

ORIGINAL

Decision No. 74480

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of BEALL REFRIGERATING CO.,
BERCUT-RICHARDS COLD STORAGE CO.,
CRYSTAL ICE AND COLD STORAGE
WAREHOUSE, LINCOLN COLD STORAGE
COMPANY, INC., MERCHANTS
REFRIGERATING COMPANY OF CALIFORNIA,
MODERN ICE & COLD STORAGE CO.,
NATIONAL ICE AND COLD STORAGE
COMPANY OF CALIFORNIA, RELIANCE
COLD STORAGE WAREHOUSE CO., INC.,
SANTA CLARA COLD STORAGE & FREEZER
CO., and UNION ICE & STORAGE
COMPANY, for an increase in rates.

Application No. 50102
(Filed March 21, 1968;
Amended May 3, 1968)

Vaughan, Paul & Lyons, by John G. Lyons,
for applicants.

Jack L. Dawson, for applicants.

Howard C. Baylor, for Cannery League of
California; W. R. Loney, for California
Cannery and Growers; interested parties.

Joseph C. Matson and Lloyd M. Humphrey,
for the Commission's staff.

O P I N I O N

By this application, as amended, ten public utility cold storage warehousemen seek authority to increase their rates and charges generally by 10 percent and to cancel certain rates.

Applicants are geographically divided into two groups, one operating warehouses in the Central Valley and the other conducting operations in an area centering on San Jose.^{1/}

^{1/} In the Central Valley group, warehouses are operated at Chico, Marysville, Lincoln, Sacramento and Stockton. The San Jose group includes operators of warehouses at Mountain View, Santa Clara, San Jose and Santa Cruz. The foregoing defines the geographical locations of the warehouses, rates and charges applicable and which are sought to be increased.

Public hearing was held before Examiner Bishop at Sacramento and San Jose on May 21 and 24, 1968, respectively. Evidence on behalf of applicants was introduced through their tariff publishing agent and through officers of eight of the applicants.

Rates and charges of applicants were last increased, together with those of cold storage warehousemen in the San Francisco - Oakland area, by Decision No. 68853, dated April 6, 1965 in Applications Nos. 46977, 46978 and 47103. The adjustments accorded at that time principally involved increases in the storage and handling rates and labor charges where the previously existing rates were less than the related average unit operating costs of providing the service. Certain other selective rate increases were also effected. Applicants' cooler rates on cannery fruit have not been changed, the record shows, for approximately ten years. These rates were last increased under authority of Decision No. 57000, dated July 15, 1958, in Application No. 40117.

The tariff agent testified regarding the increases in operating costs which applicants have experienced since the record was made in the proceedings culminating in Decision No. 68853 (1965), above. Effective June 1, 1967, the majority of the applicants entered into a three-year labor contract, which provided, on that date, an increase in straight time wage rates of 20 cents per hour, and successively on June 1, 1968 and June 1, 1969 of 25 cents and 20 cents per hour, respectively. During the past four years, the witness stated, the applicant warehousemen have also experienced increases in other categories of expense, including the cost of materials and supplies, maintenance and repair costs and new equipment costs.

With respect to the services rendered in the handling and storage of cannery fruit a study introduced by the tariff agent indicated that, in order to offset the increases which have occurred since 1958 in handling labor alone, an increase of \$1.00 per ton would be required in the rates for that commodity. The ten percent increase actually sought he considers, therefore, not to be excessive.

The witness introduced a statement setting forth system operating results, including those at cold storage warehouses, if any, operated by applicants in areas other than those embraced in this proceeding. These results, from which are excluded revenue and expenses experienced in operations other than public utility cold storage warehousing, are summarized in Table I, below.

TABLE I
Results of System Operations
Before State and Federal Income Taxes
(Year of 1966, except as noted)

(A) Central Valley Group

<u>Warehousemen</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Net</u>
Bercut-Richards (1)	\$ 299,755	\$ 259,722	\$ 40,033
Crystal (2)	228,943	224,748	4,195
Lincoln	100,207	97,235	2,972
National	1,371,529	1,411,707	(40,178)
Reliance (3)	27,090	33,041	(5,951)
Union	1,788,418	1,737,936	50,482

(B) San Jose Group

<u>Warehousemen</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Net</u>
Beall (4)	\$ 165,192	\$ 149,034	\$ 16,158
Merchants	2,187,290	1,595,501	591,789
Modern	797,370	632,579	164,791
Santa Clara	246,974	210,204	36,770
Union	1,788,418	1,737,936	50,482

(1) 12-month period ended March 31, 1967

(2) 12-month period ended June 30, 1967

(3) 12-month period ended July 31, 1967

(4) 12-month period ended April 30, 1967

() Indicates red figure

In other statements the tariff agent had assembled estimated operating results of applicants at their cold storage warehouses in the respective areas involved herein, under (a) a continuation of present rates and (b) the proposed rates. The projections were predicated on the experience of each of the operators during the 12-month period ended September 30, 1967. Actual expenses were adjusted to reflect labor cost levels in effect as of June 1, 1968. No effect was given to the labor cost increases which, under the existing union contract, will take effect on June 1, 1969, nor to cost increases in the other categories of expense hereinbefore mentioned.

In adjusting expense figures in the projection of operating results for the future, the witness explained, income and franchise taxes were calculated at current rates, if any instances of accelerated depreciation occurred they were recalculated to a straight line basis, no tax credits for new investment are involved, and in those instances where the warehouse facilities were served by an affiliate, the landlord expenses of the latter were substituted for the rent paid by the warehouseman.

In Table II below, the estimates of operating results as described above have been summarized. The table shows also the composite results for each of the two geographical groups as units, and the estimated results of the two groups consolidated into one.

TABLE II

Estimated Results of Operations
Under Present and Proposed Rates

(Based on 12-month period ended September 30, 1967,
except as noted, adjusted to expense levels as of
June 1, 1968)

(After income taxes)

<u>Warehouseman</u>	<u>Under Present Rates</u>		<u>Under Proposed Rates</u>	
	<u>Net Income</u>	<u>Operating Ratio</u>	<u>Net Income</u>	<u>Operating Ratio</u>
(A) Central Valley Group				
Bercut-Richards	\$ 20,754	92.8	\$ 34,702	89.1
Crystal	25,008	90.6	37,911	87.1
Lincoln (1)	5,487	94.5	12,779	88.4
National	22,376	92.2	36,060	88.5
Reliance (2)	(7,004)	125.9	(4,295)	114.4
Union	<u>7,127</u>	98.4	<u>35,482</u>	92.9
Total	\$ 73,748	94.8	\$152,639	90.3
(B) San Jose Group				
Beall	\$(19,176)	115.0	\$(6,424)	104.6
Merchants	(71,933)	116.9	(29,265)	106.2
Modern	25,601	96.4	60,115	92.3
Santa Clara	6,607	97.2	22,121	91.3
Union	<u>24,565</u>	95.4	<u>38,109</u>	93.2
Total	\$(34,336)	101.7	\$ 84,656	96.2
(C) Central Valley and San Jose Groups Combined				
Total	\$ 39,412	98.9	\$237,295	93.7

(1) Based on 12-month period ended June 30, 1967

(2) Based on 12-month period ended July 31, 1967

() Indicates red figure

It will be seen that the estimated operating results set forth in Table II are more favorable for the Central Valley group than for the San Jose area operators. The composite estimated operating ratios for the former are 94.8 and 90.3 percent under present and proposed rates, respectively; the corresponding estimates

for the San Jose group are 101.7 and 96.2 percent; and the corresponding estimates for all applicants consolidated into a single group are 98.9 and 93.7 percent under present and proposed rates, respectively.

Estimated rates of return shown in the tariff agent's statements were: for the Central Valley group 3.1 and 6.4 percent under present and proposed rates, respectively; for the San Jose group, 0.0 and 3.0 percent, respectively; and for all applicants as a single group, 0.8 and 4.6 percent, respectively. As in the matter of expense estimates, the rate base estimates include substitution of landlord's investment for that of operator where the facilities are served by an affiliate. The rate base estimates also include provision for working capital, calculated on the basis of one-sixth of a year's operating expenses, less depreciation expense.

Officers of eight of the ten applicants testified that the 1967 season was fairly representative, from the standpoint of mix of commodities and volume of commodities stored, of their respective companies' operations;^{2/} that working capital is a necessity in their operations; that their companies are continually seeking ways in which to improve operating efficiency; and that competition among warehousemen for the available business necessitates rate uniformity.

The rates, with one exception, which applicants propose to cancel are rates which, for an extensive period, have not been used and for which there will be no demand in the foreseeable future.

^{2/} The testimony of several of these witnesses revealed that the 1967 season was a poor one for cannery fruit storage, but that this circumstance was offset by increases in freezer and government storage.

The exception relates to some season rates for the storage of seed potatoes at Stockton. These rates have remained unchanged for many years, and according to the tariff agent, are greatly depressed. The space which the seed potatoes occupy is, assertedly, needed for more lucrative storage. When the seed rates are cancelled, the regular potato rates will apply for such storage.

Notices of the proposed rate increases were mailed by applicants to all their respective storers in advance of the hearing. No storers appeared in opposition to the proposals. A representative of the California Cannery League, interested party, presented a statement of position of that organization, expressed in a motion passed by its executive committee, to the effect that the League opposes "the proposed increase for cannery fruit until such rate increase is justified to the Commission". The League's representative did not otherwise actively participate in the proceeding. Representatives of the Commission's Transportation Division Rate Branch staff and its Finance and Accounts Division staff assisted in the development of the record.

Following is a comparison of the composite operating ratios, after taxes, estimated for the Central Valley and San Jose groups under the rates sought and approved by Decision No. 68853 (1965), above, with those estimated by applicants in the instant proceeding:^{3/}

^{3/} The operators presently comprising these groups are nearly identical with those in the earlier proceeding.

A. 50102 bem

	<u>Operating Ratios</u> (Percent)	
	<u>Decision</u> 68853	<u>Application</u> 50102
Central Valley Group	(a) 90.4 (b) 89.8	90.3
San Jose Group	94.7	96.2

(a) Estimates by applicants.

(b) Estimate by Commission staff.

We find that:

1. Applicants have demonstrated a need for additional revenues in connection with their public utility warehouse operations at the locations involved in this proceeding.

2. The proposed increases in rates and charges are reasonable and justified.

3. The proposed cancellation of certain rates and charges, as set forth in subparagraphs 2 and 3 of paragraph 1, of the application, as amended, is reasonable and justified.

We conclude that the application should be granted.

In view of the fact that the 1968 harvesting season is now in progress, authority should be granted, as requested in the application, to establish the increased rates and charges found justified herein on 10 days' notice to the Commission and to the public.

O R D E R

IT IS ORDERED that:

1. Applicants are authorized to establish the increased rates and charges proposed in Application No. 50102, as amended.

2. Applicants are authorized to cancel rates and charges as proposed in subparagraphs 2 and 3 of paragraph 1 of the application, as amended.

3. Tariff publications authorized to be made as a result of the order herein shall be filed not earlier than the effective date of this order, and 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.

4. In establishing the increased rates and charges authorized in paragraph 1 hereof, disposition of fractions shall be made as proposed in Exhibit 5 in this proceeding.

5. The authority herein granted shall be subject to the express condition that applicants will never urge before the Commission in any proceeding under Section 734 of the Public Utilities Code, or in any other proceeding, that the opinion and order herein constitute a finding of fact of the reasonableness of any particular rate or charge, and that the filing of rates and charges pursuant to the authority herein granted will be construed as a consent to this condition.

6. The authority herein granted will expire unless exercised within ninety days after the effective date of this order.

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

30th Dated at San Francisco, California, this
day of JULY, 1968.

William Squawh
President
William Derr

Fred P. Morrissey
Commissioners

-9- Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner A. W. Gatov, being necessarily absent, did not participate in the disposition of this proceeding.