

ORIGINALDecision No. 68853

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 COMPANY, NATIONAL ICE AND COLD STORAGE COMPANY OF CALIFORNIA, UNION ICE & STORAGE COMPANY, AND UNITED COLD STORAGE CO. (A. C. Freeman dba), for an Increase in Rates.

Application No. 46977
(Filed September 14, 1964)

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. TRACY ICE & DEVELOPMENT COMPANY, and UNION ICE & STORAGE COMPANY, for an Increase in Rates.

Application No. 46978
(Filed September 14, 1964;
Amended December 3, 1964)

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. 47103
(Filed November 12, 1964;
Amended December 3, 1964)

Vaughn, Paul and Lyons, by John C. Lyons, and Jack L. Dawson, for applicants.
Lloyd Halverson, for John Inglis, Frozen Foods Company; L. A. Campbell, for Stokely-Van Camp, Inc.; Morton L. King and Bernard H. Hohman, for Sterling Industries Division of the Green Giant Company; E. Alan Mills, for California Grape and Tree Fruit League; Phillip Chinchio for Chinchio Fruit Co.; Felix Costa and A. H. Travel, for Felix Costa & Sons; Earl S. Williams, Department of General Services, State of California; interested parties.
John R. Laurie, Charles Astrue and Harry G. Scheibe, for the Commission staff.

O P I N I O N

Applicants in these proceedings are public utility warehousemen providing cold storage warehouse services in Northern California. Applicants in Application No. 46977 operate facilities in the San Francisco Bay Area; those in Application No. 46978 operate facilities in the Sacramento and the Northern San Joaquin Valleys; and those in Application No. 47103 operate facilities in the San Jose and Santa Clara Areas. By these applications they seek to increase certain of their cold storage warehouse rates and charges.

Public hearings in these matters were held on a common record before Examiner Mallory on January 5 and 6, 1965, at San Francisco, and January 8, 1965, at Sacramento. The matters were submitted on the latter date, subject to the filing of late-filed exhibits which have been received.

The most recent adjustments in the warehouse rates of applicants in the San Francisco Bay Area became effective November 14, 1963, pursuant to Decision No. 66160 in Application No. 45251 (61 Cal. P.U.C. 533); the rates of applicants in the Sacramento-San Joaquin Area and in the San Jose-Santa Clara Area became effective on July 5, 1962, pursuant to Decision No. 63787, dated June 4, 1962 in Applications Nos. 43878 and 43879 (unreported). Since the dates of the last rate increases, applicants have experienced increased costs of operation involving wages, property taxes and other categories of expenses. According to the applications, the rate increases proposed therein will not fully compensate applicants for the increases in expenses, but are urgently needed in order that the operators may continue in business and offer efficient warehouse services.

The rate adjustments sought herein, as described by applicants' tariff agent, principally involve increasing the storage and handling rates and labor charges where the present rates are less than the related average unit operating costs of providing the service.^{1/} The bulk of the increases falls in the handling rates for lots of less than 30,000 pounds and in the storage rates for lots of less than 5,000 pounds. The straight-time special labor charge is proposed to be increased from \$4.40 to \$5.50 per hour. The special rates for precooling and shipping of cherries applicable in the San Jose area and Stockton area are proposed to be increased by 25 percent. The minimum lot size in the Sacramento-San Joaquin and San Jose-Santa Clara areas is proposed to be established at 5,000 pounds or less and rates and charges for this lot size are proposed to be increased. Certain rates under which no service has been performed for sometime are proposed to be cancelled. Other miscellaneous rate increases are proposed.

^{1/} For example, the present and proposed freezer room rates for vegetables, deciduous fruits and berries, in packages weighing 20 pounds or more per cubic foot, are as follows:

(Rates in Cents per 100 pounds)

	Handling				Storage	
	Present		Proposed		Present	Proposed
	<u>A</u>	<u>B</u>	<u>A</u>	<u>B</u>	<u>A & B</u>	<u>A & B</u>
Lot, less than 5,000 lbs.	37½	40	45	45	20	30
Lot, 5,000 to 10,000 lbs.	30	30	35	35	17½	25
Lot, 10,000 to 30,000 lbs.	15	20	20	25	15	20
Lot, 30,000 lbs. or more	10	12½	15	15	15	15

Col. A - A. 46978 (Sacramento-San Joaquin area)
and A. 47103 (San Jose-Santa Clara area).
Col. B - A. 46977 (San Francisco Bay Area).

Evidence in support of the applications was adduced by applicants' tariff agent, by a representative of a firm of public accountants and by representatives of several of the applicants. Evidence in opposition to increases in precooling and shipping rates on cherries was presented by the owner of a fruit packing company, and to increases in storage and handling rates on fruits and vegetables in freezer storage by representatives of two frozen food packers. Evidence also was introduced by staff members of the Commission's Finance and Accounts Division and Transportation Division.

Applicants' tariff agent estimated that under the proposals the over-all revenues of applicants in the San Francisco Bay area will be increased by 4.1 percent; revenues of applicants in the Sacramento-San Joaquin area by 4.8 percent; and revenues of applicants in the San Jose-Santa Clara area by 3.4 percent.

Results of utility operations of each of the applicants at the involved plant locations, as prepared by the tariff agent from data supplied by the warehousemen, are set forth in Table I, as follows:

TABLE I

Results of Operations for 12-month Period Ended
December 31, 1963 (Except as noted) After Income Taxes
(Applicants)

<u>Warehouseman</u>	<u>Revenues</u>	<u>Expenses (Including Income Taxes)</u>	<u>Net</u>	<u>Operating Ratio (Percent)</u>
San Francisco Bay Area (Application No. 46977)				
Dreisbach	\$ 312,164	\$ 327,910	\$(15,746)	105.0
Merchants	549,868	564,788	(14,920)	102.7
National -				
San Francisco-Oakland(1)	802,652	785,109	17,543	97.8
Petaluma-Santa Rosa	206,819	255,003	(48,184)	123.3
Union (2)	23,274	22,791	483	97.9
United	123,609	139,969	(16,360)	113.2
Haslett	32,468	36,234	(3,766)	111.6
Totals	\$2,050,854	\$2,131,805	\$(80,950)	103.9
Sacramento-San Joaquin Area (Application No. 46978)				
Bercut-Richards(3)	\$ 173,695	\$ 250,720	\$(77,025)	144.3
Cone	8,458	8,364	93	98.9
Crystal	263,820	241,344	22,476	91.5
Lincoln	118,286	106,331	11,955	89.9
National (4)	245,246	231,846	13,400	94.5
Reliance (1)	32,632	28,591	2,673	91.8
Tracy (5)	135,662	121,123	14,539	89.3
Union	457,900	424,226	33,675	92.6
Totals	\$1,435,699	\$1,413,913	\$ 21,786	98.5
San Jose-Santa Clara Area (Application No. 47103)				
Beall	\$ 113,352	\$ 127,407	\$(14,055)	112.4
Merchants	414,028	442,538	(28,510)	106.9
Modern	618,206	570,018	48,188	92.2
National	209,369	255,026	(45,657)	121.8
Santa-Clara Storage	216,788	209,457	7,331	96.6
Union	475,043	444,164	30,879	93.5
Western (5)	251,132	216,859	34,274	86.4
Totals	\$2,297,919	\$2,265,469	\$ 32,450	98.6

() - Loss

(Totals may not add because of rounding)

(1) - For year ended July 31, 1964.

(2) - For Oakland operation only.

(3) - For year ended March 31, 1964.

(4) - For year ended June 30, 1963.

(5) - For year ended September 30, 1963.

The figures in the above table, except as noted, are for the calendar year 1963. The tariff agent stated that the figures in Table I are the latest available at the time his studies were made.

The data purport to show results of operations, after provision for income taxes, relating solely to public utility warehouse operations at locations within the scope of the applications herein. Development of these figures necessarily involved allocations of expenses between public utility warehouse operations and other operations at these locations. Uniform allocation methods developed and used by the Pacific States Cold Storage Warehousemen's Association in prior proceedings were followed for members of that association. Income taxes were determined by applying 1963 tax rates to the income of each company earned within the scope of each application, rather than endeavoring to pro-rate taxes actually paid on the companies' operations as a whole. In developing expenses, the agent stated that where warehouse properties were leased from an affiliate, rents actually paid were eliminated, and the so-called landlord costs incurred by the affiliated company were substituted in order to show operating results as if the properties were owned by the public utility.

A financial examiner from the Commission's Finance and Accounts Division also presented evidence relating to the operations of selected warehousemen within the San Francisco Bay area and the Sacramento-San Joaquin area. This witness testified that, with certain exceptions hereinafter noted, his study agreed with the figures developed by applicants in Applications Nos. 46977 and 46978. He took exception to the recorded amounts on the books of United Cold Storage Co. (South San Francisco) with respect to the value of the warehouse plant. He stated that the property was entered on the books at a value based in great part on an appraisal made in 1962 when the property was restored to public utility service. The witness developed values for land and buildings based on the price received in 1952 when a prior corporation was liquidated, plus additions at

cost since that date. The witness also included in expenses for United a salary of \$10,000 per year for the owner-operator, as no such expense item is recorded on the books of the company. An adjustment downward in depreciation expenses and the addition of a salary for the owner resulted in a net reduction of \$6,591 in total expenses before income taxes for United from those reflected in Table I. The witness also adjusted downward the expenses of Union Ice & Storage Company (Chico and Stockton) to eliminate certain non-utility labor and other expenses charged to utility operations, and increased expenses to reflect an understatement of depreciation expenses. The net effect was to reduce expenses before income taxes of Union on Table I by \$4,595. Charges made to expenses for donations were eliminated wherever they appeared. Based on his study, the financial examiner stated that in his opinion the proposed increased revenues would not produce an excessive return on net investment for any of the applicants included in his study. No study was made by this witness with respect to results of operations of applicants in Application No. 47103.

The tariff agent also developed estimates of operating results for a projected rate year under a continuation of present rates and under proposed rates. The estimates were made by adjusting the expense figures shown in Table I to reflect current levels of costs for labor and property taxes, adjusting income taxes to reflect 1965 rates, and adjusting revenue figures to give effect to the rate increases sought herein. The amount of the revenue increase was developed from a rerating of a sampling of warehouse bills of each applicant covering two-months operations. The revenues of warehousemen in Application No. 46977 were also adjusted to give appropriate effect to the increases granted by Decision No. 66160 in Application No. 45251, effective late in 1963.

In Table 2, below, are set forth for each applicant estimated operating ratios after provision for income taxes, and rates of return as developed by the tariff agent for the projected fiscal period, under a continuation of present rates and under proposed rates, respectively.

TABLE 2

Estimated Operating Ratios after Income Taxes and Rates of Return For a Projected Rate Year Under Present and Proposed Rates, as Developed by Applicants

<u>Warehousemen</u>	(Percent)			
	<u>Under Present Rates</u>		<u>Under Proposed Rates</u>	
	<u>Operating Ratio</u>	<u>Rate of Return</u>	<u>Operating Ratio</u>	<u>Rate of Return</u>
San Francisco Bay Area (Application No. 46977)				
Driesbach	107.9	-	104.6	-
Merchants	101.9	-	98.0	0.9
National				
San Francisco-Oakland	98.3	0.6	97.2	2.1
Petaluma-Santa Rosa	124.6	-	116.9	-
Union	98.6	0.35	97.5	0.63
United	112.9	-	108.8	-
Haslett	112.0	-	107.7	-
All Companies	104.5	-	101.4	-
Sacramento-San Joaquin Area (Application No. 46978)				
Bercut-Richards	146.4	-	139.2	-
Cone	98.8	3.5	98.4	4.6
Crystal	93.0	3.7	90.8	5.1
Lincoln	88.7	5.4	86.6	6.6
National	94.8	2.3	91.5	4.0
Reliance	90.9	3.8	90.9	3.8
Tracy	88.9	4.0	88.3	4.3
Union	92.9	3.3	90.9	4.5
All Companies	99.0	0.46	96.3	1.7
All Companies except Bercut-Richards	92.5	3.48	90.4	4.64
San Jose-Santa Clara Area (Application No. 47103)				
Beall	115.7	-	113.4	-
Merchants	108.3	-	101.6	-
Modern	92.6	8.5	91.9	9.5
National	97.1	2.3	94.5	4.5
Santa Clara	98.9	0.5	93.9	2.6
Union	93.6	3.2	92.9	3.6
Western	85.5	5.8	85.4	5.9
All Companies	97.0	1.8	94.7	3.3

The rate base estimates developed by the tariff agent make provision for working capital in the amount of two months' expenses, less depreciation. Working capital so included is 6.1 percent of total estimated rate base for the San Francisco Bay Area group of warehouseman, 6.5 percent for the Sacramento-San Joaquin group, and 8.8 percent for the San Jose-Santa Clara group. Excluding working capital from rate base figures developed by the tariff agent would result in the following rates of return for the projected rate year under proposed rates:

San Francisco Bay Area Group	(loss)
Sacramento-San Joaquin Group	1.81%
San Jose - Santa Clara Group	3.67%

A certified public accountant testifying on behalf of applicants presented studies which his firm had made to develop weighted average cold storage unit operating costs. This witness has testified concerning similar studies in prior cold storage rate increase proceedings. The procedures employed in connection with the present applications are substantially the same as used in the earlier proceedings.^{2/} As in earlier studies, the accountant's analyses included the development of handling lot-size factors and storage lot-size factors, which were used in ascertaining handling and storage costs. The unit costs so developed vary with the densities of the commodities and the size of the lots. Costs were developed separately for the various types of services rendered by applicants.

^{2/} The background for, and the procedures employed in, the accountant's cost studies are set forth in Decision No. 63787, dated June 4, 1962, in Applications Nos. 43878 and 43879 (unreported).

The tariff agent presented comparisons of the proposed rates and the corresponding weighted average unit operating costs as developed by the accountant. Most of the proposed rates are below the level of the corresponding unit costs. In the few instances in which the proposed rates exceed the developed unit costs, the tariff agent explained the factors other than costs which assertedly require the assessment of the higher rates. These factors include perishability, irregular container sizes, poor stockability of containers, low pile heights, and exceptional susceptibility to damage because of poor packing containers or the inherent nature of the article.

In addition to the cost data submitted by the accountant, the tariff agent presented exhibits designed to show labor costs on a straight-time and over-time basis, as justification for the proposed special labor rates. The average total straight time wage cost per hour, including supervision and overhead expenses, ranged from \$6.26 to \$7.12. The proposed straight time special labor rate is \$5.50 per hour.

The tariff agent also presented exhibits showing results of operation under proposed rates for the three warehousemen performing the specialized service of precooling and loading of cherries into cars and trucks. According to these exhibits, the operating ratios after taxes under proposed rates for the handling of cherries would be 93.0 percent for Merchants (Santa Clara), 91.8 percent for Santa Clara Cold Storage, and 91.4 percent for Union (Stockton).

Two transportation rate experts from the Commission's Transportation Division-Rate Branch testified that they had made analyses of the revenue data employed by applicants in their presentations to determine the accuracy of revenue projections.

These surveys indicated that the revenue data employed in applicants' studies were substantially accurate. Where the staff studies showed revenue data had been computed improperly, discrepancies called to the attention of the warehousemen prior to the hearing were corrected.

Estimated results of operation of selected warehousemen operating in the San Francisco Bay area and the Sacramento-San Joaquin area were presented by an engineer of the Commission's Transportation-Engineering Economics Branch. The volume of business for the projected rate year employed by the engineer was estimated to be the same as the corresponding historical year used in the data prepared by applicants' tariff agent. The revenue figures for the test year are the same as those used by the tariff agent. Expenses used by the engineer are the revised expenses developed by the staff accountant, adjusted to give effect to known increases in labor and other costs as ascertained from field studies. Adjustments were also made to eliminate nonrecurring expense items and to reflect other reductions in cost. Income taxes were developed by the engineer based on the amount of taxes actually paid by the utility during the historical year, adjusted to give effect to 1965 tax rates.

Table 3, following, sets forth the estimated operating results under proposed rates for a projected rate year as developed by the staff engineer:^{3/}

^{3/} Haslett (San Francisco) was not included in Table 3 because revenue from cold storage warehousing represents less than 2.5 percent of its total public utility storage operations. Cone (Red Bluff) and Reliance (Stockton) were not included because of their low revenue compared with other applicants. No staff review of the books of applicants in Application No. 47103 (San Jose-Santa Clara Area), was made, and consequently no estimates of operating results were developed.

TABLE 3

Estimated Operating Results After Income Taxes
Under Proposed Rates For Year Ending March 31, 1966
(Commission staff)

<u>Warehouseman</u>	<u>Revenues</u>	<u>Expenses (Including Income Taxes)</u>	<u>Net</u>	<u>Operating Ratio (Percent)</u>
San Francisco Bay Area (Application No. 46977)				
Dreisbach	\$ 393,813	\$ 366,250	\$ 27,563	93.0
Merchants	591,817	583,872	7,945	98.7
National				
San Francisco-Oakland	837,083	803,122	33,961	95.9
Petaluma-Santa Rosa	220,541	260,706	(40,165)	118.2
Union	23,759	23,396	363	98.5
United	130,027	134,667	(4,640)	103.6
Totals	\$2,197,040	\$2,172,013	\$ 25,027	98.9
Sacramento-San Joaquin Area (Application No. 46978)				
Bercut-Richards	\$ 182,640	\$ 257,398	\$(74,758)	140.9
Crystal	278,617	250,581	28,036	89.9
Lincoln	122,426	108,540	13,886	88.7
National	259,332	228,034	31,298	87.9
Tracy	137,019	123,096	13,923	89.8
Union	481,569	438,468	43,101	91.0
Totals	\$1,461,603	\$1,406,117	\$ 55,486	96.2
Totals excluding Bercut-Richards	\$1,278,963	\$1,148,719	\$130,244	89.8

() - Loss

Rates of return under the estimated operating results shown in Table 3 were not developed by the staff engineer. Rate base figures were presented for these groups of applicants by the staff accountant. His rate base figures do not include provision for working capital. Rates of return calculated from information in the staff studies for the projected rate year under proposed rates are set forth in Table 4 as follows:

TABLE 4

Estimated Rates of Return for Year Ending March 31,
1966 Under Proposed Rates (Commission staff).

<u>Warehouseman</u>	<u>Rate Base</u>	<u>Rate of Return (Percent)</u>
San Francisco Group (Application No. 46977)		
Dreisbach	\$ 665,403	4.14
Merchants	1,200,115	0.66
National		
S.F.-Oakland	2,157,930	1.57
Pet.-Santa Rosa	196,046	-
Union	90,138	0.40
United	<u>173,000</u>	-
Companies as a group	\$4,483,532	0.56
Sacramento Group (Application No. 46978)		
Bereut-Richards	\$ 406,897	-
Crystal	465,093	6.03
Lincoln	233,976	5.93
National	521,352	6.00
Tracy	357,716	3.89
Union	<u>913,282</u>	4.72
Companies as a group	\$2,398,316	1.91
Group excluding Bereut-Richards	\$2,491,419	5.23

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 practical steps to reduce costs through mechanization of handling services and plant modernization; that provision for working capital is essential in their operations; that two months' operating expenses less depreciation is a reasonable amount for working capital; that the two-month revenue study used for determining the effect of the proposed rate increases represents a cross-section of each applicants' business over a yearly period; and that notices of hearing had been sent to each applicant's warehouse customers.

In response to the foregoing notification, representatives of Stokely-Van Camp Corp. and Sterling Industries Division of the Green Giant Co. testified in opposition to the proposed increases in the storage and handling rates for freezer storage of fruits and vegetables. The witnesses testified that the companies they represent are food processors which freeze large amounts of California fruits and vegetables, which products are stored in locations near points of production. The principal markets for the frozen foods are located in eastern and midwestern states. They stated that in-transit warehouses located outside California at points intermediate to principal markets accord lower rates than those proposed herein. The witnesses indicated that their companies would have to absorb any increase in rates granted herein. They stated that if increases in rates on frozen foods as proposed herein are granted, their companies will explore the greater use of in-transit warehouses, or construction of their own warehouses, which could cause the loss of business to applicants. A representative of John Inglis Frozen Foods Company stated that his company was also vitally affected by the proposed increase in freezer rates on fruits and vegetables. He urged that careful consideration be given to determine whether said increases are absolutely necessary.

The owner of Chinchiolo Fruit Co. testified on behalf of his company and another grower and shipper of fresh cherries against the proposed increase in the rate for precooling and loading fresh cherries.^{4/} He stated that his company is the only cherry grower and

^{4/} The rate includes the services of receiving; precooling; delivering to rail cars or trucks; stripping, center bracing cars and furnishing dunnage; preparation of bills of lading and express bills; and blocking out shipments in the warehouse for carloading.

shipper in the Stockton area which uses public warehousemen during the full shipping season (four to six weeks per year) to precool and ship cherries. Other growers use applicants' services only at the beginning and ending of the season, when the fruit of several shippers is loaded into a single car. During the heavy movement of cherries only his company's fruit is loaded into a single car, assertedly resulting in less expense than cars multi-loaded with fruit of several shippers. The witness indicated that other growers operate proprietary facilities for precooling, and that he would consider the establishment of such facilities rather than pay the sought increase in the rate.

In rebuttal to the testimony of the storers, applicants' tariff agent testified that the handling rates for freezer storage of fruits and vegetables have not been increased since the early 1930s. His comparison of the developed unit costs for handling and storing frozen fruits and vegetables showed that the proposed rates do not exceed the related costs. The tariff agent and a representative of Union (Stockton) testified concerning exigencies arising in the service of precooling and loading cherries.^{5/} Assertedly this service is demanding upon applicants' employees as storage lots must be kept separate by grade and by owner and must be loaded in rail or express cars by lot. In addition, they stated that employees must be specially trained to handle this operation, and that labor and other expenses have increased sharply.

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 rates and charges for services which

^{5/} The record shows that Union is the only applicant performing this service in the geographic scope of Application No. 46978.

their studies show are operated below full cost. The greatest increases would be in the handling rates for lots less than 5,000 pounds, wherein labor is a large proportion of total cost. No increases are proposed in many rate items, including rates for can- nery fruit, which make up a large portion of the revenues of applic- ants in the San Jose-Santa Clara and Sacramento-San Joaquin areas.

The San Francisco Bay area applicants, as a group, would operate at a loss under a continuation of present rates for the test periods used by applicants' tariff agent and by the staff engineer. Under proposed rates, weighted average results of operations of this group for a projected rate year under the tariff agent's estimates would produce an operating ratio after taxes of 101.4 percent; and under the staff engineer's estimates, an operating ratio after taxes of 98.9 percent and a rate of return of 0.56 percent.

For the Sacramento-San Joaquin area, applicants' weighted average results of operations under a continuation of present rates for a projected rate year, as estimated by the tariff agent, would produce an operating ratio after taxes of 99.0 percent and a rate of return of 0.46 percent; and as estimated by the staff engineer, an operating ratio after taxes of 99.3 percent and a rate of return of 0.32 percent. Under proposed rates, the corresponding estimates of the tariff agent result in an operating ratio after taxes of 96.3 percent and a rate of return of 1.7 percent; and of the staff engineer, an operating ratio after taxes of 96.2 percent and a rate of return of 1.91 percent.

The Commission staff urges, in considering the results of operation of the Sacramento-San Joaquin group, that the operating results of Bercut-Richards be eliminated, because this applicant's operations are not typical of public utility cold storage warehouse

operations generally. Assertedly, Bercut-Richards is a food processor which operates its public warehouse as an adjunct to its food processing business, and a significant amount of its own goods is stored in its warehouse. The record shows that Bercut-Richards enters on its books its tariff rates for all goods owned by it and stored in its public warehouse.^{6/} The record also shows that many of the applicants herein lease to food processors facilities adjacent to their public utility warehouses, and refrigeration and related services are furnished to the processors under such leases. It does not appear that the operations of Bercut-Richards are materially different from other applicants except that, in Bercut-Richards' case, the ownership of the food processing company and the public warehouseman is identical.

For the San Jose-Santa Clara area group of operators, no estimated results of operations were developed by the Commission staff. Under the tariff agent's estimates of operations under present rates for a projected rate year, the weighted average operating ratio after taxes would be 97.0 percent and the rate of return would be 1.8 percent. For operations under proposed rates, his estimates show an operating ratio after taxes of 94.7 percent and a rate of return of 3.3 percent.

6/ Eliminating the results of operation of Bercut-Richards would produce the following estimated operating ratios after taxes, and rates of return, for a projected rate year for the Sacramento-San Joaquin Group:

	<u>Tariff Agent</u>	<u>Staff Engineer</u>
<u>Present Rates</u>		
Oper. Ratio	92.5%	92.4%
Rate of Return	3.48%	3.73%
<u>Proposed Rates</u>		
Oper. Ratio	90.4%	89.8%
Rate of Return	4.64%	5.23%

The principal differences between the revenue and expense estimates developed by applicants' tariff agent and by the Commission staff are in their treatment of working capital and income taxes. Provision for working capital equivalent to two months' operating expenses, less depreciation, was included in the rate base figures developed by the tariff agent. Operating witnesses testified that working capital is needed to pay current expenses and to cover pre-paid items such as insurance and taxes. The record shows that neither applicants nor the staff made special studies of the portion of working capital which is justifiably included in rate base.^{7/} The record indicates that applicants have need for working capital and that some portion of it properly may be included in rate base. The specific amount of two months' expenses, less depreciation, has been used by applicants in prior proceedings involving these groups of warehousemen wherein rate increases have been approved. In the circumstances, allowance in estimated rate base for working capital in the amounts used by applicants will be accepted for this proceeding.

The tariff agent calculated income taxes as if the public utility warehouse operation of each applicant in the geographical area of each application was separate and distinct from other utility and nonutility operations of the respective applicants. The staff engineer followed what he stated was the policy of the Commission in computing income taxes on an "as-paid" basis. In his computations, the staff engineer related income taxes for his projected rate year to income taxes actually paid by the company during the historical period. Such income tax calculations reflect results of operations for services other than those under consideration in these proceedings.

^{7/} One generally accepted accounting definition of working capital is the excess of current assets over current liabilities. The record does not contain calculations of working capital on this basis.

Several of the larger warehousemen have utility operations outside the tariff areas here under consideration, and most of the applicants have nonutility operations at locations within the areas covered by these applications. The full nature and extent of the services of applicants outside the scope of these proceedings and for nonutility operations do not appear on the record herein. The engineer assumed that revenues and expenses for operations not under consideration herein would remain constant for the projected rate year employed in his studies. The record does not indicate to what extent, if any, revenues will be increased for such services; but the record does indicate that certain items of expense for such services will be greater during the projected year, such as labor and property taxes. Therefore, the assumption that revenues and expenses for operations of applicants outside the scope of these proceedings will remain constant is invalid. The engineer's calculations result in lower income taxes, and therefore greater net revenues after taxes, than the calculations of the tariff agent. While the Commission has indicated in prior proceedings that income taxes of a utility actually paid, or as would be paid in a projected rate year, based upon its operations as a whole, should be determinative of income tax expense in rate increase proceedings, the record herein does not contain the data necessary to make accurate calculations of income tax expense for the projected rate year on such basis. For the purpose of testing the sufficiency of the net revenues of applicants under present and proposed rates, we find that income taxes calculated on the results of operation for public utility cold storage warehouse services within the geographical scope of each of the applications herein will be fair and reasonable.

The record is clear that the continuation of present rates will not provide applicants as a group, within each geographical area, with revenues sufficient to maintain adequate services and earn a reasonable return on their properties devoted to public utility services. It has been well established that uniformity of rates within the geographical scope of each application is necessary in order to maintain stability of rate levels within each area. Therefore, the aggregate over-all results of each group of applicants should be considered. The evidence shows that under the rates proposed herein operations of the warehouseman, as a group, in each application, will not be unduly favorable.

Protests were received concerning proposed rate levels for freezer storage of fruits and vegetables and for the precooling and loading of cherries. With respect to frozen fruits and vegetables, protestants are food processors storing in large quantities. They were concerned principally with the volume rates, wherein an increase in handling charges (but not storage charges) is proposed. The record shows that the present rates have not been increased for approximately 30 years, that labor costs have increased substantially in that period, that the proposed rates are below the average unit costs of performing this service, and that proposed volume rate levels are similar to the levels maintained by warehousemen in the southern portion of this State. We find that the proposed rates for storage and handling of frozen fruits, vegetables and berries will be reasonable and are justified.

Precooling and shipping of cherries is a specialized service performed by only three of the applicants, two located in Santa Clara and one in Stockton. The increase proposed is substantial, amounting to 25 percent. The studies of operating results for this service indicate that an increase in revenue is necessary. However, it

appears, and we so find, that an increase of 20 percent in the basic rate for this service will provide sufficient additional revenues to cover expenses and provide a reasonable margin of profit to the warehousemen.^{8/}

Upon consideration of the record we find:

1. The revenues produced by the present rates herein in issue in Applications Nos. 46977, 46978, and 47103, as amended, are insufficient to enable applicants therein to continue to provide adequate and efficient service at the facilities involved in those proceedings.

2. The increased rates proposed in Applications Nos. 46977, 46978, and 47103, as amended, with the exception of the proposed increase in the basic rate for precooling and shipping of cherries in excess of 20 percent, will be reasonable and have been justified.

The Commission concludes that Applications Nos. 46977, 46978, and 47103, as amended, should be granted, except that the increase in the basic rate for the precooling and shipping of cherries shall not exceed 20 percent. Applicants request that they be authorized to establish the increased rates on five days' notice. The order which follows will permit the establishment of the rates authorized herein on ten days' notice.

^{8/} An increase of 20 percent in the basic rate for precooling and loading cherries would produce the following operating ratios after taxes for the involved service: Union (Stockton), 93.1 percent; Merchants (Santa Clara), 96.9 percent; Santa Clara Cold Storage and Freezer Co., 94.5 percent.

O R D E R

IT IS ORDERED that:

1. Applicants in Application No. 46977, Application No. 46978, as amended, and Application No. 47103, as amended, are authorized to establish the increased rates and charges proposed in said applications, as amended; except that the increase for the basic rate for precooling and shipping of cherries proposed in Applications Nos. 46978 and 47103, as amended, shall not exceed twenty percent.

2. Tariff publications authorized to be made as a result of the order herein may be made not earlier than ten days after the effective date hereof on not less than ten days' notice to the Commission and to the public.

3. The authority granted herein 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 6th day of APRIL, 1965.

Frederick B. Holmoff
President

Est. E. D. B. [unclear]

George L. Trover

William L. Bennett
Commissioners

Commissioner A. W. GATOV
present but not voting.