

ORIGINAL

Decision No. 84818

## BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
ARCTIC COLD STORAGE, INC., B-10 COLD  
STORAGE CO., CALIFORNIA REFRIGERATED  
SERVICES, INC., FEDERAL ICE & COLD  
STORAGE COMPANY, ICE AND STORAGE  
COMPANY OF THE INLAND EMPIRE, LOS  
ANGELES COLD STORAGE CO. (dba Los  
Angeles Ice & Cold Storage Co. and  
Pasadena Ice Company), NATIONAL  
COLD STORAGE COMPANY, ONTARIO ICE &  
COLD STORAGE COMPANY (Clive F. Warner,  
Exie Jein Warner, Clive W. Warner,  
and Sally Warner, 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. 54471  
(Filed November 29, 1973;  
amended October 8, 1974)

Vaughan, Paul & Lyons, by John G. Lyons,  
Attorney at Law, and Jack L. Dawson,  
for applicants.

H. W. Hughes, for California Trucking  
Association, interested party.

Frank M. Nyulassy, Mark S. Wetzell, and  
George L. Hunt, for the Commission  
staff.

O P I N I O N

Applicants are 15 public utility warehousemen providing  
freezing, cold storage, handling, and other services incidental to  
the storage of commodities requiring refrigeration at various

locations in southern California.<sup>1/</sup> Applicants request authority for a 17.5 percent increase in their present tariff rates and charges which they contend do not yield sufficient revenues to enable adequate and efficient warehouse operations to be conducted at a reasonable profit.<sup>2/</sup>

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1/ The utility warehouse facilities are at one or more locations in the counties of Los Angeles, Orange, Riverside, San Diego, and San Bernardino.

2/ Applicants' rates, rules, and charges are named in:

California Warehouse Tariff Bureau  
Cold Storage Warehouse Tariff No. 2-H, Cal. P.U.C. No. 210  
of Jack L. Dawson, Agent - applicable to all applicants  
except South Coast Storage Co., Inc.

Ontario Ice & Cold Storage Company  
Cold Storage Warehouse Tariff No. 1, Cal. P.U.C. No. 1.

Pacific Cold Storage Company  
Cold Storage Warehouse Tariff No. 3, Cal. P.U.C. No. 3.

South Coast Storage Co., Inc.  
Cold Storage Warehouse Tariff No. 1, Cal. P.U.C. No. 1.

Terminal Refrigerating Company  
Cold Storage Warehouse Tariffs Nos. 9 and 10, Cal.  
P.U.C. Nos. 9 and 10, respectively.

Union Ice & Storage Company  
Cold Storage Warehouse Tariff No. 20-A, Cal. P.U.C.  
No. 41.

Union Ice & Storage Company  
Cold Storage Warehouse Tariff No. 22-C, Cal. P.U.C.  
No. 46.

U.S. Growers Cold Storage, Inc.  
Cold Storage Warehouse Tariffs Nos. 12, 13, 14, and  
15, Cal. P.U.C. Nos. 12, 13, 14, and 15, respectively.

The original public hearing of Application No. 54471, as amended, was held at Los Angeles on December 6, 1974, and the matter was then submitted. Pursuant to the Commission's order in Decision No. 84137 dated February 19, 1975, the proceeding was reopened and further adjourned hearings were held on April 10 and 11, 1975 at Los Angeles. On the latter date the application was resubmitted for decision. No one appeared in opposition to the sought relief.

Applicant's Rate Proposal

The last general adjustment of applicants' tariff rates and charges was made effective June 1, 1973 pursuant to Decision No. 81316 dated May 1, 1973 in Application No. 53509. The decision authorized a 5.5 percent increase in rates based upon revenues and expenses prevailing during a 1971 test year which had been adjusted to reflect operating costs effective generally as of June and July 1972. By Decision No. 82499 issued February 20, 1974 in Application No. 54471 applicants were granted ex parte authority for an interim surcharge of 6.4 percent pending hearing on applicants' original overall sought rate increase of 10 percent. The interim surcharge was authorized to offset increases in applicants' labor costs which became effective in mid-1973 plus increases in power costs incurred in the fall of 1973.

Due to impending labor negotiations Commission action on the additional relief sought in the original application was deferred. As a result of increased labor costs experienced under the new labor contracts negotiated in June and July 1974, further increases in power costs, and other expense items, applicants revised their initial sought rate increase from 10 percent to 17.5 percent. Authority was

also requested to increase the interim surcharge granted by Decision No. 82499 from 6.4 percent to 10 percent pending hearing relative to the amended sought relief.<sup>3/</sup>

All applicants are California corporations except Ontario Ice & Cold Storage Company. They collectively operate approximately 24,000,000 cubic feet of warehouse space. Exhibits A through D appended to the original application are a series of financial statements pertaining to the results of operations for each applicant during a 12-month test period generally reflecting the year 1972. Revised Exhibits C and D attached to the amendment to the original application reflect the profit and loss statements for nine applicant warehousemen representing 94 percent of the total revenues of all applicants under present and proposed revenues and actual and modified expenses for a 12-month test period centering around the year 1973. A summary of the nine test warehousemen's 1973 results of operations follows:

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<sup>3/</sup> Application No. 54471, as amended, was advanced to hearing for the receipt of evidence pertaining to applicants' overall sought rate increase of 17.5 percent in lieu of consideration of further interim ex parte relief.

TABLE 1

Results of Operations for 12-Month Period Ended  
December 31, 1973 (Except as Noted)  
(After Income Taxes)

<u>Nine Test Warehousemen</u>	<u>Revenues</u>	<u>Expenses Including Income Taxes</u>	<u>Operating Ratio (%)</u>	<u>Rate of Return (%)</u>
Arctic (1)	\$ 1,225,651	\$ 1,097,467	89.5	4.0
California Ref.	1,153,424	984,156	85.3	14.7
Federal (2)	863,001	768,239	89.0	20.9
Los Angeles	2,370,492	2,151,243	90.8	6.5
National (3)	771,411	744,108	96.5	3.8
Pacific	1,517,720	1,341,581	88.4	11.5
Terminal (4)	2,117,782	1,921,540	90.7	11.3
Union	1,261,534	1,247,646	98.9	0.5
U.S. Growers	1,749,999	1,671,224	95.5	5.5
Total	\$13,031,014	\$11,927,204	91.5	6.6

(1) For 12-month period ending February 28, 1974.

(2) For 12-month period ending March 31, 1974.

(3) For 12-month period ending April 30, 1974.

(4) For 12-month period ending February 28, 1974.

Table 2 of Decision No. 82499 shows that for eight test warehousemen the 1973 increases in labor, power, and other expense items amounted to \$683,913 when based on an adjusted 1972 test year. This amount is reflected in the present interim cost offset surcharge of 6.4 percent. Revised Exhibit D of the amended application shows that when based on an adjusted 1973 test year the 1974 increases in labor, power, and other related expense items incurred by all nine test warehousemen are:

TABLE 2

1974 Increases in Expenses

Plant labor	\$ 592,895
Clerical labor	91,346
Power	714,170
Other	175,003
Total	\$1,573,414

Applicants contend that their proposed rate increase of 17.5 percent is required in order to offset increased costs of operations not heretofore updated in the existing level of applicants' tariff rates and charges. Applicants also seek to restore their overall earnings to levels previously authorized by the Commission. The estimated results of operations under applicants' proposed rates and charges based upon adjusted revenues and expenses prevailing during a 1973 test year are summarized in Table 3.

TABLE 3

Estimated Results of Operations Under Proposed  
Rates and Charges for a Projected 1973 Test Year  
(After Income Taxes)

<u>Nine Test Warehousemen</u>	<u>Revenues</u>	<u>Expenses</u> (1)	<u>Operating Ratio (%)</u>	<u>Rate of Return (%)</u>
Arctic	\$ 1,448,513	\$ 1,255,769	86.7	5.9
California Ref.	1,384,737	1,148,063	82.9	20.0
Federal	1,020,113	918,907	90.1	21.1
Los Angeles	2,829,964	2,505,894	88.5	9.4
National	903,161	855,472	94.7	6.5
Pacific	1,822,091	1,617,960	88.8	12.9
Terminal	2,520,398	2,220,755	88.1	16.8
Union	1,606,384	1,513,254	94.2	3.1
U.S. Growers	2,100,952	2,006,294	95.5	6.3
Total	\$15,636,313	\$14,042,368	89.8	9.4

(1) Adjusted to reflect 1974 increased expenses and substitution of landlord costs for landlord rents.

Applicants anticipate their proposed rate increase of 17.5 percent will generate \$2,605,299 in additional revenues for the nine test warehousemen based on their adjusted results of operations for the 1973 test year. This amount exceeds the projected 1974 increase of \$2,115,164 in the adjusted expenses by \$490,135. This latter amount reflects applicants' efforts to increase their earnings to previously authorized levels.

The tariff agent for the California Warehouse Tariff Bureau testified on behalf of applicants' sought rate proposal. He also introduced a series of analytical exhibits pertaining to the changes in both the level and relationship of applicants' labor, power, and other expense items which have occurred since 1970. The tariff agent emphasized the fact that as of 1974 applicants' power costs were rising at a faster rate than their labor-oriented expense items. In Exhibit 7 the tariff agent demonstrated that the range of operating ratios and rates of return projected for the nine test warehousemen under applicants' tariff proposals is similar to the results anticipated by applicants under like rate relief authorized by the Commission over the past four years. In Exhibit 8 the tariff agent set forth his estimate of the test warehousemen's results of operations under the proposed 17.5 percent increase in rates for the fiscal year ending May 31, 1975. The projected results of operations are:

TABLE 4  
Effect of Proposed Increase on Operations  
For Fiscal Year Ending May 31, 1975

		<u>Operating Ratio</u>	<u>Return</u>		
June	1974	93.8%	5.2%	}	Weighted Average
July	1974				
August	1974				
September	1974				
October	1974				
November	1974	94.1%	4.88%	}	Operating Ratio
(1) December	1974				
(2) January	1975				
(2) February	1975				
(2) March	1975				
(2) April	1975	90.1%	9.15%	}	Return
(2) May	1975				
					92.28%
					6.82%

(1) Taking into account cost of living wage increase effective December.

(2) Taking into account cost of living wage increase effective December, as well as assuming proposed increase becomes effective January 1, 1975.

Note: Additional labor cost increases become effective June 1, 1975.

The weighted average operating ratio and rate of return computed for the fiscal period ending May 31, 1975 are slightly less favorable than the like results determined for the year 1974 (Table 3). From the projected and actual results of operations summarized herein, it may be concluded that the proposed 17.5 percent rate increase, in lieu of the current 6.4 percent interim surcharge, would afford applicant warehousemen an opportunity to experience operating results heretofore found to be justified.

Evidence on Further Hearing

In reopening this proceeding for further hearing the Commission, in Decision No. 84137, stated:

"It appearing...that operating ratios and rates of return for warehousemen...reflect a substantial diversity in profitability, and it further appearing that by reason of such diversity of profitability, it cannot be concluded that an increase in charges is essential to ensure just and reasonable rates for the most efficient warehouse operations; and it further appearing that additional evidence is necessary to show special or unique circumstances applying to the less efficient warehousemen which would justify the Commission in treating them in a manner different from that accorded the more efficient warehousemen,

"IT IS HEREBY ORDERED that said proceeding is reopened for the taking of further evidence..."

In response to the Commission's order reopening this proceeding the tariff agent for the California Warehouse Tariff Bureau presented extensive testimony and a series of comparative statements (Exhibits 10 through 15) on behalf of applicants. He first emphasized that it was absolutely essential for applicants to maintain their cold storage warehouse operations at the peak of efficiency at all times in order to survive in the keen competitive conditions existing in the southern California trade area. Secondly, the tariff agent stated that from his study and analysis he found no correlation between the efficiency of applicants' cold storage operations and their so-called diversity of profitability. He further explained that his studies clearly indicate that variations in warehouse operating revenues and expenses are brought about by the type of cold storage business handled and the kind of service required by the particular storage accounts. A summary of such variable factors follows:

1. Factors causing variations in the revenue positions of the various warehousemen.
  - A. Type of storage accounts.
    - (1) Quick freezing.
    - (2) Frozen.
    - (3) Cooler storage.
    - (4) In-transit storage.
  - B. Character of storage lots.
    - (1) Distribution on a retail level.
    - (2) Distribution on a wholesale level.
    - (3) Large quantities from producers.
    - (4) Small quantities from producers.
    - (5) Consolidation into large lots for shipment outbound.
    - (6) Brokers or wholesalers.
  - C. Activity of goods in storage.
    - (1) Withdrawals in large or small lots.
    - (2) Racking of goods in storage.
    - (3) Density of goods in storage.
    - (4) Rate of turnover of goods in storage.
    - (5) Favorable or unfavorable warehouse occupancy account fluctuations in production.
  - D. Type of warehouse - whether multistory or single story can influence the cubic foot revenues in some instances.
  - E. Lot size of commodities offered for storage.
2. Factors causing variations in cubic foot storage costs.
  - A. Amount of labor and handling equipment required.
  - B. Amount of power necessary for the service required by storer.
  - C. Fluctuations in power demands creating electric demand charges which became minimum for months of less power usage.
  - D. Variations in building and equipment costs.
  - E. Variations in number and type of accounts served.

- F. Loss and gain of accounts.
- G. Number of outbound lots per each inbound lot received.
- H. Number of inbound lots required to make up a consolidated lot for shipment as a large unit.
- I. Whether installation of racks required for small lot storage or for commodities requiring racks in order to high pile.
- J. Density and lot size of commodities offered for storage.

The tariff agent's comparative statements set forth the results of his study and analysis of the aforementioned economic factors as they are reflected in the 1973 cold storage operations of nine test warehousemen. In Exhibit 10 expenses and revenues per cubic foot of storage space operated are analyzed pertinent portions of which are:

TABLE 5

Breakdown of Test Warehouses According to  
Expenses and Revenues Per Cubic Foot

<u>Test Warehouses</u>	<u>Expenses Per Cu.Ft.</u>	<u>Revenues Per Cu.Ft.</u>	<u>Proposed Operating Ratio %</u>	<u>Rate of Return %</u>		<u>% Net Property &amp; Equipment Depreciated</u>
	<u>(In Cents)</u>			(1)	(2)	
Federal	34.5	38.4	90.1	5.4	21.1	80.5
National	42.9	45.3	94.7	2.4	6.5	67.6
Union	43.7	46.4	94.2	1.8	3.1	43.3
Arctic	44.8	51.7	86.7	5.4	5.9	7.5
California Ref.	51.4	62.5	82.9	8.9	20.0	59.7
Terminal	56.6	64.3	88.1	11.4*	16.8*	37.0
Los Angeles	62.7	70.9	88.5	6.0	9.4	39.4
U.S. Growers	65.7	68.8	95.5	3.1	6.3	57.4
Pacific	84.1	94.7	88.8	8.0	12.9	42.5
Total	53.9	60.1	89.8	5.5	9.4	44.0

(1) On undepreciated rate base.

(2) On depreciated rate base.

\* 3/5th of space rented - no  
rate base on rented portion.

It is significant to note that the depreciation of the test warehousemen's capital assets ranges from a high of 80.5 percent (Federal) to a low of 7.5 percent (Arctic) for an overall average of 44 percent. In light of this relatively high level of depreciated capital, applicants have expressed concern over the future life of their invested plant facilities. Such concern is largely generated by the strong conviction that, with today's plant replacement and/or expansion costs, applicants' existing level of regulated tariff rates produces earnings which are grossly insufficient to attract or permit investment in future capital requirements. At first glance, the depreciated plant facilities of the test warehousemen might lead one to suspect their capability to operate efficiently. However, a review

of the projected operating ratios under the sought rate relief (Table 5) does not affirm this concern. For example, Federal, with its net plant almost fully depreciated, expects to do about as well or better than several of its competitors whose assets are far less depreciated. While this may attest to the testimony of the warehousemen relative to their aggressive program for maintenance and modernization of existing plant facilities and procedures, it also suggests that the variations in their respective results of operations are due to economic factors other than efficiency.

In Exhibit 11 the tariff agent presents an analysis of the expenses incurred by the warehousemen for labor, power, depreciation, and property taxes. He explained that applicants' labor and power costs represent the only area for potential increases in operating efficiency. While labor and power costs are extremely sensitive to the influences of current economic inflationary trends, the warehousemen state that they have devoted substantial effort to maintain such costs at levels consistent with efficient operations. A summary of the tariff agent's cost analysis follows:

TABLE 6

Analysis of Labor and Power Costs Incurred  
By the Test Warehousemen as of 1973

<u>Test Warehousemen</u>	<u>% of Proposed Revenue</u>	<u>% of Total Space</u>	<u>Labor Costs Per Cu.Ft. (In Cents)</u>	<u>Power Costs Per Cu.Ft. (In Cents)</u>	<u>Proposed Operating Ratio %</u>
Federal	6.52	10.21	16.85	5.99	90.1
National	5.78	7.66	21.25	7.34	94.7
Union	10.27	13.29	18.90	8.60	94.2
Arctic	9.26	10.75	14.16	9.89	86.7
California Ref.	8.86	8.56	21.44	6.10	82.9
Terminal	16.12	15.06	26.59	5.92	88.1
Los Angeles	18.10	15.34	30.77	6.10	88.5
U.S. Growers	13.44	11.72	28.90	9.48	95.5
Pacific	11.65	7.39	42.18	10.47	88.8
Total	-	-	24.15	7.61	89.8
% of Total Expenses					
Before Taxes	-	-	50.75	15.99	-

Labor and power costs constitute approximately 67 percent of the test warehousemen's total expenses. Any significant changes in these two major areas, due either to current inflationary trends or a deterioration in operating efficiency, would have a dramatic impact upon applicants' results of operations. No such correlation may be drawn, however, between the various differences in the test warehousemen's labor and power costs and their respective operating ratios.

The commodities tendered applicants for cold storage and handling services in the southern California area consist primarily of prepared foodstuffs, fruits and vegetables, juices, juice concentrates, meat, fish, and poultry. The storage accounts may be generally classified as either distribution business (retail, wholesale, brokerage) or production business (food processors, packers, agriculture, and commercial fishing). The storage and handling characteristics of such commodities as described in Exhibit 12 reflect the interplay of basic economic principles of marketing and distribution. The comparative data clearly show that the storage and handling characteristics of commodities have a considerable bearing upon the level of each warehouseman's operating revenues and expenses. However, such economic variables are not necessarily determinative per se of the diversity or degree of profitability experienced by each warehouseman as measured by its respective operating ratio.

Concentrations of certain commodities and handling services under special circumstances may influence the results of operations experienced by some warehousemen. For example, National (operating ratio 94.7) is heavily oriented to the receipt, freezing, storage, and distribution of frozen poultry products in full-pallet lots. Appendix A shows 14.0 percent of National's revenues are received from quick freezing services (second highest) which, in turn, generate high power costs. Seasonality of poultry distribution also tends to lower National's storage turnover ratio to 1.13 (second lowest).<sup>4/</sup> Union (operating ratio 94.2) has one of the

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4/ Storage Turnover Ratio:

1. 
$$\frac{\text{Storage Rate Period} - \text{Days}}{\text{Average Turnover}} = \text{Storage Turnover Ratio}$$
2. Storage Rate Period - Monthly storage rates are for each 30 days or fraction thereof.
3. Average Turnover - Average number of days lots remain in storage.

highest ratios of lot withdrawals to receipts (6.6). It is essentially a "freezer type" warehouse with 8 percent of its revenues received from quick freezing services.

Assuming a reasonable compensatory rate structure, applicants argue that it is the volume, velocity (storage turnover), and value of service which, in the final analysis, dictate the warehousemen's results of operations. Cyclical fluctuations in these basic economic elements are direct reflections of the general vitality of the economy as measured within the economic system of marketing and distribution of products.

In Exhibit 13 the historical operating ratios authorized in prior rate proceedings are presented:

TABLE 7

Historical Operating Ratios Previously Authorized  
The Test Warehousemen in Prior Rate Proceedings

<u>Warehousemen</u>	<u>Rate Proceedings-Applications Nos.</u>				<u>Average Operating Ratios</u>
	<u>54471 (1974) (1)</u>	<u>53509 (1972)</u>	<u>52894 (1971)</u>	<u>50769 (1968)</u>	
Federal	90.1%	91.0%	89.6%	87.1%	89.5%
Union	94.2	98.5	97.3	97.2	96.8
National	94.7	88.8	89.6	90.8	91.0
Arctic	86.7	94.8*	112.0*	-*	94.5
California Ref.	82.9	85.9	88.0	88.5	86.3
Terminal	88.1	87.4	85.9	86.7	87.0
Los Angeles	88.5	89.4	89.9	88.6	89.1
U.S. Growers	95.5	97.2	93.1	93.4	94.8
Pacific	88.8	83.6	83.2	81.9	84.4
Total	89.8	89.9 <sup>#</sup>	89.5 <sup>#</sup>	88.9 <sup>#</sup>	89.5

\* Not a test warehouse.

<sup>#</sup> Arctic excluded.

(1) Proposed operating ratios.

During the six-year period 1968-1974 the comparative operating ratios of the test warehousemen frequently change. For example, Federal was authorized an operating ratio of 87.1 in 1968 and now hopes to achieve an operating ratio of 90.1 under the sought relief. Six of the warehousemen were authorized or now seek operating ratios that are both higher and lower than the like ratios shown for Federal over the six-year period. The six warehousemen are National, Arctic, California Ref., Terminal, Los Angeles, and Pacific. Table 7 also shows that during the six-year span the operating ratios shown for any one applicant are both higher and lower than other applicants over the same period. The conclusion may be drawn that no uniformity in operating ratios exists over the test period. Applicants submit that, unless it is erroneously assumed the nine test warehousemen are changing their relative operating efficiencies frequently over a six-year period, there simply is no correlation between the operating ratios and relative efficiencies of applicants.

Based on the results of operations for the 1973 test year, California Ref. is shown in Table 7 as experiencing the lowest operating ratio (82.9) under the sought relief. The testimony of this applicant reveals that during 1973 its Long Beach facility was the recipient of an abnormal volume of fish for cold storage which was the direct result of a most favorable commercial fishing season. Currently this warehouseman is not experiencing such favorable results of operations. U.S. Growers testified that its anticipated poor showing (operating ratio 95.5) is due to its predominant involvement with the cold storage and freezing of meat products at a time when the production, distribution, and marketing of such products are reacting to the impact of severe adverse economic conditions. As further evidence that the results of applicants' cold storage operations are largely controlled by economic conditions

confronting the marketing and distribution system of products, a representative for Pacific explained its concern over the contemplated receipt of some 5,000,000 pounds of strawberries which at time of hearing were in jeopardy due to a continued threat of inclement weather in the southern California area.

It is apparent from the record in this proceeding that there is no single factor which explains the variability of operating ratios and rates of return among the test warehouses. Variations might be due, among other factors, to: (1) failure of the relative rates for warehouse services to correspond to the relative cost of services--thus, for example, if storage charges are relatively too low and handling charges relatively too high, warehouses which perform a disproportionate amount of storage services will be less profitable than others; (2) differences in management efficiency; (3) unpredictable shifts in market conditions for storage for different commodities; and (4) the age of the warehouse. An older warehouse, which has been highly depreciated, may have a market value considerably higher than its book. Its rate of return on book value might then exceed the average for newer warehouses.

The appropriate way to reflect these differences is through the competitive process. Warehousing, today, is an inherently competitive industry, not a natural monopoly. For this reason, the Commission has urged the Legislature to end the public utility regulation of warehouses.

Absent new legislation, this Commission continues to have the duty to regulate warehouse rates. The record in this proceeding indicates that applicants are in need of rate relief and that the rates requested will allow applicant warehousemen an opportunity to experience operating results which have been found justified by this Commission in the past. The rate relief requested will be authorized.

However, the basic concern which led the Commission to reopen this proceeding for the taking of further evidence dictates that henceforth a new regulatory policy should be adopted in the regulation of warehouse rates. Principally, the Commission intends to encourage the availability of individual tariff filings by the various warehousemen and to protect the potentiality of individual action both within and among the various tariff bureaus. Accordingly, the Commission will henceforth set rates on an individual basis, granting permission to increase rates only to those warehouses which are both efficiently operated and unable to earn a reasonable return at existing rates. Group filings of a single rate for warehousing services where no individual justification has been made by the members of the group will be subject to dismissal.

The Commission is aware that the difficulty with this proposal is that individual warehouses may be unwilling to put rate increases into effect for fear of competition from other warehouses not allowed to increase rates. However, in that case the low-return warehouses could propose a rate schedule which would reflect the special aspects of their business (other than any inferior efficiency of their operations) which are responsible for their relatively unsatisfactory rate of return. Thus, for example, the relative rates for storage and handling could be adjusted if it developed that most of the low-return warehouses were specialized in one or the other activity. Similarly, any enduring cost advantage of handling a particular commodity could be reflected in a new rate structure. After making these adjustments, the rate structure should provide a comparable rate of return to warehouses of comparable efficiency, with two exceptions: (a) any inaccuracies in the depreciation formula used for warehouses might be reflected in a relationship between the age

of a warehouse and its profitability; and (b) unpredictable market shift would still affect profitability. These conditions, however, are likely to hold true under any system of regulation, and even in some degree under a competitive regime.

This alternative to the present regulatory scheme is not fully satisfactory as it will not produce as fair a rate schedule as would competitive pricing. We conclude, however, that this approach is more compatible with our regulatory responsibilities. So long as warehouses are regulated as public utilities, the Commission must aggressively pursue a policy that will not grant rates which result in exceptionally high profits unrelated to efficiency.

#### Findings

1. Applicants are public utility warehousemen providing cold storage, freezing, handling, and other services incidental to the storage of commodities requiring refrigeration at various locations in the southern California area.
2. Applicants' existing tariff rates and charges were last generally adjusted as of June 1, 1973 pursuant to Decision No. 81316 dated May 1, 1973 in Application No. 53509 filed August 4, 1972. The decision authorized a 5.5 percent increase in tariff rates and charges to offset increases in expenses experienced by applicants generally as of June and July of 1972.
3. Since applicants' tariff rates and charges were last generally adjusted they have experienced further increases in their operating expenses due to increases primarily in labor and power costs occurring during the years 1973 and 1974.
4. Applicants have shown that their 1973-1974 expenses for labor, power, and other measurable expense items have increased by approximately \$2,115,164.

5. The proposed 17.5 percent increase in applicants' tariff rates and charges is anticipated to generate some \$2,605,299 in additional revenues. This amount exceeds the 1973-1974 increases in applicants' expenses by \$490,135.

6. Storers of property in applicants' warehouses were notified of the filing of this application and the time and place of hearing. No one appeared in opposition to the sought relief.

7. Applicants' efforts to offset the 1973-1974 increases in their operating expenses and to attain a level of overall earnings consistent with the earnings previously authorized over the past four years have been shown to be justified.

8. There is no apparent single factor which explains the variability of operating ratios and rates of return experienced by the test warehousemen. The appropriate method to reflect these differences is through the competitive process.

9. To promote the establishment of competitive ratemaking, rates should be set on an individual basis granting authority to increase rates only to those warehousemen which are both efficiently operated and unable to earn a reasonable return at existing rates. Henceforth, rate increase applications involving warehousemen will be considered on an individual basis.

#### Conclusions

1. The authority requested in Application No. 54471, as amended, should be granted.

2. The 6.4 percent interim surcharge authorized by Decision No. 82499 in this proceeding should be canceled concurrently with the publication of the increased tariff rates and charges authorized herein.

O R D E R

IT IS ORDERED that:

1. Applicants are authorized to establish the increased rates and charges proposed in Application No. 54471, as amended, concurrently with the cancellation of the 6.4 percent interim surcharge authorized by Decision No. 82499 in this proceeding. Tariff publications authorized to be made as a result of this order shall be filed not earlier than the effective date of this order and may be made effective not earlier than five days after the effective date of this order on not less than five days' notice to the Commission and to the public.

2. The authority granted by this order 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 this opinion and order constitute a finding of fact of the reasonableness of any particular rate or charge. The filing of rates and charges pursuant to this order will be construed as a consent to this condition.

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 is the date hereof.

Dated at San Francisco, California, this 26th  
day of AUGUST, 1975.

*I dissent*  
*William J. Burns Jr.*  
*I dissent*  
*Vernon L. Sturgeon*

*[Signature]*  
President  
*[Signature]*  
Leonard Ross  
*[Signature]*  
Commissioners