Decision No.__

Decision No. 1778

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

------ ORIGINAL

In the matter of the application of the California Navigation & Improvement Company for authority to increase certain class and commodity rates and minimum carload weights between San Francisco, Oakland and intermediate points, on the one hand, and Stockton and intermediate points on the other.	Application 856
In the matter of the application of the California Transportation Company for authority to increase certain class and commodity rates and minimum carload weights between San Francisco, Oakland and intermediate points, on the one hand, and Stockton and intermediate points on the other.	Application 857
In the matter of the application of Farmers Transportation Company to increase certain rates and alter rules and regulations so as to effect increases in rates between San Francisco and Sacramento.	Application 831
In the matter of the application of California Transportation Company for relief from provisions of Section 21, Article 12, of the Constitution of California, as amended October 10, 1911.	Application 832
In the matter of the application of Southern Pacific Company to increase certain class and commodity rates via steamer line between San Francisco, Sacramento and way landings.	Application 833
In the matter of the application of California Transportation Company to increase certain class and commodity rates between San Francisco, Sacramento and way landings.	Application 834
In the matter of the application of Sacramento Transportation Company dated December 11, 1913, for an order granting permission to increase certain class and commodity rates via steamer line between San Francisco and Sacramento.	Application 891
In the matter of the investigation on the Commission's own motion into the rates for transportation of freight by water between San Francisco, Stockton, Sacramento and intermediate points.	Case No. 534

Jackson Merchants Association, Intervenor,
Farmers' Exchange, Courtland, Intervenor.

APPEARANCES

George D. Squires, for Southern Pacific Company,

W. A. Breen, for California Navigation & Improvement Company,

W. H. Metson, for California Transportation Company,

W. D. Heryford, for Farmers Transportation Company,

P. J. Harney, for Sacramento Transportation Company,

William R. Wheeler and Seth Mann, for San Francisco Chamber of Commerce,

Seth Mann, for Farmers Exchange,

C. Clifford and A. a Dennison, for Oakland Chamber of Commerce,

J. B. Wrangham, for California Almond Growers Exchange,

S. E. Semple, for Stockton Chamber of Commerce,

B. Blow, for Napa Chamber of Commerce,

F. Allyn Orr, for Amador County Mine Owners,

George J. Bradley, for Sacramento Traffic Association.

ESHLEMAN, Commissioner:

O P I N I O N

These applications are for authority to make certain increases or changes that result in increases in the rates for the transportation of freight on the Sacramento and San Joaquin Rivers.

Application No. 856 of the California Navigation & Improvement Company is for authority to increase certain class rates between San Francisco and Oakland, on the one hand, and Crockett, Benicia, Martinez, Pittsburg, Antioch and Stockton, on the other hand; also between Stockton and Crockett, Benicia, Martinez, Pittsburg and Antioch and between certain specified intermediate points. It also asks permission to cancel certain commodity rates and to increase other commodity rates and the minimum weights applying in connection with certain commodity rates. In justification of the proposed change the petitioner alleges that the present rates are unremunerative.

Application No. 857 of the California Transportation Company asks for permission to make the same changes in the class and commodity rates of that Company on the San Joaquin River as the changes sought by the California Navigation & Improvement Company in its application, and similarly the petitioner in justification of the proposed increases alleges that the present rates are unremunerative.

Application No. 831 of the Farmers Transportation Company is for permission to cancel certain commodity rates applying between San Francisco and Sacramento (between which points only this Company operates) and thereafter apply class rates for the movement of such traffic. This would result in increases in the rates on many commodities. In justification of this change the applicant urges that at present it maintains in its tariffs specific commodity rates only and that this method of stating rates has proven inconvenient and impracticable in its operation and that it is now desired to change this method and provide a scale of class rates subject to the classification of freight provided in the Western Classification, except that in a few cases special commodity rates will be continued. The applicant alleges that the result of the substitution of the proposed class scale and Western Classification ratings for the present commodity rates will be to increase its gross revenue approximately 5%, but that it proposes to maintain between San Francisco and Sacramento a lower scale of rates than is maintained by other lines operating between those points that offer a more frequent service. The applicant operates but one steamer a week between San Francisco and Sacramento and contends that a lower scale by its line is necessary as an inducement to shippers to hold freight for applicant's steamer.

Application No. 853 of the Southern Pacific Company asks permission to cancel many commodity rates applying on 5,000 lb. and 10,000 lb. lots between San Francisco and Sacramento only by its steamer line and to substitute therefor class rates in some cases and in others the same commodity rate but a greater minimum weight. This petitioner also seeks authority to make certain increases in the class rates applying between San Francisco and Crockett, Port Costa, Benicia, Mail Dock, South Vallejo and North Vallejo and intermediate points via its steamer lines. In justification of this change the petitioner contends that it desires to eliminate the commodity rates on freight in 5,000 lb. and 10,000 lb. lots applying between San Francisco and Sacramento only so as to remove the violation of the long and short haul provision of the Constitution and because differences in rates conditioned on such small quantities are improper and discriminatory and generally that the rates which it seeks to increase are unremunerative.

Application No. 834 of the California Transportation Company seeks authority to cancel many commodity rates applying on 5,000 lb. and 10,000 lb. lots of freight between San Francisco and Sacramento only and in place thereof to substitute class rates in some cases and in other cases the same commodity rate but a greater minimum weight. In justification of the changes proposed the petitioner alleges that it desires to eliminate the commodity rates on 5,000 lb. and 10,000 lb. lots so as to remove the violation of the long and short haul provision of the Constitution, which these rates affect, and because x differencesin rates based on such quantities are improper and discriminatory.

Application No. 891 of the Sacramento Transportation Company likewise asks for permission to cancel many commodity rates applying on 5,000 lb. and 10,000 lb. lots of freight between San Francisco and Sacramento and to substitute therefor class rates in some cases and in other cases the same commodity rate but a greater minimum weight. In justification of the proposed changes this petitioner alleged that the present rates are unremunerative. This petitioner, subsequent to the filing of its original application, asked leave and was granted permission to withdraw same. Therefore, it will not be necessary to further consider this application.

Case 534 was instituted by the Commission on its own motion for the purpose of bringing before it the entire operations of these applicants and enabling the Commission to make such an order in the matter as the evidence submitted would seem to justify.

The Jackson Merchants Association of Jackson, Amador Co., asked leave and was granted permission to file a petition in intervention in Application No. 857, praying that the application of the California Transportation Company be denied and that such other and further relief be granted as the Commission might find proper in the premises.

The Farmers Exchange of Courtland, an association of farmers and fruit growers engaged in the raising and shipping of fruits, vegetables and produce at or near river landings on the Sacramento River, between San Francisco and Sacramento, asked leave and was granted permission to intervene in Case No. 534. This intervenor complains that the present rates charged by the California Transportation Company and Southern Pacific Company for the transportation of fruit, vegetables and produce between San Francisco and Sacramento and intermediate points and river landings are unreasonable, unjust and excessive and asks the Commission to fix reasonable rates for such service.

The principal witness for the California Navigation and Improvement Company testified that that Company operated two steamers - "The J. D. Peters" and the "T. C. Walker" in the San Francisco-Stockton service, the rates via which route it proposed to increase, and that during the fiscal year ending May 31, 1913, the total freight earnings of these steamers were $163,068.79, while the expense incident to the operation of these steamers was $215,742.83. The witness testified that this expense included only such expenditures as were properly chargeable to the freight service but admitted that the entire cost of the fuel used in the operation of these boats was charged to the freight service and that similar items were likewise charged to the freight service regardless of the fact that these same boats carried passengers and that the revenue from that traffic was not immaterial, upon the theory that the cost of the fuel for operating these boats would approximate that amount, were no passengers whatsoever transported. This plan was followed in making all calculations as to the expense of operating the freight service. The method of ascertaining the expense of this service is, in my opinion, wholly incorrect and contrary to the principles laid down by the Courts for ascertaining the cost of service in such cases. (Simpson vs. Shepard, 230 U.S. 352). Each service should bear its proportionate expense and neither one nor the other should be burdened with the entire expense of operation on the theory that the expense would continue though a particular service were discontinued. The error of this method is so aggravated as to vitiate the entire showing. I am, therefore, unable to find from the evidence that the present rates of this line between San Francisco and Stockton and intermediate points are unremunerative.

Similar testimony was offered by the California Transportation Company in justification of its application to increase the rates between San Francisco and Stockton by its lines, but for the same reasons as those heretofore given in considering the evidence given by the witness for the California Navigation & Improvement Company, I am unable to find that the rates of the California Transportation Company between San Francisco and Stockton are unremunerative and that it should therefore be permitted to increase them.

The evidence also shows that there was at one time acute competition on the San Joaquin River between the various boat lines plying thereon. I am impressed, however, that at the present time the actual competition is not as potent as it once was. The testimony shows that the largest single stockholder in the California Navigation & Improvement Company is also the largest single stockholder in the California Transportation Company and, although it is not proven that the relationship between these companies is such as to indicate an agreement, yet I am inclined to believe that they do not deal entirely at arm's length. The principal complaint is that the boats of these lines are not loaded sufficiently near capacity to make their operation profitable. This interesting situation is presented: Two competing lines driving down the rates to a point lower than would otherwise exist now apply to this Commission for an increase in rates on the ground that the duplication of facilities on the San Joaquin River has made it impossible for either line to secure sufficient traffic to make its business profitable. Hence, the rates of both lines must be increased and the measure of the increase is determined by the alleged losses of the two lines. I assume if a third line should enter this transportation field and thereby further divide the business, that it would be urged that the still less heavily laden crafts should be permitted to raise their rates still more because of the unnecessary additional investment. The situation here presented gives us both the evils of monopoly and the evils of competition with none of the advantages of either. A single set of facilities in a natural monopoly field tends to reduce to the minimum the amount of the investment upon which an earning shall be allowed and, likewise, tends to work to capacity the facilities devoted to the business. Unregulated, however, the agency in control of such a single set of facilities tends to take all it can get from its patrons. On the other hand, duplication of facilities, when actual competition exists, tends to induce those in control of such facilities to take the minimum which it is necessary for them to secure and still carry on the business. In the case before us, however, we have the admitted duplication entailing the use of surplus facilities and the working of these boats at much less than maximum capacity and still we are asked to raise these rates and impose upon the public the burden which is necessary to pay an earning upon the entire property. The public can not be expected to accept the evils both of competition and monopoly and even though it appeared here that, by reason of the working of these boats at a less than maximum efficiency, an adequate earning were not produced, it would not be necessary for public authority, under well established principles, to permit an increase because it is the rule that the public may not be required to give a return upon facilities that are not necessary in the service of such public. As I have already said, however, the evidence does not lead me to conclude that, even on the basis of the property here involved and the expenses shown, an increase should be permitted. Furthermore, large replacements and betterments are shown as operating expenses and, under all the circumstances, I do not believe these boat lines have at all sustained the burden of satisfying this Commission that an increase is justified.

The testimony of the witness for the Farmers Transportation Company was that its intention was merely to standardize its practices for the convenience of itself and its patrons and that it was not the intention materially to effect its revenues by the proposed changes. The witness, however, testified that its gross revenues would be increased approximately 5% if the changes proposed were permitted to go into effect and, in view of the fact that this Company does not contend that its present revenues are inadequate, there is no other alternative for the Commission but to decline to grant this application in its present form.

In view of the statements of the representative of the Southern Pacific Company and the California Transportation Company that those lines if permitted to cancel the commodity rates now applying on 5,000 lb. and 10,000 lb. lots between San Francisco and Sacramento only, would arrange to establish commodity rates that would be satisfactory for shippers whose rates would otherwise be increased, it is my opinion that these companies should be permitted to cancel the commodity rates applying on 5,000 lb. and 10,000 lb. lots between

San Francisco and Sacramento and thereby remove the violations of the long and short haul provision of the Constitution.

The Southern Pacific Company in justification of the increases proposed in its Application No. 853, in certain class rates between San Francisco, Crockett, Port Costa, Benicia, Mail Dock, South Vallejo and North Vallejo and intermediate points, testified that it desired to increase these rates to the rates proposed between those points via its rail line, and in support of the allegation that the present rates were unremunerative submitted a statement showing the operating revenues and expenses of its river steamers. This statement purports to show that the total operating revenue of the Southern Pacific Company's river steamers for the calendar year 1913, was $425,028.18, and the total operating expenses and taxes amounted to $525,936.06, leaving a deficit of $100,907.88. It is impossible to determine from this statement what particular routes of the Southern Pacific Company's river lines are operated at a loss, or what particular class of traffic is carried at unreasonably low rates, although it is true that the increase in rates asked for to Vallejo, Crockett and adjacent points is comparatively insignificant and on proper showing may be allowed.

The service of the steamer lines on the Sacramento River and its tributaries handling Fruit, Vegetables and Produce, between San Francisco and Sacramento, is largely a special service and the showing of the intervenor asking for a reduction in the rate on Fruit and Vegetables has not been sustained. The intervenor alleges that the rates for the transportation of Fruit and Vegetables on the Sacramento River should be no higher than rail rates and bases its contention for a reduction wholly on a comparison with rail rates. This important question cannot be decided on evidence of this kind. In many cases river rates might be lower than rail rates and in other cases just the reverse. A great deal would depend upon the volume of business transported by steamer, the number of steamers engaged in the service and the nature of the service performed. Again, it must be borne in mind that the carriers are at the present time before the Commission in an endeavor to raise

✓ a number of the rail rates used by the intervener in comparison with the water rates.

While the showing of the Southern Pacific Company that the operation of its river steamers results in the loss of over $100,000.00 per annum, and this showing is not satisfactory because of the absence of detail, it is likewise true that the showing of the intervener in this case does not justify a disturbance of the present rate adjustment.

A careful consideration of all of the evidence introduced at the hearing of these applications leads me to believe that the applications of the carriers to eliminate commodity rates covering shipments of 5,000 and 10,000 lbs. between San Francisco and Sacramento should be granted with the understanding that the carriers publish specifically carload commodity rates intermediate in application.

The application of the Farmers Transportation Company, in its present form, should be denied without prejudice and subsequent application entertained which will not bring about an increase in revenue.

The application of the Southern Pacific Company for permission to make slight increases in class rates to Vallejo, Benicia and adjacent points should not be granted on the record in these proceedings but with additional information may be handled informally.

The application to increase rates to Stockton must be denied because exhibits plainly show an erroneous method of apportionment of expenses.

The applications so far as they relate to an increase in present rates for the transportation of Fruit and Vegetables should be denied.

I submit the following order.

<u>ORDER</u>

California Navigation & Improvement Company, California Transportation Company, Farmers Transportation Company, Southern Pacific Company, Sacramento Transportation Company, having applied to this Commission for permission to increase certain rates for the transportation of freight between San Francisco, Stockton, Sacramento and river landings and intermediate river landings and a regular hearing having been had and the Commission being fully apprised in the premises and basing its order on the opinion which precedes this order,

IT IS HEREBY ORDERED that the carriers be and are hereby authorized to amend and modify tariffs for the transportation of freight between San Francisco, Stockton, Sacramento and intermediate points in accordance with the opinion which precedes this order.

The foregoing opinion and order are hereby approved and ordered filed as the opinion and order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 4th day of September, 1914.

John M Eshleman

H D Loveland

Alex Gordon

Commissioners.