

Decision No. _____

ORIGINAL

Decision No. 4-968

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application of
the Southern Pacific Company to In-
crease Class and Commodity Rates via
Steamer Lines between San Francisco
and Sacramento River Points.

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) Application No. 2924.
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Sanborn & Roehl, for Southern Pacific Company.
Seth Mann, for San Francisco Chamber of Commerce.
G. J. Bradley, for Merchants & Manufacturers
Association of Sacramento.
H. M. Wade, for Oakland Chamber of Commerce and certain
San Francisco shippers.
H. W. Adams, for California Fruit Distributors of
Sacramento.

BY THE COMMISSION:

O P I N I O N

This proceeding is upon application of the Southern Pacific Company, filed May 17, 1917, under Section 63 of the Public Utilities Act, for an order permitting an increase of approximately 15% in all freight rates via river boats between San Francisco and Sacramento and at intermediate points, also via the ferry boats on what is known as the Creek Route, between San Francisco (Market Street) and Oakland (Broadway Wharf) carried in the following tariffs:

Proportional Freight Tariff	No.	41, C.R.C. No. 2024
Local Freight Tariff	No.	292-G, C.R.C. No. 1630
Local Freight Tariff	No.	380-D, C.R.C. No. 816
Local Freight Tariff	No.	383-B, C.R.C. No. 58
Local Freight Tariff	No.	541-A, C.R.C. No. 1916
Joint Freight Tariff	No.	555-A, C.R.C. No. 1280
Joint Freight Tariff	No.	765 C.R.C. No. 1669
Proportional Freight Tariff	No.	798-C, C.R.C. No. 2045
Joint & Proportional Freight Tariff - - - - -	No.	893 C.R.C. No. 2070

The application also seeks authority to cancel rates on commodities in lots of less than 20000 pounds carried on pages 34, 35 and 36, Items 520 to 595 inclusive of Local Freight Tariff No. 541-A, C.R.C. 1916.

It is alleged that, due to the greatly increased cost of operation, existing rates are inadequate and the revenue derived is insufficient to pay even operating expenses.

No testimony was introduced in connection with Local Freight Tariff No. 380-D, C.R.C. 816, covering the ferry boat freight rates between San Francisco and Oakland (Broadway Wharf), and this part of the application will be dismissed without further comment.

Applicant took over the steamers of the California Steam Navigation Company in 1869 and has since operated vessels regularly between San Francisco and Sacramento; it also renders a special service in the delta country, working the slough landings during the harvest season. The distance between San Francisco and Sacramento via the river route is 125 miles. There are five vessels in the service, the Apache, Modoc, Navajo, Cherokee and Fruto. The Navajo is operated for the special accommodation of passengers between San Francisco and Sacramento. It leaves San Francisco at 8:30 A.M. daily, except Sunday, arriving at Sacramento at 7 P.M. and leaves Sacramento at 9 P.M. daily, except Monday, arriving at San Francisco at 7 A.M. Stops are made at the principal way stations on the north bound trip, while no stops at all are made on the south bound trip. Freight is accepted on the Navajo, but because of the time schedule it is offered in such small quantities that its movement on this vessel is apparently of but little importance either to applicant or to the shipping public.

The Apache and Modoc alternately operate daily, except Sunday, leaving San Francisco at 12 noon and Sacramento at 10 A.M. These boats handle passengers and freight and are scheduled to reach the different terminals early in the morning, in order to accommodate the produce market trade.

The steamers Cherokee and Fruto are relief boats and are used in regular service ^{only} during the peak season of the year, in the

months of May, June, July and August, when crops are moving in heavy volume.

The steamers Apache and Modoc were built in 1880 at an estimated cost of \$80,000.00 each. During the past ten years, 1906 to 1916, inclusive, the repairs to these steamers have been fairly constant, the Apache being charged with \$62,675.55 for ordinary work and \$78,737.17 for unusual items; the Modoc, \$64,434.29 for ordinary and \$78,343.64 for unusual items. The steamer Navajo, built in 1909, cost \$89,552.68 and the repairs, from the time of entering service until the end of 1916, seven years, amounted to \$41,257.28 for ordinary and \$11,081.45 for unusual repairs. Another steamer, named the Seminole, costing \$110,454.42, operated in conjunction with the Navajo, was placed in service in June, 1911 and sunk in a collision during February, 1913. The boat carried no insurance in outside companies but was included under the company's plan of setting aside a premium of twenty cents per hundred valuation per annum.

Three other boat lines, the California Transportation Company, Sacramento Transportation Company and Farmers' Transportation Company, independently owned and in competition with this applicant, ply on the river between San Francisco and Sacramento and, in addition, the landings are served by a great number of irregular craft. The California Transportation Company furnishes passenger and freight service of the same high standard as applicant at practically the same rates, while the Sacramento Transportation Company and the Farmers' Transportation Company give freight service on a slow schedule but at lower rates. The public, therefore, has the benefit of substantial competition in both the service and the rates.

It might be stated at this point that on March 15, 1917, under our Decision No. 4182, in Application No. 2778,

the Sacramento Transportation Company and the Farmers Transportation Company were authorized to enter into an agreement whereby the activities of these companies between San Francisco and Sacramento were turned over to the San Francisco & Sacramento Navigation Company, an operating organization. Under the agreement the two companies pooled their vessels by lease, as far as the San Francisco-Sacramento business is concerned, each company retaining the earnings of its vessels and assuming the operating expenses, both companies charging the schedule of rates in effect via the Farmers Transportation Company, which were lower than those in effect via the Sacramento Transportation Company. This consolidation, as to the traffic between San Francisco and Sacramento only, was brought about in an effort to reduce expenses by cutting out duplicate service but without curtailing any privilege of the shipping public. The reduction in expenses, however, was not sufficient to meet the situation and these companies are now before us in separate cases seeking further relief.

The financial condition of the Southern Pacific Company's river boat operations was considered in Decision No. 1778 of September 4, 1914, Application No. 833, Opinions and Orders of the Railroad Commission of California, Vol. 5, pages 360 - 367. The data considered in that case showed the operating revenue for the year 1913 to be \$425,028.18 and the operating expenses and taxes as \$525,936.06, a deficit of \$100,907.88. The relief prayed for, viz; the cancellation of the 5000 and 10000 pound commodity rates was authorized by formal order and changes in certain class rates to Vallejo, Benicia and adjacent points, were later authorized by informal action. However, because of failure

of agreement among the steamer lines as to date of cancellation, advantage was not taken of the authority given, and we are called upon to decide the question a second time.

When the ^{Application No. 833} opinion and order ^{that} were written, in September, 1914, the Commission was satisfied ^{that} the ten lot commodity rates were unremunerative and should be eliminated from the tariffs. Conditions have not improved during the past three years, but, instead, as shown by the evidence and exhibits now before us, have grown worse, due to the increased cost of maintenance and operation. We, therefore, see no reason for changing our former opinion, and this application to cancel the specified ton commodity rates will be granted.

The applicant has furnished information as to its property investment, volume of traffic, revenue and expenses. Exhibit No. 7, set forth below, shows the operating revenue and expenses of the steamer Navajo for the year ending December 31, 1916:

Freight Revenue	(Northbound)	\$ 3,455.31
"	(Southbound)	15,493.27
	TOTAL	\$ 18,948.58

Passenger Revenue	(Northbound)	\$ 17,785.12
"	(Southbound)	21,006.23
	TOTAL	38,791.35

Other Revenue	-	-	-	-	\$ 4,808.12
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TOTAL OPERATING REVENUES	\$ 62,548.05
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Operating Expenses (directly incurred by Steamer Navajo)	\$ 80,035.71
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Proportion of all other expenses chargeable against River Steamers apportioned to Steamer Navajo	-	\$ 2,019.78
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TOTAL OPERATING EXPENSES	\$ 82,055.49
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NET LOSS FROM OPERATION	\$ 19,507.44*
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*Deficit

Exhibit No. 8 gives the operating revenue and expenses of the steamers Cherokee and Fruto for the months of May, June, July and August, 1916, viz:

<u>Operating Revenues</u>	<u>STEAMER</u>	
	<u>Cherokee</u>	<u>Fruto</u>
May	\$ 988.79	\$ -
June	469.18	-
July	5,107.34	4,022.03
August	272.96	-
TOTAL	\$6,838.27	\$4,022.03

<u>Operating Expenses</u>		
May	\$1,512.46	\$ 116.77
June	1,783.88	417.01
July	4,193.59	3,945.79
August	542.03	1,522.79
TOTAL	\$8,031.96	\$6,002.36

Net Operating Loss - \$1,193.69* \$1,980.33*

*Deficit

Steamer Navajo for the twelve months of the calendar year 1916 secured a total revenue of \$62,548.05 at an operating expense of \$82,055.09 and a net loss of \$19,507.44, while the extra fruit boats, Cherokee and Fruto, lost respectively \$1,193.69 and \$1,980.33 during the four months they were used in the year 1916. Operating expenses embrace only such amounts as actually belong to these boats and no charge has been included for overhead expenses. The grand total of all operations for the calendar year of 1916, as per corrected exhibit No.2, shows a loss of \$82,473.31, which indicates that the steamers Apache and Modoc, jointly, lost \$59,791.85.

This exhibit also gives the operating revenue and operating expenses by months and shows an operating loss during every month of the year; the greatest deficit was in March, when the revenues totaled \$14,132.31, expenses \$27,099.25, operating loss \$12,966.94, a ratio of expenses to revenue of 191.8%. The smallest loss occurred in August, with total revenues of \$27,152.77, expenses \$29,257.80, operating loss of \$2105.03, a ratio of operating expenses to revenues of 107.63%.

Taking the fiscal periods, ending June 30th, for the four years involved in this application and in Application No. 833, we find a total loss of \$288,530.62, divided as follows:

1913 -	\$ 100,907.88	(Application 833)
1914 -	91,000.00	(Trans. page 471)
1915 -	70,920.32	(Exhibit No. 1)
1916 -	25,702.42	(Exhibit No. 1)

In the year 1915 there was expended \$39,282.00 for a general overhauling of the steamer Apache. Excluding this extraordinary expenditure the net results in 1915 and 1916 would have been \$31,638.32 and \$25,702.42. A witness testified that during these two periods passenger earnings were much above normal by reason of the Panama-Pacific Exposition traffic. If these unusual earnings were, for comparison purposes, eliminated, the results would show but slight variations over the four years' period; in other words, without the Exposition traffic the loss would have totaled approximately \$400,000.00 instead of only \$288,530.62.

The operating loss for the first five months of the current year was as follows:

January	\$ 6,587.42
February	6,932.14
March	10,338.77
April	7,319.93
May	20,779.74
TOTAL	\$51,958.00

This amount includes the cost of a general overhauling given the steamer Modoc, amounting to \$37,195.12, charged in the months of March, April and May, which, in our opinion, should be spread over an average period of time. Even if this amount be deducted in its entirety there would still be an operating loss for the five months' period of \$14,762.88.

Commencing in June, 1916 a general strike of river boat employees materially interfered with applicant's revenue by forcing a partial cessation of operations, but it is to be noted that for

the first five months of 1917 as compared with the same period of 1916 there is a decrease of \$7,521.47 in the passenger earnings, an increase of \$38,975.02 in freight earnings, the total of all operating revenue increased from \$82,465.83 to \$113,725.70, or \$31,259.87; total operating expenses increased from \$122,156.07 to \$165,683.70, or \$43,527.63, an operating loss for the five months of 1917 of \$51,958.00.

It is estimated the operating loss for 1917 will be in excess of \$100,000.00; this is based on an increase of 25% in cost of labor and materials for repairs to vessels, 10% increase in wages of men operating the vessels and 25% increase in the cost of commissary for meals furnished the crews. These statements demonstrate that during the five years' period under discussion, after excluding the unusual passenger earnings secured during the Panama-Pacific Exposition, applicant's operating losses closely approach \$100,000.00 per annum.

The revenue is derived almost entirely from freight and passenger traffic, other income being so small as not to affect results. Exhibit No.2 segregates operating expenses for the calendar year 1916 in conformity with rules of the Interstate Commerce Commission, the freight revenue being \$124,607.56, operating freight expenses \$185,873.59, operating freight loss \$61,266.03, a ratio of operating freight revenue to operating freight expense of 149%, while the passenger revenue, including baggage, mail, express and other passenger earnings, was \$83,533.61, operating expenses \$105,149.21, operating loss \$21,615.60, a ratio of operating passenger revenue to operating passenger expenses of 126%. Advances are limited to freight traffic, although the passenger revenue amounts to 40% of the total operating revenue and while the adjustment proposed will, in part, equalize the losses sustained in the two branches of service, it is our opinion each branch should con-

contribute its share of the cost of operations and applicant might well give careful consideration to the results of its passenger traffic in future adjustment of these boat line rates.

The total freight earnings for the fiscal years ending June 30, 1915 and 1916 were \$194,307.15 and \$147,545.44, while for the calendar year of 1917, based on the results for the first five months, the gross freight receipts will reach approximately \$200,000.00. The increases requested should bring to applicant about \$30,000.00 per annum, provided the change in rates does not result in a diversion of tonnage to competing lines. This adjustment will still leave an operating deficit approaching \$70,000.00 per year.

No individual shipper appeared in opposition to the proposed increases in rates, but commercial organizations of San Francisco, Oakland, Sacramento and Stockton, represented by attorneys, followed the proceedings closely without introducing any testimony or filing any exhibits. No positive opposition developed at any stage of the proceedings. Protestants generally admitted that the traffic was handled promptly and efficiently, except when there was a congestion of freight during the harvest seasons; that the service rendered was superior to that furnished by the rail carriers and that a continuation of this route was of the greatest importance to thousands of shippers.

The protestants' position is that in some cases there is a duplication of service between the competing companies during certain periods of the year which could be removed without injury to the public, thus reducing expenses and obviating the necessity of a radical change in rates. Particular reference is made to the steamer Navajo, devoted primarily to passenger service, but while this boat operates at a loss, the loss is not nearly so large as that sustained by either the Apache or the Modoc, handling

passengers, but relying mainly on freight tonnage for revenue. Again, attention is called to the fact that these river boats act as feeders for Southern Pacific Company's main line traffic and, although showing a deficit in their independent operations, are, nevertheless, a source of profit to the applicant.

It is admitted this applicant is one of the most prosperous transportation companies in the United States, but this fact does not permit the rendering of any service below cost, because the loss must be made good by imposing unnecessarily high rates on other traffic.

In early days there was competition between the water lines and the rail lines of a substantial nature, both as to rates and as to service. The rivers and bays, in many cases, practically parallel the rail lines and there are many interior points common to the rail and water lines. The rivalry manifested itself in many ways, especially in the lowering of rates, which for a number of years have failed to produce sufficient revenue to cover operating costs to applicant and other carriers in the allied cases, and the situation is now acute by reason of the great increases in cost of operation.

Prior to the enactment of the Public Utilities Act the rates of regular lines had reached a stable basis and but few changes in rates have been made during the past decade; however, within this period of time competition in the way of small vessels operated with distillate fuel, and automobiles, both freight and passenger, running on highways along the river banks, has developed to a marked extent, especially during the peak seasons of the year. As a result of this competition the regular river boats at times operate with small cargoes, although operating expenses are almost as great as if they were fully loaded and this condition

has in turn resulted in a higher cost per unit of freight.

Testimony was introduced describing the facilities offered at the some 130 bank landings, stopping places where no wharves are provided, and the difficulties occasioned in the handling of this traffic. While these bank landings may not be treated as an independent service for which a separate and distinct charge should always be made, it is, nevertheless, apparent that their great number and the dangers and delays in making the stops hinder the operation of the boats and add materially to the cost of the service. However, applicant has, to some extent, overcome the situation by establishing group rates for twelve miles and under, over twelve miles to and including twenty-five miles and made one blanket for all distances over twenty-five miles. We may thus assume that this theory of rate making is intended to take care of the added expense at bank landing points by assessing uniform rates for distances over twenty-five miles.

Boats are seldom loaded to capacity, as evidenced by exhibit No.6, which is a statement of tonnage handled by each steamer run between San Francisco and Sacramento from January 1, 1916 to May 31, 1917. The tonnage handled during the months of January, February and March is usually very light.

The following tabulation taken from the exhibit gives largest and smallest loading via each steamer on certain dates:

<u>STEAMER NAVAJO</u>							
<u>Largest Tonnage</u>				<u>Smallest Tonnage</u>			
<u>Date</u>	<u>North Bound</u>	<u>South Bound</u>	<u>Round Trip</u>	<u>Date</u>	<u>North Bound</u>	<u>South Bound</u>	<u>Round Trip</u>
<u>1916</u>				<u>1917</u>			
Aug. 21. :		131		Jan. 22.	3	1	
<u>1917</u>				Jan. 22.			4
Feb. 12. :	17						
<u>1916</u>							
Aug. 21. :			136				

<u>STEAMER APACHE</u>							
<u>1916</u>				<u>1916</u>			
Dec. 16 :	172			Jan. 1.		3	
Oct. 28 :		398		<u>1917</u>			
Oct. 28 :			473	Jan. 2.	7		
				Jan. 2.			18

<u>STEAMER MODOC</u>							
<u>1916</u>				<u>1916</u>			
Oct. 27 :		340		Jan. 27	31		
Nov. 7 :	170			Sept. 29		5	
Oct. 27 :			430	Jan. 27			47

The steamers failed to carry, as the exhibit illustrates, anything resembling capacity loads except on one or two occasions.

With further reference to the volume of the service and the necessity for the scheduled boats we have the testimony of the Assistant Superintendent in charge of river steamers:

Q. From your knowledge of the operations of the river steamers, would you say there is too much service on the rivers so far as the Southern Pacific is concerned?

A. Absolutely no.

Q. Are your steamers crowded now?

- A. Crowded now; we cannot give the service, cannot get in here or at the Sacramento terminal and give the service we should.
- Q. What has been your experience since the shippers demanded this service with reference to meeting that market delivery, getting that steamer in at any reasonable time into San Francisco Sunday morning market?
- A. We find we cannot do it. There are so many landings to make, altho our boats don't come in with full cargo, still we find we cannot get them in here -- at least, we have had under this operation, at least, -- well, the earliest arrival, I think, is somewhere in the neighborhood of 9 o'clock in the morning and the latest 3:10 in the afternoon Sunday.
- Q. And that is notwithstanding the fact that ordinarily there is not much produce comes down the river Saturday night?
- A. Not as much as other days.
- Q. Ordinarily, you should be in a position, should you not, to get into the market at 4 or 5 o'clock in the morning?
- A. Yes sir.
- Q. Now, if that condition obtains with your company on Sunday, what would it be during the middle of the week if your company operated one day and the California Transportation Company the next?
- A. There would be no service at all for the market -- all be gone before the boats got here.
- Q. Is it a fact that your company is now trying to get another steamer to put on to relieve these steamers so that the service can be improved?
- A. Yes sir.
- Q. Are the commission merchants and farmers complaining about the service?
- A. Yes.
- Q. Which would indicate that there is not too much service but too little service on the river?
- A. Too little, yes.
- Q. To what do you attribute your trouble?
- A. Non-delivery and markets.
- Q. You are doing everything within your power to keep the service down to the bare necessities?
- A. Absolutely.

Q. And save expenses?

A. Absolutely.

Q. And you have not been able to cut out any steamers; in fact, you are figuring on putting on another one?

A. Yes sir.

Q. Then the merchants and farmers are complaining, are they, now about the service?

A. Yes sir, they have asked for a little conference this afternoon to discuss that very question.

Q. So that the steamers may arrive in San Francisco earlier in the morning?

A. Yes sir.

The difficulties touched on in this testimony are in connection with the summer season and it has been positively demonstrated that during this period of the year the efforts of the different scheduled boat lines have not resulted in a satisfactory service, notwithstanding the fact the boats seldom carry capacity loads.

The expedited movement of farm products from Sacramento river districts, its regular and speedy arrival at the packing houses, canneries and produce markets is a necessary part of the transportation service and, without doubt, farmers would prefer slightly increased freight rates to any radical reduction in the operation of scheduled boats.

At times the boat of one carrier is taking on freight at a bank landing, while the boat of another carrier, in response to a flag signal, is backing water in the stream waiting to make a pickup at the same landing. In each case the stops might involve only a 50 cent shipment going to the same destination, both of which could have been moved via the one line except for the whim of the consignor.

It is suggested an effort be made to reduce the number of

boat stops, either by consolidating landings which are closely adjacent, by dividing the landings between the carriers, or by one company working the east bank of the river, while the west bank is handled exclusively by the other. Since the San Francisco and Sacramento Navigation Company does but little intermediate business between San Francisco and Sacramento the division of territory would be an arrangement between the Southern Pacific Company and the California Transportation Company. During the slack seasons of the year the number of boats operated might be reduced without inconvenience to the shipping public.

In determining the reasonableness of rates applied to a given tonnage, the earnings and the cost of service via the route actually traversed are factors which must be considered and, in this situation, if shippers are to enjoy a continuation of scheduled boats throughout the entire year increases in rates cannot be avoided.

Present rates of applicant between San Francisco and Crockett, Port Costa, South Vallejo and Benicia via steamer line are practically the same as those in effect via its all rail route to the same points and it is proposed to increase the steamer rates 15%, which increase will also apply to all other class and commodity rates.

Class rates between San Francisco and Sacramento, present and proposed, are as follows:

All Rail	1	2	3	4	5	A	B	C	D	E
Southern Pacific Co. or	24	21	18	16	15	13	12	10	9	7
Western Pacific Co.										
Present - Steamer	22	20	17	15	12	12	11	8½	8	8
Proposed - Steamer	25½	23	19½	17½	14	14	12½	10	9	9

Upon the facts as disclosed the contention of applicant that it does not, under the present rates, obtain sufficient revenue, has been fully substantiated. However, as heretofore stated, we are of the opinion that a great saving in operating expenses could be secured by cooperation in the elimination of duplicate service during the winter months and a reduction in the number of bank landings. We do not believe, under the showing made, that applicant's boat line rates should be increased to a figure exceeding the rail rates at common points.

After a careful consideration of all the testimony and exhibits in this application and in the related cases which affect the total traffic on the Sacramento river, we are of the opinion that the present rates are unremunerative and that application should be granted, with the exception that no rates shall be advanced above the present rail rates.

O R D E R

The Southern Pacific Company having applied, under Section 63 of the Public Utilities Act for authority to increase certain freight rates, as set forth in the opinion which precedes this order, a public hearing having been held, and the Railroad Commission being fully apprised in the premises.

The Railroad Commission hereby finds as a fact that the existing freight rates of petitioner are unremunerative and that the rates herein established are just and reasonable rates.

Basing its order on the foregoing finding of fact and on the other findings which are contained in the opinion which

precedes this order.

IT IS HEREBY ORDERED that the Southern Pacific Company be and the same is hereby authorized to publish and file, within thirty days from the date of this order, in tariff effective thirty days after filing with the Commission, the following class rates:

Between	And
San Francisco	: Sacramento
South Vallejo	:
	:
San Francisco	: River Landings shown
Sacramento	: on pages 10 and 11 of
South Vallejo	: Local Freight Tariff
	: 541-A (C.R.C. No. 1916).

Rates in Cents per 100 Pounds

1	2	3	4	5	A	B	C	D	E
24	21	18	16	13	13	12	10	9	8

and to increase other class and commodity freight rates in conformity with the application and Exhibit A, attached to the application and made part thereof, except that no rates shall be advanced above the present rail rates.

Dated at San Francisco, California, this 17th day of December 1917.

Max Thelen

H. S. Leonard

Edwin C. Edgerton

Frank R. Herlihy

Commissioners.