BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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Application of Avalon Freight Services LLC (VCC-91) For Authorization to Modify Rates for Its Scheduled Vessel Common Carrier Freight Service Between the Port of Los Angeles, California on the one hand, and Avalon on Santa Catalina Island on the other hand.	A. _______________

APPLICATION OF AVALON FREIGHT SERVICES LLC TO INCREASE RATES FOR ITS VESSEL COMMON CARRIER FREIGHT SERVICE [PUBLIC VERSION]

Dated: December 1, 2025

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**APPLICATION OF AVALON FREIGHT SERVICES LLC
TO INCREASE RATES FOR ITS VESSEL COMMON CARRIER
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[PUBLIC VERSION]**

I. INTRODUCTION

Pursuant to Section 454 of the California Public Utilities Code[1] and Rule 3.2 of the Commission's Rules of Practice and Procedure ("Rules"), Avalon Freight Services LLC ("AFS" or "Applicant") seeks authority to (1) increase its baseline rates for its scheduled vessel common carrier freight service between the Port of Los Angeles and Avalon on Santa Catalina Island by ten percent (10%) and (2) institute a Zone of Rate Freedom (ZORF) of fifteen percent (15%) above and below its new baseline rates. If the Application is granted, shippers between the Mainland and Santa Catalina Island ("Island") will still, on an inflation adjusted basis, be paying lower rates than they did in 2009.[2]

More specifically, Applicant requests that the Commission issue an interim order as soon as possible authorizing Applicant to increase baseline rates by 10% while the Commission considers Applicant's proposal for implementation of a ZORF or an alternative mechanism as set at forth in Parts X and XI, *infra*. An order simply granting

[1] All statutory references herein are to the California Public Utilities Code unless otherwise indicated.

[2] See discussion at VI *infra*.

an increase of 10% to baseline rates, without more, will require Applicant to immediately seek some form of interim relief on an emergency basis since its costs over the 24-48 months following the date of the rate decision likely push its operating ratio close to or in excess of 100%. If the Commission concludes that it cannot authorize a ZORF for all of Applicant's routes, it should strongly consider the alternative described at XI.B (Step Rates.)

II. STATEMENT OF RELIEF SOUGHT-RULE 2.1

Applicant requests authority to increase its baseline rates by ten percent (10%) as soon as possible. Applicant also seeks authority to institute a Zone of Rate Freedom (ZORF) of fifteen percent (15%) above and below its baseline rates.[3] Applicant's current baseline rates were set by Decision 24-12-036 (December 19, 2024), which increased Applicant's baseline rates by 6 %. Decision 24-12-036 also authorized a ZORF of 20% above and below ("+/-") Applicant's baseline rates "for service to all portions of Santa Catalina Island ("Island") including beaches and campgrounds except for the Pebbly Beach Freight Dock and related facilities." Finally, D.24-12-036 also authorized Applicant to continue its ZORF implementing the fuel cost surcharge authorized by TL-19148, utilizing the new base rates, until June 30, 2026.[4]

Applicant's rate structure is based on the weight of the specific shipment. Depending on the weight, AFS's baseline rates employ a charge per 100 pounds or a flat rate. Applicant proposes a uniform ten percent (10%) increase to all rates, both flat rates and rates per 100 pounds. Applicant also seeks authority to employ a ZORF of fifteen percent (15%) above and below ("+/-") its new baseline rates, as long as prior notice is provided to the public and the Commission at least ten (10) days prior to the effective

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[3] As set forth at page 12, *infra*, Applicant recognizes that Decision 24-12-036 (December 19, 2024) only authorized a ZORF of 20% "for service to all portions of Santa Catalina Island including beaches and campgrounds except for the Pebbly Beach Freight Dock and related facilities." Applicant ask the Commission to revisit that determination and/or consider alternatives that could advance the same policy objectives. See, XI, *infra.*

[4] Decision 24-12-036, Ordering Paragraph Nos. 1.3.4 and 10.

date of the planned rate adjustment.[5] The requested increase and ZORF are necessary to address increases in overall expenses, projected increases in fuel costs due to market conditions and new regulations and the cost of significant repairs to, or replacement of, vessels. The requested relief is also necessary to address the pending expiration of the fuel cost surcharge ZORF authorized by Ordering Paragraph 10 of Decision 24-12-036 which is set to expire less than seven months from now on June 30, 2026.[6]

Applicant's Present and Proposed Baseline Rates are shown in Exhibit A.

III. IDENTIFICATION OF APPLICANT-RULE 2.1(A)-(B)

The exact legal name of Applicant is Avalon Freight Services LLC. Applicant's address and telephone number are:

Avalon Freight Services
385 E. Swinford, Second Floor
San Pedro, CA 90731
Tel: 310-221-6290

Pursuant to Commission Rule 2.1(b), notices, correspondence, and communications with respect to this Application should be addressed to:

Thomas J. MacBride, Jr.
Christopher Marelich
Downey Brand LLP
455 Market Street, Suite 1500
San Francisco, CA 94015
Tel: 415-848-4842
Fax: 415-848-4801
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[5] "The Commission may lawfully exercise discretion to allow a vessel common carrier to establish a ZORF under Article XII, Section 4 of the California Constitution and Section 701 of the Public Utilities Code." (*Catalina Channel Express*, Decision No. 98-12-016,1998 Cal.PUC LEXIS 868, 83 CPUC2d 265 (Conclusion of Law No. 1).)

[6] It is hard to overstate the significance of the termination of the fuel cost surcharge ZORF. As shown in Exhibit E, in the absence of that ZORF, Applicant would have suffered an operating loss in 2024.

with a copy to Applicant's President, as follows:

Mr. Gregory E. Bombard, President
Avalon Freight Services
385 E. Swinford, Second Floor
San Pedro, CA 90731
Email: Gbombard@catalinaexpress.com

IV. CATEGORIZATION, NEED FOR HEARING, SCHEDULE AND ISSUES (RULE 2.1(c))

A. Categorization and Need for Hearing

Applicant proposes that this matter be categorized as ratesetting, without any need for hearings. Evidentiary hearings were not required prior to the most recent decisions setting the rates of other Southern California[7] and Northern California[8] vessel carriers. Questions arising in a prior proceeding with regard to Applicants payments to affiliates were examined in detail in D.23-04-039 and resolved favorably to Applicant.[9] The base rate increase sought, 10%, would produce an cumulative increase in baseline rates of 28.2% since 2009, a modest increase when measured against a 56.4% increase in the consumer price index ("CPI") over that period of time.[10] On an inflation adjusted basis,

[7] No hearing was required when Decision 18-07-033 (July 26, 2018) set rates for Catalina Clipper, LLC when it was certified in 2018. Nor was any hearing required prior to Decision 07-06-007 (June 7, 2007) setting rates for Catalina Classic Cruises. The same was true for Decision Nos. 06-10-014 (October 5, 2006) and 03-06-019 (June 5, 2003) setting fares for Catalina Passenger Service, Inc.

[8] See, *Blue & Gold* Decision 16-12-050 (December 15, 2016); *Blue & Gold* Decision 16-12-048 December 15, 2016. Decision 16-10-009 (October 13, 2016) did permit Blue and Gold to withdraw its application to discontinue the offering of a 20-ticket discount books when a passengers asserted that the withdrawal would result in a 66% fare increase. Moreover, there have been contested proceedings in which rates were an ancillary issue in an application for certification (or amended certification.) See, *Tideline Marine Group*, Decision 21-12-027 (December 16, 2021); even in that matter, which was technically "contested", no evidentiary hearings were held.

[9] "We have reviewed the documents submitted by AFS and are satisfied that there are no issues relating to the payments that AFS has made to affiliates that it owns." D.23-04-039 at page 16.

[10] https://data.bls.gov/pdq/SurveyOutputServlet

the rates proposed here (even if increased to the maximum amount permitted by the sought ZORF ("ZORF Max")) are less than the rates in effect in 2009.[11]

B. Proposed Schedule

Because Applicant believes that no hearing is required, it proposes the following schedule:

Application Filing Date	December 1, 2025
Notice in Daily Calendar	5 Days after Application Filing Date
Protests and Responses Due	30 Days after Notice in Daily Calendar
Reply to Protests	10 Days after Protests, if any
Pre-Hearing Conference	20 Days after Date Protests and Responses are Due
Scoping Memo Issued	15 Days after Pre-Hearing Conference
Proposed Decision Issued	90 Days after Application Filing Date[12]
Commission Final Decision	120 Days after Application Filing Date[13]

C. Issues to be Considered

The sole issues are whether (1) the ten percent (10%) base rate increase sought herein is just and reasonable; (2) whether establishing a ZORF of +/- 15% will result in

[11] See discussion at VIII.C., *infra*.

[12] AFS recognizes that this date is only 20 days after the date set for the issuance of the Scoping Memo. Applicant notes, however, that by the scheduled date for the issuance of the Scoping Memo, five weeks will have passed since the expiration of the protest period. If the initial preparation of a Proposed Decision ("PD") commences as soon as the Commission is apprised that the application is uncontested, the Assigned Commissioner would have fifty-five (55) days to prepare and serve a PD.

[13] Rule 14.6(c)(2) of the Commission Rules of Practice and Procedure allows the Commission to waive the period for public review and comment on proposed decisions in the event that a matter is uncontested and where the decision grants the relief requested. Assuming no protests are filed and the decision grants the related requested, AFS requests that the Commission waive the period for public comment and process this Application to accommodate the proposed schedule.

reasonable rates and (3) if a ZORF is not authorized, is it reasonable to permit Applicant to employ one of the alternative rate adjustment procedures set forth in XI, *infra*.

V. BUSINESS ORGANIZATION DOCUMENTS- Rule 2.2

Applicant is a Delaware limited liability company ("LLC") authorized to do business in California. A copy of Applicant's Business Organizing Documents was filed as Exhibit C to A.14-10-015. Real time verification of Applicant's good standing with the Secretary of State may be found at https://businesssearch.sos.ca.gov/. Applicant's entity identification is 201410710297.

VI. FINANCIAL DATA (RULES 3.2(a)(1), 3.2(a)(3))

A. Recorded Data

In compliance with Rule 3.2(a)(1), Applicant has submitted under seal **Exhibit B**, its most recent balance sheet (dated September 30, 2025) and **Exhibit C**, an income statement covering the period from January 1, 2025 to September 30, 2025. In the Public Version of the Application, Applicant submits **Exhibit D**, a copy of Applicant's most recent (2024) Annual Report to the Commission which shows recorded income for the period January 1, 2024 to December 31, 2024.

B. Estimate of Additional Gross Revenues at Proposed Rates

Exhibit E to this application, filed under seal, compares projected and recorded income and costs to show that the rates proposed herein will result in a reasonable operating ratio.[14] **Exhibit E** employs recorded income for the period January 1, 2024 to December 31, 2024 (also found in public **Exhibit D**) as well as estimated baseline only revenues and recorded costs for 2024. It also estimates revenues at current[15] fares for 2025. The Exhibit also shows the estimated level of 2025 revenues in the absence of the

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[14] See page 27, *infra*..

[15] As employed here, the term "current" means the rate being charged as of the time of filing of this application. That rate is the baseline rate authorized in Decision 24-12-036 as adjusted by application of the fuel cost surcharge ZORF also authorized in that decision.

fuel cost surcharge originally authorized and extended, in the case of Applicant, through June 30, 2026. Finally, **Exhibit E** projects revenues at current assessed rates assuming the fuel cost surcharges expires on June 30, 2026 and is not replaced by some other form of rate relief. For each revenue projection, operating ratios are calculated employing various cost projections.

VII. NATURE AND QUALITY OF SERVICE SINCE CERTIFICATION.

Applicant is a Vessel Common Carrier (VCC-91). By D.16-02-024 issued in 2016, the Commission authorized Applicant to provide freight service by vessel between the Mainland (San Pedro) and the Island. The service is provided a minimum of five days each week. AFS has never missed a scheduled sailing other than as a result of a significant weather delay.[16]

AFS transports anything and everything the residents and businesses on the Island need that is too large to be carried as luggage on the cross-channel passenger ferry. It transports fuel for Southern California Edison's electric generation plant, fuel for the City of Avalon's fuel dock, gasoline for the shoreside gas station, as well as groceries and other necessities for the Island's grocery stores, restaurants and hotels. In addition, AFS transports non-potable water (and has the capability of transporting potable water), vehicles, and household and personal items such as couches, televisions, and bicycles. By design, AFS is also prepared to transport emergency vehicles and other equipment to the Island, for Los Angeles County Fire and Sheriff Departments, in the event of a fire or other emergency.

Since its certification in early 2016, AFS has never received a complaint from the Commission, its staff or a shipper about its level of service. The absence of complaints is understandable. Given the unique characteristics of the market it serves[17], reliability is

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[16] AFS received permission from the Commission staff to reduce the schedule to three days a week during the initial outbreak of Covid-19. AFS restored five day a week service later in the year.

[17] At page 5 of D. 19-01-032, the Commission noted that:

essential, and AFS has taken the steps necessary to ensure it. AFS is a party to firm long-term leases on both sides of the channel for facilities suitable for freight.[18] It closely tracks pending weather issues and notifies shippers as well as the community of any changes in schedule due to weather. Shippers can also take comfort in the fact that AFS carries liability insurance at levels far in excess of what the Commission or the United States Coast Guard ("USCG") require.

The AFS facility in San Pedro is new, close to a freeway off-ramp, and near to both the Catalina Express passenger terminal as well as a large parking lot. The site is particularly convenient for small shippers. By comparison, the Mainland facility of the previously certified carrier was located at Berth 184 in the inner harbor of Wilmington on a site for which the carrier held no long-term lease and which was due to be demolished in 2016 as part the Wilmington Waterfront Development Project.

The vessels operated by AFS are the same vessels it employed upon certification in 2016 when the two powered vessels were brand new.[19] They replaced the much older

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Santa Catalina Island is located approximately 26 miles off the coast of Long Beach, California. The City of Avalon is the only incorporated city on Santa Catalina Island. In addition to its approximately 4,000 permanent residents, Santa Catalina Island hosts over one million visitors per year. Because it is an island, food, fuel, water, household goods, vehicles, and other commodities required by residents and visitors must be brought to Santa Catalina Island by freight barge or lander vessel or by air cargo plane.

Although there is air service to Santa Catalina Island, it is expensive, and virtually all freight service to and from the island is by vessel. Approximately 90 percent of freight delivery to the Island is brought to the Pebbly Beach freight facility in an industrial section of Avalon south-east of Avalon Bay.

[18] On the Mainland, AFS subleases space for its operations at Berth 95 at the Port of Los Angeles ("Port") from its affiliate Catalina Channel Express (a tenant of the Port). (See footnote 5 at page 6 of D. 19-01-032). At Avalon, AFS leases a landing facility from the Santa Catalina Island Company ("SCICo"). The AFS/SCICo lease was addressed in the Rehearing Phase of A. 14-10-015. See D. 19-01-032 at pages 2-3. The Commission found that the lease did not contravene the statute at issue in the proceeding (see, D. 19-01-032, Conclusion of Law No. 2) and that "(t)he rates authorized for Avalon Freight Services are reasonable." *Id.* at Ordering Paragraph No. 2.

[19] As set forth in Ix.C.2 *,infra,* the tugboat *Lucy Franco* will need to be substantially modified or replaced during 2026-2027 to meet emission requirements directed by the California Air Resources Board ("CARB"). The landing craft *Catalina Provider* will also be required to

vessels operated by the prior carrier. The net result of the change in carrier in 2016 was very positive for shippers of all sizes. Paying rates lower than they previously paid on an inflation-adjusted basis, the shippers receive very reliable and convenient service, and their goods are carried on modern vessels operated by highly trained crews. On land, their goods are handled by an experienced staff of union labor. The shippers are not turned away from a trip (so long as they make the time cutoff) and the shipments arrive in time for an early morning pick-up.

VIII. PROPOSED RATE CHANGES

A. History of AFS Rates

1. Initial Rates Charged at the Time of Certification

By D.16-02-024 (February 25, 2016), after a lengthy proceeding, the Commission (1) certified AFS to provide vessel freight service between the Port of Los Angles and Avalon and (2) directed AFS to adopt the rates of the carrier previously serving that route, Catalina Freight Lines ("CFL").[20] The CFL rate levels AFS adopted in 2016 were set seven year years earlier by Decision 09-08-011 (August 20, 2009). The Commission determined that the reasonableness of AFS' costs would be addressed when AFS sought a rate increase.[21]

In 2017, by D.17-04-042, the Commission granted rehearing of D. 16-02-024 to consider issues related to the use of the landing site at Avalon. After two days of hearings which included questions regarding AFS's costs, the Commission issued D.19-01-032 which left D.16-02-24 undisturbed and formally found that the rates charged by AFS

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undergo significant repairs to its bow, the feature of the vessel critical to its ability to land at camps and parks located at sites on the Island with shallow water. See IX.D, *infra*.

[20] D.16-02-024, Ordering Paragraph Nos. 1 and 3.

[21] D.16-02-024, Ordering Paragraph No. 1.

were reasonable.[22] D.19-01-032 did, however, direct AFS to "file a general rate case within 3 years of the date of this Decision."[23]

2. **2022 General Rate Case**

In accordance with D.19-01-032, AFS filed A.22-01-014 on January 27, 2022. A.22-01-014 did not seek an actual increase in rates. Instead, it sought to (1) place its rates at issue to comply with D.19-01-032, (2) modify provisions of its rate rules to prevent improper consolidations of shipments by unrelated shippers and (3) make minor revisions to its rate tiers and classifications.[24] During the course of A.22-01-014, the Commission examined AFS's costs, in particular its payments to affiliated entities and to the owner of its landing facility on Santa Catalina Island. AFS responded to a detailed series of questions from the assigned ALJ on those matters. The Commission found those responses to be satisfactory.[25]

A.22-01-014 concluded with D.23-04-039. That decision did not increase the rates of AFS because the purpose of A.22-01-014 was not to increase rates but instead to (1) comply with D.19-01-032, (2) modify certain rules governing consolidation of shipments and (3) make minor revisions to rate tiers and classifications. Accordingly, the 2022 GRC resulted in 2023 rates for AFS that, with minor changes, were the rates set for CFL in 2009, the rates AFS inherited pursuant to D.16-02-024. Those rates had essentially been in effect for fourteen years, a period over which the Consumer Price Index ("CPI"), had increased by 49%.[26]

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[22] Decision 19-01-032 (January 31, 2019), Ordering Paragraph No. 2.

[23] D.19-01-032, Ordering Paragraph 3.

[24] See, D.23-04-039 (April 27, 2023), p. 2.

[25] *Id* at pp. 15–16.

[26] https://data.bls.gov/pdq/SurveyOutputServlet.

3. **2023 General Rate Case**

On November 20, 2023, Applicant filed A.23-11-013 by which it sought a 6% increase in baseline rates and a ZORF of +/- 20%. On December 19, 2024, the Commission issued Decision 24-12-036 which increased Applicant's baseline rates by 6%, as sought in A23-11-013, but granted the requested ZORF on only a limited basis. Decision 24-12-036 authorized a ZORF of +/-20% of Applicant's baseline rates "for service to all portions of Santa Catalina Island including beaches and campgrounds <u>except for the Pebbly Beach Freight Dock and related facilities.</u>" D.24-12-036 also authorized Applicant it to continue its ZORF implementing the fuel cost surcharge authorized by TL-19148, utilizing the new base rates, until June 30, 2026.[27]

B. Proposed Rates

While AFS provides service in an efficient fashion made possible by a well trained staff and modern technology, it has borne increases in costs and will continue to do so in 2026, 2027 and beyond. To addresses these challenges, Applicant proposes the modified rates set forth in **Exhibit A**. Chart 1 below chart shows Applicant's current rates, the proposed base rates with a ten percent (10%) increase, and the proposed ZORF range of plus or minus fifteen percent (15%) for all weight classes.

Chart 1
Present And Proposed Rates

Weight of Shipment (Pounds)	Current Charges Per 100 Pounds (Except Flat)	Proposed Charges Per 100 Pounds (Except Flat) (10% Increase)	Proposed ZORF Range Per 100 Pounds (+/-) 15%		
1 - 111	$ 17.31	$ 19.04	$ 16.18-$21.90		flat rate
112 - 4,035	$ 15.48	$17.03	$ 14.47-$19.58		
4,035 - 5,000	$ 624.28	$ 686.71	$ 583.70-$789.71		flat rate
5,001 - 11,407	$ 12.49	$13.74	$11.68- $15.80		
11,408 - 20,000	$ 1,424.25	$1,566.68	$1,331.67-$1801.68		flat rate

[27] Decision 24-12-036, Ordering Paragraph Nos. 1, 3, and 10. (Emphasis supplied.)

20,001 - 25,065	$ 7.12	$ 7.83	$ 6.66 - $9.01		
25,066 - 30,000	$ 1,785.03	$1,963.53	$1,669.00- $2,258.06		flat rate
30,001 - 500,000	$5.95	$6.55	$ 5.56 - $7.53		
Household	$ 29.73	$ 32.70	$ 27.80-$37.61		
Reefer	$ 17.41	$ 19.15	$ 16.28-$22.02		
Large Motor Vehicles	$ 4,489.10	$ 4,938.01	$ 4,197.31- $5.678.71		flat rate
Medium Motor Vehicles	$ 29.73	$ 32.70	$ 27.80-$37.61		
Small Motor Vehicles	$ 29.73	$ 32.70	$ 27.80-$37.61		
Horses	$ 154.70	$ 170.17	$ 144.64-$195.70		per horse
Bikes	$ 17.31	$ 19.04	$ 16.18-$21.90		each way
Kayaks	$ 39.36	$ 43.30	$ 36.81-49.80		each way
Storage Fee	$ 0.46	$ 0.51	$ 0.43-$0.59		
Charter – Tug & Barge Per Hour with a 10 Hour Minimum	$874.50	$ 961.95	$ 817.66- $1,106.42		per hour 10 hour min.
Charter – Landing Craft Per Hour with a 8 Hour Minimum	$1,166.00	$ 1,282.60	$ 1,090.21- $1,474.99		per hour 8 hour min.

C. Comparison of Past, Present and Proposed Rates with Inflation

To provide context to this Application, Chart 2 below compares the rates of Applicant and its predecessor CFL (from which it inherited its initial rates) over time. The specific rate compared is that of greatest impact on the smallest (generally non-commercial, individual) shippers, the $14.85 rates for shipments of 1-111 pounds. (In general, all of Applicant's rate blocks have been adjusted by an equal percentage.)

Chart 2
Freight Rates Between Avalon and the Mainland
Compared to the Consumer Price Index Inflation Adjusted 2009 Rate[28]

DATE	EVENT	1-111 Lb. Rate	CPI[29]	2009 Rate Adj. for Inflation
August 2009	D.09-08-011	$ 14.85	219.884	
February 2016	D.16-02-024	$14.85	237.614	$16.04
July 2022	6% FCS ZORF[30]	$15.74	313.951	$21.20
April 2023	D.23-04-039	$15.74	322.187	$21.77
April 2024	10% FCS ZORF[31]	$16.33	334.050	$22.56
April 2025	D.24-12-036	$17.31	341.159	$23.31
November 2025	Application	$19.04 (baseline)	345.294[32]	$23.31
November 2025	Application	$21.90 (MaxZORF)	345.294[33]	$23.31

At the outset, the Commission should note that the baseline rate sought here for a 1-111 pound shipment is $19.04. That rate is 28.2% higher than the rate ($14.85) charged in mid-2009. That rate is also, however, 18.3% lower than the comparable inflation adjusted rate. Even if Applicant charged the highest possible rate allowed by the sought ZORF, the resulting rate, $21.90, would be 6% less that the inflation adjusted rate of $23.31.

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[28] (CPI on date of new rate)/219.884 x $14.85

[29] https://data.bls.gov/pdq/SurveyOutputServlet

[30] Application of ZORF implementing CPUC fuel cost surcharge.

[31] *Id*.

[32] September 2025 data, the most recent available.

[33] *Id*

Chart 2 reflects the fact that between August 2009 and September of 2025, the most recent date for which CPI data is currently available, the CPI increased by 57%. In other words, while the AFS rate increased by an annual compound rate of 1.84% the CPI increased by an annual compound rate of 2.83%,[34]

Moreover, the disparity between the recorded inflation rate and the smaller rate of increase in the AFS 1-111 pound rate is far greater than that shown above. First, real time CPI is not available for the date of filing of this application; it lags by 60-120 days. More importantly, it is likely that that new rates will not take effect until 6-12 months after the Application is filed. Many expect inflation to approach 3% in 2025-2026 as it has during 2024-2025. An estimate of 2% over nine months would be fairly conservative. If the CPI rose to 351 at the time of issuance of the decision granting this Application, the increase in the 1-111 pound rate would only be 28% higher than the 2009 rate but the increase in the CPI would approach 60%.[35]

Finally, there is no basis for assuming that Applicant would immediately increase rates to the maximum allowed under its ZORF when a decision is issued. Applicant took no such precipitous action in response to past fuel cost surcharge resolutions (Res. TL-19139 (June 23, 2022); Res. TL-19141 (June 8, 2022); Res. TL-19148 (May 30, 2024).

IX. JUSTIFICATION FOR AN INCREASE IN RATES

A. Increase in Overall Expenses

Over the eight years that AFS has served Santa Catalina Island, the CPI has increased by 40%.[36] Over the sixteen years since the original AFS rates were effectively

[34] Even if the comparison is made only between the CFL rates actually charged by AFS, the result is the same. The highest (Max ZORF) rate for 1-112 lb sought in this Application is 34% higher [$19.90/$14.85+1.34] than the rate AFS charged when it began service at Avalon. Since that date, the CPI has increased by at least 44.8%. [344.096/237.614= 1.448.]

[35] 59.62%

[36] https://data.bls.gov/timeseries/CUUR0400SA0?amp%253bdata_tool=XGtable&output_view=data&include_graphs=true

set (for CFL), the CPI has increased by 57%. If the instant application is granted, however, shippers to and from Santa Catalina Island will only pay, a baseline rate of only 28.2% more than their counterparts were paying CFL in the fall of 2009. Even at the MaxZORF rate, the shippers would only be paying 47.4% more than the 2009 rate, 20% less than the inflation rate.

Whatever rate AFS may be charging, the CPI will continue to rise. On October 1, 2025, UCLA's Anderson School of Management stated that:

> After trending downward, inflation reversed course in May and has been gradually rising to uncomfortable levels with the monthly CPI inflation rate for August coming in at a seasonally adjusted annual rate of 4.8%.This rise is likely to persist.[37]

While other views surely exist, Applicant believes that there is some consensus around the view expressed by UCLA. Moreover, Applicant's experience with the costs most relevant to vessel freight service indicate cost increases exceeding that reflected in the CPI

B. Increase in Fuel Costs

As well chronicled in the media, the cost of fuel in the US has sharply increased since mid-2020.[38] In 2009, when Applicant's initial rates were effectively authorized[39], the average annual Ultra-Low Sulfur CARB Diesel spot prices for Los Angeles was $1.702 per gallon. When A.22-01-014 was filed, it was $2.852 per gallon.[40] On November 3, 2023 it was $2.974 an increase of 74.7% since the spot price when the current AFS rates were effectively set in 2009.

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[37] https://www.anderson.ucla.edu/news-and-events/weakness-persists-us-and-california-economies-recovery-not-expected-until-2026

[38] See, Res. TL-19139 (June 23, 2022) at page 7.

[39] As noted above, Applicant adopted the rate of the prior carrier at Avalon pursuant to D.16-02-024. Those rates were set in August of 2009.

[40] https://www.eia.gov/dnav/pet/hist/eer_epd2dc_pf4_y05la_dpgM.htm.

In 2021-2024, the Commission issued a number of orders authorizing fuel cost surcharges (in the form of ZORFs) to address the fuel cost increases being faced by vessel carriers: Res. TL-19139 (June 23, 2022); Res. TL-19141 (June 8, 2022); Res. TL-19148 (May 30, 2024); TL-19151 (May 15, 2025). Over time, however, the Commission narrowed the eligibility for such relief to carriers with then pending rate applications. The Commission's course suggested that the Commission preferred that carriers address increases in fuel costs through individual General Rate Cases ("GRCs") rather than rely on state-wide relief through Commission resolutions authorizing fuel cost surcharges. Accordingly, it is incumbent on vessel carriers such as Applicant to seek prompt rate relief to address anticipated increases in fuel costs in the years following the filing of the application.

For vessel carriers in California, the most identifiable source of current and future cost increases is that resulting from the state's understandable desire to reduce carbon emissions. Applicant addresses those requirements below.

C. New Regulations for Commercial Harbor Craft

1. Fuel

On December 30, 2022, the Office of Administrative Law (OAL) approved California Air Resources Board ("CARB") amendments to the Commercial Harbor Craft (CHC) Regulation, section 2299.5, title 13, division 3, chapter 5.1 and section 93118.5, title 17, chapter 1, subchapter 7.5 of the California Code of Regulations (CCR).[41] As amended by the CARB, the CHC Regulation became effective January 1, 2023. It requires that all Commercial Harbor Craft, including vessels operated by Applicant, are required to use renewable diesel (R100 or R99) ("Renewable Diesel") which, at present, costs up to 30 cents/gallon more than the Ultra-Low Sulfur CARB Diesel Applicant employed through the end of 2022.

[41] https://ww2.arb.ca.gov/resources/fact-sheets/chc-factsheet-implementation-timeline.

Applicant expects that its cost of Renewable Diesel (R99/R100) will increase in the future. Given California's commitment to sharp reductions in carbon emissions, it would be unreasonable to advance any contrary prediction. With the passage of time, the employment of emission-free vessels (electric vessels) may grow (or ultimately be required). That eventuality, however desirable from an environmental perspective, would simply replace the cost of low-carbon fuel with the enormous cost of new electric engines and storage technology. Applicant is unaware of any scenario in which the cost of operating a commercial vessel in California (carbon based or otherwise) will not continue to significantly increase.

2. Tier 4 Engines and the *Lucy Franco*

Applicant's tugboat, *Lucy Franco*, propels the barge *Two Harbors* across the channel between the Mainland and the Island as well as between other points as authorized by the Commission. The *Lucy Franco* is powered by Caterpillar's latest version Tier 3 C-32 engine which develops 750 rated horsepower.

CARB has directed AFS to operate the vessel with a Tier 4 engine. "Tier 4" refers to the final phase of the Environmental Protection Agency's Clean Air Nonroad Diesel Rule, which regulates pollutants from diesel engines used in certain commercial activity. The pollutants from Tier 4 diesel engines are substantially less than those produced by Tier 3 engines. At this time, Applicant is unaware of a Tier 4 engine with the required horsepower rating that would be both suitable from the perspective of power and able to fit in the available space in the *Lucy Franco* to accommodate an engine retrofit.

CARB has granted Applicant an extension of time in which to replace the Tier 3 engine in the Lucy Franco to a Tier 4 engine. Applicant does not now know, however, when a Tier 4 engine, of a size appropriate for placement in the *Lucy Franco,* will be available. Applicant could simply take the *Lucy Franco* out of service and wait for the availability of such an engine (most likely from Europe)[42] and then prepare for a multi-

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[42] The chance of acquiring a standalone Tier 4 engine in North America is virtually zero.

million dollar engine swap. Applicant has determined, however, that the chance of successfully (1) acquiring a properly sized Tier 4 engine and (2) installing it in the available space in the *Lucy Franco* is very small. Moreover, during the initial down time for the *Lucy Franco* as well as the time required for the swap (6 to 8 months), Applicant will be required to lease a suitable tugboat to carry out *Lucy Franco*'s responsibilities.

The alternative is to replace the *Lucy Franco* with a newly constructed tugboat with a Tier 4 engine already installed. The cost of the new tugboat would be no less than $10 Million dollars. Moreover, even after choosing the option, and Applicant will still be tasked with <u>finding</u> a Tier 4 engine with the 750 horsepower range required for safely propelling a barge across the 26-mile channel between the Mainland and the Island in a range of weather conditions.

Again, Applicant estimates that the cost of constructing such a vessel will be approximately $10 Million. Applicant will explore the possibility of obtaining a government grant for part of the cost. Applicant cannot, however, project at this time precisely what cost it will bear for the new Tier 4 vessel and when it will be required to bear it. It estimates, however, that it will minimally amount to several million dollars during 2026-2027 and possibly $1.5-2 Million for each of the years from 2026-2028. (For context, an incremental increase of $1.5 Million for any of those years would represent a 20% increase.) Exhibit E shows that an increase of even <u>half</u> that level ($750,000) would produce an operating ratio well in excess of 100%, a substantial operating loss.

D. Significant Vessel Repairs and Charter Costs

As noted earlier. the landing craft *Catalina Provider* will be required to undergo significant repairs to its bow, the feature of the vessel critical to its ability to land at camps and parks located at sites in shallow water on the Island . The entire bow will have to be removed from the vessel and replaced with a new bow. Applicant estimates that the replacement work will cost roughly $500,000.

Moreover, as is the case with respect to repair or replacement of the *Lucy Franco*, Applicant will have to bear the expense of chartering substitute vessels from another company when the *Catalina Provider* is out of operation.

E. Increase in Labor Costs

Applicant's vessels operating between San Pedro on the Mainland and Avalon, require:

- A crew of six on the vessel;
- A ground crew of seventeen at the San Pedro site consisting of five in management/order processing, seven (including truck drivers) at the warehouse and five in engineering; and
- A manager at the site in Avalon in addition to eight persons handling the warehouse at that site (including truck drivers.)

The size of the crew at the Avalon and San Pedro sites as well as on the vessel does not vary significantly by the freight load on any given day. All crews must be ready to handle a daily shipment, regardless of size, on very short notice while, at all times, complying with the requirements of the US Coast Guard.

Labor costs have continued to increase over the past few years, with significant increases in the past two years. In 2022, Applicant reported $2,094,193 in labor costs. The comparable figure in 2023 was $2,252,198, an increase on 7.5%. In 2024 the figure was $2,390,179 an increase of 6%.[43] From 2022 to 2024, the cost of labor to AFS increased by 14.1%, double the rate of inflation over that two year period.[44] Based on figures set forth in Exhibits C, Applicant expects labor costs in 2025 to exceed $2.5 Million.

[43] Exhibit D, Schedule B-2, line 39 (account 471).

[44] Exhibit D, Schedule B-2, lines 26 and 41.

F. Increase in the Cost of Liability Insurance

Applicant has always obtained insurance at levels exceeding those required by General Order 111-C. The required coverage levels set in General Order 111-C are dependent on the "passenger seating capacity" of the vessels, rather than the average recorded or estimated passenger count. The cost is fixed.

In 2022, Applicant reported $333,456 in insurance costs; the comparable figure in 2023 was $365,201, an increase of 9.5%. In 2024 the figure was $394,175, an increase of 8%.[45] From 2022 to 2024, the cost of insurance to AFS increased by 18.2%, almost *triple* the rate of inflation over that two year period. Applicant expects the cost of insurance in 2025 will be in excess of $450,000. If so, the increase from 2022 to 2025 will be 35%, over *triple* the 9.6% increase in the CPI for the three years preceding September 2025.

Moreover, Applicant expects that, as is the case with all forms of insurance in California, premiums for the insurance required by GO 111-C will sharply increase in cost over each of the next few years as insurance carriers leave California and the marine industry.

Accordingly, Applicant expects insurance premiums to increase by 10-12% annually for the next few years.

G. Estimates of Operating Ratios

Exhibit E, filed under seal, shows the effect of cost increases on the operating ratio of Applicant. A carrier's "operating ratio" ("OR") is equal to a carrier's operating costs divided by its revenues derived from those costs. In other words, "expenses as a percent of revenue." An operating ratio of less than 100 percent, therefore, equates to an operating profit while an operating ratio in excess of 100 percent shows a loss because it indicates that operating expenses exceeded operating revenues during the period measured.[46]

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[45] Exhibit D, Schedule B-2, line 39 (account 471.)

[46] See, D.24-12-036, footnote 28 at page 11.

X. JUSTIFICATION FOR AUTHORIZING A 15% ZORF

Applicant requests ZORF authority to address rising costs and unforeseen circumstances (periods of inclement weather or economic conditions that may adversely affect Applicant's finances and ridership) without the need to expeditiously return to the Commission with another formal rate application. Rate flexibility would allow Applicant to immediately address unforeseen circumstances.

Unlike other businesses regulated by the Commission, Applicant is not allowed to employ balancing accounts or memorandum accounts to retroactively recover operating losses arising from unforeseen circumstances.[47] It receives no government funding.[48] It requires prompt rate relief to address unforeseen or uncertain economic conditions (fuel, labor and insurance cost) as well as the effect of tariffs and regulatory requirements tied to environmental and other public policy concerns.

It would be reasonable for the Commission to grant Applicant authority to adjust its rates with a ZORF of up to fifteen percent (15%) above and below its base rate, as long as prior notice is provided to the public and the Commission at least ten (10) days prior to the effective date of the planned rate adjustment. The range of the ZORF sought here is narrower than most authorized by the Commission.[49]

Applicant recognizes that the Commission recently denied Applicant's request to establish a ZORF for service between its facility on Pebbly Beach near Avalon.[50] For the reasons set forth below, Applicant respectfully requests that the Commission reconsider that request.

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[47] Compare, Water Standard Practice U-27-W, Part E.

[48] It is possible that Applicant could be awarded a grant to cover part of the cost of replacing one or more of its vessels with a Tier 4 diesel engine. See, pp. 19-20, *supra*.

[49] See e.g., Res. TL-19139 (June 23, 2022); *Balboa Island Ferry* Decision 20-02-055 (February 27, 2020). Indeed, the Commission has authorized its Executive Director to sign orders approving requests by ground carriers to operate pursuant to ZORFs of that limited range.. Decision 15-05-029 at Ordering Paragraph 11

[50] A ZORF for all other routes was approved. See, D.24-12-036, Ordering Paragraph Nos. 3 & 4.

A. The Commission has Acknowledged That It is Vested With the Jurisdiction to Authorize Applicant to Employ a ZORF for All Points it Serves.

While Applicant is not subject to direct competition to and from Pebbly Beach, that fact does not preclude the Commission from authorizing the ZORF sought herein.

In *Catalina Channel Express, Inc* Decision No. 98-12-016,1998 Cal. PUC LEXIS 868, 83 CPUC2d 265 (Conclusion of Law No. 1), the Commission held that it:

> "may lawfully exercise discretion to allow a vessel common carrier to establish a ZORF under Article XII, Section 4 of the California Constitution and Section 701 of the Public Utilities Code."

It noted that:

> "(t)aken together, California Constitution Article XII, Section 4 and PU Code §701 grant the Commission broad discretion to fashion rules relating to transportation rates in the State which are unorthodox by comparison to traditional cost-of-service regulation."[51]

Neither Article XII, Section 4 nor Section 701 contain any restrictions on the Commission's authority to authorize a vessel carrier to employ a ZORF.

In D.24-12-036, Applicant's last GRC decision, the Commission agreed that it possessed broad powers under Article XII, Section 4 and Section 701 but stated that neither provision required the Commission to award a ZORF (a position Applicant has never contested).[52] The Commission did not, however, state that any statute or constitutional provision precluded it from authorizing a vessel carrier to employ a ZORF if, in the Commission's judgment, a good reason existed to do so.[53] Here, several good reasons exist to do so.

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[51] Catalina Channel Express, Inc Decision No. 98-12-016,1998 Cal. PUC LEXIS 868*6.

[52] D.24-12-036, page 15.

[53] Notably, D.24-12-036 also addressed, and rejected, any suggestion that Section 454.2 (governing ground carriers) could limit the Commission's authority with regard to vessel rates. The Commission stated that:

> One might argue that such an inference would be drawn from Section 454.2. That section however only applies to "passenger stage [ground] transportation service". Moreover,

B. **Authorizing Applicant to Employ a ZORF Will Enlarge the Time Interval Between Applicant's Need to File General Rate Applications to Maintain an "Acceptable" Operating Ratio**.

A carrier's "operating ratio" ("OR") is equal to a carrier's operating costs divided by its revenues derived from those costs. In other words, "expenses as a percent of revenue." An operating ratio of less than 100 percent, therefore, equates to an operating profit while an operating ratio in excess of 100 percent shows a loss because it indicates that operating expenses exceeded operating revenues during the period measured.[54]

The Commission has stated a number of times that an operating ratio ("OR") within the range of 90% – 100% is "an acceptable ratio," while "an OR greater than 100% demonstrates that a company is 'unprofitable' in terms of revenue generated."[55]

Realistically, however, it is difficult to envision the Commission actually finding an OR as high as 98% "acceptable" in the absence of a ZORF since only a slight increase in costs would put the carrier over 100%, an operating loss. (It may also be unreasonable find that 90% is the floor of an "acceptable" OR.) Here, Applicant simply asks the Commission to consider here how a range of acceptability of 90-97% <u>without a ZORF</u> (or some comparable rate mechanism) would operate in practice for a hypothetical carrier.

Assume that freight <u>volumes</u> of the hypothetical carrier, *Swift T Freight*, are generally static, its <u>revenue</u> levels are entirely dependent on the level of its rates. *Swift T Freigh*t's <u>costs</u>, however, will change as a result of various factors (described at IX.,*supra*) that are not under the control of the carrier or the Commission. Against that

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Section 454.2 was enacted in 1984 and thus the Commission was well aware of it when it issued its decision in Catalina Channel Express in 1998.

D.24-12-036, footnote 41 at page 14.

[54] See, D.24-12-036, footnote 28 at page 11.

[55] *In the Matter of the Application of Blue & Gold Fleet, L.P. (Vcc-77) for Authorization to Increase Passenger Fares on Its Vessel Common Carrier Serv. on San Francisco Bay Between Sausalito & San Francisco & for Auth. to Adjust Fares Within A Zone of Rate Freedom*. <u>Decision 24-03-054</u>, 2024 WL 1485854, at *8 (Mar. 21, 2024) Accord, D.24-12-036 at page 11 citing *Balboa Island Ferry, Inc*. D.20-02-055 at 6.

backdrop, the Commission is asked to assume that in December of Year One *Swift T Freight* concludes that it will experience an OR of 95% for Year One. Accordingly, at the end of Year One or in January of Year Two, *Swift T Freight* seeks authority to increase baseline rates by 10%, an increase in revenues that, when measured against Year One costs, would produce an OR of 86.3%.[56]

That baseline increase, however, would not take effect until late in Year Two. During Year Two, the carrier's costs, as predicted, gradually increase to a level of 7% over the Year One costs used to calculate the 95% OR for Year One. For most of Year Two, therefore, *Swift T Freight* is garnering average monthly revenues that barely exceed, and soon fall short of, monthly costs. When the new rates take affect at the end of Year Two or early Year Three, the carrier's estimated costs will have increased by 7% such that the new rates only produce an OR of 92.4.

If *Swift T Freight* reasonably estimates that Year Three will also see a 7% increase in costs, at the end of Year Three, *Swift T Freight*'s OR will be approximately 98.8%. If carrier waits until the end of Year Three to file a new baseline rate application, its OR will be almost certain to raise above 100% during Year Four meaning carrier will begin to suffer operating losses in mid-Year Four. (Because vessel carriers do not employ memorandum accounts, the losses cannot be recovered under current Commission procedures.) To avoid that outcome *Swift T Freight* should have sought a much higher increase in baseline rates two years earlier (the end of Year One), even though the higher baseline rates would have resulted in an OR less than 90% in Year Three.

However one reasonably predicts the growth of costs, the problem faced by carriers is caused by (1) the narrow range of "acceptable" ORs and (2) the inexorable growth of costs, many of which are not reflected in the CPI.[57] In the current environment, therefore, the carrier is forced to either:

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[56] .95/(1 x 1.10)=.8636.

[57] Commercial vessel fuel and payments to boat and ground crew employees are not included in the CPI because they are not payments by "consumers."

- File GRC applications every 12-18 months (some even before a pending application is decided by the Commission) (the "Frequent Filing Option"); or

- Seek much larger increases in baseline rates every few years so that the baseline increase will cover both the cost increases occurring during the pendency of the application as well as those occurring during the period after the increase is authorized (the "Unusually Low Initial OR Option").

In sum, without a ZORF or comparable rate setting mechanism, a carrier must file a GRC every 12-18 months to keep its effective OR within a 90%-97% range, the "Frequent Filing" option. That interval can be enlarged to 3-4 years by employing a ZORF or comparable abbreviated rate setting mechanism.

The alternative is to authorize carriers to increase baseline rates to a level producing very low ORs such that costs could grow for many years before a carrier reached an OR over 97%. That approach would likely set initial freight rates higher than that the Commission would prefer simply because the Commission has no way to set the rates to produce an "acceptable" OR in real time. That approach also leaves the carrier and the Commission still scrambling to get new rates in effect prior to the OR reaching over 98% because of the time required to process even an uncontested application.[58]

A far more practical course is requested in this Application.

C. Approving the ZORF Requested In the Application Will Permit the Commission to Determine Whether Its Previous Denial of a ZORF to AFS has actually Provided Any Benefit to the Public

The Commission should approve Applicant's request for a 10% increase in baseline rates and authorize a ZORF of +/- 15% so that Applicant can adjust those rates over the next few years as circumstances dictate.

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[58] Hastily seeking another rate increase to forestall operating losses is currently an uncertain option for vessel carriers. The uncontested A. 23-02-017 of Catalina Channel Express took twenty-eight (28) months to complete. A.22-10-013,(uncontested) of Pacific Maritime Group has been waiting over three years for a decision and D.25-09-021 just extended the statutory deadline to April 17, 2026, a date forty (40) months) after the filing date.

Because the ZORF adjustments are required to be reflected in tariffs filed at the Commission, the Commission staff will have ample opportunity to monitor and evaluate Applicant's employment of its ZORF.

Indeed, the Commission already possesses the data to evaluate Applicant's employment of a ZORF. On June 23, 2022, the Commission issued Res. TL-19139 authorizing Applicant to employ a 20% upwards ZORF (the fuel cost surcharge). Subsequent resolutions extended that authority and in the case of Applicant, it does not expire until June 30, 2026.[59] Applicant's tariff filings exercising that ZORF were submitted to the Commission staff.

Obviously, the Commission has also long had that same opportunity with respect to the myriad other vessel carriers to which the Commission has almost uniformly awarded ZORFs. Monitoring the employment of ZORFs by Applicant and other vessel carriers will permit the Commission to test the assumptions on which its current policy rests. The Commission may well conclude that restricting the award of ZORFs to carriers with "competition" has had little or no effect on the level of rates paid by shippers and passengers.

D. **The Commission Can Permit Applicant to Change rates Pursuant to a ZORF, Without Expressly Abrogating Any Perceived Existing Policy**.

The Commission may authorize the ZORF requested by Applicant without expressly abandoning the policy articulated in D.24-12-036[60], one premised on a the idea that "[a]uthorization of ZORFs is consistent with reliance upon competition to regulate the transportation marketplace,"[61] Authorizing the requested ZORF in this specific instance would not impair the Commission jurisdiction to "regulate the transportation marketplace." It would simply recognize that (1) even the highest rate under the sought

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[59] D.24-12-036, Ordering Paragraph 10 at page 33.

[60] "(T)he Commission's long-standing policy is that competition is a prerequisite for granting a ZORF." D.24-12-036, page 21.

[61] D.24-12-036, pp. 20–21.

ZORF falls short of the growth in the CPI, (2) the carrier at issue has no history of abusing ZORFs awarded to it in the past and (3) the sought ZORF is small in scope by comparison to that the Commission regularly provides to other vessel carriers.

Finally and perhaps most important, the sought ZORF is not permanent. It has a shelf life. The utility of the ZORF ends when the carrier's costs grow by a percentage exceeding the upward boundary of the ZORF. It is difficult to envision Applicant's principal costs (fuel and attendant vessel costs, insurance and wages) taking more than three years to grow by 15%.[62]

The difference between the ZORF sought here and the "Unusually Low Initial OR Option"[63] is that the ZORF sought here would permit Applicant to keep rates in the initial years close to the "acceptable" OR range and only increase the rates as costs increased in later years. The "Unusually Low Initial OR Option" would set higher rates (lower OR) initially and retain those rates as Applicant's cost increases cause its OR to move to the "acceptable" range.

XI. IF THE COMMISSSION DOES NOT GRANT THE ZORF REQUESTED BY APPLICANT, IT SHOULD CONSIDER OTHER ALTERNATIVE TO EXPEDITE RATE RELEIF BETWEEN GRCs

For the reasons set forth above, Applicant urges the Commission to approve the ZORF requested herein: +/- 15%. If the Commission does not believe it prudent to do so, Applicant urges the Commission to consider some alternatives to the requested ZORF rather than simply limiting rate relief to an increase in baseline rates, an unreasonable outcome given the impending cost increases described in IX *supra*. Applicant considers the alternatives less practical, for both the Commission and the Applicant, than that proposed by Applicant. Nonetheless they are offered for consideration.

Moreover, as noted at the outset, Applicant respectfully requests that the Commission expeditiously issue an interim order authorizing Applicant to increase

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[62] Insurance appears to be on track to grow by 35% over three years. See pp. 21-22, *supra.*

[63] See page 27, *supra*.

baseline rates by 10% so that those rates take effect prior to June 30, 2026 when Applicant's fuel cost surcharge expires.[64]

Alternatives to the requested ZORF are:

A. A ZORF with an Expiration Date

The Commission could simply grant the requested ZORF but provide that it expires two to three years after the effective date of the rate decision. The election of this option would shorten the interval between required GRC applications from that which result from adoption of Applicant's proposal.

B. Step Increases In Base Rates

Prior to the expiration of the current fuel cost surcharge, the Commission could approve the 10% increase in base rates sought in this Application. Instead of approving a ZORF, however, the Commission could authorizes Applicant to increase rates by 8% on January 1 of 2027, 2028 and 2029.

Specifically, on or before its now scheduled June 11, 2026 meeting in Sacramento, the Commission could issue a decision increasing the 1-111 lb rate to $19.04 and authorizing commensurate increases in the other rate tiers The same decision would authorizes AFS to increase the 1-111 lb. rate to:

$20.56 on January 1, 2027,
$22.20 on January 1, 2028, and
$24.97 on January 1, 2029.
(and authorize commensurate increase in the other rate tiers.)

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[64] Applicant obviously would also welcome an order expeditiously granting the Application in full.

The January 1, 2029 rate would be 68.1% higher than the $14.85 rate shippers were paying in 2009. Between the date of the 2009 rate increase and September of 2025, the CPI increased by 57%, an annual compound rate increase of 2.86%.[65] At that compounded annual rate of growth, the $14.85 charged in 2009 would grow (by 73.3%[66]) to $25.73 about 3% higher than the January 1, 2029 step rate, proposed here.

XI. DESCRIPTION OF EQUIPMENT – RULE 3.2(A)(4)

A general description of AFS's equipment was submitted in Exhibits F, G and H to A. 14-10-015. The primary vessel AFS employs for its freight service is the landing craft *Catalina Provider*. AFS augments the landing craft service with the tug *Lucy Franco* which works with the barge *Two Harbors*. Both *Catalina Provider* and *Two Harbors* were constructed at considerable expense for the specific service in which they are now engaged. The AFS vessels operate faster and more efficiently than the much older vessels that served the Island prior to the Commission's certification of AFS in 2016. More information with respect to the three vessels is set forth in Schedule C-1 of Exhibit D.

As discussed at length at pp. 18–20 *supra*, repair or replacement of the vessels will be required over the next two to three years at considerable expense to Applicant.

IX. SUMMARY OF EARNINGS (RATE OF RETURN SUMMARY) ON A DEPRECIATED RATE BASE – RULE 3.2(A)(5)

Vessel rates are not set on the basis of return on rate base. Typically, the Commission authorizes increases in rates based on a showing of increases in operating costs[67]or reduced revenues at current rates.[68] Here, applicant seeks a ten percent (10%)

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[65] $1.0286^{16} = 1.570$ = 57% increase.

[66] $1.0286^{19.5} = 1.733$ =73.3% increase.

[67] See, *Blue & Gold Fleet*, Decision 16-12-050 December 15, 2016.

[68] *Catalina Freight Lines*, Decision 09-08-011 August 20, 2009.

increase in its base rates which will result in an operating ratio of approximately 97.3%-101.9% if no ZORF (or alternate methodology) is authorized.

X. COMPLIANCE WITH CEQA

The proposed modifications to Applicant's fares described herein will not expand Applicant's authorized scope of operations. Therefore, there is no possibility the proposed service will have a **significant** effect on the environment.[69]

XI. THE APPLICATION DOES NOT HAVE ANY IMPACT ON THE ACHIEVEMENT OF THE COMMISSION'S ENVIRONMENTAL AND SOCIAL JUSTICE (ESJ) ACTION PLAN

The Commission's ESJ goals focus on the provision of energy and water service and the siting of utility facilities. The transportation elements of the Commission's Environmental & Social Justice Action Plan, Version 2.0 (released April 7, 2022) ("ESJ 2.0")[70] are limited. The Commission seeks to pursue opportunities (1) for "ESJ communities to access clean vehicles and services from Transportation Network Companies (TNCs)"[71] and (2) "to bolster safety along rail lines in ESJ communities."[72] The transportation "Case Studies"[73] in ESJ 2.0 address driverless vehicles.[74] At the February, 2021 Workshop to develop ESJ 2.0 the transportation issues addressed were TNCs, railroad lines, and electrical vehicle charging.[75]

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[69] See, *Blue and Gold* Decision 16-12-050 (December 15, 2016), Finding of Fact No, 12 ["A California Environmental Quality Act review is not required for this decision because it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment because granting the fare increase does not change the service."].

[70] https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/news-and-outreach/documents/news-office/key-issues/esj/esj-action-plan-v2jw.pdf

[71] E.g., Uber, Lyft, and others.

[72] ESJ 2.0 at p. 24.

[73] *Id*. App. D.

[74] *Id.* at pp. 100–101.

[75] *Id.* at p. 55.

The Application does not implicate ESJ issues set forth in ESJ 2.0. Applicant's route is entirely over water and it employs the very low sulfur fuel directed by the CARB.[76]

XII. SERVICE OF APPLICATION

In accordance with Rule 2.7, Applicant will furnish a copy of this Application to any potential competitor, governmental entity, or interested party requesting a copy and/or to any other persons as the Commission may direct.

In accordance with Rule 3.2(b), within 20 days of filing this application, Applicant will serve a notice to the following stating in general terms the proposed increases in rates or fares: (1) the Los Angeles County Counsel, (2) the Los Angeles City Attorney, and (3) the Avalon City Attorney.

WHEREFORE, Applicant respectfully requests that it be authorized to (1) increase its base rates by ten percent (10%) and (2) establish a ZORF range of plus or minus fifteen percent (15%) as shown in **Exhibit A**.

Respectfully submitted December 1, 2025 at San Francisco, California.

DOWNEY BRAND LLP

By: *\/s/ Thomas J. MacBride, Jr.*
THOMAS J. MACBRIDE, JR.
Attorneys for Avalon Freight Services LLC

[76] See, discussion at pp. 16-19, *supra*.

VERIFICATION

I, Gregory E. Bombard, am the President of Avalon Freight Services, LLC ("AFS" or "Applicant"). I am duly authorized to make this verification on behalf of the Applicant.

I affirm and declare under penalty of perjury that, to the best of my knowledge, all of the statements and representations made in this "APPLICATION OF AVALON FREIGHT SERVICES LLC TO MODIFY RATES FOR ITS VESSEL COMMON CARRIER FREIGHT SERVICE" are true and correct to the best of my knowledge except as to matters that are herein stated on information and belief. As to those matters, I believe them to be true.

I declare under the penalty of perjury that the foregoing is true and correct.

Dated: December 1, 2025

SAN PEDRO, California

Gregory E. Bombard, President

EXHIBIT A

PRESENT AND PROPOSED RATES

Weight of Shipment (Pounds)	Current Charges Per 100 Pounds (Except Flat)	Proposed Charges Per 100 Pounds (Except Flat) (10% Increase)	Proposed ZORF Range Per 100 Pounds (- 15%)	Proposed ZORF Range Per 100 Pounds (+ 15%)	
1 - 111	$ 17.31	$ 19.04	$ 16.18	$ 21.90	flat rate
112 - 4,035	$ 15.48	$ 17.03	$ 14.47	$ 19.58	
4,035 - 5,000	$ 624.28	$ 686.71	$ 583.70	$ 789.71	flat rate
5,001 - 11,407	$ 12.49	$ 13.74	$ 11.68	$ 15.80	
11,408 - 20,000	$ 1,424.25	$ 1,566.68	$ 1,331.67	$ 1,801.68	flat rate
20,001 - 25,065	$ 7.12	$ 7.83	$ 6.66	$ 9.01	
25,066 - 30,000	$ 1,785.03	$ 1,963.53	$ 1,669.00	$ 2,258.06	flat rate
30,001 - 500,000	$ 5.95	$ 6.55	$ 5.56	$ 7.53	
Household	$ 29.73	$ 32.70	$ 27.80	$ 37.61	
Reefer	$ 17.41	$ 19.15	$ 16.28	$ 22.02	
Large Motor Vehicles	$ 4,489.10	$ 4,938.01	$ 4,197.31	$ 5,678.71	flat rate
Medium Motor Vehicles	$ 29.73	$ 32.70	$ 27.80	$ 37.61	
Small Motor Vehicles	$ 29.73	$ 32.70	$ 27.80	$ 37.61	
Horses	$ 154.70	$ 170.17	$ 144.64	$ 195.70	per horse
Bikes	$ 17.31	$ 19.04	$ 16.18	$ 21.90	each way
Kayaks	$ 39.36	$ 43.30	$ 36.81	$ 49.80	each way
Storage Fee	$ 0.46	$ 0.51	$ 0.43	$ 0.59	
Charter - Tug & Barge	$ 874.50	$ 961.95	$ 817.66	$ 1,106.24	per hour 10 hour minimum
Charter - Landing Craft	$ 1,166.00	$ 1,282.60	$ 1,090.21	$ 1,474.99	per hour 8 hour minimum

<u>EXHIBIT B</u>

BALANCE SHEET

CONFIDENTIAL IN ITS ENTIRETY

<u>EXHIBIT C</u>

INCOME STATEMENT
YEAR-TO-DATE ONLY, SEPTEMBER 2025

CONFIDENTIAL IN ITS ENTIRETY

<u>EXHIBIT D</u>

2024 ANNUAL REPORT OF AVALON FREIGHT SERVICES LLC

VESSEL
COMMON
CARRIERS

VCC 91

2024
ANNUAL REPORT
OF

AVALON FREIGHT SERVICES LLC

(NAME UNDER WHICH CORPORATION, PARTNERSHIP, LLC, OR INDIVIDUAL IS DOING BUSINESS)

385 E SWINFORD STREET

SAN PEDRO CA 90731

(OFFICIAL MAILING ADDRESS)

TO THE
PUBLIC UTILITIES COMMISSION
OF THE
STATE OF CALIFORNIA
FOR THE
YEAR ENDING DECEMBER 31, 2024

VESSEL COMMON CARRIERS

Received	**2024 ANNUAL REPORT OF**
Statistics	Avalon Freight Services, LLC (VCC0000091)
Revenue	(Name under which Corp., Partnership or Individual is Doing Business)
Examined	385 East Swinford Street San Pedro, CA Zip 90731

(Official Mailing Address)

TO THE PUBLIC UTILITIES COMMISSION—STATE OF CALIFORNIA

FOR THE YEAR ENDING DECEMBER 31, 2024

GENERAL INFORMATION

1. OWNERSHIP—Check and fill in appropriate line:

☐ Individual ______________________

(Name)

☒ Partnership Avalon Freight Services, LLC

(Name)

____

(Name)

____

(Name)

☐ Corporation ______________________

(Name)

Incorporated in state of ______________________ date ______________________

Principal Officers

(Name)	(Title)
(Name)	(Title)
(Name)	(Title)

2. Name of person to whom correspondence should be addressed: Greg Bombard

3. Names of companies under common control with carrier: ______________________

4. Names of corporations, partnerships or individuals whose property and/or operating authority has been acquired during the year: ______________________

5. Type of carrier (passenger, or property, or both): Freight

6. Principal commodities transported (property carriers): ______________________

7. Location of operations (ports plied between or general territory served):

San Pedro, Avalon, Two Harbors

SCHEDULE A - CONDENSED COMPARATIVE BALANCE

Line No.	Balance Begin of Year	ASSETS		Balance End-of-Year
1	5,526,169	Cash		5,451,951
2	560,355	Other current assets		619,916
3	1,397,425	Transportation property (schedule A-1)	1,426,225	
4	923,222	Less depreciation reserve (Schedule A-1)	1,035,466	
5	474,203	Net transportation property		390,759
6	63,475	Noncarrier physical property	63,475	
7	49,160	Less depreciation reserve	55,507	
8	14,315	Net noncarrier physical property		7,968
9	9,231,845	All other assets and debits		9,436,122
10	15,806,887	Total Assets		15,906,716
11				
12		LIABILITIES AND CAPITAL		
13	143,864	Accounts payable		71,556
14	436,326	Accrued taxes		279,312
15	-	Long-term debt		-
16	7,504,863	All other liabilities and credits		7,006,309
17		Capital stock		
18	7,721,834	Proprietorship capital		8,549,539
19		Surplus		
20	15,806,887	Total Liabilities and Capital		15,906,716

SCHEDULE B - INCOME STATEMENT

Line No.	Acct. No.	Account	Amount
21		I - WATER-LINE OPERATING INCOME	
22	300	Water-line operating (Schedule B-1)	6,902,238
23	400	Water-line operating (Schedule B-2)	6,527,573
24		Net revenue from water-line operations	374,665
25		II - OTHER INCOME	
26	502	Income from noncarrier operations	510,500
27	503	Dividend income	
28	504	Interest income	
29	505	Income from sinking and other special funds	
30	506	Release of premium on long-term debt	
31	507	Miscellaneous Income	
32	508	Profits from sale or disposition of property	
33		Total other income	510,500
34		Total income	885,165
35		III - MISCELLANEOUS DEDUCTIONS FROM INCOME	
36	523	Expenses of noncarrier operations	201,884
37	524	Uncollectible accounts	
38	525	Losses from sale or disposition of property	
39	526	Maintenance of investment organization	
40	527	Miscellaneous income charges	
41		Total income deductions	201,884
42		Ordinary income before fixed charges	683,281
43		IV - FIXED CHARGES	
44	528	Interest on funded debt	
45	529	Interest on unfunded debt	
46	530	Amortization of discount on long-term debt	
47		Total fixed charges	-
48		Ordinary income before provision for income taxes	683,281
49		V - PROVISION FOR INCOME TAXES	
50	532	Income taxes on ordinary income	285,902
51		Ordinary income	397,379
52	570-90	Extraordinary and prior period items, net	
53		Net income	397,379

SCHEDULE A-1 - TRANSPORTATION PROPERTY AND DEPRECIATION RESERVE

Line No.	Acct. No.	Account	Trans. Prop. Balance End-of-Year	Reserve Balance End-of-Year	Depr. Rate %
1	141	Line equipment	39,900	27,265	
2	142	Harbor equipment			
3	143	Miscellaneous floating equipment			
4	144	Building and other structures	393,686	210,966	
5	145	Office and other terminal equipment	18,949	17,775	
6	146	Motor and other highway equipment	973,690	779,460	
7	147	Land			
8	148	Public improvements			
9	149	Construction work in progress	-	-	
10		Total	1,426,225	1,035,466	

SCHEDULE B-1 -ACCOUNT 300 - WATER-LINE OPERATING REVENUES

Line No.	Acct. No.	Account	Amount
11		I - OPERATING REVENUE - LINE SERVICE	
12	301	Freight revenue	6,902,238
13	302	Passenger revenue	
14	303	Other line service revenues	
15	313	Revenue from towing for regulated carriers	
16		Total operating revenue-line service	6,902,238
17		II - OTHER OPERATING REVENUE	
18	320	Special services	
19	321	Ferry service	
20		Total other operating revenue	
21		III - REVENUE FROM TERMINAL OPERATIONS	
22	331	Terminal operations	
23		IV - RENT REVENUE	
24	341	Charter and other rents	
25		V - MOTOR-CARRIER OPERATIONS	
26	351	Motor carrier revenue	
27		Total water-line operating revenues	6,902,238

SCHEDULE B-2 -ACCOUNT 400 - WATER-LINE OPERATING EXPENSES

Line No.	Acct. No.	Account		Amount
28	401	Maintenance of vessels and other property		725,190
29	411	Depreciation and amortization		117,690
30	421	Operation of vessels		372,942
31	433	Lay-up expenses		
32	441	Terminal expenses		810,121
33	456	Traffic expenses		
34	461	General expenses		
35		General officers salaries	156,058	
36		General office employees salaries	424,206	
37		General offices expenses	338,919	
38		Total general expenses		919,183
39	471	Casualties and insurance		394,175
40	481	Charter and other rents		1,006,562
41	485	Payroll and other water-line tax accruals		2,051,260
42	491	Motor carrier expenses		130,450
43		Total water-line operating expenses		6,527,573

SCHEDULE C-1 - FLOATING EQUIPMENT

Line No.	Name of Designation of Vessel	Owned (O) Leased (L)	Year Built	Year Purch.	Rated hp	Type of Vessel	Licensed Capacity Pass.	Veh.	Frt.*
1	(a) In operation Catalina Provider	L	2016	2016	1,800	ro/ro			500 tons
2	Lucy Franco	L	1981	2016	1,500	tugboat			
3	Two Harbors	L	2015	2016	n/a	barge			450 tons
4									
5									
6									
7									
8									
9	(b) Not in operation								
10									
11									
12									
13									
14									
15									
16									
17									
18	(c) Retired during year								
19									
20									
21									
22									
23									
24									
25									
26	*State whether tons (2,000 lbs.) or other units of measure:								

SCHEDULE C-2 - TRAFFIC AND REVENUE

Line No.	Class of Traffic	Volume of Traffic	Revenues
27	Passenger	No.	
28	Vehicles	No.	
29	Freight	Tons (2,000 lbs.)	$ 6,902,238
30			
31			
32			

DECLARATION

(Before signing please check to see that all schedules have been completed.)

I, the undersigned (officer, partner or owner) of Avalon Freight Services, LLC (Name of Utility)

under penalty of perjury do declare that this report has been prepared by me, or under my direction, from the books, papers and records of the respondent; that I have carefully examined the same, and declare the same to be a complete and correct statement of the business and affairs of the above named, respondent and the operations of its property for the period

From and including January 1 20_24_ to and including December 31 20_24_

Signed

Title President

Date 06·30·2025

EXHIBIT E

ESTIMATES OF REVENUES AT PRESENT AND PROPOSED RATES

CONFIDENTIAL IN ITS ENTIRETY