

ORIGINAL

Decision No. 86838

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of CATALINA FREIGHT LINE, a cor-
poration, to increase rates for
the transportation of freight
between LOS ANGELES HARBOR and
CATALINA ISLAND, CALIFORNIA,
pursuant to Section 454 of the
Public Utilities Code.

Application No. 55810
(Filed July 15, 1975)

O P I N I O N

Applicant Catalina Freight Line (CFL) seeks to increase commodity rates set forth in Item 50-B of Tariff No. 4, and to reduce the minimum charge applicable to personal effects, uncrated furniture, and appliances and accessories from \$6 to \$3 (which is the minimum charge for other shipments). The net effect of the relief sought will be an increase of approximately 3.5 percent or \$15,000 per year, based on 1974 revenues.

CFL operates as a vessel common carrier between the Port of Los Angeles and Santa Catalina Island. It leases its operating equipment (tugs, barges, trucks, vans, flat racks, forklifts, and other pieces) from a non-utility affiliate, Seaway Company of Catalina (Seaway). During the summer of 1975 CFL increased its service by eighteen trips during the peak summer months. CFL incurred \$157,000 (rounded) in operating rents (both equipment and terminals) during 1974, and based on the recorded first five months of 1975, projected operating rents of \$193,000 for 1975. The increased rentals are due to an increase in the number of trips, an increase in the cost per trip and an increase in Avalon terminal rent, while

the portion of operating rents paid to Seaway for operating equipment is represented as virtually constant at \$130,000 (rounded) for both 1974 and 1975.

Seaway is under common management and control with CFL and has some common and shared employees, equipment, and operations. Under these circumstances, for ratemaking purposes, Commission policy is to allow only that portion of the expenses which would be incurred if the property was actually owned by the utility (an "as-owned" basis). By letter of September 24, 1975, the Commission requested CFL to amend the application to comply with the above policy, or to adjust the affiliate's earnings to a reasonable level. When CFL had not complied with this data request within the next six months, the staff recommended dismissal of the application. The assigned examiner, Phillip E. Blecher, issued an Examiner's Ruling on March 31, 1976 ordering the filing of the data requested within thirty days thereafter. Much correspondence ensued. On October 6, 1976 the staff, after having conducted a brief study of CFL's financial and accounting records on August 11 and 13, 1976, concluded:

- (1) The records reflect a reasonable portrayal of CFL's utility operations;
- (2) The application may be granted by an ex parte order; and
- (3) Because this problem may arise in the future, the decision here should require CFL to set forth the utility's expenses as if the properties rented from affiliate were owned by CFL, to justify any further rate increases.

CFL has never filed the data requested on September 24, 1975. However, on November 1, 1976 the staff prepared its estimate of CFL's expenses on an as-owned basis for 1975. It indicated an operating ratio of 101.34. With the requested revenue increase

of 3.5 percent the operating ratio would have been 97.91. This staff estimate is incorporated into the record as Exhibit 1. Because the staff projected operating ratio on an as-owned basis is reasonable, we shall grant CFL's requested increase and minimum charge decrease. A public hearing is unnecessary as no protests have been received. We also adopt the staff's recommendation as to future rate increases.

Findings

1. Where a utility and a non-utility affiliate are under common management and control, it is Commission policy for ratemaking purposes to allow only that portion of the utility's expenses which would be incurred as if the property was actually owned by the utility (an "as-owned" basis).

2. CFL has failed to comply with a proper data request of the staff and the Examiner's Ruling pursuant thereto.

3. The staff computed CFL's expenses on an as-owned basis for 1975. CFL's operating ratio is 101.34. Projecting the requested increase, its operating ratio was 97.91. This is a reasonable ratio, and the requested increase is a reasonable increase.

4. Applicant's request to reduce the minimum charge for personal effects, uncrated furniture, and appliances and accessories from \$6 to \$3 is reasonable.

5. The increases and decreases in rates and charges authorized by this decision are justified and reasonable; and the present rates and charges insofar as they differ from those prescribed by this decision are for the future unjust and unreasonable.

6. The resulting net rate increase is \$15,000 per year and approximately 3.5 percent based on 1974 revenues.

Conclusions

1. CFL should be granted the requested rate increase and minimum charge decrease.
2. No future rate increases will be granted CFL unless it fully sets forth the expenses of the utility operations as if the properties rented from affiliates were owned by CFL and this documentation justifies a rate increase.
3. A public hearing is unnecessary.

O R D E R

IT IS ORDERED that:

1. Catalina Freight Line, a corporation, is authorized to establish the increased rates and decreased minimum charges requested in A.55810. Tariff publications authorized 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 thirty days after the effective date of this order on not less than thirty days' notice to the Commission and the public.
2. The authority shall expire unless exercised within ninety days after the effective date of this order.

3. No future rate increases shall be granted Catalina Freight Line, a corporation, unless such an increase is justified by fully setting forth its operational expenses as if the properties rented from non-utility affiliates were owned by Catalina Freight Line, a corporation.

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

Dated at San Francisco, California, this 11th
day of JANUARY, 1977.

Robert Beluzel
President
William J. Sturgeon
Leonard Ross
Commissioners

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.