Decision 09-08-011 August 20, 2009

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Catalina Freight Line, Inc., a California Corporation (VCC-58) for rate relief to amend its tariff to add and adjust freight categories and to increase rates.	Application 09-04-025 (Filed April 30, 2009)

D E C I S I O N

Summary

This decision grants the application of Catalina Freight Line, Inc. (Applicant), a corporation, to increase its vessel common carrier rates an average of 35% on its regular overnight service and to make other adjustments to its rate structure.

Background

Applicant is a vessel common carrier (VCC) authorized to transport freight between Los Angeles Harbor and points on Santa Catalina Island. It has operated the service on a continuous basis for over 42 years. The principal commodities transported are fuel, foodstuffs, other consumable goods, furniture, machinery, and bulk building supplies. It provides the service using two tugboats and two barges, and one military-style landing craft.

Applicant's last general rate increase was authorized in 2003 by Decision (D.) 03-08-053. In recent years Applicant has been recovering increased fuel costs by imposing a surcharge on its rates under a "zone of reasonableness" the

Commission authorized for VCCs.[1] It currently is assessing a fuel surcharge of 20%.

The application requests authority to increase rates for regular overnight service an average of 35%. Driving Applicant's request for rate relief is a dramatic drop in revenue from operations. Revenues for the six-month period October 2008 through March 2009 fell $264,000 (20.6%) compared to the same period one year earlier. The steepest declines occurred during the first three months of 2009, when year-to-year revenues dropped 37.7%, and Applicant experienced a pretax loss of $118,000. Applicant projects that revenues will continue to be less in the remaining months of 2009 and into 2010 compared to company revenues in the same months of the prior year.

A drop in the number of cross-channel visitors to Santa Catalina Island is a major reason for the declining revenues. Applicant reports that since its last rate increase in 2003, the number of year-round residents on the Island has remained relatively steady at 3,500. However, the number of cross-channel visitors has been dropping each year from a total of 739,334 in 2000 to 527,647 in 2008, a decline of 28.6%. The visitors stay in hotels, eat at the Island restaurants, and drive demand for the construction or expansion of tourist-serving facilities. The businesses serving their needs require freight shipments of food, supplies, furnishings, and construction materials and equipment. Applicant anticipates a continued decline due to the national economic downturn and the resultant pressures on individuals and households to reduce discretionary spending.

The decline in the transportation of construction materials and equipment is reflected in the sales of building materials at the local building supply

[1] This authority was last extended by the Commission to November 6, 2009, by Resolution TL-19094, which also expanded the zone of reasonableness from 20% to 30%.

company in Avalon. Sales increased significantly from 2004 to 2005, and then more gradually until 2007. A large drop-off of 18.7% occurred in 2008. The rise and fall in the vendor's sales is demonstrated graphically in Attachment 3 to the application. The decline in 2008 is attributable not only to the fall in demand for construction, additions, and renovations in the hospitality industry and restaurants, but also to less construction activity in general due to unavailability of construction loans.

While Applicant's revenues have been dropping, it reports experiencing higher costs of operations since its 2003 rate increase. The most significant cost items are summarized as follows:

<u>Maintenance and Upgrades of Operating Equipment</u>

> Between 2003 and 2008, annual costs in this category increased 126% from $237,105 to $536,324. Applicant states it cannot afford to reduce this line item of expense without jeopardizing the reliability and safety of the operation and exposing the company to higher emergency repair costs.

<u>Insurance</u>

> Annual insurance costs rose from $314,404 in 2003 to $383,925 in 2008, or 22%. While actively pursuing new insurance carriers and programs in an effort to control costs, Applicant indicates it is not able to make cuts in general liability coverage or the special insurance requirements for marine vessels and operations without exposing the company to unreasonable risks.

<u>Wages</u>

> Applicant paid 16% more in wages in 2008 than in 2003. In the last several years it has focused on efficiency gains and has successfully implemented personnel reductions to bring costs down. However, Applicant believes further personnel reductions are impractical without significantly impacting service levels.

Tug/Barge Fuel and Rental

Costs in this category increased 103% over the five-year period, going from $158,594 to $321,475. Applicant has covered most of the additional fuel costs with the Commission-authorized surcharge. Because fuel prices have moderated, Applicant is committed to lowering the surcharge once the requested rate relief is granted. Meanwhile, the costs of rentals for the vessels and ancillary equipment such as fork lifts and refrigeration units have increased steadily.

The requested rate increase of 35% would apply only to regular overnight service. Applicant does not propose to increase its base rates for same day service from the Mainland or for on call delivery service to the camps and beaches on the Island. In addition to the general rate increase, Applicant requests authority to make the following changes to its rate schedule:

Refrigerated Freight

Applicant requests to charge a 12.5% premium over regular rates to transport items requiring special handling and storage in refrigerated and frozen storage units, such as frozen food, ice cream, produce, meats, and fish. These items are highly susceptible to spoilage and have a higher than average claim ratio. Applicant estimates this type of cargo makes up approximately 5% of its shipping volume.

Large Vehicles in Excess of 15,000 Pounds

Applicant proposes to establish a special flat rate of $3,850 per round trip for large trucks and construction equipment. It indicates the rate will be more economical for the community of Avalon than the charge under the current rate structure (which is based on shipment weight). The number of such large vehicles is relatively small, so Applicant believes limiting the rate at this level should have a minor impact on overall revenues.

Adjustment to the Minimum Shipment Weight

To clean up what it calls a minor discrepancy in the base rate schedule, Applicant would like to change the minimum weight from

0-100 pounds to 0-112 pounds, and to change the next category level to start at 112 pounds.

Applicant believes its requests are fully justified. Its 2008 revenues totaled $3,452,000. Without a rate increase, and with the 20% surcharge remaining in place, Applicant projects 2009 revenues of $2,678,000 and operating costs of $2,855,000. The result is an operating ratio of 106.6%. The projection assumes that cross-channel traffic will remain stagnant or continue to fall for some time until the national and regional economies significantly improve. If the requested rate increases are implemented in 2009 and the fuel surcharge is reduced to 10%, the projection changes to revenues of $3,329,000, operating costs of $3,115,000[2], and an operating ratio for the full year of 93.6%.

Applicant states the projected operating ratio of 93.6% represents a reasonable rate of return on the company's investment in the business. It has not requested a base rate increase for six years, even though costs have been steadily increasing over time, the amount of shipping has been declining, and the expected revenue from adding a special vessel to its fleet to enable service to Island camps and beaches and same day service from the Mainland has not materialized.

Discussion

The requested 35% rate increase for regular overnight service is significant, but it must be viewed in context—the length of time since Applicant was last granted a rate increase and the events that have occurred in the intervening period. Applicant provides a valuable service to Island residents, businesses, public agencies, and visitors, who do not have many other options for the

[2] Projected operating costs are higher under a rate increase due to an increase in tax expense of $260,000.

transportation of freight from and to the Mainland. Applicant does not operate in a highly competitive environment. We seek to ensure that Applicant's customers are charged reasonable rates and that the rates are adequate to sustain Applicant as a viable service. As Applicant indicates, it is entitled to earn a reasonable return on its investment in the vessel carrier operation. Applicant has demonstrated that it requires rate relief. We therefore will approve the requests to increase rates and to make other adjustments to the rate structure.

Applicant's revenue projections under the increased rates are premised on a reduction in the fuel surcharge from 20% to 10%. In the absence of a marked upswing in fuel prices, we expect Applicant to adjust the surcharge as it has indicated.

Notice of filing of the application appeared in the Commission's Daily Calendar on May 11, 2009. Applicant served a copy of the application to Los Angeles County and the Cities of Avalon and Los Angeles.

In Resolution ALJ 176-3234 dated May 21, 2009, the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that hearings were not necessary. No protest has been received. Given this status, public hearing is not necessary, and it is not necessary to alter the preliminary determinations made in Resolution ALJ 176-3234.

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Pub. Util. Code § 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

Findings of Fact

1. Applicant holds a certificate to operate as a VCC to transport freight between Los Angeles Harbor and points on Santa Catalina Island.
2. Applicant's current rates were authorized by D.03-08-053.

3. Applicant is assessing a surcharge of 20% as authorized by Resolution TL-19094 to recover increased fuel costs.

4. Applicant reports experiencing declining revenues and increased costs of operations.

5. A drop in the number of visitors to the Island has resulted in less demand for freight transportation by hotels, restaurants, and construction-related businesses.

6. Revenue from Applicant's vessel services for the period October 2008 through March 2009 fell $264,000 (20.6%).

7. Applicant experienced a pretax loss of $118,000 in the first quarter of 2009.

8. Under current rates, Applicant projects an operating ratio of 106.6% for 2009.

9. Applicant requests to increase rates for it regular overnight service an average of 35%.

10. Applicant requests to charge a 12.5% premium over regular rates to transport items requiring special handling and storage in refrigerated and frozen storage units.

11. Applicant requests authority to establish a special flat rate of $3,850 per round trip for large trucks and construction equipment.

12. Applicant requests approval to establish a new minimum shipment weight of 112 pounds.

13. Applicant will reduce its fuel surcharge to 10% if the requested rate increases are approved.

14. With the increased rates, and a reduction in the fuel surcharge, Applicant projects 2009 revenues of $3,329,000, expenses of $3,115,000, and an operating ratio of 93.6%.

15. Applicant's requests are justified and will result in reasonable rates.

16. No protest to the application has been filed.

17. A public hearing is not necessary.

Conclusions of Law

1. The application should be granted.

2. Since the matter is uncontested, the decision should be effective on the date it is signed.

O R D E R

IT IS ORDERED that:

1. Catalina Freight Line, Inc. (Applicant), a corporation, is authorized to establish the increased rates and to make the other changes to its rate structure proposed in the application.

2. To implement the increases authorized in this order, Applicant shall, on or after the effective date of this order, file revised tariff pages in accordance with General Order 117-Series. The revised pages and the rates listed in them shall be made effective no earlier than 10 days after the date of filing.

3. Unless there is a marked increase in fuel prices, at the same time Applicant files tariff changes implementing the rate increases authorized by this decision, it shall reduce its fuel surcharge to not more than 10%.

4. The Application is granted as set forth above.

5. This proceeding is closed.

This decision is effective today.

Dated August 20, 2009, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners