

ORIGINAL

65874

Decision No. _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 B-LO COLD STORAGE CO., BUREBANK)
 REFRIGERATING COMPANY, CALIFORNIA ICE)
 AND COLD STORAGE COMPANY, FEDERAL ICE)
 & 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. 44946

Vaughan, Paul & Lyons, by John G. Lyons; and
Jack L. Dawson; for applicants.
 Ralph Hubbard and William L. Knecht, for
 California Farm Bureau Federation,
 interested party.
R. J. Carberry, E. C. Crawford, John R. Laurie
 and C. V. Shawler; for the Commission staff.

O P I N I O N

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

Public hearing of the application was held before Examiner Bishop at Los Angeles on January 30 and 31, 1963. Evidence was presented by applicants through their tariff agent, a certified public

accountant and several of their officers. Members of the Commission's staff assisted in the development of the record.

The rates here in issue were most recently adjusted effective August 9, 1962 pursuant to Decision No. 63932, dated July 10, 1962, in Application No. 43986. That adjustment was made, among other purposes, to offset increased operating costs. According to the instant application, however, by the time the increased rates authorized by Decision No. 63932 took effect applicants had sustained additional increases in operating costs in the form of substantial wage increases and increased taxes. These increased costs assertedly nullified, for the most part, the effect of the increased rates authorized by the aforesaid decision. The application states that in view of the foregoing circumstances the rate increases sought herein are urgently required in order that applicants may continue in business at a reasonable profit and that an adequate and efficient warehouse service may be rendered. The record shows that the increased expenses are 3.8 percent of total expenses based on an analysis of the records of 10 applicants who account for 96 percent of the utility business of all applicants.

The tariff publishing agent testified in considerable detail concerning the individual rate increases proposed in the application, stating the reasons for the respective adjustments. Increases are proposed in rates for the services of quick freezing, for storage and for handling. Substantially more rate adjustments are sought in the rates for handling than in the other two categories. The tariff agent characterized the proposed increases as falling in two classes, namely, increases in the small lot^{1/} rates and increases

^{1/} By the term "small lot" the witness had reference to lots weighing less than 5,000 pounds.

in those rates for larger quantities which are considered by applicants to be depressed. Some of the increases in the latter group, he said, are necessary in order to reduce the "break-back" effect and thus preserve the integrity of the corresponding rates applicable to lesser quantities of the same commodity.^{2/}

Other adjustments proposed by applicants are the cancellation of certain obsolete rates which, for several years past, have not been used, and to increase certain accessorial and minimum charges.

The tariff agent also testified concerning exhibits which he had prepared depicting results of operations of each of the applicant warehousemen. These figures, in most instances, related to the 12-month period ended December 31, 1961. All of the fiscal periods involved terminated prior to the effective date of the rate increases authorized by Decision No. 63932, above. Thus, the revenues generated during such periods in no way reflect the impact of said increases. In Table I below are summarized the operating results in question.^{3/}

2/ By way of illustration, the present published storage rate for fruit juices in lots of 10,000 lbs. to, but not including, 46,000 pounds, is 20 cents per 100 pounds. This rate, however, is not effective for lots weighing more than 32,200 pounds because a lower charge is produced by the rate for lots of 46,000 pounds or more, namely, 14 cents, at said minimum weight of 46,000 pounds. Applicants' proposal to name the 20-cent rate in connection with lots weighing 10,000 pounds to, but not including, 60,000 pounds, at the same time assigning the 14-cent rate to lots of 60,000 pounds or over, would raise the break-back point to 42,000 pounds.

3/ The operating results of B. F. Killam and M. C. Hernage, doing business as Santa Monica Cold Storage Company, have been excluded from all tabulations in this opinion. The record indicates that these operators have been, for some time past, in financial difficulties. It appears further that they are no longer operating as public utility warehousemen.

TABLE I

RESULTS OF OPERATIONS FOR 12-MONTH PERIOD
ENDED DECEMBER 31, 1961 (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	\$ 81,746	\$ 78,039	\$ 3,707	95.5
Burbank(1)	331,769	280,542	51,227	84.6
California	662,678	594,126	68,552	89.7
Federal(2)	701,917	648,197	53,720	92.3
Imperial	4,961	6,231	(1,270)	125.6
Los Angeles(3)	1,026,139	923,188	102,951	90.0
National Ice	249,036	216,300	32,736	86.9
National Storage(4)	546,705	533,446	13,259	97.6
Ontario	42,059	#36,970	#5,089	#87.9
Pacific	450,133	389,196	60,937	86.5
Service	36,191	39,868	(3,677)	110.2
Terminal	1,177,108	1,111,960	65,148	94.5
Triangle	108,490	111,229	(2,739)	102.5
Union	766,818	809,687	(42,869)	105.6
U.S.Growers	598,797	564,858	33,939	94.3
All Companies	<u>\$6,784,547</u>	<u>\$6,343,837</u>	<u>\$440,710</u>	<u>93.5</u>

- (1) For 12-month period ended October 31, 1961.
(2) For 12-month period ended March 31, 1962.
(3) For 12-month period ended June 30, 1962.
(4) For 12-month period ended April 30, 1962.

() - Indicates loss.

No provision made in expense estimate for salary of owner-operator.

The figures in Table I purport to exclude all nonutility 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. The basic data, the record shows, were furnished by applicants. Table I reflects those data as modified by the witness in certain respects. The modifications include the elimination of interest payments, the conversion of depreciation expense to a straight-line basis in one

instance where the utility's records were on an accelerated basis,^{4/} 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 for projected fiscal periods under a continuation of present rates and under the proposed rates. These estimates were made by adjusting the expense figures shown in Table I to reflect current cost levels and by adjusting the revenue figures in the table as follows: for the estimate of results under a continuation of present rates said figures were adjusted to give appropriate effect to the increases in rates which took effect on August 9, 1962, pursuant to the aforesaid Decision No. 63932; the revenue figures as thus modified were further adjusted to give effect to the rate increases proposed in the application herein.

In Table II, below, are set forth for each applicant, estimated operating ratios, after provision for income taxes, as developed by the tariff agent for the projected fiscal periods, under a continuation of present rates and under the proposed rates, respectively.

^{4/} Accelerated depreciation appeared in the records of two of the applicants. In both instances the depreciation charged had reached a point where it was less than if it had been computed on a straight-line basis. In one of these the amount involved was so small that no adjustment to the straight-line basis was made.

TABLE II

ESTIMATED OPERATING RATIOS, AFTER INCOME TAXES,
FOR THE PROJECTED RATE PERIODS, AT CURRENT
EXPENSE LEVELS, UNDER PRESENT AND PROPOSED RATES,
RESPECTIVELY

<u>Warehouseman</u>	<u>Operating Ratios (Percent)</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>
B-Lo	94.1	91.1
Burbank	84.3	83.2
California	89.3	88.0
Federal	93.1	91.8
Imperial	122.8	116.7
Los Angeles	88.8	87.1
National Ice	86.8	85.9
National Storage	97.7	95.9
Ontario	#86.7	#84.1
Pacific	86.1	84.8
Service	107.7	102.4
Terminal	93.1	90.3
Triangle	104.7	99.7
Union	99.8	96.1
U.S. Growers	93.9	92.1
All Companies	92.4	90.4

Operating expense estimates on which the operating ratios for this applicant are predicated make no provision for salary of the owner-operator.

The tariff agent also developed, from data supplied by applicants, depreciated rate base and rate of return estimates under present and proposed rates. The rate base estimates were designed to include only those assets which are used in the conduct of public utility cold storage warehouse operations. In developing the estimates the tariff agent made certain adjustments including the inclusion of the depreciated cost of warehouse facilities to owners in those instances where the properties in question are leased from an affiliate. In all cases he included an allowance for working capital, calculated on two-months' operating expenses, less depreciation.

The rate base estimates for five of the applicants are so small in comparison with the volume of business as to be unrealistic. This situation is due to the fact that facilities are rented from unaffiliated parties and the depreciated cost of such facilities was not available, or to the fact that the operators' property was almost fully depreciated. In Table III, below, are set forth the above-mentioned estimated rates of return, both under a continuation of present rates and under the proposed rates, for the remaining eleven applicants.

TABLE III

ESTIMATED RATE BASE AND RATES OF RETURN FOR THOSE
APPLICANTS FOR WHICH MEANINGFUL RATE BASE ESTIMATES
COULD BE DEVELOPED FOR THE PROJECTED FISCAL PERIODS

Warehouseman	Rate Base (in thousands of dollars)	Rate of Return (After Income Taxes)	
		Under Present Rates (Percent)	Under Proposed Rates (Percent)
B-Lo	198	2.6	4.1
Burbank	356	15.4	17.1
California	833	9.0	10.5
Federal	449	11.1	13.6
Imperial	33	0.0	0.0
Los Angeles	1,770	7.0	8.4
National Ice	353	9.7	10.6
National Storage	578	2.2	4.1
Pacific	752	3.5	9.8
Union	1,410	0.1	2.5
U.S. Growers	811	4.7	6.3

From figures supplied by the principal applicants the tariff agent developed an average over-all labor cost per man per hour. For the operators as a group this weighted average cost was \$5.70 per hour. It is to be compared with the proposed straight time special labor rate of \$5.00 per hour.

A second witness, a certified public accountant, testified concerning studies which his firm had made to develop weighted average cold storage unit operating costs. This was the same witness who had testified concerning similar studies in connection with the aforesaid Application No. 43986, and the procedures employed in connection with the present application were substantially the same as those in the earlier proceeding.^{5/} As in the earlier studies, the accountant's analysis included the development of handling lot-size factors and storage lot-size factors, which were used in ascertaining handling and storage costs respectively. The unit costs thus developed varied with the densities of the commodities and the sizes of the lots handled and stored. Costs were developed separately for the various classes of service rendered by applicants.

The accountant also calculated weighted average operating results for the ten principal operators (who account for 93 percent of the total revenues of applicants), both for the fiscal periods covered by Table I above and for the projected rate year. In Table IV, below, the weighted average operating ratios thus developed are compared with those prepared by the tariff agent.

^{5/} The background for, and the procedures employed in, the accountant's cost studies are set forth in Decision No. 63737, dated June 4, 1962, in Application No. 43877 and related matters, involving increases in the rates of Northern California cold storage warehouses.

TABLE IV

WEIGHTED AVERAGE OPERATING RATIOS, AFTER INCOME TAXES, FOR YEAR 1961 AND FOR THE RATE YEAR, UNDER PROPOSED RATES (PERCENTS)

<u>Department</u>	<u>Year 1961*</u>		<u>Rate Year</u>	
	<u>Tariff Agent</u>	<u>Accountant</u>	<u>Under Proposed Rates</u>	<u>Tariff Agent Accountant</u>
Handling		121.7		104.5
Freezer Storage		78.7		80.2
Cooler Storage		83.3		83.5
Quick Freezing		96.6		96.2
Special Services		89.3		88.1
All Utility Departments	93.5	92.6	90.4	89.1

*Or other fiscal period.

As in the last proceeding involving these utilities, the accountant's study indicates that the handling operations of applicants are conducted at a loss. Table IV shows also that the weighted average operating ratios for the total of all utility departments as developed by the accountant do not differ greatly from the corresponding figures which resulted in the analysis made by the tariff agent. It is to be noted in this connection that the operating ratios developed by the latter relate to the aggregate operating results of all the applicants except Santa Monica Cold Storage Company. Also, to some extent different fiscal periods are involved in the tariff agent's study.

In one of his exhibits the tariff agent had made a comparison of present and proposed rates with the corresponding cost data developed by the accountant. These comparisons were made in all instances where increases are proposed in the rates for handling or storage on specific commodities and on merchandise, not otherwise specified. According to this exhibit, in most instances the present rates shown are below the costs of performing the service for which they were established, and in many instances substantially below those costs. With respect to the proposed rates, the comparisons

indicate that in some instances said rates would still fall short of the estimated costs and that in general the rates in question would not be out of harmony with the cost data.

The record shows that the proposed rate increases would result in increases in aggregate operating revenues of approximately 5.2 percent distributed between the various services as follows: four percent for storage, nine percent for handling, 3/10 of one percent for quick freezing and thirteen percent for special services.^{6/} The bulk of applicants' revenues are derived from these three cold storage warehouse services.

As in the 1962 proceeding, the tariff agent introduced a series of exhibits designed to support his thesis that the use of rate of return on depreciated investment is not a proper measure of the financial well-being of public utility cold storage warehousemen. His testimony was substantially the same as in the earlier proceeding, as summarized in Decision No. 63932. We pointed out in that decision, and we reiterate that this Commission has consistently held 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 testimony of the operating witnesses was offered 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 equivalent to two months' operating expenses less depreciation would be a minimum requirement.

^{6/} Based on an analysis of the records of ten applicants, above.

No evidence was offered by parties other than applicants. Members of the Commission's Finance and Accounts Division and Transportation Division staff assisted in the development of the record through extensive examination of applicants' witnesses. Although notices of the hearing were sent by the aforesaid tariff agent to some 2,600 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.

Discussion, Findings and Conclusions

As hereinbefore stated, the fiscal periods for which past operating results of applicants are shown in Table I all ended prior to the effective date of the last rate increases which these warehousemen were authorized to publish. Thus, as in the last proceeding, Application No. 43986, the effect of said increases is again estimated, but in the present proceeding under the circumstances of demonstrated increases in operating costs. Thus the operating ratios, shown in the column headed "Present Rates" in Table II above, are generally less favorable than the ratios shown in the column headed "Operating Ratio" in Table II of Decision No. 63932, although the respective estimates relate to the same rate levels.

The estimated operating ratios under the rates proposed in the instant proceeding, as set forth in the column headed "Proposed Rates" in Table II herein, differ in most instances only slightly from the corresponding estimates for the proposed rates in the last proceeding. The weighted average operating ratio of 90.4 percent in Table II herein may be compared with the corresponding figure of 90.7 percent in the 1962 adjustment. There are, of course, wide variations among the applicants in the estimated operating results under the rates proposed in the instant proceeding. This circumstance reflects a pattern which was revealed in earlier

proceedings involving these operators. At the same time the record contains persuasive evidence that, regardless of individual operating results, rate uniformity within the area is essential, because of the keen competition which prevails among the applicants.

In their efforts to offset the effects of increased operating costs applicants propose to make selective rate adjustments with a view to increasing those rates which are not bearing their share of the costs of operation. In determining the rates to be increased and the measure thereof, the warehousemen have been guided to a large extent by the cost data presented by the accountant. The program of selective rate adjustment which applicants have carried out in the instant proceeding is a continuation, after further study, of that which they began in Application No. 43986.

As stated previously the general purpose of this application is for approval of increased rates to provide additional revenue to offset higher wages and taxes. Expenses are estimated to have increased by 3.8 percent, and the proposed rate increases are estimated to produce an over-all increase in revenue of 5.2 percent.

The record does not justify or support a need for a further enhancement in the over-all earning position of applicants. Table IV shows the storage services over all to be in a substantially more favorable earning position than that of the other services. We, therefore, conclude that the proposed increases for all items, except those for cooler or freezer storage, have been justified. According to the evidence, authorization of those increases will produce sufficient additional revenue, to approximately offset the estimated increased expenses.

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

1. The record does not contain evidence sufficient to establish a need for increases in rates for applicants B. F. Killam and M. C.

Hernage, doing business as Santa Monica Cold Storage Company. The following findings will not relate to them.

2. Applicants are in need of additional revenues in order to offset the increases in operating costs which have been experienced since the filing of the application which resulted in the 1962 rate increases.

3. The specific rate increases and other adjustments proposed by applicants, except those increases for cooler or freezer storage, are reasonably related to the cost evidence of record and should produce the added revenues found necessary in Finding 2.

In the light of the above-stated findings we conclude that:

1. Except as to applicants B. F. Killam and M. C. Hernage, the increases and other adjustments in rates proposed by applicants herein have been justified, except those increases for cooler or freezer storage.

2. The proposed increases in rates for cooler or freezer storage service have not been justified and should be denied.

3. The proposals in Application No. 44946, insofar as they relate to applicants B. F. Killam and M. C. Hernage, have not been justified and to that extent said application should be denied.

O R D E R

IT IS ORDERED that:

1. Applicants, other than B. F. Killam and M. C. Hernage, are authorized to establish the increased rates and other tariff adjustments proposed in Application No. 44946, except those increases for cooler or freezer storage. 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.

2. The proposed increases in rates for cooler or freezer storage service are denied.

3. Application No. 44946, insofar as it relates to applicants B. F. Killam and M. C. Hernage, is denied.

4. 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 13^d day of AUGUST, 1963.

William L. Burnett
President
George G. Grever
Frederick B. Hallock
Commissioners

Commissioner George G. Grever, being necessarily absent, did not participate in the disposition of this proceeding.