STATE OF CALIFORNIA GAVIN NEWSOM, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

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September 4, 2026

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Ratesetting

TO PARTIES OF RECORD IN APPLICATION 25-12-001:

This is the proposed decision of Administrative Law Judge David R. Van Dyken. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's October 8, 2026 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, *ex parte* communications are prohibited pursuant to Rule 8.2(c)(4).

/s/ MICHELLE COOKE
Michelle Cooke
Chief Administrative Law Judge

MLC: vj4
Attachment

Decision **PROPOSED DECISION OF ALJ VAN DYKEN (Mailed 9/4/2026)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Avalon Freight Service 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.	Application 25-12-001

DECISION GRANTING AVALON FREIGHT SERVICES LLC A GENERAL BASE FARE INCREASE AND IMPLEMENTING A STEPPED RATE ADJUSTMENT STRUCTURE

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DECISION GRANTING AVALON FREIGHT SERVICES LLC A GENERAL BASE FARE INCREASE AND IMPLEMENTING A STEPPED RATE ADJUSTMENT STRUCTURE

Summary

This decision grants Avalon Freight Services LLC (AFS) the authority to initiate a general fare increase of 10 percent pursuant to Public Utilities Code Sections 454 and 491. This decision rescinds the extension of the Zone of Reasonableness fuel cost surcharge as authorized in Decision 26-03-027. This decision denies authority to establish a Zone of Rate Freedom (ZORF) above or below 15 percent of the base rate for freight activity at the Pebbly Beach Freight Dock. This decision establishes a new stepped rate adjustment structure in lieu of a ZORF. This decision requires AFS to file another general rate application in 2030.

This decision affirms that there is not a need to prepare an Environmental Impact Report, Negative Declaration, or mitigated Negative Declaration. This decision also affirms that the application aligns with the goals of the California Public Utilities Commission's Environmental and Social Justice Action Plan.

Application 25-12-001 is closed.

1. Background

1.1. Factual Background

Avalon Freight Services LLC (AFS) is a Vessel Common Carrier (VCC) (VCC-91) authorized by Decision (D.) 16-02-024 to provide freight service by vessel between the California Mainland at San Pedro and Santa Catalina Island (Island). AFS is a party to firm long-term leases on both sides of the San Pedro Channel for facilities suitable for freight.[1] On the mainland, AFS subleases space

[1] *See* Application at 8.

for its operations at Berth 95 at the Port of Los Angeles from its affiliate Catalina Channel Express. At Avalon, AFS leases a landing and logistics facility from the Santa Catalina Island Company (SCICo)[2] in a landlord/tenant relationship.[3] The SCICo grants AFS access to the Pebbly Beach facility on an exclusive use basis.[4] Although there is air service to the Island, it is expensive.[5] Approximately 90 percent of freight service transported to and from the Island is by vessel via the Pebbly Beach freight facility in an industrial section of Avalon.[6] The Pebbly Beach facility can only be accessed at high tide[7] and is the only logistics facility available for delivering freight to the Island.[8]

AFS transports freight to the residents and businesses on the Island 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 Avalon's fuel dock, gasoline for the shoreside gas station, as well as food 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. AFS is also prepared to transport emergency vehicles and other equipment to the Island for the Los Angeles County Fire and

[2] *See* Application at 8, fn 18.

[3] *See* PHC Transcript at 11.

[4] *See* PHC Transcript at 11.

[5] *See* Application at 8, fn 17 (continued), and PHC Transcript at 35.

[6] *See* Application at 8, fn 17 (continued).

[7] *See* PHC Transcript at 29.

[8] *See* PHC Transcript at 22-24.

Sheriff Departments in the event of a fire or other emergency.[9] AFS' rate structure is based on the weight of the specific shipment. Depending on the weight, AFS' baseline rates employ a charge per 100 pounds or a flat rate.

AFS proposes a uniform ten percent increase to all rates, both flat rates and rates per 100 pounds.[10] AFS also seeks authority to employ a Zone of Rate Freedom (ZORF) of 15 percent above and below its new baseline rates with prior notice provided to the public and the California Public Utilities Commission (Commission) at least ten days before the effective date of the planned rate adjustment.[11] AFS claims the requested increase and ZORF are necessary to address increases in overall expenses, projected increases in fuel costs due to market conditions, new regulations, and the cost of significant repairs to, or replacement of, vessels. The application also states the requested relief is necessary to address the pending expiration of the fuel cost surcharge authorized by Ordering Paragraph 10 of D.24-12-036.[12] The ZORF request is specific to operations at the Pebbly Beach dock and logistics facility and does not address AFS' nonscheduled operations at other locations on the Island, such as beach landing sites.

1.2. Procedural Background

On December 1, 2025, AFS filed the instant application requesting authorization to modify rates for scheduled vessel common carrier service between the Port of Los Angeles and Avalon on the Island. On December 12,

[9] *See* Application at 7.

[10] *See* Application at 2.

[11] *See* Application at 2-3.

[12] *See* Application at 3.

2025, AFS filed its Notice of Compliance pursuant to the Commission's Rules of Practice and Procedure (Rule) 3.2(b).

On December 23, 2025, the assigned Administrative Law Judge (ALJ) granted a motion from the City of Avalon (City) for an extension of time to February 6, 2026 to file a protest or response to the application. On January 22, 2026, the City filed another motion for an extension of time to March 7, 2026 to file a protest or response to the application. The City did not make any additional filings and therefore is not a party to this proceeding.

On January 22, 2026, AFS filed a motion requesting an Interim Rate Order to extend the fuel cost surcharge as described in Commission Resolution TL-19148 utilizing the base rates authorized in D.24-12-036. On March 19, 2026, the Commission issued the requested Interim Rate Order through D.26-03-027 authorizing AFS to continue its Zone of Reasonableness fuel cost surcharge until the conclusion of this proceeding.

On June 18 and 19, 2026, AFS led Commission staff on a site visit to observe AFS facilities and operations at the Pebbly Beach freight dock and facilities in Avalon. The site visit was noticed through the proceeding's service list on April 22 and May 18, 2026.

A prehearing conference was held on June 22, 2026 to address the issues of law and fact, determine the need for hearing, set the schedule for resolving the matter, and address other matters as necessary.

On July 13, 2026, the assigned Commissioner issued a Scoping Memorandum and Ruling (Scoping Memo) for this proceeding. The Scoping Memo confirmed the initial categorization of the proceeding as ratesetting and adopted a scope and schedule for the proceeding including a determination that evidentiary hearings were not necessary.

On July 14, 2026, the ALJ issued a ruling requesting financial documents from AFS including the 2025 Annual Report and a copy of the company's most recent independent financial audit. AFS filed its reply on July 21, 2026.

On August 6, 2026, the ALJ issued a ruling requesting a report of transactions of AFS' affiliates including costs charged by the SCICo. This report is a condition of AFS's Certificate of Public Convenience and Necessity (CPCN).[13] AFS filed its reply on August 17, 2026.

1.3. Submission Date

This matter was submitted on August 17, 2026 upon AFS filing its reply to the ALJ's August 6, 2026 ruling requesting affiliate transaction information.

2. Jurisdiction

Article XII of the California Constitution and Public Utilities Code (Pub. Util. Code) Section 701 provides the Commission with broad authority to establish rules relating to the transportation of passengers and property by transportation companies. The Commission has jurisdiction over requests for rate adjustments per, among others, Pub. Util. Code Sections 454 and 491. Pub. Util. Code Section 454.2 permits the Commission to establish a ZORF for any passenger stage transportation service which is operating in competition with other passenger transportation service providers. The Commission extended the ZORF concept to VCCs by D.98-12-016.[14]

3. Issues Before the Commission

The issues to be determined or otherwise considered by the Commission are:

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[13] *See* D.16-02-024 at Ordering Paragraph 1.

[14] *See* D.02-10-004, Finding of Fact 2.

a. Should the Commission grant AFS authority to increase base rates by 10 percent?

b. Should the Commission grant AFS authority to implement a 15 percent ZORF?

c. If the Commission does not authorize a ZORF, what alternative rate adjustment procedure(s) should be utilized or developed?

d. Does the Application comply with applicable laws and Commission rules including but limited to Pub. Util. Code Section 454, the California Environmental Quality Act (CEQA), and Rule 3.2?

e. Impacts on environmental and social justice communities, including the extent to which the application impacts the achievement of any of the nine goals of the Commission's Environmental and Social Justice Action Plan.

4. Request for Base Rate Increase

AFS requests authority to increase its base rates by 10 percent.[15] AFS' current baseline rates were set by D.24-12-036.[16] AFS' rate structure is based on the weight of the specific shipment.[17] Depending on the weight, AFS' baseline rates employ a charge per 100 pounds or a flat rate.[18] AFS proposes a uniform 10 percent increase to all rates.[19] AFS' proposal for modified rates is set forth in Exhibit A to its application and attached to this decision as Appendix A.

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[15] *See* Application at 2.

[16] *See* Application at 2.

[17] *See* Application at 2.

[18] *See* Application at 2.

[19] *See* Application at 2.

4.1. Increased Fuel Costs and Regulatory Requirements

AFS states that it has borne increases in costs and will continue to do so in future years. AFS cites many of the factors, both current and anticipated, that contribute to increased costs. Increased expenses include fuel costs, new regulations for commercial harbor craft, eventual California Air Resources Board (CARB) requirement to replace the Tier 3 engines on AFS's tugboat, the *Lucy Franco*, with Tier 4 engines,[20] significant vessel repairs and charter costs, increases in labor costs, and increases in the cost of liability insurance.[21]

AFS states that between August 2009 and September 2025, the most recent date for which Consumer Price Index (CPI) data was available upon filing of its application, the CPI increased by 57 percent. While AFS' rates increased by an annual compound rate of 1.84 percent, the CPI increased by an annual compound rate of 2.83 percent.[22]

AFS states that, over the eight years that AFS has served the Island, the CPI has increased by forty percent. Over the sixteen years since the original AFS rates were effectively set (for the previous freight carrier, Catalina Freight Lines), the CPI has increased by 57 percent. AFS also states that the cost of fuel has sharply increased since mid-2020.[23]

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[20] CARB has granted AFS an extension of time to replace the Tier 3 engine on the *Lucy Franco* with a Tier 4 engine. The 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 the available space in the *Lucy Franco*.

[21] *See* Application at 15-20.

[22] *See* Application at 14.

[23] *See* Application at 15.

4.2. Fuel Surcharge

On June 3, 2024, the Commission issued Resolution TL-19148 extending a 20 percent "Zone of Reasonableness" fuel cost surcharge. D.24-12-036 authorized AFS to continue this Zone of Reasonableness fuel cost surcharge until June 30, 2026.[24] On January 22, 2026, AFS filed a Motion for Interim Rate Order requesting to continue the employment of the fuel cost surcharge through the conclusion of this proceeding. In its motion, AFS warned that it would suffer a dramatic mid-year reduction in operating revenues upon the June 30, 2026 expiration of the fuel cost surcharge and that its operating ratio would be expected to fall to between 99.2 percent and 104 percent, creating a potential operating loss. AFS requested to retain the fuel cost surcharge until the conclusion of the instant proceeding.[25] D.26-03-027 extended the fuel cost surcharge until the conclusion of this proceeding.[26]

This decision rescinds the Zone of Reasonableness fuel cost surcharge.

4.3. Operating Ratio

A carrier's "operating ratio" is equal to a carrier's operating costs divided by its revenues derived from those costs, representing "expenses as a percent of revenue." An operating ratio of less than 100 percent, therefore, equates to an operating profit. An operating ratio in excess of 100 percent equates to an operating loss because it indicates that operating expenses exceeded operating revenues during the period measured.[27]

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[24] *See* D.24-12-036 at 33, OP 10.

[25] *See* Motion of AFS field 1/22/2026 at 1-2.

[26] *See* D.26-03-027 at OP 1.

[27] *See* Application at 20.

The Commission has determined in prior decisions that an operating ratio (profitability) of 90 to 100 percent is acceptable.[28] In its application, AFS estimates that increasing its base rates by 10 percent would result in an operating ratio of approximately 97.3 percent to 101.9 percent if no ZORF or alternate methodology is authorized.[29] However, AFS' 2025 annual report shows a 2025 operating ratio of 82.03 percent. The Commission's Consumer Protection and Enforcement Division (CPED) analyzed AFS' annual reports dating back to 2019 and discovered operating ratios of 85.81 percent in 2019, 103.46 percent in 2020, 98.08 percent in 2021, 85.94 percent in 2022, 87.97 percent 2023, and 94.57 percent in 2024.

The Commission recognizes that many factors can affect a VCC's profitability in any given year. The Commission also understands that the Zone of Reasonableness fuel cost surcharge will expire at the issuance of this decision, resulting in a loss of revenue and affecting AFS' operating ratio. Considering AFS' operating ratio in 2025 and the pending loss of the 20 percent fuel cost surcharge, the Commission determines that the request by AFS for a 10 percent base rate increase is reasonable and is granted.

5. Zone of Rate Freedom

5.1. About Zones of Rate Freedom

Article XII of the California Constitution provides the Commission with broad authority to establish rules relating to the transportation of passengers and property by transportation companies: "The commission may fix rates and establish rules for the transportation of passengers and property by

[28] *See* D.20-02-055 at 6, Balboa Island Ferry, Inc. *and* D.21-08-028, Flagship Cruises & Events at 4.

[29] *See* Application at 29-30.

transportation companies…"[30] Pub. Util. Code Section 701 also similarly provides the Commission with this broad authority: "The commission may supervise and regulate every public utility in the State and may do all things, whether specifically designated in this part or in addition thereto, which are necessary and convenient in the exercise of such power and jurisdiction."[31]

Pub. Util. Code Section 454.2 permits the Commission to establish a ZORF: "…the commission may establish a 'zone of rate freedom' for any passenger stage transportation service which is operating in competition with other passenger transportation service from any means of transportation, if the competition together with the authorized zone of rate freedom will result in reasonable rates and charges for the passenger stage transportation service. An adjustment in rates or charges within a zone of rate freedom established by the commission is hereby deemed just and reasonable. The commission may, upon protest or its own motion, suspend any adjustment in rates or charges under this section and institute proceedings under its rules of practice and procedure."[32] The Commission extended the ZORF concept to VCCs by D.98-12-016.[33]

It is longstanding Commission policy to encourage competition whenever doing so is not adverse to the public interest even if such competition is adverse to the carrier's interests. D.98-12-016 says "[a]uthorization of ZORFs is consistent with reliance upon competition to regulate the transportation marketplace, where competition exists between substantially similar established carriers."[34]

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[30] *See* California Constitution, Article XII, Section 4.

[31] *See* Pub. Util. Code Section 701.

[32] *See* Pub. Util. Code Section 454.2.

[33] *See* D.02-10-004, Finding of Fact 2.

[34] *See* D.98-12-016, Conclusion of Law 3.

D.96-09-091 says "The Commission's policy is to encourage competition in the [passenger stage] industry."[35] D.96-09-091[36], D.02-10-004[37], and D.24-12-036[38] all denied ZORFs to passenger stage companies and VCCs due to lack of competition. In VCC ratemakings where ZORFs have been granted, competition (either from other VCCs or from other forms of transportation) was cited as the rationale for granting the ZORFs.

5.2. ZORF Decision

The Commission understands that there are business and logistical reasons for the SCICo granting an exclusive lease to a single VCC at the Pebbly Beach freight dock and logistics facility. The Commission also understands that AFS provides a vital service for the residents and businesses of Avalon and the rest of the Island.

Though a small quantity of freight is transported to the Island via air, there are many cost and logistical reasons why this does not constitute competition for AFS' services. The runway at the Island's airport utilizes a 3,000 foot runway.[39] The type of aircraft serviced by this airport is too small to accommodate much of the freight transported by AFS both in terms of size and quantity.[40] It is also costlier to transport freight by air to the Island than by sea. Additionally, the

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[35] *See* D.96-09-091, Finding of Fact 11.

[36] *See* D.96-09-091 at OP 4.

[37] *See* D.02-10-004 at OP 1.

[38] *See* D.24-12-036 at OP 4 and 5.

[39] https://catalinaconservancy.org/recreation/airport-in-the-sky/

[40] *See Generally* Federal Aviation Administration Advisory Circular No. 150/5325-4B. https://www.faa.gov/airports/resources/advisory_circulars/index.cfm/go/document.current/documentnumber/150_5325-4

airport is located 10 miles from the population center of Avalon.[41] Transportation between the airport and Avalon is comprised of unpaved dirt roads with steep grades and switchbacks. This type of road is not suitable for frequent utilization of trucks designed to transport the volume of freight as currently handled at the Pebbly Beach freight dock and logistics facility.

This situation does not sufficiently amount to competition and puts AFS in the position of operating as a monopoly. This monopolistic situation requires unique considerations of the Commission when exercising its regulatory authority and duty. The Commission finds that AFS is operating without competition regarding deliveries at the Pebbly Beach freight dock.

As discussed in Section 5.1, the Commission's long-standing policy is that competition is a prerequisite for granting a ZORF. AFS has not demonstrated that it operates its service to the Avalon region in competition with any other carrier. The Commission finds that AFS operates in a monopoly regarding shipments at the Pebbly Beach freight dock which handles approximately 90 percent of freight to and from the Island. Thus, AFS has not shown that a ZORF is justified. The request from AFS for authorization of a ZORF of 15 percent above and below the new base rate for freight service to the Pebbly Beach freight dock is denied.

The ZORF request is specific to operations at the Pebbly Beach dock and logistics facility and does not address AFS' nonscheduled operations at other locations on the Island, such as beach landing sites. The ZORF of 20 percent

[41] https://catalinaconservancy.org/recreation/airport-in-the-sky/

above or below the base rate for other locations on the Island except for the Pebbly Beach facility, as authorized in D.24-12-036, remains in effect.[42]

6. Rate Adjustment

As discussed Section 5.2, the Commission has determined that a traditional ZORF is not appropriate for AFS. In its application, AFS urges the Commission to consider alternatives if the Commission denies its ZORF request.[43] Options presented by AFS include a ZORF with a two to three year expiration date after the effective date of this decision or step increases in base rates.[44]

AFS recommended annual step increases of up to 8 percent in 2027, 2028, and 2029. [45] We interpret this recommendation to be 8 percent as calculated from the base rate, not cumulatively over each year. AFS further clarified that the recommendation could be treated as up to but not to exceed 8 percent. [46]

Issue number 3 in this proceeding's scoping memo asks, "If the Commission does not authorize a ZORF, what alternative rate adjustment procedure(s) should be utilized or developed?"[47] The Commission authorizes AFS to implement a modified step rate adjustment structure as detailed below.

6.1. Modified Rate Adjustment Structure

As discussed in Section 4.3, the Commission has determined in prior decisions that an operating ratio of 90 to 100 percent is acceptable. Therefore, AFS may request up to an 8 percent increase over its base rate annually in 2027,

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[42] *See* D.24-12-036 at OP 3.

[43] *See* Application at 27.

[44] *See* Application at 28.

[45] *See* Application at 28.

[46] *See* PHC Transcript at 7.

[47] *See* Scoping Memo at 2.

2028, and 2029 with a showing that the increase is needed for AFS to achieve an operating ratio between 90 and 100 percent. AFS must make its request via a Tier 2 Advice Letter (AL) to CPED.

6.2. General Order 96-B

Rule 5.1 of Commission General Order (GO) 96-B describes the AL process as "a quick and simplified review of the types of utility requests that are expected neither to be controversial nor to raise important policy questions." Under Rule 7.6.1 of GO 96-B, an AL is subject to review and disposition by the designated Industry Division if the disposition is deemed to be a "ministerial act." Rule 7.6.1 of GO 96-B provides: Industry Division disposition is appropriate where statutes or Commission orders have required the action proposed in the advice letter, or have authorized the action with sufficient specificity, that the Industry Division need only determine as a technical matter whether the proposed action is within the scope of what has already been authorized by statute or Commission orders. The AL process used by other Industry Divisions utilizes "tiers" that govern the level of review and process for disposition. Tier 1 and Tier 2 ALs generally involve matters subject to statute or Commission orders and subject to ministerial review by Commission staff. For this program, an AL process subject to ministerial review for disposition by the Industry Division (that is, CPED) is appropriate. There are a number of benefits in an AL approach, including opportunity for process (e.g., any person may protest or respond to an AL) and transparency (e.g., an AL is served; ALs and responses are public records). A Tier 2 AL strikes an appropriate balance in allowing for expeditious review and disposition of AFS' rate adjustments while providing opportunity for response.

The requirements for a rate adjustment are adopted with sufficient specificity in this decision that the Industry Division (CPED) need only determine as a technical matter whether the rate adjustment satisfies the requirements, and therefore, ministerial review and disposition by CPED is appropriate. Accordingly, authorized rate adjustments shall be submitted via an AL process. We designate the AL as subject to ministerial review and disposition by the Industry Division (CPED). General Rules of GO 96-B shall apply to this AL process for AFS.

6.3. Requirements for the Tier 2 Advice Letter

The Tier 2 AL must demonstrate that the rate adjustment is justified by staying within the operating ratio target range between 90 and 100 percent. It shall include AFS' most recent financial data including:

- The most recent Annual Report.
- A copy of AFS' most recent independent financial audit, reviewed financial statements, or other similar documentation as prepared by a certified public accountant.[48]
- Any other information as needed and requested by CPED.

AFS shall provide notice of any request to adjust rates to the City of Avalon, the City of Los Angeles, the County of Los Angeles, the Southern California Association of Governments, and the Los Angeles County Metropolitan Transportation Authority.

7. Next General Rate Application

AFS shall file another general rate application in 2030 in order to, among other things, ascertain the effectiveness of the rate adjustment structure as

[48] This should include all financial statements, disclosures, and footnotes consistent with generally accepted accounting procedures and audit standards.

described in Section 6 of this decision and to make any adjustments as needed. The general rate application must consider all regulated activity of AFS including the 20 percent ZORF for service to other locations on the Island authorized by D.24-12-036.

8. Affiliate Transactions, Including Santa Catalina Island Company

As a condition of its CPCN, D.16-02-024 requires AFS to report transactions of its affiliates whenever AFS seeks a rate increase. The decision also requires AFS to identify costs charged by the SCICo and to demonstrate the reasonableness of those costs. AFS is required to make a "full and detailed showing to allow this Commission to make a determination of what constitutes reasonable costs."[49]

In AFS' August 17, 2026 response to the August 6, 2026 assigned ALJ ruling Requesting Affiliate Transaction Information, AFS provided information on both public and confidential exhibits including contractual agreements with (1) GBHF Leasing, LLC, d.b.a. Bareboat Charter Party; (2) a summary of an accounting for Catalina Channel Express, Inc. from Windes Audit, Tax, and Advisory service; (3) a Standard Industrial/Commercial Multi-Tenant Lease with the Air Commercial Real Estate Association showing lease agreements at the AFS facility in San Pedro; (4) an Arbitration Agreement and Addendum to the lease between Catalina Channel Express and AFS; (5) an Energy Disclosure Lease Addendum to the lease between Catalina Channel Express and AFS; (6) a permit granted by the City of Los Angeles to Catalina Channel Express, Inc.;[50] and (7) an Air Commercial Real Estate Association Standard Industrial/Commercial Multi-

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[49] *See* D.16-02-024 at Ordering Paragraph 1.

[50] Permit 897 dated March 30, 2012.

Tenant Lease between the SCICo and AFS showing lease agreements at the AFS facility at Pebbly Beach in Avalon.

AFS met its CPCN requirement through its response.

This requirement remains in effect for AFS' future rate applications as a condition of the CPCN.

9. Compliance with the California Environmental Quality Act (CEQA)

The Commission is obliged to determine whether an application for a base fare increase is subject to environmental review pursuant to CEQA, and we do so here. CEQA requires the lead permitting agency to conduct an environmental review of any "project" for consideration in determining whether to grant the requested authority. CEQA Guideline Section 15378(a) defines "project" in relevant part as follows:

"Project" means the whole of an action, which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, and that is … [a]n activity involving the issuance to a person of a lease, permit, license, certificate, or other entitlement for use by one or more public agencies.

The proposed base fare increase requested by AFS will not change its VCC service and therefore will not result in a direct physical change to the environment or a reasonably foreseeable indirect physical change in the environment. Accordingly, the proposed base fare increase is not a "project" and is, therefore, not subject to environmental review pursuant to CEQA.

10. Compliance with Commission's Environmental and Social Justice (ESJ) Action Plan

On April 7, 2022, the Commission adopted version 2.0 of its ESJ Action Plan as a comprehensive strategy and framework for addressing ESJ issues in each proceeding. Environmental justice means the fair treatment of people of all races, cultures, and incomes with respect to the development, adoption, and enforcement of environmental laws, regulations, and policies. The Commission's ESJ Action Plan identifies existing inequities and proposes actions for how the Commission can use its regulatory authority to address health and safety, consumer protection, program benefits, and enforcement to encompass all the industries it regulates, including energy, water, and communications programs. Goal 3 of the Commission's ESJ Action Plan is to improve access to high-quality water, communications, and transportation services for ESJ communities.

ESJ communities on the Island benefit from the ongoing availability of freight transportation to and from the California Mainland. We conclude that this decision meets with the Commission's ESJ Action Plan goals.

11. Summary of Public Comment

Rule 1.18 allows any member of the public to submit written comment in any Commission proceeding using the "Public Comment" tab of the online Docket Card for that proceeding on the Commission's website. Rule 1.18(a) requires that all written public comment submitted prior to the submission of the proceeding are part of the administrative record of the proceeding. Rule 1.18(b) requires that relevant written comment submitted in a proceeding be summarized in the final decision issued in that proceeding.

To date, no public comments have been received in this proceeding.

12. Conclusion

This decision authorizes AFS to increase its base rates by 10 percent.

The request from AFS for authorization of a ZORF of 15 percent above and below the new base rate for freight service to the Pebbly Beach freight dock is denied. The ZORF of 20 percent above or below the base rate for other locations on the Island except for the Pebbly Beach facility, as authorized in D.24-12-036, remains in effect.

This decision specifies that AFS may request a rate adjustment of up to 8 percent annually in 2027, 2028, and 2029. However, AFS may request to change its rates by a Tier 2 Advice Letter only when the result of doing so is an operating ratio between 90 to 100 percent. The AL must demonstrate the rate adjustment is needed to stay within this operating ratio target range and shall include AFS' most recent financial data including:

- AFS' most recent Annual Report.
- A copy of AFS' most recent independent financial audit, reviewed financial statements, or other similar documentation as prepared by a certified public accountant.[51]
- Any other information as needed and requested by CPED.

AFS shall provide notice of any request to adjust rates to the City of Avalon, the City of Los Angeles, the County of Los Angeles, the Southern California Association of Governments, and the Los Angeles County Metropolitan Transportation Authority.

AFS shall file another general rate application in 2030 in order to, among other things, ascertain the effectiveness of the rate adjustment structure and to make any adjustments as needed. The general rate application must consider all regulated activity of AFS including the 20 percent ZORF for service to other locations on the Island authorized by D.24-12-036.

The proposed base fare increase is not a "project" and is, therefore, not subject to environmental review pursuant to CEQA.

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[51] This should include all financial statements, disclosures, and footnotes consistent with generally accepted accounting procedures and audit standards.

This decision meets with the Commission's ESJ Action Plan goals.

13. Procedural Matters

AFS filed three motions for leave to file exhibits under seal. The first motion was filed on December 1, 2025, and was granted in D.26-03-027.[52]

The second motion was filed on July 21, 2026, in relation to its response to an ALJ ruling requesting financial data, filed July 14, 2026. In this motion, AFS seeks confidential treatment of Attachment B of its response. Attachment B contains consolidated financial statements, which if disclosed to the public, could disadvantage AFS in its operations outside of its regulated vessel common carrier service. The information in this Attachment is not of a type that is commonly made public. The data is sensitive because it informs any analysis of AFS' competitive position (including that of a purchaser).[53]

The third motion was filed on August 17, 2026, in relation to an ALJ ruling requesting affiliate transaction information as a requirement of its CPCN. In this motion, AFS seeks confidential treatment of Exhibits 1 through 4 in its response. AFS asks that the exhibits only be disclosed to Commission personnel and parties that have executed non-disclosure agreements. AFS says these exhibits contain sensitive information that could subject itself or the entities it does business with to potential fraud and security issues as well as unfair business disadvantages.

The two July 14 and August 17, 2026 Motions to file under seal the aforementioned exhibits are granted for a period of three years after the date of this decision. During this three-year period, this information shall not be publicly

[52] *See* D.26-03-027 at OP 2.

[53] *See* Law & Motion filed July 21, 2026, at 3.

disclosed except on further Commission order or ALJ ruling. If AFS believes that it is necessary for this information to remain under seal for longer than three years, AFS may file a new motion showing good cause for extending this order by no later than 30 days before expiration of this order.

This decision affirms all rulings made by the Administrative Law Judge and assigned Commissioner in this proceeding. All other motions not ruled on are deemed denied.

14. Comments on Proposed Decision

The proposed decision of ALJ David R. Van Dyken in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on __________, and reply comments were filed on _____________ by ________________.

15. Assignment of Proceeding

Matthew Baker is the assigned Commissioner and David R. Van Dyken is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. Avalon Freight Services LLC (AFS) transports freight that the residents and businesses on the Island need that is too large to be carried as luggage on the cross-channel passenger ferry.
2. AFS holds long-term leases on both sides of the San Pedro Channel to facilities suitable for freight.
3. AFS' CPCN authorizes it to provide service between Avalon and the Mainland.
4. The existing tariff rates were approved by the Commission in D.24-12-036.

5. The requested base rate increase of 10 percent should be authorized as it is necessary to address increases in overall expenses, projected increases in fuel costs due to market conditions, new regulations, and the cost of significant repairs to, or replacement of, vessels.

6. The requested relief is also necessary to address the pending expiration of the Zone of Reasonableness fuel cost surcharge.

7. On the mainland, AFS subleases space for its operations at Berth 95 at the Port of Los Angeles from its affiliate, Catalina Channel Express.

8. At Avalon, AFS leases the Pebbly Beach freight dock and facilities from the SCICo.

9. Although there is air service to the Island, it is expensive, and approximately 90 percent of freight service to and from the Island is by vessel.

10. The Pebbly Beach landing and logistics facility is the only option available via seacraft for delivering freight needed by the Island's businesses and residents.

11. The Pebbly Beach facility can only be accessed at high tide.

12. A multitude of prior Commission actions show that Commission policy favors competition whenever doing so is not adverse to the public interest, even if such competition is adverse to the carrier's interests.

13. AFS has not demonstrated that is operates its service to the Pebbly Beach freight dock in competition with any other carrier and therefore is a monopoly.

14. AFS has not shown that a Zone of Rate Freedom (ZORF) is justified for service to the Pebbly Beach freight dock and logistics facility.

15. AFS' request for a ZORF of 15 percent above or below the base rate should be denied for freight services at the Pebbly Beach freight dock and logistics facility.

16. The ZORF of 20 percent above or below the base rate for other locations on the Island except for the Pebbly Beach facility, as authorized in D.24-12-036, remains in effect.

17. A CEQA review is not necessary.

18. D.16-02-024, as a condition of its CPCN, requires AFS to make a full and detailed showing of is affiliate transactions to allow the Commission to make a determination of what constitutes reasonable costs whenever AFS seeks a rate increase, including costs charged by the SCICo and to demonstrate the reasonableness of those costs.

19. It is reasonable for the Commission to require AFS to submit to the Director of the Consumer Protection and Enforcement Division (CPED) a request for a rate adjustment in the form of a Tier 2 Advice Letter. The request should be modeled on the General Rules of GO 96-B which provides a procedural vehicle by which an entity seeks a Commission order that the requested relief is consistent with Commission policy and applicable law. The Advice Letter shall be in conformance with the service requirements in General Rule 7.2 for Serving Advice Letters and Related Documents.

20. Ministerial review and disposition of an Advice Letter by CPED is appropriate for the authorized rate adjustments.

21. A.25-12-001 should be closed.

Conclusions of Law

1. The California Constitution, Article XII, Section 4 and Pub. Util. Code Section 701 provides the Commission with broad authority to establish rules relating to the transportation of passengers and property by transportation companies.

2. The Commission has jurisdiction over requests for rate adjustments per Pub. Util. Code Sections 454 and 491.

3. Pub. Util. Code Section 454.2 permits the Commission to establish a ZORF for any passenger stage transportation service which is operating in competition with other passenger transportation service providers.

4. The Commission extended the ZORF concept to VCCs by D.98-12-016.

5. The expiration of Commission Resolution TL-19148 at the conclusion of this proceeding will disallow implementation of a 20 percent Zone of Reasonableness fuel cost surcharge.

ORDER

IT IS ORDERED that:

1. The requirement in Decision 16-02-024, Operating Paragraph 1, as a condition of its Certificate of Public Convenience and Necessity for Avalon Freight Services LLC to, whenever it seeks a rate increase, report on affiliate transactions, including costs charged by the Santa Catalina Island Company with a demonstration of the reasonableness of those costs, remains in effect.

2. Avalon Freight Services, LLC is authorized to establish a 10 percent base fare increase.

3. To implement the base rate increase authorized in this decision, Avalon Freight Services, LLC shall, on or after the effective date of this decision, file revised tariff pages in accordance with General Order 117 Series. The revised pages and the fares listed in them shall be made effective no earlier than 10 days after the date of this ruling.

4. Avalon Freight Services LLC (AFS) is authorized to implement a modified step rate adjustment structure for operations at the Pebbly Beach dock and logistics facility per the conditions detailed below.

   a. AFS may request an adjustment of its base rate of up to 8 percent annually in 2027, 2028, and 2029.

   b. Any rate adjustment must ensure AFS falls within an operating ratio between 90 and 100 percent.

   c. AFS must request a rate adjustment from the Director of the Commission's Consumer Protection and Enforcement Division (CPED) via a Tier 2 Advice Letter. The Advice Letter must demonstrate the rate adjustment is needed to stay within the operating ratio target range and shall include AFS' most recent financial data including 1) AFS' most recent Annual Report, 2) a copy of AFS' most recent independent financial audit, reviewed financial statements, or other similar documentation as prepared by a certified public accountant, and 3) any other information as needed and requested by CPED.

   d. AFS shall serve the advice letter on the City of Avalon, the City of Los Angeles, the County of Los Angeles, the Southern California Association of Governments, and the Los Angeles County Metropolitan Transportation Authority.

5. General Rules of General Order 96-B shall apply to the adopted Advice Letter process for the review and submission of rate adjustments. The Advice Letter is subject to ministerial review and disposition by the Consumer Protection and Enforcement Division.

6. Avalon Freight Services, LLC shall inform the public of the increased fares and their effective date by posting notice on its terminals, vessels, and website. Such notice shall be posted at least 10 days before the effective date of the fare changes and shall remain posted for at least 30 days.

7. Avalon Freight Services, LLC (AFS) shall file a general rate application in 2030 in order to, among other things, ascertain the effectiveness of the rate adjustment structure as described in Ordering Paragraph 4 of this decision and to make any adjustments as needed. The general rate application must consider all regulated activity of AFS including the 20 percent ZORF for service to other locations on the Island authorized by Decision 24-12-036.

8. The Zone of Reasonableness fuel cost surcharge as described in Commission Resolution TL-19148 and extended by D.26-03-027 is hereby rescinded.

9. The motions for leave to file exhibits under seal filed by Avalon Freight Services LLC on July 21, 2026 and August 17, 2026, are granted for a period of three years after the date of this decision. During this three-year period, this information shall not be publicly disclosed except on further Commission order or ALJ ruling. If AFS believes that it is necessary for this information to remain under seal for longer than three years, AFS may file a new motion showing good cause for extending this order by no later than 30 days before expiration of this order.

10. All pending motions in this proceeding that are not specifically addressed in this decision, or previously addressed in this proceeding, are denied.

11. This authority shall expire unless exercised within 90 days after the effective date of this decision.

12. Application 25-12-001 is closed.

This order is effective today.

Dated ______________________________, at Sacramento, California