

ORIGINAL

Decision No. 66160

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 DREISBACH COLD STORAGE CO., HASLETT)
 WAREHOUSE COMPANY, MERCHANTS ICE)
 AND COLD STORAGE CO., NATIONAL ICE)
 AND COLD STORAGE COMPANY OF)
 CALIFORNIA, and UNION ICE & STORAGE)
 COMPANY, for an increase in rates.)

Application No. 45251

In the Matter of the Application of)
 BERGUT-RICHARDS COLD STORAGE CO.,)
 CONE ICE AND COLD STORAGE COMPANY)
 (Oliver W. 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.,)
 and UNION ICE & STORAGE COMPANY,)
 for an increase in rates.)

Application No. 45252

Vaughan, Paul & Lyons, by John G. Lyons,
 for applicants.
Jack L. Dawson, for applicants.
Andrew H. Field, for Pacific Coast Meat
 Jobbers Association, protestant.
C. V. Shawler, Edward C. Crawford,
H. Scheibe, Fred P. Hughes and John R.
Laurie, for the Commission 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. 45251 operate warehouses which are located in the San Francisco-Oakland area; the warehousemen in Application No. 45252 operate in the Sacramento-Stockton area.¹ By these applications, as amended, said warehousemen seek authority to increase certain of their rates and charges.

¹ By amendment to Application No. 45251 filed on May 28, 1963, A. C. Freeman, doing business as United Cold Storage Co., was added to the San Francisco-Oakland group of applicants.

Public hearing of the applications was held on a common record before Examiner Bishop at San Francisco on May 22 and 23, 1963, and at Sacramento on May 28, 1963, and the matters were submitted on the latter date.

The most recent adjustment in the warehouse rates of applicants became effective on July 5, 1962, when certain increases in rates were made pursuant to Decision No. 63767, dated June 4, 1962, in Applications Nos. 43873 (Sacramento-Stockton area) and 43879 (San Francisco-Oakland area).² Since the time when the revenue and expense studies were made which were introduced in the 1962 proceedings, applicants herein have sustained increases in operating costs. These increases involve wages, taxes and other categories of expense. According to the applications, the rate increases now proposed will not fully compensate the utilities for said increases in expenses, but are urgently needed in order that the operators may continue in business and offer an efficient warehouse service.

The rate adjustments here in issue, as described by applicants' tariff publishing agent, would principally involve increasing the maximum weight of the small lot bracket from 2,000 pounds to 5,000 pounds, at the same time increasing the rates for handling and storage of those lots to 40 cents and 30 cents per hundred pounds, respectively, where the charges are now on a lower

² By the same decision cold storage warehousemen in the San Jose area, parties to Application No. 43877, were authorized to increase rates. Those operators, who are engaged primarily in so-called "production" warehousing, did not elect to seek further adjustments in their rates at this time.

level.³ The change in the small weight bracket range would apply in connection with the rates for quick freezing, as well as for handling and for cooler room and freezer room storage. Other miscellaneous rate increases are proposed.

Results of operations of each of the applicants at the involved plant locations, as prepared by the tariff agent from data supplied by the utilities, are set forth in Table I, below.

TABLE I

Results of Operations for 12-month Period
Ended December 31, 1961 (Except as Otherwise Noted)
After Income Taxes

<u>Warehouseman</u>	<u>Revenues</u>	<u>Expenses (Including Income Taxes)</u>	<u>Net</u>	<u>Operating Ratio (Percent)</u>
<u>(A) San Francisco-Oakland Area (Application No. 45251)</u>				
Dreisbach	\$ 258,017	\$ 253,195	\$ 4,822	93.1
Haslett	41,003	48,179	(7,176)	117.5
Merchants	555,997	569,123	(13,126)	102.4
National	352,332	793,174	59,152	93.1
Union	36,602	34,924	1,678	98.1
All Companies	\$1,793,951	\$1,748,595	\$ 45,356	97.5
<u>(B) Sacramento-Stockton Area (Application No. 45252)</u>				
(1) Bercut-Richards	\$ 243,392	\$ 228,058	\$ 15,334	93.7
Cone	10,452	9,807	645	93.8
Crystal	236,201	222,247	13,954	94.1
(2) Lincoln	122,074	99,833	22,236	81.8
National	588,584	558,427	30,157	94.9
(3) Reliance	28,630	27,214	1,416	95.1
Union	425,799	396,183	29,616	93.0
All Companies	\$1,655,132	\$1,541,774	\$113,358	93.2

() - Indicates loss.

(1) Figures are for 12-month period ended March 31, 1962.

(2) Figures are for 12-month period ended June 30, 1962.

(3) Figures are for 12-month period ended July 31, 1962.

³ Following is an illustration of the sought adjustments: On fresh meats, the freezer room handling rates would be increased as follows: on lots of less than 2,000 pounds, from 37½ cents to 40 cents; on lots over 2,000 pounds but not over 5,000 pounds, from 30 cents to 40 cents; no change would be made in the present 30-cent rate for lots weighing over 5,000 pounds. The storage rates for this commodity would be adjusted as follows: No changes would be made in the present rate of 30 cents for lots of 2,000 pounds or less, nor in the rate of 20 cents for lots weighing over 5,000 pounds. For lots weighing over 2,000 pounds but not over 5,000 pounds the rate per hundred pounds would increase from the present level of 20 cents to 30 cents.

The figures in Table I, the tariff agent stated, were for fiscal periods which were the latest available at the time his study was made. It will be seen that the data for the San Francisco group are all for the calendar year 1961; the figures for the Sacramento group reflect 12-month periods ended on dates ranging from December 31, 1961, to July 31, 1962. The data in the table purport to reflect results of operations, after provision for income taxes, relating solely to the public utility cold storage warehouse operations here in issue.

A financial examiner from the Commission's Finance and Accounts Division also presented exhibits containing results of operations of applicants. The figures in his studies were taken from the book records of the operators, and in some instances reflect adjustments which the staff witness found necessary in order to conform to accounting procedures established by the Commission. For comparative purposes he included for each utility data for both the 1961 and 1962 fiscal periods. It is to be noted that the net revenue figures and operating ratios presented by the staff are before provision for income taxes and that the expense figures do not include income taxes. Those figures in the staff report, moreover, which are for the calendar year 1962 show the effect of the 1962 rate increases for approximately five months, whereas the operating results as calculated by the tariff agent do not, with a minor exception, exhibit the effect of those increases. Because of these differences a ready comparison of the staff studies with those of the tariff agent cannot be made, except as to the data in the respective revenue columns for corresponding fiscal periods. The staff study is chiefly valuable because of the opportunity which it presents of comparison between the results for the 1961 and 1962 fiscal periods, respectively. The results of the staff study are summarized in Appendix A, attached hereto.⁴

⁴ The staff exhibits also included an analysis of operating expenses in which the various categories of the latter were stated in cents per dollar of revenue.

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 July 5, 1962, pursuant to the aforesaid Decision No. 63787; 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.

TABLE II

Estimated Operating Ratios After Income Taxes
For the Projected Rate Years
Under Present and Proposed Rates

<u>Warehouseman</u>	<u>Operating Ratio (Percent)</u>	
	<u>Under Present Rates</u>	<u>Under Proposed Rates</u>
<u>(A) San Francisco-Oakland Area (Application No. 45251)</u>		
Dreisbach	97.5	96.2
Haslett	117.4	117.4
Merchants	100.1	97.8
National	91.6	90.0
Union	96.5	96.4
All Companies	95.9	94.2
<u>(B) Sacramento-Stockton Area (Application No. 45252)</u>		
Bercut-Richards	92.9	92.9
Cone	92.4	92.4
Crystal	91.2	89.2
Lincoln	82.0	82.0
National	95.2	94.7
Reliance	94.6	94.6
Union	93.4	93.3
All Companies	92.8	92.3

In Table III, below, are set forth rate base estimates and estimated rates of return under present and proposed rates for the projected rate year, as developed by the tariff agent. In each instance, the witness includes an allowance for working capital. Haslett Warehouse Company has been omitted from the tabulation, since it rents the facilities which it operates and its rate base estimate, consisting solely of a working capital allowance, is not meaningful. Table II, above, indicates moreover that both under present and proposed rates Haslett's operations here in issue would be conducted at a loss.

TABLE III

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

<u>Warehouseman</u>	<u>Rate Base (in thousands of dollars)</u>	<u>Rate of Return</u>	
		<u>Under Present Rates (Percent)</u>	<u>Under Proposed Rates (Percent)</u>
<u>(A) San Francisco-Oakland Area (Application No. 45251)</u>			
Dreisbach	718	1.0	1.5
Merchants	1438	0.0	1.0
National	1014	7.5	9.4
Union	171	1.9	1.9
<u>(B) Sacramento-Stockton Area (Application No. 45252)</u>			
Bercut-Richards	515	3.5	3.5
Cone	3	2.4	2.4
Crystal	562	4.2	5.4
Lincoln	344	6.4	6.4
National	285	3.3	3.6
Reliance	81	2.0	2.0
Union	507	5.7	5.8

A second witness for applicants, 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 Applications Nos. 43878 and 43879, and the procedures employed in connection with the present application were substantially the same as those in the earlier proceedings.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 respective groups of operators in each application, both for the fiscal periods covered by Table I, above, and for the projected rate year. The data used in the San Francisco group reflected the experience of three companies operating five cold storage plants. These plants generate 82 percent of the total revenues involved in Application No. 45251. The data employed in the Sacramento group were from three companies operating six plants and represent 74 percent of the revenues involved in Application No. 45252. In Table IV, below, the weighted average operating ratios thus developed are compared with those calculated by the tariff agent.

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The background for, and the procedures employed in, the accountant's cost studies are set forth in the aforesaid Decision No. 63787 in the above-mentioned applications.

TABLE IV

Weighted Average Operating Ratios After Income Taxes
By Departments
For Year 1961 and for the Projected Rate Year
Under Proposed Rates
(Percents)

Department	Year 1961*		Rate Year	
	Tariff Agent	Accountant	Tariff Agent	Accountant
<u>(A) San Francisco-Oakland Area (Application No. 45251)</u>				
Handling		145.4		124.1
Freezer Storage		77.1		77.9
Cooler Storage		103.4		97.8
Quick Freezing		145.2		145.7
Special Services		69.8		72.7
All Utility Departments	97.5	97.2	94.2	93.6
<u>(B) Sacramento-Stockton Area (Application No. 45252)</u>				
Handling		120.2		102.7
Freezer Storage		82.8		83.4
Cooler Storage		85.4		85.9
Quick Freezing		133.0		132.3
Special Services		66.2		79.1
All Utility Departments	93.2	95.1	92.3	93.0

*Or other fiscal period.

As in the earlier proceedings involving these utilities, the accountant's study indicates that applicants' handling operations, which account for approximately one quarter of their aggregate revenues, are conducted at a loss. The indicated loss in the San Francisco group is much greater than that in the Sacramento group. According to the accountant's cost analysis, substantially all of these losses are attributable to the partial lot deliveries, of which there are a great many in distribution warehousing.

While quick freezing operations also show losses in both groups of warehousemen, this service generates only a small portion of the total revenues of applicants. The loss position of the cooler storage operations in the San Francisco group would, according to Table IV, be eliminated if the sought rate increases were

granted. It will be observed that the weighted average operating ratios for all departments, as developed by the accountant, do not differ materially from those resulting from the tariff agent's analysis.

It is pertinent to observe that, subsequent to the filing of the applications herein, Union closed its plant at Napa and National closed its plant at Stockton. Data for these plants are included in applicants' studies but are excluded from those of the staff. Also, none of the studies of record include figures for A. C. Freeman, doing business as United Cold Storage Co. As hereinbefore stated, this warehouseman was made an applicant by amendment to Application No. 45251. He commenced public utility warehouse operations on May 27, 1963, the effective date of tariff filings made for his account. The record discloses further that National transferred its operations about April 1, 1963, to a modern plant and location in San Francisco, at the same time discontinuing business at the old facilities. The studies relating to that applicant necessarily reflect operations at the old location. This change and the closing of Napa and Stockton plants should result in improved results of operation for the groups involved. The tariff agent introduced exhibits in which he had made comparisons 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 in and out, for cooler or freezer storage, or for quick freezing. According to the exhibits, in many instances the developed costs exceed even the proposed rates. This is particularly the indication with respect to the handling services. In the case of the rate-cost relationships for storage the instances of excess of developed cost over proposed rates is more noticeable in the San Francisco-Oakland area studies.

Officers of several of the applicants testified in support of the sought rate increases. The testimony of these witnesses was offered to show that competition among applicants within each of the application areas necessitates uniformity of rates within the respective areas; 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; that working capital equivalent to two months' operating expenses, less depreciation, is a reasonable requirement; and that the year 1961 was a representative year from the standpoint of volume of commodities stored and cross-section of commodities stored.

No evidence was offered by parties other than those whose testimony has been hereinabove described. Members of the Commission's Finance and Accounts Division and Transportation Division staff assisted in the development of the record through examination of applicants' witnesses. Notices of hearing had been sent in advance by applicants to some 2,000 storers, and by the Secretary of the Commission to other parties believed to be interested.

In response to the foregoing notification, one party appeared in opposition to the proposed rate increases. This was the Pacific Coast Meat Jobbers Association, a trade association composed primarily of firms in the wholesale meat industry located throughout northern California. The representative of that Association stated that some of its members use public utility cold storage warehouses on a regular basis, while others need to supplement their own facilities through occasional use of said warehouses; that for some years the wholesale meat industry has been the victim of a depressed profit situation, as a result of which there have been major lay-offs of employes and closings of packing plants;

that within the past year six wholesale meat companies in Sacramento and the San Francisco Bay area have gone out of business because of inability to operate at a profit; that nearly all lots stored by the Association's members fall within the less-than-5,000-pound category, and that the slim margin of profit now enjoyed by the wholesale meat industry would be dealt another blow by the granting of the rate increases on meats and meat products proposed by applicants. He urged that careful consideration be given to determine whether said increases are absolutely necessary and would be in the public interest.

Discussion, Findings and Conclusions

The rate adjustments herein proposed are intended to offset increased operating costs. Applicants propose to accomplish this principally by increasing the quick freezing, handling and monthly storage rates tendered in lots of less than 5,000 pounds. The greatest increases would be in the handling rates for lots falling in the weight range from 2,000 to 5,000 pounds. No increases are proposed in the miscellaneous accessorial charges, such as the hourly charge for special labor.

In the San Francisco group, the aggregate additional annual revenue estimated by the tariff agent under the proposed rates would amount to approximately \$69,000, or 3.6 percent of the estimated revenues under a continuation of present rates. The corresponding estimate for the Sacramento area operators, is a total of \$22,841, which is equivalent to only 1.3 percent of the estimated aggregate revenues under present rates. In the San Francisco area, one applicant, Haslett Warehouse Company, would receive no additional revenue if the proposed increases were authorized. In the Sacramento area, the revenue estimates indicate that a granting of Application No. 45252 would generate no additional revenue for four of the seven

applicants in that proceeding, namely, Bercut-Richards, Cone, Lincoln and Reliance. These circumstances are predicated, of course, on the assumption that the volume of each commodity stored and the amount of the other warehouse services rendered would, during the projected rate year, be the same for each of the operators involved herein as in the 1961 test periods on which the various revenue estimates are based. According to the record that assumption is a reasonable one.

As hereinbefore stated, the operating results set forth in Table I, above, do not show the impact of the 1962 rate increases. Turning to the estimated operating results for the projected rate year, as summarized in Table II, above, it will be seen that under a continuation of present rates the San Francisco group would enjoy operating ratios ranging from 117.4 percent down to 91.6 percent, with an estimated weighted average operating ratio for the group of 95.9 percent. Under the proposed increased rates the corresponding estimated operating ratios range from 117.4 down to 90.0 percent, with a weighted average operating ratio for the group of 94.2 percent.

With respect to the Sacramento group of operators, Table II, above, the estimated operating ratios, after income taxes, range from 95.2 down to 82.0 percent, with a weighted average operating ratio for the group of 92.3 percent. The corresponding estimated operating ratios under the sought rates range from 94.7 down to 82.0 percent, reflecting a weighted average operating ratio for the group of 92.3 percent.

The cost studies of the accountant are of value in endeavoring to distribute operating expenses among the various kinds of warehouse services rendered by the applicants and as an aid in the determination of compensatory rate levels. In appraising

the effect of the rate proposals herein presented, however, we must also consider the over-all results of operations here in issue of each of the applicants and, in view of the necessity for uniform rate levels within each of the two areas involved, the aggregate over-all results for each group of operators. It appears from the individual and group operating ratios shown in Table II for the warehousemen in Application No. 45252 (Sacramento group) that the operations in question would be, in general, decidedly satisfactory under a continuation of present rates.

As to the operations embraced by Application No. 45251 (San Francisco group), however, Table II indicates that a continuation of present rates will not provide those applicants as a group and individually, with one exception, with revenues sufficient to maintain an adequate warehouse service. The estimated results for these operators under the proposed rates, however, do not appear to be unduly favorable except that the data set forth in Table IV do not justify further increases in rates for freezer storage service.

Upon consideration of the record as a whole, we find:

1. The revenues produced by the present rates here in issue in Application No. 45251, as amended, are insufficient to enable the applicants therein to continue to provide adequate and efficient service at the facilities involved in that proceeding.

2. The increased rates proposed in Application No. 45251, as amended, with exception of the proposed increases in rates for freezer storage service, will be reasonable and have been justified.

3. The increases in rates proposed in Application No. 45252, as amended, have not been justified.

The Commission concludes that Application No. 45251, as amended, should be granted except as to increased rates for freezer storage service and that Application No. 45252, as amended, should be denied, as set forth in the following order.

O R D E R

IT IS ORDERED that:

1. Applicants in Application No. 45251, as amended, are authorized to establish the increased rates proposed in said Application No. 45251, as amended, except those increases for freezer storage service. 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. Application No. 45252, as amended, is denied.

3. The authority herein granted shall expire unless exercised within ninety days of 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 15th day of OCTOBER, 1963.

William M. Durnell
President

John E. Fitchell

Conrad W. Page

George A. Grover

Fredrick B. Holoboff
Commissioners

APPENDIX A

Results of Operations
 (Book-Recorded, as Adjusted by Commission's Staff)
 Before Provision for Income Taxes
 for Calendar Years 1961 and 1962
 (Except as Otherwise Noted)

Warehouseman	Year	Revenues	Expenses	Net	Operating Ratio (Percent)
<u>(A) San Francisco-Oakland Area (Application No. 45251)</u>					
Dreisbach	1961	\$ 258,017	\$ 249,606	\$ 8,411	96.7
"	1962	331,768	309,480	22,288	93.3
Haslett	1961	41,003	49,324	(8,321)	120.3
"	1962	54,070	52,122	1,948	96.4
Merchants	1961	555,997	545,183	10,814	98.1
"	1962	547,474	528,825	18,649	96.6
National	1961	852,332	734,038	118,294	86.1
"	1962	816,408	742,000	74,408	90.9
(1) Union	1961	83,760	74,382	9,378	88.8
"	1962	71,474	64,175	7,299	89.8
All Companies	1961	\$1,791,109	\$1,652,533	\$138,576	92.3
"	1962	1,821,194	1,696,602	124,592	93.2
<u>(B) Sacramento-Stockton Area (Application No. 45252)</u>					
Bercut					
Richards	(3) 1961	\$ 163,517	\$ 208,830	\$ (45,313)	127.7
"	(3) 1962	243,392	220,211	23,181	90.5
Crystal	1961	236,201	215,107	21,094	91.1
"	1962	245,904	218,675	27,229	88.9
Lincoln	(4) 1961	124,577	95,116	29,461	76.4
"	(4) 1962	127,621	89,979	37,642	70.5
(2) National	1961	552,001	455,300	96,701	82.5
"	1962	522,932	465,655	57,277	89.0
Reliance	(5) 1961	16,032	20,203	(4,171)	126.0
"	(5) 1962	28,630	26,490	2,140	92.5
Union	1961	425,798	399,135	26,663	93.7
"	1962	477,820	412,844	64,976	86.4
All Companies	1961	\$1,518,126	\$1,393,691	\$124,435	91.8
"	1962	1,646,299	1,433,854	212,445	87.1

() - Indicates loss.

- (1) Excludes figures for warehouse at Napa, since operations at that point have been discontinued.
 (2) Excludes figures for warehouse at Stockton, since operations at that point have been discontinued.
 (3) Figures are for 12-month period ended March 31 of year indicated.
 (4) Figures are for 12-month period ended June 30 of year indicated.
 (5) Figures are for 12-month period ended July 31 of year indicated.