HW

Decision No. 76039

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of B-LO COLD STORAGE CO., CALIFORNIA ICE AND COLD STORAGE COMPANY, FEDERAL ICE & COLD STORAGE COMPANY, ICE AND STORAGE COMPANY OF THE INLAND EMPIRE, IMPERIAL ICE COMPANY, LOS ANGELES COLD STORAGE CO. (dba Los Angeles Ice & Cold Storage Co., Pasadena Ice Company and Pomona Valley Ice Co.), NATIONAL COLD STORAGE COMPANY, ONTARIO ICE & COLD STORAGE COMPANY (W. W. Stevens, dba), PACIFIC COLD STORAGE INC., RANCHO COLD STORAGE, SOUTH COAST PACKING COMPANY, INC. (dba South Coast Storage Co., Inc.), 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. 50769 (Filed December 24, 1968)

Vaughan, Paul and Lyons, by John G. Lyons, and Jack L. Dawson, for applicants.
James Quintrall, for Los Angeles Warehousemen's Association, interested party.
B. I. Shoda and Lloyd Humphrey, for the Commission's staff.

O P I N I O N

By this application, as amended, B-Lo Cold Storage Co. and 14 other cold storage public utility warehousemen operating in the Los Angeles area and San Diego seek authority to increase rates and charges.

Public hearing was held before Examiner Bishop at Los Angeles on March 25, 1969. Evidence was adduced through the agent of the California Warehouse Tariff Bureau and officers of the eight principal applicant companies. Representatives of the Commission's Finance and Accounts Division and Transportation Division staff assisted in the development of the record. With the filing of an exhibit on April 4, 1969, the matter was submitted.

Specifically applicants seek authority to increase by ten percent their storage and handling rates, including their storage and handling minimum charges. They do not, however, propose any increases in their quick-freezing rates or in their accessorial charges.1/

The record shows that applicants' last major increase request requiring public hearing was Application No. 44946, filed November 15, 1962. That application resulted in Decision No. 65874, dated August 13, 1963, by which a large part of the increases sought at that time were granted. By Decision No. 73575, dated January 3, 1968, the same warehousemen sought and secured an ex parte rate adjustment to offset some of the increases in labor costs which had been experienced through June of 1967. This latter rate revision was prompted by Application No. 49744, filed October 19, 1967.

According to the tariff agent, current operating cost levels do not permit applicants to conduct their operations at a reasonable profit under the present rates. Effective July 1, 1968, applicants negotiated a three-year labor contract which resulted in increased wages of 15 cents per hour, with additional increases of 20 cents per hour and 15-1/2 cents per hour to become effective on July 1, 1969, and July 1, 1970, respectively. These contracts, he testified, also call for further health and welfare pensions amounting to nearly two cents per hour, together with an additional increase of about three cents per hour which took effect in the fall of 1968 to preserve the hospital and doctor benefits guaranteed under the health and welfare program.

In addition to the above-mentioned increases in labor costs, the tariff agent stated, applicants have sustained heavy cost

---

1/ The tariffs and provisions thereof involved in the proposals are identified in Paragraph VII of the application.

increases in all other phases of their operations. These latter increases, he said, reflect approximately the same percentages as applicants have experienced with respect to labor cost increases over the preceding six and one-half years.

The tariff agent had prepared an exhibit setting forth operating results of the respective applicants for the latest available 12-month period. These figures related exclusively to their cold storage public utility warehouse operations for which the rates and charges here at issue are published. The witness had segregated the utilities into two groups, those having revenues in excess of $200,000 per year and those having annual revenues amounting to less than that figure. The first group of eight operators, the record shows, accounts for more than 90 percent of the aggregate of the revenues received, the expenses incurred, and the warehouse space provided by the 15 applicants.

The exhibit also showed the combined operating results for each of the two groups of applicants and for all applicants as a single group. It is to be noted that the 12-month periods utilized were not the same for all applicants. In the major group, however, all operators except one show results for the 12-month period ended June 30, 1968.

In Table I below are summarized the operating results for each of the applicants, for the two groups and for the 15 operators as a single group.

Table I

Results of Operation for 12-Month Period
Ended June 30, 1968 (Except as Noted)

After Income Taxes

(A) Warehousemen Having Revenues in Excess of $200,000 Per Year

Warehousemen	Revenues	Expenses (Including Income Taxes)	Net	Operating Ratio (Percent)
California	$ 657,431	$ 594,359	$ 63,072	90.4
Federal	702,063	622,222	79,841	88.6
Los Angeles	1,428,264	1,297,737	130,527	90.4
National (1)	666,870	617,344	49,526	92.6
Pacific	1,016,963	846,615	170,348	83.2
Terminal	1,707,505	1,508,761	198,744	88.4
Union	777,800	773,157	4,643	99.4
U. S. Grower	1,170,104	1,111,050	59,054	95.0
Subtotal	$8,127,000	$7,371,245	$755,755	90.7

(B) Warehousemen Having Revenues Less Than $200,000 Per Year

Warehousemen	Revenues	Expenses (Including Income Taxes)	Net	Operating Ratio (Percent)
B-Lo (2)	$ 155,762	$ 134,120	$ 21,642	86.1
Inland (2)	44,748	52,724	(7,976)	117.8
Imperial (2)	1,013	3,864	(2,851)	381.5
Ontario (2)	56,611	46,460*	10,151*	82.1*
Rancho (3)	139,102	118,611	20,491	85.3
South Coast (4)	186,671	169,303	17,368	90.7
Triangle (2)	129,930	155,939	(26,009)	120.0
Subtotal	$ 713,837	$ 681,021	$ 32,816	95.4
Total (All Applicants)	$8,840,837	$8,052,266	$788,571	91.1

(1) For 12-month period ended April 30, 1968.
(2) For 12-month period ended December 31, 1967.
(3) For 12-month period ended February 28, 1968.
(4) For 12-month period ended March 31, 1968.
* Expenses do not make provisions for owner-operator's salary.

(Red Figure)

In the major group, operating ratios, after provision for income taxes, ranged from 83.2 to 99.4 percent, with an average of 90.7 percent for the group as a whole. In the smaller group of seven operators, the operating ratios ranged from 82.1 to 331.5 percent, the average for these applicants as a group being 95.4 percent. The average operating ratio for all applicants combined as a single group was 91.1 percent.

The witness had also developed estimates of operating results, for each of the applicants and for the groups, under present rates and under the proposed rates. In each showing the estimates were predicated on the volumes of business actually handled in the 12-month periods indicated in Table I, above, with expenses being adjusted to July 1, 1968 expense levels. Additionally, he had developed estimated results, under proposed rates, for the eight major operators, as a group, and for the 15 applicants, as a group, reflecting the increases in labor expense which were to, and did, take effect on July 1, 1969. This latter adjustment was not developed for the individual applicants.

In Table II, below, are shown the operating ratios and rates of return reflected by the estimates described in the immediately preceding paragraph.

Table II

Estimated Results of Operation, After Income Taxes, for the Projected Rate Periods, Under Present and Proposed Rates

(At July 1, 1968 Cost Levels, Except as Noted)

Warehouseman	Under Present Rates Operating Ratio	Under Present Rates Rate of Return(1)	Under Proposed Rates Operating Ratio	Under Proposed Rates Rate of Return(1)
(A) Warehousemen Having Revenues in Excess of $200,000 Per Year				
California	91.0	11.3	88.5	15.3
Federal	89.8	14.0	87.1	19.2
Los Angeles	91.3	7.3	88.6	10.3
National	93.3	5.0	90.8	7.5
Pacific	83.8	12.3	81.9	14.7
Terminal	88.9	24.9	86.7	31.5
Union	101.2	-	97.2	1.1
U. S. Growers	95.6	3.4	93.4	5.3
Subtotal	91.4	7.4	(88.9 (90.1#	10.2 9.1#
(B) Warehousemen Having Revenues Less Than $200,000 Per Year				
B-Low	86.8	11.7	84.0	15.5
Inland	119.9	-	109.0	-
Imperial	387.9	-	352.6	-
Ontario	83.0*	64.1*	77.9*	90.1*
Rancho	86.0	6.3	83.2	8.3
South Coast	97.4	1.3	92.8	3.8
Triangle	122.1	-	114.8	-
Subtotal	98.0	1.5	93.1	5.9
Total	92.0	6.9	(89.2 (90.4#	9.8 8.7#

At July 1, 1969 Labor Expense Levels.
* Expenses include no salary for owner-operator.
(1) Note: Negative rates of return not indicated.

It will be observed from Table II that for the major applicants the estimated operating ratios range from 83.8 to 101.2 percent under a continuation of present rates and from 81.9 to 97.2 percent under the proposed rates. Estimated rates of return for these operators range from zero (negative rates of return not considered) to 24.9 percent under present rates and from 1.1 to 31.5 percent under the proposed rates. None of these figures reflects the effect of the July 1, 1969 labor expense increase. Such treatment would have revealed slightly less favorable estimated operating results. As shown in Table II, the estimated composite operating ratio for this group of applicants under the proposed rates is 90.1 percent at 1969 labor expense levels and is 88.9 percent based on 1968 expense levels. The corresponding estimated rates of return are 9.1 and 10.2 percent.

In a separate exhibit the tariff agent set forth the development of the operating expense amounts used in the earlier exhibits. An important adjustment shown therein was the substitution of landlord expenses for applicant's rental expense in those instances in which the warehouse facilities are owned by and leased from an affiliate. An exception to this procedure was observed in the case of a warehouseman whose rental expense was equal to the affiliate's straight line depreciation expense of the warehouse facility.

It has frequently been pointed out in earlier warehouse rate increase decisions that where a realistic rate base estimate is not available, as in those instances where a warehouseman rents his facility from a non-affiliate, rate of return is of little value as a measure of the reasonableness of operating results. In such a case the utility's rate base may consist solely of an allowance for working capital. The extremely high rates of return shown in Table II above for Terminal Refrigerating Company and for Ontario Ice and

Cold Storage Company, for example, are the result of nominal rate base estimates occasioned by lease of facilities from nonaffiliates. In those instances where applicants rent their facilities from an affiliate the latter's depreciated plant investment amounts were included in the rate base estimates, and costs of ownership in estimated expenses.

In the opinion of the tariff agent, applicants are entitled to a much higher rate of return than is usually allowed the so-called fixed utilities (i.e., gas, electric, water, telephone, etc.) The latter, he pointed out, have a natural protection as a monopoly, whereas the warehousemen are in strong competition among themselves, with so-called contract warehouses, and from out of state transit warehouses which store California merchandise destined to eastern markets. The fixed utilities, he said, are not greatly affected by periodic and natural hazards of agriculture, whereas the cold storage business is very strongly concerned with any adverse conditions affecting crops and the production of turkeys and meat. Additionally, changes in distribution methods and technological advancement in the preservation of foods may adversely affect the cold storage warehouse business.

An analysis of expense trends made by the witness shows that the percentage relationships of the dollar amounts of the various elements of applicants' operating expenses have remained fairly constant during the years since 1961; that labor expense amounts to between 55 and 60 percent of the total; that since 1963 labor expense has increased 23 percent;[2/] that during the same period depreciation

2/ During the same period hourly labor costs increased almost 34 percent. The difference between these figures, the witness stated, is due to the increased mechanization and labor saving programs carried out by applicants; at the same time business handled increased more than 16 percent during the period studied.

expense has increased 29 percent, due, the witness stated, to the higher costs of depreciable items purchased during the period in question; and that total operating expenses of the 15 applicants as a group have increased some 27 percent since 1963.

No increases are sought in the quick freezing rates, the witness testified, because quick freezing in the area in which applicants operate is mostly done in connection with commodities of fairly heavy density and it is felt that the present rates for this service are sufficient. No increases are sought at this time in accessorial charges since, with one exception, they are not real money makers and the operators do not want to disturb their accounts more than necessary.

The operating officials testified generally as follows: a working capital allowance of two months' operating expenses, less depreciation, is reasonable;[3/] the operating results estimated by the tariff agent and their respective companies, under the proposed rates, would, with one or two exceptions, be reasonable; all have had high occupancy during the past two years; some felt there would be a decline in occupancy ranging from 10 to 20 percent during the year ahead.[4/]

The record shows that in 1963 this group of public utility warehousemen operated 18,200,000 cubic feet of cold storage warehouse space. By 1968 the total space had increased to 20,500,000 cubic feet. Two of the applicants are now engaged in enlarging their facilities by a total of 2,000,000 cubic feet through new construction.

3/ The working capital allowances utilized in the studies developed by the tariff agent were calculated on this basis in accordance with the practice consistently observed in prior warehouse rate proceedings.

4/ One applicant recently lost a substantial account and two applicants expect to lose a large account since the customer is building his own warehouse.

Notices of the proposed increases were mailed by applicants to their storers, totaling 3,500, in advance of the hearing. No one appeared in opposition to the proposed increases.

The record herein shows that applicants compete among themselves for the available business and that in order for them effectively to do so rates and charges must be the same at all of the warehouses involved. This is a principle which has been long established, both among these operators and among other groups of public utility warehousemen competing in particular market areas. Uniformity is essential, even though widely differing operating results may be experienced thereunder, as among the respective warehousemen. For this reason, the composite operating ratios and composite rates of return for the two groups of applicants and for the 15 applicants as a single group, as set forth in Table II above, are necessarily given substantial weight in appraising the reasonableness of rate proposals.

In Table III, below, the individual and composite estimated operating ratios, after income taxes, under the proposed rates, as developed in this proceeding by the tariff agent, are compared with the estimated operating ratios under the rates approved for these operators in Decisions Nos. 73575 (1968) and 65874 (1963) in Applications Nos. 49744 and 44946, respectively.

Table III

Comparison of Estimated Operating Ratios, After Income Taxes, Under Proposed Rates in Three Proceedings

(In Percents)

Warehouseman	Application+ No. 50769	Decision No. 73575 (1-3-68)	Decision No. 65874 (8-13-63)
California	88.5	89.2	88.2
Federal	87.1	90.9	93.3
Los Angeles	88.6	88.1	85.8
National	90.8	91.3	86.3
Pacific	81.9	87.9	85.2
Terminal	86.7	87.7	92.2
Union	97.2	153.4	98.8
U. S. Growers	93.4	94.9	90.9
B-Lo	84.0	129.8	95.9
Inland	109.0	80.9	-
Imperial	352.6	409.9	163.6
Ontario	77.9*	76.9*	74.1*
Rancho	83.2	-	-
South Coast	92.8	99.2	-
Triangle	114.8	101.7	110.0
Total	(89.2 (90.4#	95.2	90.7

+ At July 1, 1968 cost levels, except as noted.
* No provision for owner-operator's salary.
\# At July 1, 1969 labor cost levels.

As Table III shows, the estimated operating ratios of the individual operators, under proposed rates, as developed in the current proceeding are based on cost levels as of July 1, 1968 and therefore are slightly more favorable than they would be if current cost levels had been employed in their development. However, the estimated composite operating ratio of applicants as a group of 90.4 gives effect to the July 1, 1969 labor expense levels. It is slightly more favorable than the figure of 90.7 which was forecast for substantially the same group of warehousemen in 1963 in connection with rates which were approved in Decision No. 65874 in the last major rate increase involving the Southern California cold storage utility warehousemen.

We find that:

1. Applicants are in need of additional revenues to offset the increases in operating costs which have been experienced since the rates here in issue were last adjusted.

2. The estimates of operating results of applicants under the proposed rates as summarized in Table II, above, are reasonable, realizing, however, that the indicated results for the individual applicants are more favorable than they would have been had they reflected the labor cost increases which took effect on July 1, 1969.

3. The increases in rates sought by applicants are reasonable and have been justified.

We conclude that Application No. 50769, as amended, should be granted.

Applicants have requested that in establishing the increased rates disposition of fractions be made in the same manner as provided in Decisions Nos. 73837 and 74480, involving Northern California warehousemen. The order which follows will so provide.

O R D E R

IT IS ORDERED that:

1. Applicants are authorized to establish the increased rates proposed in Application No. 50769, as amended. 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 less than ten days after the effective date hereof on not less than ten days' notice to the Commission and to the public.

2. In effecting the increases in rates authorized by numbered paragraph 1 of this order disposition of fractions shall be made as follows:

> Where resulting rate or charge is less than 10 cents, dispose of fractions to the nearest mill by dropping fractions of less than one-half mill, and increasing fractions of one-half or over to the next whole mill.
>
> Where resulting rate or charge is in excess of 10 cents, dispose of fractions to the nearest cent by dropping fractions of less than one-half cent, and increasing fractions of one-half cent or greater to the next whole cent.

3. The authority herein granted is subject to the express condition that applicants will never urge before this 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.

A.50769 HW

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 19th day of AUGUST, 1969.

William Symons, Jr.
President

Augustus

A. P. Morrissey

[illegible]

Thomas Moran
Commissioners