate base, as of June 30, 1962, amounting to \$195,291. The rate of return on this base, for the period involved was 10.3 percent after provision for income taxes. An average rate base for the period would be somewhat higher, reflecting a somewhat lower rate of return.

By applying the aforesaid estimated increase of \$10,000 in revenue under the sought rates to the above-stated gross revenue figures, and assuming no change in operating expenses, the estimated net revenue for a projected 12-month period under the proposed rates would amount to \$42,185 before income taxes, or \$24,635 after income taxes, calculated on a corporate basis. The corresponding estimated operating ratios would be 68.1 and 81.4 percent, respectively. The rate of return on the June 30, 1962 rate base would be 12.6 percent.

According to the balance sheet, the historical cost of applicants' investment in buildings, machinery and other equipment,

and improvements, was approximately \$490,000.^{3/} The witness was of the opinion that the estimated net operating income under the proposed rates was not excessive, considering the amount of capital that had been invested in the enterprise. The balance sheet shows, however, that said investment has, through the years, been depreciated by 63 percent down to \$179,000.^{4/} 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.

The witness pointed out that applicants compete for business with other public utility cold storage warehouses located at Yuba City, Lincoln, Sacramento and Modesto. This is particularly true he said, in connection with the storage of potatoes in transit. Assertedly, applicants' rates are lower than those of their competitors. Under such circumstances it appears that increases in applicants' rates would not operate to improve their competitive position.

Judged by those standards which we have customarily observed, the results of applicants' operations for the 12-month period ended June 30, 1962, were highly favorable. Using the only estimate of revenue under the proposed rates which the witness was able to produce, the projected results under the latter rates are

^{3/} Investment in land was carried on the balance sheet at \$5,561.

^{4/} It is noted from the aforementioned income statement that of the adjusted total operating expenses of \$89,963, depreciation expense accounted for \$25,745.

even more favorable. On the basis of the record before us, the need of applicants for greater revenues, to be generated through increased rates, has not been established. Upon careful consideration, we find that the sought rate increases have not been justified.

O R D E R

IT IS ORDERED that Application No. 44805, as amended, is denied.

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

Dated at San Francisco, California, this 19th day of MARCH, 1963.

George J. Grover
President

John E. Mitchell

Walter W. Rago

Frederick B. Holbluff

William W. Bennett
Commissioners