

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

Decision No. 3661

Rice Association of California,
Pacific Rice Growers Association,

Complainants,

vs.

Southern Pacific Company,
Atchison, Topeka & Santa Fe
Railway Company.

Defendants.

ORIGINAL

Case No. 923.

Chapman and Thompson, for Complainants.
Geo. D. Squires, for Southern Pacific Company,
G. H. Baker, for Atchison, Topeka & Santa Fe
Railway Company.
Sanborn & Roehl, for Interveners.

GORDON, Commissioner.

OPINION ON REHEARING

The Commission rendered a decision in the above entitled case on June 16, 1916, reducing the rates on paddy rice moving from various points in the Sacramento and San Joaquin Valleys to San Francisco, Sacramento, Biggs and Gridley. Within a short time after the decision was rendered, defendants filed a petition for rehearing which was denied.

Thereafter the Sacramento Transportation Company, Farmers Transportation Company, California Transportation Company, (boat lines) and John P. Coghlan, Receiver of the Northern Electric Railway Company, presented a petition praying that the case be reopened, permitting them to intervene and become parties to the proceedings on the grounds that the Commission in reaching its conclusion, reducing the rates in question, had failed to take into account the effect such reductions would have upon the revenues of the boat lines and of the weak rail carriers operating in competition

with the Southern Pacific Company between points in the Sacramento Valley. These additional facts appearing of importance, the Commission under date of July 28, 1916, set aside its decision and order and reopened the case for further consideration. All parties have been heard by the introduction of additional evidence and by the briefs of their attorneys, and the case is now ready for final disposition.

Defendant, Southern Pacific Company, in its application for a rehearing alleged that the Commission erred in comparing the rates on wheat and other cereals with those on paddy rice; that it gave consideration to the distance scales of rates on rice obtaining in Texas, Louisiana and Arkansas, and departed from the established practice of making rates to Sacramento the same as to San Francisco from points in the San Joaquin Valley.

It is unnecessary to enter into an extended review of the testimony, as the original report sets forth the more important facts upon which the order was based. The comparison made between the earnings on paddy rice and on the grains specified showing the rate per ton per mile, earnings per car, and earnings per car mile, between exactly the same points in California, is entirely proper, it having been demonstrated by testimony that the commodities differed but little in value and there is no substantial dissimilarity in the circumstances and conditions with regard to transporting the various kinds of grain.

In support of the contention that the rates prescribed were unreasonably low, defendants on rehearing offered a number of exhibits making a comparison of the present and proposed rates on paddy rice from points in the Sacramento and San Joaquin Valleys to San Francisco, Sacramento, Biggs and Gridley, with those applying on other grains, green fruit, dried fruit, vegetables and canned goods, between the same points, also comparing the present and proposed rates with the rates in effect on paddy rice in the state of Texas.

Similar exhibits were introduced by complainants at the original hearing and were carefully analyzed. Defendants, however, contend that the rates on grain are water compelled and therefore not comparable; also rates on green fruit, dried fruit and vegetables are subnormal, were established to assist the canning and fruit industry in its infancy, and that this tonnage offered a subsequent haul to carriers, and likewise should not be used as a measure for a rate on paddy rice.

This theory of a second haul can also be applied to paddy rice, as most of the cleaned rice involves a subsequent movement from the mills to the point of consumption. It is in evidence that paddy rice produces but 67 per cent of cleaned rice and that the by-products are of nominal value, again demonstrating that the comparisons made are not improper.

The grain rates in the Sacramento and San Joaquin Valleys are no lower than those in effect via the Northern Pacific Railway, Great Northern Railway and the Oregon-Washington Railroad and Navigation Co., for like distances into Portland and Tacoma, as evidenced by complainants' Rehearing Exhibit No.1, although a witness testified that the traffic into the northern ports is handled under difficult operating conditions. Grain tariffs on file with this Commission provide rates in California, where no water competition exists, on a parity and in many instances lower than the rates in the Sacramento Valley. A few representative points are as follows:

Miles	Between	And	Rate per ton
167.0	Chico	San Francisco	\$2.80
167.3	Armona	Stockton	2.35
169.3	Pope	Los Angeles	3.00
208.0	Weed	Marysville	2.80
144.2	Biggs	San Francisco	2.65
144.4	Lacjac	Stockton	2.35
147.5	Mecca	Los Angeles	2.70
143.0	Elmore	Marysville	2.55
133.0	Maxwell	San Francisco	2.30
132.4	Clotho	Stockton	2.25
132.6	Coachella	Los Angeles	2.60
134.9	Kennett	Marysville	2.50

The above rates indicate that those in effect from Sacramento Valley points, such as Chico, Biggs and Maxwell to San Francisco, are not out of adjustment when compared with the commodity rates into other grain consuming centers.

I am not impressed with the arguments presented for no doubt carriers could without great effort furnish excuses and explanations to demonstrate that all commodity rates are depressed and are less than reasonable. The rates on grain, fruit and vegetables were established many years ago and it is not of record that these carriers have made application to increase them to a higher basis. As a matter of fact many of the rates on dried fruit from points in the San Joaquin Valley where there is now no compelling competition have been voluntarily reduced, effective September 3, 1916, which does not indicate that the dried fruit rates are unremunerative.

It can be stated at this point that in arriving at the rates on paddy rice, consideration was given to the testimony of defendants' witness to the effect that the rates on wheat, barley and the other grains in the Sacramento Valley were depressed by active and compelling water competition. If this fact had not been carefully considered the present rates on the grains mentioned might very properly ^{have} been used as the gauge for rates on paddy rice.

The decision was not influenced, as suggested by defendant, by the mileage scheme of rates on rough rice prevailing in the states of Texas, Louisiana and Arkansas, and the reference to these rates given in the decision was in a sense a review of the exhibits introduced by complainants.

The third objection of the Southern Pacific Company that in other decisions this Commission has given to Sacramento the same rates as apply between San Francisco and certain points in the San Joaquin Valley is in error, for the situation as it now exists making a blanket of the San Francisco and Sacramento rates

to San Joaquin Valley points is of carrier's own creation.

Defendant, Atchison, Topeka & Santa Fe Railway Company, finds fault with the rates ordered into effect from points on its line to Sacramento in connection with the Southern Pacific Company via Stockton, on the ground that consideration was not given to the two line movement involved, also that the rates from Alpaugh to San Francisco and Sacramento should be increased because of the expensive service in connection with the branch line between Alpaugh and Stoil.

The branch line from Stoil to Alpaugh is $5\frac{1}{2}$ miles in length, was constructed at an expense of \$55,000 some two and a half years ago under a stipulation with shippers fixing the minimum carload rate for the branch line service at \$1.00 per ton for a period of four years and while the agreement is of no legal effect, I am convinced the expensive service for this traffic justifies a modification of the order.

There is no established rule requiring a higher rate for a two line than for a one line movement, but in this case the testimony given at the rehearing justifies the contentions of the Santa Fe that an allowance should be made for the two line service to Sacramento based on the extra switching involved and the short haul from the junction point at Stockton.

Interveners protested the reductions in paddy rice rates between points in the Sacramento Valley on the rails of the Southern Pacific Company upon the grounds that such reductions would be reflected in their schedules and seriously impair their revenue. No exhibits were filed and the case was submitted entirely upon oral testimony. This testimony, on behalf of the three steamship companies and one electric railway, was to a great extent an attempt to prove the wheat and barley rates of the Southern Pacific Company in the territory in question unreasonably low. The history of the railway and steamship lines was reviewed for a period of more than fifty years, operating expenses, the grain tonnage and the grain

rates being set forth in detail.

The Sacramento Transportation Company and its predecessor, the Sacramento Wood Company, have operated steamboats on the Sacramento River and its tributary waters since 1862, was the pioneer line to Red Bluff and handled traffic to that point eight or nine years prior to the construction of the railroad. After the line was built rate wars were frequent until 1899 when they practically ceased with the establishment of the rates now in effect.

Great stress is laid upon the fact that the wheat rates from the Sacramento Valley to San Francisco, being water compelled, should not be used to measure the reasonableness of the paddy rice rates. As has been heretofore shown, the present rate on wheat, in carloads, between Biggs and San Francisco, distance 144.2 miles, is \$2.65 per ton of 2000 pounds. Between Lacjac and Stockton, two tenths of a mile further, the rate is 30 cents per ton lower, and between Elmore and Marysville, involving both a mountain and valley haul, distance 143 miles, the rate is 10 cents per ton lower. From this it would appear that the present wheat rate from Biggs, as well as the others from the northern territory to San Francisco, have by the action of carriers become the standard measure of grain rates to consuming centers.

Witness for the Northern Electric Railway testified that any reduction in the Southern Pacific Company's rates would force his company to make a similar reduction in paddy rice rates at competitive points, thereby causing an annual loss in revenue of between \$4,000 and \$5,000. This estimated loss is based on the tonnage moved last season and the prospective increase in tonnage for the coming season. During the fiscal year ending June 30, 1916, 2,847 tons of paddy rice were moved locally by the electric line; had this tonnage moved under the rates prescribed by the Commission the loss in revenue would have been \$539.16. During the same period

1,548 tons moved from points on the Northern Electric Railway to San Francisco under joint through rates. The electric line's loss in revenue of its proportion of the through rate, had it moved under the proposed rates from points of origin to destination, would have been \$390.98, a total loss of \$930.14. The witness also testified,-

"Considerable increased acreage is being planted and has been planted, which will come into bearing this season, from which we will get a crop this season at exclusive points on our line. I can give you an idea of that which will without question come to us. There is an increased acreage planted at points such as Shippee, Tres Vias, Meridian,*** Nicholas, Sankey, of 4,650 acres, which will yield two tons to the acre **** and which will go that on first year land and probably over 9,300 tons."

There is nothing in the record to show the prospective tonnage from each point. However, if an average rate of \$2.00 per ton be applied the revenue from this tonnage will be \$18,600 and instead of showing a loss in revenue of \$930.14, its gross receipts will be increased \$17,669.86.

A witness for the Sacramento Transportation Company testified that during the fiscal year ending June 30, 1916, 9,919 tons of paddy rice were transported by his line and it is alleged that a reduction in defendant's paddy rice rates would cause a loss of approximately \$7,500 if a corresponding reduction in the rates were made by his company.

The testimony seems to indicate that the bulk of this tonnage originates on the Sacramento River in the proximity of Colusa, and is destined San Francisco. At present the rate on paddy rice in carloads from a point on the Southern Pacific Company corresponding to the river points is \$3.50 per ton of 2000 pounds. When a shipment is transported via boat from Colusa to San Francisco, dock delivery, the rate is \$2.75 per ton of 2000 pounds or 75 cents per ton less than the rail rate to the mill located on the industry track of rail carrier at destination. From this it would seem that the transportation cost to consignee is

less via water than via rail, but such is not the case for it was explained that this difference represents the per ton charge from docks at San Francisco to the mill and is made up as follows:

State toll at San Francisco	5¢	per ton.
Loading charge "	20¢	" "
Switching charge (\$2.50 per car) S.F. *16-2/3¢	"	"
Switching charge (\$5.00 per car) " **33-1/3¢	"	"
Total	75¢	per ton.

*Belt Railroad, based on 15 tons per car.

**Southern Pacific Co. based on 15 tons per car.

Growers of paddy rice in the neighborhood of the Colusa Landing are served by the Northern Electric Railway, the Sacramento Transportation Company and the Southern Pacific Company. The distance between the boat landing at Colusa and the Southern Pacific Company point opposite thereto is approximately 20 miles. Rice is grown within 5 or 6 miles of the landings and 14 or 15 miles from the Southern Pacific Company shipping point, and due to the shorter distance to the river landings is legitimately water traffic.

If, however, in other territory the grower is located at substantially equal distances from two shipping points he will naturally haul his grain to the point from which it bears the lowest transportation charge. The cross-country competition to the river landings is important and must be recognized as well as the points actually reached by rail carrier. Since the rail carrier delivers the paddy rice without any accessorial charges to the mills located on industry tracks upon its lines, it is manifest that when the steamboat lines reach out for tonnage in territory not immediately adjacent to the river landings they must place their rates on such a basis that the same when added to the other expenses of the shipper, such as the team haul from point of production to river bank, marine insurance, state toll and the team or rail delivery charge from wharf to mill at destination, will not total more than the freight charge assessed by the rail carrier for the same service.

From an economical standpoint a grower will haul his product to the nearest shipping station and will, without doubt, continue to patronize the line nearest his property even though transportation rates are not on a parity, because of the fact that the teaming expense for the shorter distance is not as great. This being true, I cannot agree with the contention that the steamboat lines and the electric line need necessarily reduce rates to the same level as those of the Southern Pacific Company.

It is to be noted that the revenues of the Sacramento Transportation Company have materially decreased during the past few years. The year 1914 shows a net loss of \$11,890.42, and the year 1915, \$19,764.42; no figures were submitted to cover the fiscal year ending June 30, 1916. This showing, however, does not justify the contention that a selected commodity rate of a prosperous competitor must be increased in order to furnish additional revenue to the weaker company. According to the testimony 48,000 tons of paddy rice will be produced on lands tributary to the river and of this tonnage 50 per cent will move via the boat line. During the last season this line carried but 9,919 tons, thus for the fiscal year of 1916-17 there will be an increase of 14,081 tons, and at the present rate of \$2.75 per ton, the gross revenue will be increased \$38,725.00. Should carrier find it incumbent to reduce its rate to \$1.95 per ton (80 cents per ton below the proposed rail rate) its revenue will still be increased \$27,457.95. Each amount, it will be observed, is in excess of the net loss for the years heretofore given.

This line contends that any reduction in its rates on paddy rice will cause a lowering of its wheat rates between the same points because the latter rates are now lower. It does not logically follow that in readjusting the rates on a given commodity rates on other commodities must be increased or decreased.

The Farmers Transportation Company and the California Transportation Company operating between San Francisco and Sacramento are only interested in the situation to the extent of the joint traffic received at Sacramento from the Northern Electric Railway. The first named company presented no testimony at all while a witness for the second stated that his company had transported only about five cars of paddy rice during the past season. It is therefore apparent that the reductions in rates can do but small damage to these two interveners.

It is the function of this Commission to establish just and reasonable rates and no evidence was presented at the rehearing to prove the rates ordered established in the original report on paddy rice from points in the Sacramento Valley less than just and reasonable, and certainly the financial condition of these defendants is such that the Commission need not hesitate to establish proper rates. Carriers may take competition into consideration and make rates to meet it; in this case it may be necessary for the steamboat lines to shrink rates in order to secure certain rice tonnage. This disability, however, on the part of the steamboat lines should not be a reason for compelling shippers located at railroad points or adjacent thereto to pay unreasonable rates.

In Application No. 856, California Navigation and Improvement Company, for authority to increase rates between San Francisco and San Joaquin River points, Vol. 5, Opinions and Orders of the Railroad Commission of California, page 366, which involved a somewhat similar situation, we said:

"Two competing lines driving down the rates to a point lower than would otherwise exist now apply to the 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."

I am not convinced that interveners in this case will be injured by the reductions made in the rates of the Southern Pacific Company and even if such were a fact it could not be employed to increase rates found to be just and reasonable.

Upon a careful consideration of all the evidence submitted at both hearings I am of the opinion that conclusions reached in the original report were correct except as to those rates referred to in connection with the Atchison, Topeka and Santa Fe Railway Company.

I submit the following form of order:

O R D E R.

The petitioners for rehearing in this case, the Southern Pacific Company and the Atchison, Topeka and Santa Fe Railway Company, defendants, and the Sacramento Transportation Company, the Farmers Transportation Company, the California Transportation Company, and John P. Coghlan, receiver of the Northern Electric Railway Company, interveners, having been duly heard on rehearing and the case having been submitted by the parties and full investigation of the matters and things involved having been had and the Commission basing its order on the facts and conclusions contained in the opinion which precedes this order,-

IT IS HEREBY ORDERED that the Southern Pacific Company publish and file with this Commission, on or before twenty (20) days from the date of service of this order, the local rates on paddy rice, in carloads, as set forth in Schedule No.1, attached hereto and made part hereof, which rates are just and reasonable.

IT IS FURTHER ORDERED that the Atchison, Topeka and Santa Fe Railway Company publish and file with this Commission, on or before twenty (20) days from the date of service of this order the local rates on paddy rice, in carloads, as set forth in Schedule No.2, attached hereto and made part hereof, which rates are just and reasonable;

IT IS FURTHER ORDERED that the Southern Pacific Company and the Atchison, Topeka and Santa Fe Railway Company, or their authorized agent, publish and file with this Commission on or before twenty (20) days from the date of service of this order, the just and reasonable joint rates on paddy rice, in carloads, as set forth in Schedule No.3, attached hereto and made part hereof.

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 23rd day of September, 1916.

Max Thelen
H. J. Cleveland
W. J. Fisher
Edwin O. Edgerton
Frank R. Colver
Commissioners.

SCHEDULE NO.1

RATES IN CENTS PER 100 POUNDS ON PADDY RICE IN CARLOADS

APPLICABLE VIA

THE SOUTHERN PACIFIC COMPANY

<u>From</u>	<u>to</u>	<u>San Francisco</u>	<u>Sacramento</u>	<u>Biggs</u>	<u>Gridley</u>
Winters		11	9		
Esparto		12	10 $\frac{1}{2}$		
Dixon		10	6		
Woodland		11	6		
Zamora		11 $\frac{1}{2}$	7		
Colusa Junction		13	10		
Maxwell		13 $\frac{1}{2}$	10 $\frac{1}{2}$	12	12
Delavan		13 $\frac{1}{2}$	10 $\frac{1}{2}$	11 $\frac{1}{2}$	12
Norman		14	10 $\frac{1}{2}$		
Willows		14	11	11	11 $\frac{1}{2}$
Marysville		13	9	6	5
Mello		13 $\frac{1}{2}$	9	6	
Gridley		14	10		
Biggs		14	10 $\frac{1}{2}$		
Richvale		14 $\frac{1}{2}$	10 $\frac{1}{2}$		
Darham		15	11		
Chico		15	11 $\frac{1}{2}$		
Dos Palos		14	13 $\frac{1}{2}$	17	
Oxalis		14	14		
Kerman		16	15 $\frac{1}{2}$		
Burrell		17	17		
Oakdale		12	10 $\frac{1}{2}$		
Merced		13 $\frac{1}{2}$	12 $\frac{1}{2}$		
Fresno		16 $\frac{1}{2}$	15 $\frac{1}{2}$		
Pixley		19 $\frac{1}{2}$	18 $\frac{1}{2}$		
Bakersfield		22	20 $\frac{1}{2}$		
Rio Bravo		22 $\frac{1}{2}$	22		
Buttonwillow		23	22 $\frac{1}{2}$		

SCHEDULE NO.2.

RATES IN CENTS PER 100 POUNDS ON PADDY RICE IN CARLOADS

APPLICABLE VIA

THE ATCHISON, TOPEKA AND SANTA FE RAILWAY COMPANY

<u>From</u>	<u>To</u>	<u>Rate</u>
Oakdale)	San Francisco	12
Fresno)		16½
Corcoran)		19
Waukena)		19½
Alpaugh)		25
Pond)		20½
Wasco)		21
Shafter)		21½
Bakersfield)	22	

SCHEDULE NO.3.

RATES IN CENTS PER 100 POUNDS ON PADDY RICE IN CARLOADS

APPLICABLE VIA

THE ATCHISON, TOPEKA AND SANTA FE RAILWAY COMPANY

AND

THE SOUTHERN PACIFIC COMPANY

<u>From</u>	<u>To</u>	<u>Rate</u>
Corcoran)	Sacramento	19
Waukena)		19½
Alpaugh)		25
Pond)		20½
Wasco)		21
Shafter)		21½