

ORIGINAL

Decision No. 88239 DEC 13 1977

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application)
of CATALINA FREIGHT LINE, a)
corporation, 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. 57357
(Filed May 27, 1977)

Additional Appearances

Jos. Quinn, for himself, interested
party.
V. Petrossian, for the Commission
staff.

O P I N I O N

Catalina Freight Line (CFL) is a common carrier of freight by barge between Wilmington (Port of Los Angeles) and the city of Avalon and the isthmus on Santa Catalina Island (Catalina). The interim order in this proceeding, D.87654 dated July 26, 1977, authorized CFL to increase freight rates on an interim basis to the level sought in the application and made certain minor tariff corrections. D.87654 provided that the interim rates should be subject to refund in the event the final rates and charges differ from the authorized interim rates and charges. Interim rates were authorized because of CFL's urgent need for additional revenue. We provided for further hearings, if necessary, after the submission of proposed exhibits by the staff and other parties.

CFL's evidentiary showing in support of its estimates is extensively discussed in D.87654.

Further hearing was held in the city of Avalon on August 8, 1977 before Administrative Law Judge Jerry Levander. Staff Evidence

The Commission staff reviewed the charges to CFL by its nonutility affiliate Seaway Company of California (Seaway) and CFL's estimate of comparable operational expenses on an as-owned basis (Exhibit 6), i.e., using the assumption that the properties rented from Seaway were owned by CFL. Mr. Labbe, the staff witness, testified that: (a) on an as-owned basis administrative expenses should be decreased from CFL's \$25,000 estimate to \$12,000; (b) an additional charge of approximately \$6,300 should be included for tug docking charges omitted in CFL's estimate; (c) after making these adjustments Seaway's average cost per trip would be \$1,380;^{1/} (d) he reviewed the 1974 allocations between CFL and Seaway used by the Commission; (e) CFL had underestimated its expenses using that allocation methodology in this proceeding; (f) CFL had performed the required analysis on an as-owned basis; (g) Seaway's average rental charge to CFL of \$1,200 per 10-hour trip was not overstated; (h) the new terminal on Catalina was more efficient and desirable than the old facility; (i) he did not anticipate any significant rental income would be forthcoming for the old terminal facilities; and (j) he did not consider maintenance expenses on the new terminal facilities.

Mr. Labbe reviewed CFL's rental and lease agreements, invoices, recorded payments, insurance premiums, and union contracts. He concluded that CFL's payroll charges were

^{1/} CFL estimated an average per-trip cost of \$1,460.

reasonable and necessary to retain its employees and to continue to maintain the high quality of service being rendered; the Catalina and proposed Los Angeles terminal rental agreements are reasonable and provide an element of stability for CFL's future operations; CFL needed to maintain its insurance coverage in force and had to pay the higher premiums involved; and that there had been a fair pro rata apportionment of jointly used facilities between CFL and Seaway.

Mr. Labbe's profit and loss estimate for the year ending June 30, 1978 (see Exhibit 16) was based upon recorded traffic for the year ending May 31, 1977. He believes that there will be a diminution of the traffic volume in the estimated year. Mr. Labbe stated that an operating ratio of 92 percent would be reasonable and that at proposed rates the operating ratio before income taxes would be 95.2 percent.

Position and Testimony of Mr. Cree

Mr. Cree's letter dated July 26, 1977 (Reference Item F) states that he would present the following at the August 8 hearing:

- (a) Detailed illustrations comparing service to Nantucket Island which is 28 miles off the Atlantic Coast with CFL's service. The rates for service to Nantucket, which are controlled by the New England Board of Motor Rates, were stated to be about one-fourth of CFL's rates.
- (b) Evidence from shippers regarding CFL's automobile rates and of the Avalon City Council's wishes to review CFL's automobile rates.

- (c) Evidence from parties (or from authorized representatives) willing to operate a freight service between the mainland and Catalina at CFL's old tariff rates.
- (d) Evidence on the understated rental value of the old warehouse.

Mr. Cree also stated that additional information would be sought from CFL regarding charter operations and that evidence might be presented about general complaints concerning CFL's service which have not been corrected.

Mr. Cree's testimony elaborated on points raised in Reference Item F. He was unfamiliar with the size of the barge or type of equipment used in the Nantucket operation, the population of the island, or of the existence of any restrictions on the use of vehicles on Nantucket. He did not analyze CFL's operations or the Nantucket operation.

He testified that the rate for automobile transportation was excessive; that the charge should be for one-way rather than for round-trip transportation for vehicles; that two individuals advised him they would serve Catalina at CFL's old rates under certain conditions; that rates for household goods vis-a-vis bulk shipments were excessive; and that rates should not be increased by the same percentage across-the-board, but by separate categories. He sought assurance that CFL would not ask for a further increase next year if its revenues declined. He was unfamiliar with relative space requirements, labor charges, other expenses, or revenues for automobiles and furniture compared to bulk commodity deliveries in a loaded van.

Report Prepared by Accountant for the City of Avalon

The city of Avalon retained a certified public accounting firm to review the application for reasonableness. An accountant's report dated July 26, 1977 (Reference Item E) summarizes the results of an accountant's general review of the basis for CFL's increased costs including increases in salary and payroll taxes, operating rents, insurance, and the reasonableness of Seaway's charges to CFL. The accountant derived an operating ratio at proposed rates of 95.4 percent, using revenue estimates with no decrease in traffic volume and updated expense levels. The report states, in part, that "we do not see sufficient basis for us to recommend extending our work to support the preparation of a formal protest to the application for a rate increase."

No representative of the city appeared at the final day of hearing.

Further Testimony by Applicant

CFL's president did not prepare any study to justify the administrative management charge of \$25,000 on an as-owned basis. He said that that amount would not be enough to hire a man sufficiently familiar with CFL's equipment and operations to keep the equipment in good working order and to avoid interruptions in services, if CFL was an independent entity. He stated that his nighttime delivery operations over rough waters worked to the advantage of his customers.

Discussion

The estimates of operating results, at proposed (and interim) rates, by CFL as modified in D.87654, by the staff, and by the accounting firm retained by the city of Avalon (which was not tested by cross-examination) support the reasonableness of the increase with no loss in traffic volume. The operating

ratios derived all exceed 95 percent. We will adopt the staff profit and loss estimate for the year ending June 30, 1978. The staff revenue estimate of \$638,770 is \$224,316 higher than its estimate for the year ending May 31, 1977. This increase reduced by elimination of wharfage charges of \$20,242 results in a net rate increase of \$204,074 (49.2 percent) for the year ending June 30, 1978. A loss in traffic volume is likely to result in a less favorable operating ratio.

CFL has made an adequate showing of its operations on an as-owned basis. Seaway's charges to CFL and CFL's Catalina terminal charges which are paid to CFL's president are reasonable.

A portion of CFL's business is made up of transporting construction building materials and household furniture. A building limitation was imposed by the city of Avalon because of the present water emergency. In D.87874 dated September 20, 1977 in A.57314, we found that no further customer growth should be permitted until Southern California Edison Company (Edison) has sufficiently augmented its water supply. Edison will have to secure Commission approval for lifting the customer restriction. This restriction should reduce CFL's traffic volumes for building materials and furniture which would decrease its net earnings. The magnitude of such changes cannot be determined on the evidence placed in this record.

The city of Avalon did not request substitution of one-way charges for automobile transportation at one-half of the rate for a round trip. This charge was instituted to prevent abandonment of cars on Catalina. If the city of Avalon requests such a charge, CFL may file a request that this change be authorized by supplemental order.

The reasonableness of revenues and expenses related to CFL's operations must be based upon an analysis of the personnel and equipment required for its operations. CFL's specialized roll-on and roll-off operations superseded the more costly labor intensive freight portion of the operations of the S.S. Catalina. CFL's vessel and terminal sharing arrangement with Seaway is working to the benefit of CFL's customers. The authorized increase is large but it is necessary to permit CFL to stay in business. The citizens of Catalina require a water freight service. CFL is supplying that need. No alternate applicant has come forward. CFL's nighttime deliveries permit commercial establishments to get their freight with a minimum of interference with tourist traffic.

We suggested that CFL could seek authority for higher rates for transporting articles with poor transportation characteristics which include those received loose or in an unpackaged condition (highly susceptible to damage), articles of low density in pounds-per-cubic-foot of space occupied (excessive space required), and articles of high value (high risk). (See mimeo. page 12 of D.82995 dated June 18, 1974 in A.53856 and A.54712.)

Findings

1. CFL's earlier rates and charges in its Local Freight Tariff No. 4 and the pass-through of wharfage charges in its Rule 11 did not provide sufficient revenues to enable CFL to cover the expenses of performing the common carrier vessel operations here involved. CFL's expenses would increase on an as-owned basis.

2. CFL needs the additional revenue authorized in D.87654 on an interim basis to offset the increases in operating costs it has experienced.

3. The estimates of operating results of the staff under the proposed rates, under the assumption that there would be no loss in traffic volume and using increased expense levels, should be adopted.

4. CFL should be authorized to establish the increased rates and charges and other provisions authorized in D.87654 on a permanent basis. The potential refund condition contained in the interim rate increase authorization should be deleted from its tariffs. No further record keeping to implement this condition should be required.

5. The increase in rates of \$224,316 authorized herein, reduced by elimination of wharfage charges of \$20,242, results in a net rate increase of \$204,074 (49.2 percent) for the year ending June 30, 1978.

Conclusion

CFL should be authorized to increase its rates pursuant to its request, with the minor modifications to its rates and rules described in Finding 4 of D.87654, on a permanent basis. The refund provision along with the related record-keeping requirements should be eliminated from CFL's tariffs.

CORRECTION

CORRECTION

THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY

2. CFL needs the additional revenue authorized in D.87654 on an interim basis to offset the increases in operating costs it has experienced.

3. The estimates of operating results of the staff under the proposed rates, under the assumption that there would be no loss in traffic volume and using increased expense levels, should be adopted.

4. CFL should be authorized to establish the increased rates and charges and other provisions authorized in D.87654 on a permanent basis. The potential refund condition contained in the interim rate increase authorization should be deleted from its tariffs. No further record keeping to implement this condition should be required.

5. The increase in rates of \$224,316 authorized herein, reduced by elimination of wharfage charges of \$20,242, results in a net rate increase of \$204,074 (49.2 percent) for the year ending June 30, 1978.

Conclusion

CFL should be authorized to increase its rates pursuant to its request, with the minor modifications to its rates and rules described in Finding 4 of D.87654, on a permanent basis. The refund provision along with the related record-keeping requirements should be eliminated from CFL's tariffs.

O R D E R

IT IS ORDERED that:

1. Catalina Freight Line, a corporation, is authorized to continue to charge the increased rates and charges and to carry out the other provisions authorized in Decision No. 87654 and is further authorized to delete the condition made a part of Ordering Paragraph 1 therein from its tariffs.

2. 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 one day after the effective date of this order and on not less than one day's notice to the Commission and to the public.

3. The authority granted herein shall expire unless exercised within sixty 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 13th day of DECEMBER, 1977.

Robert Batimand
 President

William J. ...

George L. ...

Richard D. ...

Clair ...
 Commissioners