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29529

ORIGINAL

Decision No. 29529.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application of JOHN BYRNE, AGENT, under Powers of Attorney and Concurrences on file with the Commission, for the following carriers: Hammond Shipping Co., Ltd., (Christenson-Hammond Line); Los Angeles-San Francisco Navigation Co., Ltd.; McCormick Steamship Company; Nelson Steamship Company; Pacific Steamship Lines, Ltd.; for an order authorizing an increase in certain freight rates.	Application No. 20535.
In the Matter of the Investigation on the Commission's own motion into the rates, charges, classifications, rules, regulations, and practices of common carriers of property for the transportation of certain commodities between San Francisco, on the one hand, Los Angeles, Los Angeles Harbor, Long Beach, and San Diego, on the other, and other points affected thereby.	Case No. 4128.
In the Matter of the establishment of maximum or minimum, or maximum and minimum rates, rules and regulations of all radial highway common carriers and highway contract carriers operating motor vehicles over the public highways of the State of California, pursuant to Chapter 223, Statutes of 1935, for the transportation, for compensation or hire, of any and all commodities, and accessorial services incident to such transportation.	Case No. 4088 Part "I".

APPEARANCES

Lillick, Olsen, Levy & Geary, and Reginald L. Vaughan, for Applicant in Application No. 20535, and for Pacific Coastwise Conference in Case 4128.
Elmer Westlake, for California & Hawaiian Sugar Refining Corporation, Ltd., and Western Sugar Refinery.
James L. Broz, for Valley Express Company.
Edward K. Berol and Roy B. Thompson, for Truck Owners Association of California.
Thomas F. Louttit and J. Richard Townsend, for Stockton Traffic Bureau, City of Stockton, Stockton Port District, Stockton Chamber of Commerce, and San Joaquin County Farm Bureau Federation.

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APPEARANCES (Cont'd)

Frank L. Chandler, for Certain-teed Products Corporation and Richmond Chamber of Commerce.
G. E. Duffy and Berne Levy, for The Atchison, Topeka and Santa Fe Railway Company, respondent in Case No. 4128, and interested party in Application No. 20535.
Walter A. Rohde and Edwin G. Wilcox, for San Francisco Chamber of Commerce.
R. E. Wedekind and James E. Lyons, by James E. Lyons, for Southern Pacific Company, Pacific Motor Trucking Company, and Pacific Motor Transport Company.
Frank Karr, for Pacific Electric Railway Company.
Edward Stern, for Railway Express Agency, Inc.
Sanborn & Roehl, by C. MacLeod, for Transportation System, Inc., Union Lumber Company, California Western Railway & Navigation Company, Mendocino County Retail Lumber Company.
Sanborn & Roehl, by C. MacLeod, for I. T. Ellington, Ellington Brothers, Savage Transport Company, Inc., Savage Transportation Company, E. J. Willig Truck and Transportation Company.
Fred C. Hutchinson and Gwyn H. Baker, by Gwyn H. Baker, for City of Berkeley, Berkeley Manufacturers Association, and Berkeley Chamber of Commerce.
William Giesler, Jr., for Los Angeles-Long Beach Despatch Line.
H. A. Lincoln, for Fibreboard Products, Inc., the Independent Paper Co., Glass Containers, Inc., Charles Harley and subsidiary companies.
R. P. McCarthy, for Leslie-California Salt Company and Globe Grain & Milling Company.
E. J. Forman, for Globe Grain and Milling Company.
N. E. Keller, for Pacific Portland Cement Company.
R. O. Biedenbach, for M.J.B. Company and Western Can Company.
John E. McCurdy, for Poultry Producers of Central California.
R. T. Boyd, for California State Brewers Institute, United Commercial Company, Soule Steel Company, W. S. Dickie Clay Manufacturing Company.
John J. Parker, for Bemis Brothers Bag Company.
A. J. Brown, for The Paraffine Companies, Inc.
R. F. Walker, for Western Sugar Refinery and Spreckels Sugar Company.
E. W. Hollingsworth and L. R. Bishop, for Motor Carriers Traffic Council.
J. G. Breslin, for California & Hawaiian Sugar Refining Corporation, Ltd.
M. J. McCarthy and Stanton & Berry, by M. J. McCarthy, for W. P. Fuller Co., E. H. Edwards Company, and Stauffer Chemical Company.
C. B. Hutchins, for Schwabacher & Company.
F. Merklebach, for Albers Bros. Milling Company.
I. F. Lyon and L. R. Keith, for Canners League of California.
F. B. Harting, for Owens-Illinois Pacific Coast Company.
J. L. Roney, for Sussman, Wormser & Company.
C. G. Anthony, for Pacific Freight Lines, 2501 South Alameda Street, Los Angeles.
R. A. Auten, for Stokely Brothers Company.
H. C. Cantelow and H. W. Hendrick, for Pacific Coastwise Conference.

APPEARANCES (Cont'd)

L. J. Werne, for National Lead Company.
W. C. Thies, for Johns-Manville Corporation.
H. M. Wade, for Wade Transportation Company, Los Angeles.
H. R. Brashear, for Los Angeles Chamber of Commerce.
C. F. Reynolds, for Harbor Department, City of San Diego.
R. S. Sawyer and R. E. Crandall, for Associated Jobbers and Manufacturers of Los Angeles.
George P. Rahe, for Los Angeles Soap Company.
D. G. Shearer, for Certificated Highway Carriers, Inc.
B. F. Bolling, for Pioneer-Flintkote Company.
R. J. Beck, for El Rey Products Company.
Roy E. Banks, for Long Beach Paper and Notion Company.
T. A. Loretz, for Los Angeles Traffic Managers' Conference.
T. G. Differding, for Oakland Chamber of Commerce.
Charles A. Bland, for The Board of Harbor Commissioners of Long Beach.
F. F. Morgan, for Furniture Manufacturers Association, Los Angeles.
F. W. Turcotte, for Latchford Glass Company and for the Stauffer Chemical Company.
N. B. Wagner, for W. P. Fuller & Company.
Donahue, Hynes & Hamlin, by L. S. McElwain, for National Express Company.
H. J. Damon, for Ames-Harris-Neville Company.
R. O. Bredenbach, for M. J. B. Company and Western Can Company.
Lowe P. Siddons, for Holly Sugar Company in Case 4088, Part I, and Application No. 20535, and Case 4128.
F. P. Kensinger, for Loose-Wiles Biscuit Company.
John M. Desch, for Owens-Illinois-Pacific Company.

BY THE COMMISSION:

O P I N I O N

The above entitled proceedings deal with the fixation of rates, charges, classifications, rules, regulations, and practices governing the transportation by various carriers, operating under the Commission's jurisdiction, of certain commodities between the San Francisco district on the one hand, and the Los Angeles-Los Angeles Harbor-Long Beach and San Diego districts on the other hand.

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Public hearings were conducted in these proceedings by Examiner Hunter at both San Francisco and Los Angeles. The first hearing was held in San Francisco on June 11, 1936, and the last one at San Francisco August 6, 1936. At the latter hearing the testimony was concluded subject to the filing of concurrent opening briefs within twenty days from August 6, 1936, and concurrent reply briefs within twenty days thereafter. Case No. 4088 was adjourned for further hearings in this general proceeding.

No objection was raised to the Examiner's proposal that the three matters be considered together for the purpose of taking testimony and decision. Briefs have now been received in accordance with the plan outlined and the matter is ready for decision.

PROCEEDINGS INVOLVED

In Application No. 20535, which was filed May 7, 1936,(1) the Commission is asked to make its order approving specific increases in rates, together with changes in the rules and regulations governing the transportation of 29 commodities or commodity groupings(2) moving in lots of 18,000 pounds or more, as set forth in Exhibit "A" attached to the application, and to simultaneously prescribe comparable increases

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(1) Applicants are: Hammond Shipping Co., Ltd., (Christenson-Hammond Line); Los Angeles-San Francisco Navigation Co., Ltd.; McCormick Steamship Company; Nelson Steamship Company; Pacific Steamship Lines, Ltd.

(2) Alumina, sulphate of; Bags & Bagging; Beverages; Caps, Covers, Tops (Bottle); Carpets and Carpeting; Chocolate, Cocoa, etc.; Coffee; Dessert Preparations; Earth, infusorial; Glassware, taking 4th or 5th class, including bottles; Iron and Steel Articles, including Bar, Band, etc.; Billets & Blooms; Castings, Forgings, Bolts, Nuts; Wire Cloth, Netting, Wire, etc.; Lard and Lard Substitutes; Metal and Metal Articles; Oil Foots or Sediments; Paints, varnishes; Rags, Waste Paper; Rails, viz: relaying; Roofing & Building Material; Salt; Shells; Soap, Cleaning Compounds; Soap, Soap Powder, Lard Substitutes; Spikes, railway track; Sugar; Tea; Tires, Tubes; Wheels, railway car.

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in the rates and changes in the rules and regulations governing the transportation of these same commodities by all competitive Common Carriers, as defined in the Public Utilities Act, as well as all Radial Highway Common Carriers and Highway Contract Carriers, as defined in the Highway Carriers' Act. Hereinafter the water lines will be sometimes referred to as the applicants.

Case No. 4128 was instituted by the Commission on its own motion, May 18, 1936, to determine whether or not changes should be made in the rates, rules, regulations, etc., of respondent Common Carriers named in Schedule "B" attached thereto,(3) who are engaged in the transportation of the same 29 commodities as are outlined in Application No. 20535 and moved between the same points.

Case No. 4088 was instituted pursuant to the authority granted the Commission under the terms of the Highway Carriers' Act (Chapter 223, Statutes of 1935). A full discussion of its purpose, the procedure to be followed, and other matters of general concern relating to the proceeding are contained in Decision No. 28761, issued

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(3) Respondents are: Bay cities Transportation Co., Berkeley Transportation Co., Bay Shore Freight Lines, Inc., Chamberlin Steamship Co., Los Angeles Steamship Co., Richmond Navigation & Improvement Co., River Lines, Hammond Shipping Co., Ltd., Los Angeles-San Francisco Navigation Co., Ltd., McCormick Steamship Co., Pacific Steamship Lines, Ltd., Nelson Steamship Co., San Diego-San Francisco Steamship Co., Los Angeles-Long Beach Despatch Line, Inc., Sacramento Northern Railway, The Western Pacific Railroad Co., Petaluma & Santa Rosa Railroad Co., Northwestern Pacific Railroad Co., The Atchison, Topeka & Santa Fe Railway Co., Southern Pacific Company, San Diego & Arizona Eastern Railway Co., Holton Interurban Railway Co., Pacific Electric Railway Co., Central California Traction Co., Stockton Terminal & Eastern Railroad, Modesto Empire & Traction Co., Union Pacific Railroad Company, Tidewater Southern Railway Co., Los Angeles Junction Railway Co., Pacific Motor Transport Co., Valley Express, California Motor Express, Southern California Freight Forwarders, Coast Line Express, California Motor Transport Co., Ltd., California Truck Co., Star Truck and Transfer Company.

April 27, 1936, in Part "A" of Case No. 4088 (39 C.R.C. 732). Part "I" of Case No. 4088 involves the same field of transportation as that involved in Application No. 20535 and Case No. 4128, but is confined to the operations of Radial Highway Common Carriers and Highway Contract Carriers, as defined in the said Highway Carriers' Act.

POSITION OF THE WATER CARRIERS

The applicants in Application No. 20535 allege that during the past several years they have been confronted with steadily increasing operating expenses, due, principally, to increased basic and overtime wages of stevedores and crews, a marked decline in the efficiency of labor, both on shore and aboard ship, and increased prices of fuel, oil, provisions, stores, etc. Since January 1, 1930, these increased costs have been accompanied by a steadyand substantial decline in applicants' freight rates and a loss of desirable tonnage to competing carriers during the same period of time. The introduction of operating economies and retrenchments have failed to afford material relief. The result, it is alleged, is a serious impairment of the financial resources of the applicant carriers and an impairment of their ability to provide an efficient and adequate service to the public.

The seriousness of the situation is supported by the fact that in 1934 there were seven water carriers operating solely in the California intrastate trade, while at the time of filing this application, only one remained, viz., the Los Angeles-San Francisco Navigation Company, Ltd. Four interstate lines were providing intrastate service when this application was filed, viz., Hammond Shipping Co., Ltd., (Christenson-Hammond Line); McCormick Steamship Company; Pacific Steamship Lines, Ltd., and the Nelson Steamship Company. The last two named have been operating under protection of Section 77B of the

National Bankruptcy Act. In July 1936 the Nelson Steamship Company ceased operating altogether, thus leaving only three interstate operators who offer intrastate service. Applicants state that unless immediate relief is obtained, a further serious curtailment of intrastate service is inevitable.

As outlined above, the applicants request permission,(4)

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(4) The request of applicants is to be summed up as follows: (See Exhibit I-14, amended, page 8).

FIRST: That the rates and minimum weights set forth in this Exhibit be fixed and adopted by the Commission in its order in these proceedings for water, rail and truck carriers.

SECOND: That the existing relationships in applicants' rates, also in the rates of the all-rail carriers, as between San Francisco Bay and (a) the Harbors of Los Angeles and Long Beach and (b) Los Angeles and San Diego proper remain unchanged. The proposed increased rates for rail and water herein set forth are based upon such existing relationships.

THIRD: That, owing to the emergency nature of this application, these rates be made effective by order on not more than ten (10) days' notice.

FOURTH: That competitive conditions do not justify the practice of rendering split pick-up and/or split delivery service on carload shipments by radial common and highway contract carriers. That if the Commission should determine such services are required that they be permitted under the following specific conditions only:

(1) That such services may be rendered only when the entire lot of property is picked up from not to exceed three consignors at one or more points of origin destined to one consignee at one destination, or picked up from one consignor at one point of origin and destined to not to exceed three consignees at one or more destinations.

(2) That whenever split pick-up service is performed the weight on each component part picked up from each consignor shall be assessed at the rate applicable for the entire lot from the highest rated point of origin to destination plus a sum equal to 1 cent per 100 lbs. for the weight of each pick-up, but not less than a total sum equal to 1 cent per 100 lbs. applied to the required minimum weight.

Footnote (4) Cont'd

FOURTH: (Cont'd)

(3) That whenever split delivery service is performed the weight on each component part of the entire lot from the point of origin to the highest rated destination shall be assessed a sum equal to 1 cent per 100 lbs. for the weight of each delivery but not less than a total sum equal to 1 cent per 100 lbs. applied to the required minimum weight.

FIFTH: That whenever, in connection with the proposed minimum truck rates from or to industries located on spur tracks, any truck carrier performs the service of handling freight from sidewalk or loading platform into the interior of the truck at point of origin and from the interior of the truck to the sidewalk or unloading platform at point of destination, such handling services shall not be performed at less than twenty cents per ton for each handling, such charge to be in addition to such proposed minimum truck rates.

SIXTH: That whenever any truck carrier performs the service of handling freight from place of rest in warehouse to tail gate of truck at point of origin and from tail gate of truck to place of rest in warehouse at point of destination, such handling services shall not be performed at less than ten cents per ton for each handling, such charge to be in addition to the rates herein set forth.

SEVENTH: That whenever any truck carrier displays advertising matter for any shipper on the trucks operated by it, such carrier be ordered to make a proper and reasonable charge for such advertising in addition to the rates herein set forth.

under Section 63 of the Public Utilities Act, to publish and put into effect at as early a date as possible rate increases upon the certain commodities named herein. To meet the competitive situation arising from rail and truck carriers, the applicants further request that no increase be prescribed in the rates of the steamer lines unless and until properly related adjustments are likewise ordered in the rates of the competing land carriers for the same commodities between the same or related points. This involves corresponding adjustments in the rates of competing rail carriers and the simultaneous establishment of minimum reasonable rates for the competing highway carriers. Applicants do not here propose to disturb the differentials now existing between rail and water rates, but they introduced testimony concerning the need for a differential in water rates under truck rates.

Applicants also request that in connection with truck transportation, certain charges be made for "additional transportation" or "accessorial" services performed.

The commodities set forth in this application, upon which increases in transportation rates are sought, were those selected by the applicants for an immediate increase to meet their stressed financial condition. They constitute those items moving principally between San Francisco Bay points on the one hand and the Southern California ports and adjacent areas on the other. Commodities moving freely between all sections of the State were generally avoided due to the complexity of the rate relationships involved and the possibility of delay arising from hearings being necessitated in the interior parts of the State.

According to applicants, the need for financial relief can be shown by applying a cost figure of 19.7 cents per 100 pounds (explained below) to the 1935 total intrastate tonnage of the Los Angeles-San Francisco Navigation Company and the McCormick Steamship

Company, in which case there would result a gross revenue of $697,908. The actual intrastate revenue was only $566,375, or approximately $131,533 less than cost plus profit. Had the increased rates proposed herein been applied to the 1935 tonnage of the commodities involved, the added revenue would have been $74,588, leaving the carriers short of a compensatory return by $56,945. Witnesses testified that it was the plan of the applicants to later request related increases in the rates on certain of the remaining commodities, which were susceptible to increases and which should yield approximately $56,000 additional revenue. Such an application was filed on July 30, 1936. At the request of applicant to date no action has been taken on this application.

Applicants requested that the proposed increases in rates be not only applied to directly competing land movements but that they be extended in one form or another to points where market competition is a factor. For instance, sugar moving from Tracy, Manteca, Spreckels, Oxnard, and from the Southern California district near Dyer closely competes with sugar refined and moving between San Francisco Bay ports and Los Angeles. Concerning infusorial earth, it was testified that the movement from Lompoc is controlling in so far as price making is concerned. Likewise, crude salt from the Imperial Valley affects the rates from San Francisco Bay. Applicants, therefore, requested that any adjustment in the rate between the San Francisco Bay district and the Los Angeles district on these three commodities be predicated upon a properly related adjustment in the rates from these competing interior points.

In support of their application, a witness for applicants reviewed the history of the rates of the Pacific Coast Conference(5)

(5) A steamship conference composed of Pacific Coastwise vessel operators and of which the applicant lines are members.

since the publication of its first tariff effective December 1, 1926. From that date to January 1, 1930, the freight rate structure of the water carriers underwent little change, the only competition of consequence being that of the all-rail carriers. The unregulated truck lines did not become a serious factor until the first part of 1930. The first Conference tariff contained through rates between San Francisco Bay and Los Angeles proper, in conjunction with the rail lines beyond Los Angeles Harbor. It also contained rates between San Francisco and Los Angeles Harbor, Long Beach and San Diego.

During the early months of 1930, independent or non-conference water carriers entered the intrastate field offering rates to Los Angeles Harbor and Long Beach substantially lower than those maintained by the Conference lines. This resulted in general in the combination of the independent carriers' rates to the Harbor, plus the charge of the unregulated truck carriers beyond, being substantially lower at Los Angeles than the joint ocean-rail rates maintained by the Conference lines. Before the close of 1931 there were three such independent carriers operating between San Francisco Bay and Los Angeles Harbor, viz., the Los Angeles-Long Beach Despatch Line, the South Coast Steamship Company, and the San Diego-San Francisco Steamship Company. These constitute three of the six carriers which in the past year or more have ceased active intrastate service.

Witness for the applicants introduced Exhibit I-3 to indicate the extent of the rate reductions which it was testified were forced upon the applicant carriers by the operations of the unregulated truck carriers and the non-conference water carriers. Reductions thus made between San Francisco Bay points and Los Angeles, Los Angeles Harbor, and Long Beach have been drastic,

ranging principally from 2 to 15 cents per cwt. below the 1926 level of rates which lay generally between 20 cents and 30 cents per cwt. In terms of percentages, these reductions amounted to from 10 per cent to 50 per cent, and in a few cases were as high as 65 per cent. The increases proposed herein by the applicants range from 1½ cents to 8 cents per cwt. with the larger portion at 5 cents. The increase averages 97.6 cents per ton over the 29 commodities, or approximately 30 per cent.

In support of their request for an increase in rates, applicants introduced data showing the cost of operation for the McCormick Steamship Company and the Los Angeles-San Francisco Navigation Company for the years 1930 to 1935, inclusive.

No cost data were offered by either the Nelson Steamship Company or the Pacific Steamship Lines, witnesses for both companies testifying that these concerns were being operated under Section 77B of the Federal Bankruptcy Act and that the required funds were not available to meet the expense of compiling the necessary statistical information. The Hammond Shipping Company was unable to provide cost figures due to the inadequacy of its past records.

TABLE I.

McCORMICK STEAMSHIP COMPANY - INTRASTATE TONNAGE REVENUES AND EXPENSES
(From Exhibit No. I-1)

Year	Tonnage	Revenue per Ton	Total Operating Expense Per Ton	Profit or Loss Per Ton
1930	55,407	$3.59	$3.60	$.01*
1931	41,465	3.39	3.35	.04
1932	41,565	3.12	3.18	.06*
1933	48,842	3.04	3.09	.05*
1934	63,290	2.95	3.87	.92*
1935	100,084	3.13	3.86	.73*

* indicates loss

It will be noted that for the four years, 1930 to 1933, inclusive, the results from operations ranged from 4 cents per ton profit to a 6-cent per ton loss. In 1934, the year of a long and costly strike, the loss per ton rose to 92 cents. In 1935 it decreased to 73 cents. This record shows that in 1935 the tonnage was practically equal to that of the two preceding years and that, therefore, the loss in 1935 cannot be attributed to an insufficient volume of tonnage. In making the above cost analysis, the steamship company separated its costs chargeable to interstate traffic from those chargeable to intrastate traffic. Only the latter were considered in this proceeding.

The Los Angeles-San Francisco Navigation Company introduced a similar statement. This company operates two 22-year old combination freight and passenger vessels of the so-called steam schooner type, having a gross tonnage of 1,076 tons each. The vessels are chartered from C. A. Gillespie, an officer of the company. Witness testified that in view of the financial position of the company, no charter expense had been paid in the past two years.

Exhibit I-2 presents the financial experience of this company for the six-year period 1930 to 1935, inclusive, as set forth in the following table:

TABLE II.

LOS ANGELES-SAN FRANCISCO NAVIGATION CO., LTD.
TONNAGE, REVENUES AND EXPENSES
(From Exhibit No. I-2)

Year	Tonnage	Revenue per Ton	Total Operating Expense Per Ton	Profit or Loss Per Ton
1930	71,494	$5.12	$5.15	$ .03*
1931	71,129	4.58	4.79	.21*
1932	62,366	4.20	4.19	.01
1933	69,792	3.40	3.52	.12*
1934**	55,652	3.19	3.88	.69*
1935	77,050	3.28	3.67	.39*

* indicates loss
** inoperative three months account strike.

From 1930 to 1933 the net results from operation ranged from a one-cent profit per ton to a 21-cent loss. With the strike of 1934 this loss abruptly increased to 69 cents, but decreased to 39 cents in 1935. While the total tons carried remained somewhat near constant, the volume handled per round trip substantially increased due to a sharp reduction in the number of trips operated. This is indicated by the following table:

Year	Tons per Round Trip
1930	458
1931	465
1932	405
1933	468
1934	506
1935	748

As in the case of the McCormick Steamship Company, the rising costs per ton for the Los Angeles-San Francisco Navigation Co., Ltd., were not due to a decreasing volume of traffic.

The record shows that the movement between San Francisco Bay area and Southern California points by water is extremely unbalanced. The 1935 volume indicates that of the total intrastate tonnage of the McCormick Steamship Company in 1935, approximately 80 per cent was moved southbound and 20 per cent northbound. The Los Angeles-San Francisco Navigation Company's load was even more unbalanced, with 85 per cent of its movement southbound and 15 per cent northbound.

The cost per ton of $3.86 by the McCormick Line in 1935 is to be compared with the cost of $3.67 by the Los Angeles-San Francisco Navigation Company. The latter cost does not include depreciation or profit. Exhibit I-8, introduced by the applicants, adds 8 cents per ton for depreciation, increasing the $3.67 to $3.75. This latter is considered to constitute 95 per cent of the total

cost, the remaining 5 per cent being added for profit. Accordingly, the $3.75 is increased to $3.94 per ton, or 19.7 cents per cwt. from port to port. This cost of 19.7 cents per cwt. for the Los Angeles-San Francisco Navigation Company, while somewhat lower than that of the McCormick Steamship Company, has been adopted by the applicants as the basis for their requested rate adjustments to be used for comparative purposes. As this company is the only one operating wholly intrastate, the problem of distributing the costs between interstate and intrastate tonnage is absent. Two minor criticisms, however, can be laid against the methods used by this company in arriving at its costs. In the first place, the practice of expanding operating expenses to determine profits, i.e., a fair return upon the value of the property used, is open to some question in cost accounting. Such expansion may but very loosely approximate a proper return upon the rate base. With other costs being ascertained as closely as the records permit, it would appear as desirable that capital costs be similarly treated. Secondly, in distributing its costs between the freight and passenger business, the latter was only charged with the out-of-pocket cost of providing service such as extra help, food, linen, etc. This basis of allocating costs against passenger traffic is open to criticism, as it throws an undue burden upon the freight traffic. However, with respect to this carrier, the amounts involved in recent years are negligible and would not perceptibly affect the substance of the exhibit.

The average port-to-port rate proposed herein upon the 29 commodities is $3.90 per ton, or 19.5 cents per cwt. This is to be compared with the present rate which is generally 15 cents (Exhibit 14) and the cost of 19.7 cents referred to above. The

rates proposed to Los Angeles will be generally 25 cents. The relationship of the 29 commodities to the total tonnage is given as follows:

29 Commodities	37.7	per	cent	of total
Cement	3.0	"	"	"
Grain and Grain Products	12.3	"	"	"
L.C.L. and Misc. Freight	25.7	"	"	"
Balance of carload commodities susceptible to increase . . .	21.3	"	"	"
	100.0 per cent			

The water carriers' cost of 19.7 cents per cwt., developed above, covers only the dock-to-dock movement. In order to compare this with the shipper's cost by rail or truck, it must be expanded to include the store-door to store-door movement. The data set forth in the following table were developed by the applicants for this purpose. This statement shows the cost by the water route from industry to industry for a minimum shipment of 30,000 pounds from Zone 1 in San Francisco to Zone 1 in Los Angeles. The first column is based upon a movement to and from the docks by rail, while the second column is based upon a movement by truck. It is assumed that both industries are located on spur tracks.

TABLE III.

STATEMENT SHOWING COST FROM INDUSTRY TO INDUSTRY
(San Francisco to Los Angeles)
Via the Water Route but using Rails and Trucks respectively to and from the docks.

(From Exhibit I-13)

	Rails Used To and From the Docks	Trucks Used To and From the Docks
FROM INDUSTRY TO DOCK:		
S. P. Switching Charge	$ .0264	
Belt Line Railway	.0133	
Truck Charge		$ .0500
DOCK SAN FRANCISCO TO DOCK, LOS ANGELES:		
Steamer Cost as per Exhibit I-8, Application No. 20535	$ .1970	$ .1970
Toll Charge, San Francisco	.0025	.0025
Wharfinger Charge Los Angeles	.0050	.0050
Marine Insurance	.0025	.0025
FROM DOCK TO INDUSTRY:		
Rail Cost	$ .0500	
Truck Cost (Special Commodities)		$ .0500
TOTAL, Store-door to Store-door	$ .2967	$ .3070

The study indicates that the dock-to-dock cost on a 30,000-pound minimum shipment should be increased to approximately 30 cents to embrace the full cost to the shipper. These figures do not include an additional cost to the shipper of about 2 cents per cwt. for car loading and unloading (combined) when rail is used, or an additional expense of approximately 2.5 cents per cwt. on truck deliveries when the 5-cent special commodity rate at Los Angeles is not available. Ignoring these items, however, it appears

that approximately 10 or 11 cents should be added to the dock-to-dock cost of 19.7 cents to cover the cost from industry to industry.

POSITION OF THE RAIL CARRIERS

Although several railroads were made respondents in Case No. 4128, the Southern Pacific Company, The Atchison, Topeka and Santa Fe Railway Company, and certain subsidiaries of these companies were the most directly affected. These two corporations, toward the close of the hearings, announced their position as being opposed to any increase in their rates in connection with the proposed increase in applicants' rates.

The position of the Southern Pacific Company, as set forth in its foreword to Exhibit I-57, is that an increase in rates will so stimulate the activities of "for hire" truck operators or the use of plant-facility trucks that the resultant diversion from railroad to highway will cause a net loss of income to it. This carrier also contends that the use of a full cost statement misrepresents the true interest of a carrier in a rate adjustment, whether it be rail, highway, or water carrier; that direct operating costs alone should be used - eliminating those charges such as taxes, interest charges and profits. The rate making philosophy of the rail carriers is summed up as follows:(6)

> "The question which the management must ask itself is: How to get the greatest profit? It is not by making the rate so high that it will not move any traffic, nor so low that no margin above 'cash on the line' is received. The greatest profit from a certain commodity is made at rates somewhere between these two extremes. The precise maximum occurs when the product of the number of shipments, multiplied by the margin above cash cost is the greatest, and it is entirely independent of any full cost statement."

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(6) Reply Brief of The Atchison, Topeka and Santa Fe Railway Company and Southern Pacific Company. (p. 56)

In furtherance of this position, Exhibit I-57[7] was introduced by the Southern Pacific setting forth unit cost data for the movement of varying weights.

In addition to the Southern Pacific Company's exhibit on costs, Exhibit I-7[8] was introduced by the applicants showing the development of criteria for determining the proper rates on rail cars of various ladings moving between San Francisco and Los Angeles. The fundamental difference between the rail cost data presented by the rail carriers and that presented by the applicant lines was that the former omitted fixed charges and the latter included them. Exhibit I-7 was introduced by the applicants as a basis for determining proper and sufficient rail rates, while Exhibit I-57 was offered as criteria for judging the compensatory nature of the present rates. After making adjustments for the different mileages employed, a comparison was made of the operating expenses only shown in the two exhibits. It shows that the costs determined in Exhibit I-7 exceed those shown in Exhibit I-57 by approximately 7 per cent, or about one cent per cwt. on the San Francisco-Los Angeles movement. This variance arises largely from the employment of different degrees of refinement which undertake to make allowance for some of the peculiarities surrounding the particular movement, such as the weight of the equipment, amount of empty haul, length of haul, amount of terminal service, train service employed along the used route, and for the fact that the

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(7) Introduced by Professor Clarence Day.

(8) Introduced by C. G. Anthony for the applicant water lines.

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average load is greater than the minimum prescribed in the tariff.(9) The cost data developed by the Southern Pacific Company will be used in the following analysis by the applicants for the reasons stated in footnote No. 9.

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(9) The exhibits introduced by Mr. Anthony and Professor Day were developed from the same basic Southern Pacific cost data but with different methods of approach. Mr. Anthony divided the costs into terminal expenses and costs other than terminal expenses. These latter were then redistributed upon the basis of gross ton miles, net ton miles, and car miles, respectively. The combination of these expenses constitutes the total operating expenses. Seven per cent was then added for taxes. The operating expenses plus taxes were then expanded by an operating ratio of 65 per cent in order to produce a return of 5-3/4 per cent upon the $649,093,860 property valuation assigned to freight. Distance was figured at 433 miles.

Professor Day approached the matter from a different angle. He took the same operating cost data for 1931 and divided the costs into two major groups. The first group embraced the direct line haul expenses, i.e., those affected by changes in the volume of traffic. These direct expenses were further distributed among seven sub-groups in the proportion that the expenses were most directly related to yard-engine hours, locomotive miles, train miles, gross ton-miles, net ton-miles, car miles, and station expense. The second major group embraced the indirect expenses which were unaffected by changes in the volume of traffic. The direct costs were determined for the San Francisco-Los Angeles route and were then increased to allow for the indirect expenses.

The sum of the direct and indirect expenses constitute the full operating cost. No allowance was made for such charges as taxes, bond interest, and dividends. A distance of 487 miles was used, sufficient to embrace hauls between San Francisco Bay points and Long Beach.

(Cont'd on page 20)

It appears appropriate at this point to make some comment upon the correctness of setting up cost data as a standard to test the reasonableness of the rates upon a broad range of commodities which are based solely upon labor, supplies, rentals, depreciation, and other direct and indirect operating expense, and do not include

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(9) Cont'd

A comparison of the two cost studies upon the basis of operating costs alone does not reveal a great deal of difference after adjustments are made for mileage. Such a comparison follows:

Comparison of Anthony and Day's studies - adjusted to 487 miles haul - 40,000-pound minimum carload. Operating cost only:

	Anthony		Day		Difference
Year	Per Car	Per Cwt. (Cents)	Per Car	Per Cwt. (Cents)	in cents per cwt.
1931	$68.48	17.12	$63.84	15.96	1.16
1935	not given		56.56	14.14	-

The similarity of the studies ends at this point. Anthony adds first 7 per cent for taxes and then expands the resulting total by a 65 per cent operating ratio to provide for a 5-3/4 per cent return. The criticism of this is that it forces a depressed volume of tonnage to produce a prosperous year's returns. Professor Day makes no allowance for these items. Certain criticisms of both procedures are dealt with above.

The reductions in 1935 costs over 1931 costs were attributed to improved practices. Temporary differences in the employees' base pay during these two periods did not account for a saving of over one per cent.

In virtue of the assumptions made, the different degrees of refinement used and the additional adjustments that are desirable, it is difficult to determine from the record which of the operating cost studies is the more accurate, and, therefore, nearer the truth. However, Professor Day's figures have been used in the following comparisons; first, because of the greater amount of detail and refinement presented; and secondly, because he has made available the 1935 values. The latter more closely portray present costs than the 1931 values.

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any allowance for taxes, bond interest and dividends.(10) The use of proper costs as a factor in rate making serves a twofold purpose. First, it affords an approximation with varying degrees of accuracy of what may be termed as a fully compensatory rate, i.e., a rate that will meet all costs properly chargeable against the movement. Such costs embrace all direct and indirect operating expenses, taxes, and the cost of capital, the latter embracing that return necessary to attract capital to the industry. If a carrier is to remain in a healthy condition, its total revenues should equal such total costs.

The second use of costs is in the determination of the out-of-pocket cost level. This latter serves to disclose the irreducible minimum below which a particular rate cannot go without incurring an out-of-pocket loss to the carrier. It is useful in testing the adequacy of particular rates upon commodities which will not and cannot move upon a fully compensatory basis. But it tells only part of the story. It is also desirable at times to

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(10) Exhibit I-7, p. 2, introduced by C. G. Anthony, states the views of the applicants in this matter.

"The out-of-pocket cost method (sometimes referred to as the cost of handling added traffic) gives consideration to the fact that certain costs of providing railroad transportation are directly connected with a particular service, while other costs are only indirectly related to it. The theory is that if a rate yields something above out-of-pocket cost attributed to some particular service, the company is better off, it being assumed that the other than out-of-pocket costs go on even if the traffic in question is moved by some other carrier or does not move at all.

Where there is a common control of rail, water, and truck freight rates, the out-of-pocket basis of rate making should be discarded and rates tied tight to a complete cost of service basis, tempered by a consideration of what the traffic will bear.

**** The out-of-pocket cost method is theoretically sound under certain conditions. It should be applied only when traffic can be obtained by making such a concession, or to foster a new industry. No such conditions exist in this case."

know to what specific degree a given rate will contribute toward the revenue needed to cover fixed charges.

The railroad exhibit of costs in this case is developed upon operating expenses only and not upon a fully compensatory basis. It omits any allowance for taxes, bond interest and dividends, and these constitute about one third of all railroad expense items. Taxes are just as real an item of cost as is depreciation, and bond interest is as real as rental expenses. Yet it is urged as a criterion for testing, not the reasonableness of some single rate but the adequacy of rates upon a wide range of heavy moving commodities. The study is illuminating so far as it goes, but it falls short of a logical conclusion to which a complete cost analysis should be carried.

A study embracing only the operating expense is insufficient for making the comparisons here needed. As transportation becomes more and more mechanized, as exemplified by a typical railroad plant, the human labor required becomes relatively less and the reliance upon capital investment becomes greater. The result is a reduction in the unit cost ofmoving goods. But it is not reasonable to point to the low-cost mass transportation such railroad plants produce without simultaneously giving some recognition to the fixed charges peculiar to such plants. It is impossible to enjoy the benefits of the one without bearing the burdens of the other. To adopt the contention of rail witnesses and limit comparisons between rail costs and truck costs to operating expenses would, therefore, be misleading.

Testimony was introduced to the effect that the difficulties enumerated in the allocation of the fixed charges prevented their inclusion in a cost study. Such difficulties in distributing this item of expense, however, cannot justify its being ignored altogether.

(Reference was made in the record to the method used by the staff of the Interstate Commerce Commission in accounting for such charges). Finally, it is to be noted that while other factors than cost may justify depressed rates, this fact should not serve in any manner to color the cost study. An intelligent analysis demands that costs be fully treated even when they are not the controlling factor in fixing the rate.

With the above discussion in mind, it appears as desirable that the present rates be compared not only with the out-of-pocket cost and the full operating cost, as was done in Exhibit I-57, but with a full cost which includes an allowance for taxes, interest charges and profits.

The Southern Pacific Company's cost data for 1935 are used. To provide an allowance for taxes, interest and dividends, the full operating costs shown in Exhibit I-57 are expanded by dividing the cost by the 1935 operating ratio of 0.6431. In using the resultant values, certain qualifications must be noted.

1. The expansion of 1935 costs upon the basis of the Southern Pacific 1935 operating ratio of 64.31 per cent may be insufficient to provide in full for taxes and a reasonable return upon the investment.(11) However, there is merit to the contention of the rail carriers that the reduced volume of tonnage during a depression year should not be expected to carry the total annual fixed charges and dividend requirements of a normal year. If the full operating costs per ton are expanded by an operating ratio of approximately 65 per cent, it may be assumed, for the purposes herein, that each ton is making a reasonable contribution toward such charges. The use of the operating ratio of 64.31 per cent will result in a total contribution for the freight traffic, Southern Pacific Company (Pacific Lines) of over $33,000,000 on the 1935 tonnage. This is to be compared with C. G. Anthony's estimates of about $37,000,000 needed to produce a 5-3/4 per cent return on the investment, freight proportion, and an additional sum equal to 7 per cent

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(11) In 1929, 30 per cent of the gross operating revenues of the Southern Pacific Company (Pacific Lines) was required to produce a 5-3/4 per cent return upon the investment, exclusive of taxes. In 1931, 48 per cent was required, the increase being due almost wholly to the sharp decrease in gross revenues (Exh. I-57, p.1). A value of 35.69 per cent is used above (100-64.31 = 35.69), based upon the limited record herein.

1. (Cont'd)

of gross revenue to cover taxes, which adds about $6,500,000 more. While the resultant total contribution may be insufficient, based on these estimates, the situation will correct itself upon the return of a more nearly normal volume of tonnage to the carrier.

2. The values represent an average cost unadjusted for classification and the movement of high and low grade commodities. It is low for articles rated in the higher classes, and high for articles rated in the lower classes.

3. If actual average loadings are higher than the minimum weights shown, the cost per cwt. will be somewhat less than indicated.

4. The cost formula employed involves, fundamentally, the use of unit costs derived from system averages for the entire Southern Pacific Company (Pacific Lines). These unit costs are then applied to the particular haul between San Francisco and Los Angeles. Costs so derived may but roughly portray the costs between these two points.

With the above qualifications stated, the following table is presented. It shows, for comparative purposes, the out-of-pocket costs, the full operating cost exclusive of fixed charges, and the full cost including fixed charges on the carload commodity movements between San Francisco and Los Angeles.(12)

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(12) The term "out-of-pocket cost" as used herein embraces the direct items of expense which are responsive to changes in the volume of traffic. To be specific, it includes 40 per cent of the maintenance of way expenses, yard proportion; 33-1/3 per cent of the maintenance of way expenses, other than yard items; 100 per cent of the maintenance of equipment expenses for locomotives and car repairs; 20 per cent of the transportation expenses for superintendence and dispatching; 10 per cent of the expense for station employees and supplies; and 100 per cent of the expense for yardmasters and clerks, train crews, locomotive fuel and supplies, loss and damage to freight, etc. (See Exhibit I-57, Statements IV and V).

The term "full operating cost" as used herein embraces all the above out-of-pocket (direct) items of cost and in addition the indirect items that are not responsive to changes in the volume of traffic. In this latter group of indirect costs lie the remaining proportions of the expenses for maintenance of way, superintendence and dispatching, station employees, etc., and in addition 100 per cent of the traffic expense and general expenses (See Exhibit I-57, Statements IV and V).

The term "full operating cost, including fixed charges," as used herein, embraces the full operating costs as set forth above, i.e., the sum of the direct and indirect costs, and in addition an allowance for taxes, bond interest and dividends. The total is obtained by dividing the full operating cost, excluding fixed charges, by the 1935 operating ratio, as follows:

$$\frac{\text{Full operating cost}}{\text{Operating ratio}} = \frac{14.14¢ \text{ per cwt.}}{0.6431} = 21.99¢ \text{ per cwt.}$$

The contribution toward fixed charges is (21.99 - 14.14) = 7.85¢ or 35.69 per cent of the 21.99¢ revenue.

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TABLE IV

COMPARISON OF THE COST OF MOVEMENT BY RAIL WITH THE PRESENT AND PROPOSED RAIL RATES - BETWEEN SAN FRANCISCO BAY POINTS AND LOS ANGELES - BASED ON MINIMUM LOADS SHOWN.

(The groupings, minimum loads, and present and proposed rates are taken from Exh. I-14, as amended, introduced by applicants. The cost figures are taken or derived from the rail carriers' Exh. I-57. All costs are based on 487 rail miles between San Francisco Bay points and Long Beach).

(Costs and rates are in cents per 100 pounds.)

Commodity	Minimum Load (Lbs.)	Out-of-Pocket Cost	Full operating cost (excluding Fixed Charges)	Full operating cost including Fixed Charges	Present rate per 100 pounds	Proposed rate per 100 pounds
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Alumina, sulphate of	40,000	9.84	14.14	21.99	30	35
	80,000	6.08	8.74	13.59	20	25
Bags & Bagging	30,000	12.41	17.83	27.73	28	31
Beverages	30,000	12.41	17.83	27.73	25	29½
Bottle Caps, Covers, Tops	30,000	12.41	17.83	27.73	30	35
Carpets and Carpeting	30,000	12.41	17.83	27.73	25	33
Chocolate	30,000	12.41	17.83	27.73	53	50
Coffee	30,000	12.41	17.83	27.73	28½	35½
	50,000	8.33	11.97	18.61	24	31
Dessert Preparations	30,000	12.41	17.83	27.73	22	27
Earth, infusorial (From Torrance)	50,000	8.33	11.97	18.61	22	25½
Glassware	30,000	12.41	17.83	27.73	29	36½
	40,000	9.84	14.14	21.99	25	32½
Iron & Steel Structural Group, Castings, Forgings, Bolts & Nuts	30,000	12.41	17.83	27.73	28½	33½
	40,000	9.84	14.14	21.99	25	30
	60,000	7.31	10.50	16.33	20	25
Billets and Blooms	30,000	12.41	17.83	27.73	28½	33½
	40,000	9.84	14.14	21.99	25	30
	60,000	7.31	10.50	16.33	20	25
Wire Cloth, Netting, Fencing	30,000	12.41	17.83	27.73	28½	36
	40,000	9.84	14.14	21.99	25	32½
	60,000	7.31	10.50	16.33	20	27½
Lard and Lard Substitutes	36,000	10.72	15.40	23.95	26	29

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TABLE IV (Cont'd)

Commodity (1)	Minimum Load (Lbs.) (2)	Out-of-Pocket Cost (3)	Full operating cost (excluding Fixed Charges) (4)	Full operating cost including Fixed Charges (5)	Present rate per 100 pounds (6)	Proposed rate per 100 pounds (7)
Metals & Metal Articles	30,000	12.41	17.83	27.73	24	29
Metal Scrap	30,000	12.41	17.83	27.73	24	29
Oil Foots and Vegetable Oils	30,000	12.41	17.83	27.73	31½	36
Paper, waste	30,000	12.41	17.83	27.73	35½	38
(From Los Angeles Harbor)	50,000	8.33	11.97	18.61	20	28
Paints, etc.	30,000	12.41	17.83	27.73	25	26½
Rags	30,000	12.41	17.83	27.73	25	30
Rails, Railway Track	30,000	12.41	17.83	27.73	28½	33½
	40,000	9.84	14.14	21.99	25	30
	60,000	7.31	10.50	16.33	20	25
Roofing and Bldg.Material	30,000	12.41	17.83	27.73	24	30½
Salt	30,000	12.41	17.83	27.73	21½	27
Sea Shells (From Alviso)	40,000	9.84	14.14	21.99	17½	23½
Soap & Cleaners	36,000	10.72	15.40	23.95	26	29
Spikes, Railway Track	30,000	12.41	17.83	27.73	28½	33
	40,000	9.84	14.14	21.99	25	29½
	60,000	7.31	10.50	16.83	20	24½
Sugar	40,000	9.84	14.14	21.99	25	29
Sugar (From Manteca, Tracy	40,000	9.84	14.14	21.99	25	29
	60,000	7.31	10.50	16.83	20	24
Spreckels)	100,000	-	-	-	17	21
Tea	30,000	12.41	17.83	27.73	35	41
Tires and Tubes	30,000	12.41	17.83	27.73	30	38
Wheels, Railway Car	36,000	10.72	15.40	23.95	37	38

The above costs are based upon the exact tariff minima. The rail carriers pointed out that such costs are excessive in that the actual loadings are commonly heavier than the tariff minima. Such increase in the loading would result in a reduction in the costs set forth in Table IV.

A comparison of the tariff minimum carloads with the actual average loadings of various commodities during the first five months of 1936 is provided below:

TABLE V.

COMPARISON OF SOUTHERN PACIFIC COMPANY TARIFF MINIMA WITH ACTUAL AVERAGE LOADS
(From Exhibit I-57, pp. 3 & 4)

Commodity	Tariff Minimum Loads (Pounds)	Actual load (Pounds)
Coffee	30,000	34,000
Coffee	50,000	53,500
Glass Bottles, returning	30,000	48,500
Glassware, including bottles	40,000	48,300
Iron and Steel Articles	30,000	31,300
" " " "	40,000	45,500
" " " "	60,000	86,800
Roofing and Building Material	30,000	48,300
Soap and Cleaning Compounds	36,000	48,300
Sugar	40,000	67,000
Salt	30,000	42,100
Beverages	30,000	41,500 (Beer)

Witness for the rail carriers introduced a table showing the errors resulting when costs are computed upon the tariff minimum load instead of upon the actual average car loads. Such errors (or reductions) in out-of-pocket costs upon use of the actual average ladings is shown below. The values were based upon 1931 costs. If 1935 costs were used, the results would be substantially the same.

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TABLE VI.

REDUCTION IN OUT-OF-POCKET COSTS UPON USE OF AVERAGE ACTUAL CARLOADS INSTEAD OF TARIFF MINIMUM LOADS.
(From Exhibit I-57, p. 4)

Commodity	Tariff Minimum Loads (Pounds)	Reduction in Out-of-Pocket Cost (Cents per 100 pounds)
Coffee	30,000	1.28
Coffee	50,000	0.42
Glass bottles, returning	30,000	4.14
Glassware, including bottles	40,000	1.40
Iron and Steel Articles	30,000	0.46
" " " "	40,000	0.98
" " " "	60,000	1.66
Roofing and Building Materials	30,000	4.12
Soap and Cleaning Compounds	36,000	2.32
Sugar	40,000	3.27
Salt	30,000	3.12
Beverages	30,000	3.02

No information was provided concerning the average actual loads obtained upon the remaining commodities under consideration, the record being incomplete in this respect, nor were the calculations similarly extended for the indirect costs. It appears clear, however, that the use of actual average loads in lieu of minimum loads will produce values which more nearly represent true out-of-pocket costs, and these will be from 1/2 cent to 4 cents per cwt. lower on the San Francisco-Los Angeles movements than those shown above in Table IV.

Witness for the rail carriers introduced, as a further means of checking the relative sufficiency of the existing rates, a comparison of the operating ratio for each commodity with that for the carrier as a whole. Such operating ratio for each commodity is obtained by dividing the full operating cost of moving

the commodity between two points by the revenue earned. Such a study for each commodity is provided in Table VII. The study is based upon the values set forth in Table IV. The figures are not corrected for actual average loads because of the lack of necessary information in the record covering the majority of the commodities.

The operating ratio for the Southern Pacific Company (Pacific Lines) in 1935 was 64.31 per cent, indicating that out of each dollar earned, 64.31 cents went for operating expenses and 35.69 cents went toward taxes, bond interest, and profits. With the operating costs per car being considered as uniform, regardless of the commodity or the weight of the lading, a high operating ratio means a relatively low rate level, while a low operating ratio indicates a relatively high rate level. In other words, an operating ratio of less than the system average of 64.31 per cent would indicate a rate which was more compensatory than the average, and a ratio above 64.31 per cent would indicate a rate which was less compensatory than the average.

TABLE VII

OPERATING RATIO BY COMMODITIES
TO BE COMPARED WITH THE 1935 SOUTHERN PACIFIC COMPANY
(PACIFIC LINES) FREIGHT OPERATING RATIO OF 64.3 PER CENT

Commodity	Minimum Load (Lbs.)	Full operating cost excluding Fixed Chgs. (Cents)	Revenue per Cwt. (Cents)	Operating Ratio by Commodities Per Cent
(1)	(2)	(3)	(4)	(5)
Alumina, sulphate of	40,000	14.14	30	47.1
	80,000	8.74	20	43.7
Bags and Bagging	30,000	17.83	28	63.7
Beverages	30,000	17.83	25	71.3
Bottle Caps, Covers, Tops	30,000	17.83	30	59.4
Carpets & Carpeting	30,000	17.83	25	71.3
Chocolate	30,000	17.83	53	33.6
Coffee	30,000	17.83	28½	62.6
	50,000	11.97	24	49.9
Dessert Preparations	30,000	17.83	22	81.0
Earth, infusorial (From Torrance)	50,000	11.97	22	54.4
Glassware	30,000	17.83	29	61.5
	40,000	14.14	25	56.6
Iron and Steel Structural Group Castings, Forgings, Bolts and Nuts	30,000	17.83	28½	62.6
	40,000	14.14	25	56.6
	60,000	10.50	20	52.5
Billets and Blooms	30,000	17.83	28½	62.6
	40,000	14.14	25	56.6
	60,000	10.50	20	52.5
Wire Cloth, Netting, Fencing	30,000	17.83	28½	62.6
	40,000	14.14	25	56.6
	60,000	10.50	20	52.5
Lard and Lard Substitutes	36,000	15.40	26	59.2
Metals and Metal Articles	30,000	17.83	24	74.3

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TABLE VII (Cont'd)

Commodity (1)	Minimum Load (Lbs.) (2)	Full operating cost excluding Fixed Chgs. (Cents) (3)	Revenue per Cwt. (Cents) (4)	Operating Ratio by Commodities Per Cent (5)
Metal Scrap	30,000	17.83	24	74.3
Oil Foots and Vegetable Oils	30,000	17.83	31½	56.6
Paper, waste (From Los Angeles Harbor)	30,000 50,000	17.83 11.97	35½ 20	50.2 59.8
Paints	30,000	17.83	25	71.3
Rags	30,000	17.83	25	71.3
Rails, Railway Track	30,000 40,000 60,000	17.83 14.14 10.50	28½ 25 20	62.6 56.6 52.5
Roofing and Building Material	30,000	17.83	24	74.3
Salt	30,000	17.83	21½	82.9
Sea Shells (From Alviso)	40,000	14.14	17½	80.0
Soap and Cleaners	36,000	15.40	26	59.2
Spikes, Railway Track	30,000 40,000 60,000	17.83 14.14 10.50	28½ 25 20	62.6 56.6 52.5
Sugar	40,000	14.14	25	56.6
Sugar (From Manteca, Tracy, Spreckels)	40,000 60,000 100,000	14.14 10.50 -	25 20 17	56.6 52.5 -
Tea	30,000	17.83	35	50.9
Tires and Tubes	30,000	17.83	30	59.4
Wheels, Railway Car	36,000	15.40	37	41.6

The above comparison of operating ratios indicates that the commodities which have a higher operating ratio and hence are less compensatory than the all-freight average are beverages, carpets and carpeting, dessert preparations, metals and metal articles, metal scrap, paints, rags, roofing and building materials, sea shells, and salt. The rates on these items, however, all meet their full operating cost and contribute substantially toward the fixed charges. Further consideration of these items appears in the conclusion to this Order.

In presenting the analysis of rail costs in Table IV, the qualification was made that such costs were unadjusted for the relative movement of high and low grade commodities and other commodities as covered by the freight classification. Further amplification of that statement is here desirable.

The use of cost data in fixing rail freight rates is inextricably bound up with the subject of classification and the ability of the traffic to pay. To present an over-all average rail cost by itself may be misleading for it leaves the impression that if a rate is sufficiently high to yield a revenue equal to this cost, it is fully compensatory. The danger is that such averages may be used as standards of comparison in making reductions in higher rated commodities without at the same time giving consideration to the mathematical necessity but practical impossibility of raising low-rated commodities to this average level. If all rates were fixed at one level, a large volume of the presently moving low-grade commodities would cease to move. Without the contribution these low-grade commodities make toward the indirect operating cost and fixed charges, the costs per ton upon the remaining commodities would inevitably rise. This is because the entire burden of carrying the indirect operating costs and the fixed expenses would be thrown upon them. This factor must, therefore, be considered in the use of any over-all average costs. It is, therefore, to the advantage of the high-rated goods that the low-rated goods should move, as it permits of lower rates on the high-rated commodities than would otherwise be obtainable. But in computing over-all average costs it is misleading to include the low-rated commodities in the computation without qualification.

To sum up, the treatment of costs in rate making is bound up with the ability of given volumes of tonnage to move at given rates.

In a general way, the average cost figures developed herein are applicable upon commodities moving in classes lower than fifth and higher than C.(13) They are low for commodities rated fifth class or higher. They are, on the contrary, high for articles rated Class C or lower.

An examination of the evidence in this case indicates that the majority of the commodities here involved are rated fifth class in the current Western Classification, and the remainder are about equally divided above and below this rating. However, many commodity rates also apply. Little data were offered as to the proper relationship between over-all average costs and the respective class and commodity rates, except the statement by a witness for the applicants that average costs introduced by him were at least 10 per cent lower than the fifth class rates should be(13) and were high for commodities rated C, D, or E.

A witness for the rail carriers summarized in some detail the reasons for their opposition to any increases in rail rates.(14)

1. Competition of intercoastal movement through the Panama Canal.

2. Trucks are handling a very large proportion of the available miscellaneous traffic at rates which, according to the opinion and statement of the witness, are as low as, or lower than, the going rail or water rates. Any rate increase making truck operation attractive would, in the opinion of the witness, result in a great influx of additional truckers into the San Francisco-Los Angeles business and a wasteful duplication of transportation facilities

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(13) See testimony of C. G. Anthony, Tr. pp. 249-250.
(14) Tr. p. 1287-91.

3. The availability of a two-way haul by many of the shippers transporting goods between San Francisco and Los Angeles permits a proprietary operation at a cost approximating existing rail rates. Witness testified that even at existing rates or even lower rates on volume movements an attractive net revenue can be obtained. The rail lines would prefer to handle this business in volume at approximately the existing rates or, if necessary, at lower than the existing rates, rather than handle a substantially decreased volume at higher rates.

4. With two million or more consumers located in the territory served by the San Francisco Bay cities and a like number located in the Los Angeles area, a heavy transportation cost would tend to encourage the duplication of plant facilities, localizing the operations at Los Angeles or San Francisco and resulting in a loss of the earnings from transporting the finished products between the two districts. For purposes of illustration, it was pointed out that a freight rate of $5.00 per ton on 100 tons per week is equivalent to $26,000 a year or five per cent interest on a capital investment of one-half million dollars.

5. Witness for rail carriers further testified that with an equality of line haul rates, the preponderance of traffic would move by truck as against rail. Factors favoring truck movement were listed as follows:

a. Shorter time in transit and greater flexibility of truck movement, the trucks providing overnight delivery between San Francisco and Los Angeles compared with second day delivery on carload freight by rail lines.

b. The practice of trucks of performing the loading or unloading or assisting in it.

c. The provision of pick-up and delivery which the rail lines can only perform on carload freight when both shipper and consignee have team tracks.

d. The provision by trucks of split delivery at no extra charge.

e. The provision of display boards on trucks advertising the commodity transported.

f. The minimum weight by truck is frequently 20,000 pounds and that asked by the water carriers in connection with the increased rates is 20,000 pounds in most instances. This is to be compared with the 30,000 to 40,000 pounds or higher minima by rail on most of the commodities handled.

g. The rail shipper on a spur track must pay for the installation and upkeep for such track from the rail clearance point. This is a burden on the shipper that he does not have in connection with truck or water movement.

In addition to presenting the above reasons for opposing the increases, the rail carriers presented some analysis of the movement of individual commodities. The following are some typical examples:

The rail witness testified that trucks now transport 45 per cent of the total shipments of southbound beer between San Francisco and Los Angeles at a rate which is generally equal to the rail rate of 25 cents. The present rail rate of 25 cents upon carpets and carpeting was made effective to meet the competition of trucks which were hauling linoleum at a roofing paper rate. Despite this reduction, a major producer is still moving his traffic mostly by truck.

The present rail rate of 25 cents on sugar, minimum 40,000 pounds, is compared to the present boat rate of 14 cents, minimum 36,000 pounds, and is characterized as not being a competitive relationship. The rail lines oppose any increase in their 17-cent rate on beet sugar from interior plants. It is advanced that this rate on a 100,000-pound minimum affords attractive revenue. The rail carriers state they are opposed to a rate structure which will build up a differential in favor of producers located at tidewater as against interior producers. They

are opposed to a higher rate on sugar from interior California beet sugar factories to Los Angeles than is currently applicable on sugar by water from San Francisco Bay cities to Los Angeles Harbor, the reason being advanced that the cost of distribution from Los Angeles Harbor docks or Long Beach is not much greater than from warehouses or team tracks in Los Angeles.

The 20-cent rail rate on Sulphate of Alumina was published in 1935 to permit the rail lines to participate in the movement. This product is chiefly produced at Nichols and Stege, and is in competition in the Los Angeles area with tonnage shipped from the Atlantic Seaboard via the Canal. Such competitive tonnage, the record indicates, constitutes about one third of the total. Rail witnesses, in opposing an increase in this commodity, pointed to the threatened competition from proprietary trucks.

Concerning coffee, witness pointed to the intensive competition San Francisco producers meet in the Los Angeles market from the local roasting plants and the possibility of the transfer of San Francisco facilities to the south.

The introduction of the rate increases proposed by the water lines introduces certain complications with respect to intermediate points. At the present time most of the rates involved in these proceedings between San Francisco and Oakland on the one hand, and Los Angeles on the other apply as maximum via the Southern Pacific on its Coast and Valley routes, and also apply via The Atchison, Topeka and Santa Fe Railway Company through Stockton, Bakersfield, Barstow, and San Bernardino. By reason of the Santa Fe rates being held as maximum via the latter route, the

Southern Pacific Company applies the same rate from San Francisco to San Bernardino as from San Francisco to Los Angeles.

The effects of the proposed increases may be illustrated. If the San Francisco-Los Angeles rates via both the Southern Pacific and the Santa Fe are increased, two alternatives are possible. Either the rates to such inland intermediate points must also be increased, or else the increase must be limited narrowly to the Los Angeles City territory. In the latter instance, however, it will have the effect of the Southern Pacific being required to publish, to meet the Santa Fe's competition, lower rates from San Francisco to San Bernardino through Los Angeles than would apply from San Francisco to Los Angeles.

Similar difficulties arise in the northern area. The rates on most of the commodities here involved from Los Angeles have been blanketed to San Francisco, Oakland, Stockton, and Sacramento. This rate parity has been maintained for a number of years. As a result, any increases in the Los Angeles to San Francisco rates must be accompanied by similar increases to Stockton and Sacramento or this established rate parity will be destroyed. Applicant water lines have stated that it is not their desire to increase rates between Stockton and the Los Angeles area. It is obvious, however, that either Stockton rates must be raised or else the present rate parity between central California's leading centers of distribution must be destroyed.

COSTS OF TRANSPORTATION BY MOTOR TRUCK:

A quantity of data was submitted on this subject, but only two of the studies submitted in the form of exhibits were complete in detail. C. G. Anthony, representing the applicants, submitted

a cost study designed to develop the cost of transporting freight in truckload quantities for various distances and between San Francisco and Los Angeles in particular. General costs for application to any length of haul were developed upon the assumption of a use factor of 2,700 hours per truck unit per year and upon a 50 per cent load factor. Profit, or return on investment, was obtained by expanding the cost before taxes by the use of a 90 per cent operating ratio. Rates were submitted designed to return the cost plus profit. The rates submitted for valley road operations for a 420 mile haul (the approximate distance between San Francisco and Los Angeles) for the various sizes of shipments were as follows:

TABLE VIII

RATES RETURNING FULL COST AND PROFIT BETWEEN SAN FRANCISCO AND LOS ANGELES
Load Factor 50 per cent
(From Exhibit I-6)

(NO CORRECTION FOR MOUNTAIN MILEAGE)

Size of Shipment	Rates (Cents)
20,000 pounds	70.11 per cwt.
30,000 "	59.85 " "
40,000 "	56.62 " "

In Part 2 of his exhibit (I-6), Mr. Anthony developed rates designated as the lowest possible cost for the specific movement between San Francisco and Los Angeles. Load factors were taken at 50, 60, and 75 per cent, respectively, the latter being considered the maximum obtainable in practice. Costs were figured upon the basis of a one-way trip of 420 miles each 24 hours for 280 days per year. This is equivalent to 11.6 round trips per month throughout the year. Assuming 22 hours per trip, including all time consumed for loading, unloading, and delays,

it is equivalent to a use factor of over 6,000 hours per truck unit per year.

The employment of this high use factor was predicated upon the opinion that the great volume of freight moving between the metropolitan areas of San Francisco and Los Angeles promised a much steadier use of truck equipment than would be the case when operating between other centers of less population. Corrections were made for mountain mileage. Calculations were based on both gasoline and Diesel-powered units. A vehicle having a capacity of 20 tons was taken as the most economical unit for this operation. The allowance for profit was obtained by expanding the cost before taxes by the use of a 90 per cent operating ratio. The rates developed for 40,000-pound shipments and various assumed load factors were as follows:

TABLE IX

STATEMENT SHOWING MINIMUM COST OF TRANSPORTING FREIGHT BETWEEN SAN FRANCISCO AND LOS ANGELES FOR VARIOUS LOAD FACTORS.

Based on 40,000-pound shipments, 280 one-way trips per year (6,000 hours per year). Distance of 420 miles adjusted for 60 miles of mountain haul. (From Exhibit I-6, Part II, except as noted)

Load Factor	Gasoline Equipment Cents per Cwt.	Diesel Equipment Cents per Cwt.
50 per cent	55.6	46.3
60 " "	46.3	38.7
75 " "	37.1	30.9
90 per cent	30.8*	25.7**
100 " "	27.8*	23.2**

* Table expanded by C. G. Anthony in testimony Transcript p. 712. and in opening brief of applicants, p. 39.

** Computations extended by Commission for purposes of comparison only.

The assumption that the 20-ton unit will make a one-way trip of 420 miles each day of 24 hours for a total of 280 days per year may be optimistic. Witness C. G. Anthony testified that this use factor was equivalent to over 6,000 hours per year whereas the value of 2,700 hours used in the earlier part of his study was more nearly representative of the average operation between San Francisco and Los Angeles. The higher use factor was used to develop the lowest possible truck cost for comparison with rail costs.(15)

On the other hand there are certain objections to the expansion of costs by the use of a 90 per cent operating ratio. Evidence in the record points to a return as high as 21 per cent upon the full investment undepreciated. This would seem greater than warranted by the hazards of the business even though witness testified that it included an unstated amount for contingencies. Such a method fails to make allowance for the cost of capital except by a loose approximation. When facts are available as to investment, depreciation, and a given rate of return, as is here the case, and when other cost data are being presented as accurately as the records permit, it would appear desirable that the allowance for a fair return be similarly treated. If an allowance for contingencies is necessary it should be treated separately so that each item may be intelligently considered upon its own merits. Furthermore, an increase in the cost of fuel or labor, which witness states to be probable in the future, would result, if rate adjustments were made upon the basis here used, in an increase in the rate of return to capital, although the two are but slightly related.

Concerning the savings obtained by the use of Diesel equipment, witness testified that practically all of this arose from the relatively low cost of Diesel fuel, the fact that the

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(15) Transcript, p. 724.

Diesel gets about twice the mileage as a gasoline motor and the fact that the fuel is tax free. The view was expressed, however, that minimum rates should be based upon gasoline vehicle costs as the number of Diesels operating was still limited and the freedom of the fuel from taxes after the next session of the State Legislature was doubtful.

Concerning the various load factors, witness for the applicants recommended that values based upon a 50 per cent factor be used as this represented actual experience. Values for higher operating ratios, such as 60 per cent and 75 per cent, were presented, however, to provide for special cases such as that existing in the handling of beer where a 75 per cent factor was obtainable. Load factors of 90 per cent and 100 per cent were offered as purely hypothetical cases, unrealized in practice.

The Engineering Division of the Commission's Transportation Department presented a study dealing with the cost of transportation by motor truck, through Fred H. Chesnut, Assistant Engineer (Exhibit I-9). The commodities involved were segregated by groups depending upon the time required for loading and unloading. (16) The study is based upon a load factor of 50 per cent and use factors of 2,000 hours per year for the 10-ton unit, 2,500 hours for the 15-ton unit, and 3,000 hours for the 20-ton unit. The witness, however, testified that a higher load factor might be obtained which would reflect a lower transportation cost than the study indicates. The costs so developed are set forth in the following table:

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(16) The commodity groupings in accordance with the time required for loading are as follows:

(Cont'd on page 42)

TABLE X.

TRUCK COSTS - SAN FRANCISCO-LOS ANGELES
447.4 miles (Coast Route) corrected for
Mountain Mileage

(From Exhibit I-9)

(50 per cent Load Factor)

Commodity Group (16)	Loading plus Unloading Minutes per ton	Size of Shipment		
		20,000 lbs.	30,000 lbs.	40,000 lbs.
		(Cost in Cents per Cwt.)		
I	5	62.5	51.0	47.2
II	10	63.3	51.8	48.1
III	15	64.1	52.6	48.9
IV	20	64.9	53.5	49.7

(16) Cont'd from page 41:

GROUP I - LESS THAN 5 MINUTES PER TON FOR LOADING PLUS UNLOADING

Alumina - sulphate of
Bags and Bagging
Earth, infusorial
Iron and Steel, bars, etc.
Billets and Blooms
Castings, Forgings, Bolts, etc.
Metals and Metal Articles
Rags (unwashed)
Paper, waste
Rails, relaying
Shells, clam, oyster, mussel
Spikes, railroad track
Sugar,
Wheels, railroad car.

GROUP II - 5 to 10 MINUTES PER TON FOR LOADING PLUS UNLOADING

Caps, Covers, Tops (bottle)
Carpets and Carpeting
Chocolate, Cocoa, etc.
Coffee
Dessert Preparations
Wire Cloth, Netting, etc.
Lard and Lard Substitutes
Oil Foots or Sediments
Paints, Varnishes, Solvents
Roofing and Building Material
Salt (common)
Soap, cleaning comp.
Soap, soap powder
Tea

GROUP III - 10 to 15 MINUTES PER TON FOR LOADING PLUS UNLOADING

Beverages

GROUP IV - 15 to 20 MINUTES PER TON FOR LOADING PLUS UNLOADING

Glassware (bottles)
Tires, Tubes

The following is a comparison between the costs developed by Anthony and those developed by the Commission's engineer, reduced to a common basis (adjusted to 447.4 miles - the actual highway mileage via coast route - and using 40,000-pound shipments only).

TABLE XI.

COMPARISON OF COSTS DEVELOPED BY ANTHONY AND CHESNUT. BASED ON COAST ROUTE MILEAGE OF 447.4 MILES CORRECTED FOR MOUNTAIN HAUL.

(Costs per cwt.)

Commodity Group	Load Factor	Anthony		Chesnut
		Gasoline	Diesel	Gasoline
I	50 per cent	$.577	$.480	$.472
	60 " "	.481	.401	.394
	75 " "	.385	.320	.314
II	50 " "	$.577	$.480	$.481
	60 " "	.481	.401	.401
	75 " "	.385	.320	.321
III	50 " "	$.577	$.480	$.489
	60 " "	.481	.401	.407
	75 " "	.385	.320	.326
IV	50 " "	$.577	$.480	$.497
	60 " "	.481	.401	.414
	75 " "	.385	.320	.332

Records of four truck operators handling freight[17] between San Francisco and Los Angeles were submitted showing load factors of from 80 per cent to 90 per cent obtained over periods of from two to six months. The use factors varied from about 3,000 to 5,000 hours per year and vehicle sizes varied from 11 to 18 tons capacity.

(17) The southbound movement consists principally of petroleum products, distilled liquors, beer, stove parts, bottle caps, fountain supplies, canned goods, salad dressing, oleomargarine, fresh meats, castings, zinc dust and chemicals. The northern movement consists of roofing, petroleum products, canned goods, salad dressings, pipe, and cement.

The showing made above with respect to load factors is instructive, but unfortunately no cost data of any nature were introduced by the four operators. It is extremely difficult, if not impossible, to superimpose the load factor of one operation upon the costs of another, particularly where the use factors and vehicle sizes vary widely.

Reasonable doubt also arises as to whether the average contract carrier, even if he obtains over a few months the highly favorable and balanced contracts which the records here imply, can consistently maintain such an ideal operating efficiency year in and year out. It is also unknown whether the heavy loads on the return trips were obtained at the expense of sharp rate reductions.

The testimony concerning the existing charges by contract truck haulers is meagre in this case, but the following testimony was introduced by shippers and rail witnesses but principally the latter.

COMMODITY	PRESENT RATE BY TRUCKS
Beer	25 cents
Packing Plant Products: Lard and Lard Substitutes Northbound	30 cents (any quantity rate (including pick-up (and delivery
Other articles southbound	35 cents -do-
Roofing and Building Material northbound	24 cents (including pick-up (and delivery, (loading and unloading
Soap and Cleaning Compounds northbound	20 to 25 cents (including (pick-up and (delivery (loading and (unloading

The cost figures set forth herein indicate that rates of 30 cents per cwt. or below are not fully compensatory except under extremely favorable conditions, such as the operation of 20-ton Diesel equipment at a consistent load factor well above

80 per cent and use factor approaching 6,000 hours per year (more than ten round trips per unit per month between San Francisco and Los Angeles).

The record is silent concerning the position of the truck operators toward the applicants' request for rate increases. Although appearances were made on behalf of truck associations and individual operators, there was no expression of position in the matter. Their interest was limited to a showing that a 50 per cent load factor was too low.

SHOWING BY SHIPPERS

A total of twenty-five witnesses took the stand on behalf of the shippers and testified in opposition to the increases proposed by applicants. The burden of such testimony was generally to the effect that although the increases might be needed by the water carriers, such increases should not be required of the competing land carriers. In very limited instances shippers testified to their willingness to accept some increase in water rates only, but the relative tonnage involved was small or else the offer was conditional upon comparable increases being laid against the rail rates of inland competitors.

Shippers defended their position by pointing to their competition with producers located at the destination points, to competition from the Atlantic Coast and Offshore points, to their inability for competitive reasons to pass the increase on to consumers, to the possibility of entering into proprietary trucking or establishing production plants at the marketing center, to rate comparisons, and in some cases to a limited need for Coastwise water

service. It was further contended that certain of the increases were increases in paper rates only.

In answer to this shipper's testimony, witness for applicant carriers testified that an investigation had been made as to each of the commodities whose rates it is proposed to increase. Recognition was taken of market conditions, intercoastal competition, and the extent to which adjustments could be made without disturbing the present flow of traffic, the purpose being to establish rates that would yield the water carriers an average revenue of 19.7 cents per cwt.

Car-mile earnings of the rail carriers under both the present and the proposed rates were compared with earnings on similar hauls elsewhere. For example, it was shown that the present rates on the 100,000-pound minimum carloads of sugar moving from Tracy to Southern California points produced a per car-mile revenue of 42-1/2 cents. The rates proposed by applicants would produce a gross revenue of 52-1/2 cents per car-mile. Exhibit I-23, introduced by the Holly Sugar Corporation, compared these revenues with those earned by carriers on interstate hauls where revenues ranging from 18 to 36 cents per car-mile were obtained on minimum shipments of from 40,000 to 80,000 pounds.

Many of the shippers contend that applicants' proposal to increase rates would work a hardship on them and at the same time bring little if any relief to the water carriers, as under present conditions only a small percentage of their products are moved by water between San Francisco and Los Angeles. The relative volumes moving by water, truck, and rail are shown in the following table taken from the testimony of representatives of the various industries.

TABLE XII

PRESENT ROUTES USED BY 20 PRODUCERS BETWEEN SAN FRANCISCO BAY POINTS AND SOUTHERN CALIFORNIA.

Commodity	Shipper	Approx. Tonnage Per Year	Service Used: Water Per Cent	Truck Per Cent	Rail Per Cent
Bags & Bagging	(1)	500	-	-	Approx. all rail
" "	(2)	2,500	0	0	100
Beer:	(3)				
Southbound		60,000	15	45	40
Northbound		30,000	*	*	*
Cleaning Compounds	(4)	*	0	100	0
Coffee	(5)	*	0	0	100
"	(6)	1,250	0	0	100
"	(7)	2,500	22.6	0	77.4
Glassware	(8)	10,000	0	32	68
"	(9)	20,000	0	13	87
Paint, etc.	(10)	3,200	47	0	53
Roofing	(11)	6,000	1	95	4
"	(12)	10,000	3	78	19
"	(13)	Over 15,000	8	nil	90
Salt	(14)	*	occasional use - rail preferred		
Sugar:#					
Inland Producer	(15)	*	0	0	100
" "	(16)	*	-	-	Approx. all rail
Shipside "	(17)	*	approx. all water		-
Sulphate of Alumina	(18)	600	30	0	70
Vegetable Oils	(19)	*	14	40	46
Waste Paper	(20)	Over 7,000	0	0	100

* = Information not in record.

\# = The sugar movement in 1935 was 44,709 tons, or 45.9 per cent of the 97,477 total tons of the commodities here involved handled by the four applicant water lines at present operating. The percentage increased to 61.1 per cent during the first five months of 1936. (Exhibit I-15 and Tr. p. 683).

The above percentages represent present-day movements. In several instances shippers testified to having used the water carriers to a greater degree one, two, three, or more years ago. Various reasons were given for the shift to land transportation, the principal ones being the inadequacy of the water service, infrequency of the sailings, inconvenience ofwater movement, extra handlings required and the greater susceptibility to damage therefrom, longer time in transit, delays from strikes, difficulty in collecting damages on claims, and the attractiveness of rates of land carriers. The inadequacy of the existing rates probably contributed in part to certain of these items. Judging from the testimony of these producers, the water movement on many of the commodities is but a small or even negligible proportion of the total movement between San Francisco Bay points and Los Angeles.

The testimony of applicants' witnesses indicates in general that calls to San Diego and Richmond are now but irregularly made. Such service as is provided is dependent upon the amount of cargo the public offers, the revenue received, the space available, and the operating convenience of the carrier. Witnesses for the water carriers further testified that the determination as to whether calls should be made was a matter properly to be left to the judgment of the water carrier. As rate increases by water, truck, and rail are proposed to Richmond and San Diego, question was raised as to whether thewater carriers were justified in asking for an increase in the rates of land carriers for the purpose of permitting higher rates by water when they were not willing to assure the shippers that regular service by water would be available. In reply a witness for the applicants testified that, considering all of the commodities involved and considering that the

future of Coastwise intrastate water service was at stake, their position was justified.

Several shippers threatened to put their own trucks into operation if rates were raised. For example, a witness for the Fibreboard Products Company testified that in virtue of the balanced movement of raw materials northbound with finished fibreboard products southbound, a 100 per cent load factor could be obtained. Applying this factor to C. G. Anthony's Exhibit I-6, witness arrived at a cost of 22-1/2 cents per 100 pounds for a 20-ton gasoline unit, after making adjustments for a 400-mile route and eliminating gross revenue taxes, cargo insurance, and profit allowance. For Diesel equipment, this figure dropped to 18.9 cents. Costs ranging from 42 cents to 21.6 cents were obtained by applying the same computation to Fred H. Chesnut's cost study, Exhibit I-9, using 50 per cent and 100 per cent load factors, respectively. An even lower cost was obtained by combining the most favorable features of both studies.

Witness for the Owens-Illinois-Pacific Company testified that this company was now operating a fleet of trucks between San Francisco and the East Bay and within the City of San Francisco. If the present rail rate of 20 cents per 100 pounds were increased to the 32-1/2 cents proposed by applicants, or even to 25 cents, this company would operate its own trucks between San Francisco and Los Angeles. Evidence indicated that the balanced nature of its north and southbound movement would permit of a high load factor.

The Johns-Manville Corporation witness pointed to a balanced movement consisting of roofing and insulating materials southbound from its Pittsburg and Redwood City plants, and infusorial earth moving northbound. This company is now trucking approximately

3,000 tons annually into the San Francisco Bay area by contract carrier. A representative from the Clorox Chemical Company similarly testified that this company enjoyed a balanced movement of Clorox southbound and empty bottles northbound and that an increase in rates would lead it to turn to proprietary trucking or the construction of a plant in Los Angeles.

Witness for the Holly Sugar Corporation introduced a cost study, Exhibit I-26, covering the cost to truck sugar from Tracy, California, to Los Angeles (p. 931). The low cost of 17.84 cents per cwt. is shown. This company at present operates approximately 50 truck units and the view is adopted that the addition of two or three more units would add nothing to the existing overhead costs. All allowances were therefore eliminated for fleet management and supervision, maintenance of garages, office facilities, clerical work, or other overhead. Also, no profit was included as the witness stated the company did not expect to earn a prodit from trucking. Four round trips per week or 150,000 miles per year are expected.

Serious doubt arises as to the reasonableness of comparing "for hire" carriers' costs with shippers' estimates which assume a 100 per cent load factor and extremely high use factor, and fail to make allowance for supervision, shop and office overheads, clerical expense, special taxes or return upon the investment. It would appear, for example, that the cost of capital to an industrial concern is just as real when the money is invested in a truck as when it is invested in a piece of machinery and it seems doubtful if the stockholders of a concern would be as willing to waive the return upon this part of their investment

as the record would imply. It cannot be denied, however, that proprietary truck operation provides potential competition, although there is little evidence in the record that such exists today between San Francisco and Los Angeles on the 29 commodities here concerned.

STATUTORY PROVISIONS CONCERNING DIFFERENTIALS.

Applicants urge that Section 34(a) of the Public Utilities Act[18] is a clear mandate of the Legislature to the Commission to preserve water transportation in full vigor. Attention is also directed toward Section 32½ of the Act.[19]

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(18) Section 34(a) reads as follows:

> "It is hereby declared to be the policy of the State of California that the use of all waterways, ports, and harbors of this State shall be encouraged, and to that end the commission is directed in the establishment of rates for water carriers applying to business moving between points within this State to fix said rates at such a differential under the rates of competing land carriers that said water carriers shall be able fairly to compete for said business, and in the fixing of said rates there shall be taken into consideration quality and regularity of service and class and speed of vessels." (Added Statutes 1933, Chapter 784).

(19) Section 32½ of the Act reads as follows:

> "Whenever the commission, after a hearing had upon its own motion or complaint, shall find that any rate or toll for the transportation of property is lower than a reasonable or sufficient rate and that said rate is not justified by actual competitive transportation rates of competing carriers, or the cost of other means of transportation, the commission shall prescribe such rates as will provide an equality of transportation rates for the transportation of property between all such competing agencies of transportation. When in the judgment of the Railroad Commission a differential is necessary to preserve equality of competitive transportation conditions a reasonable differential between rates of common carriers by rail and water for the transportation of property may be maintained by said carriers and the commission may by order require the establishment of such rates."
> (Added Statutes 1935, Chapter 700).

A consideration of the provisions of these sections, however, clearly discloses that the language of Section 34(a) must not be construed as mandatory. Here the Commission is directed to fix the rates of water carriers at such a differential under those of competing land carriers that the former "shall be able fairly to compete for said business," and in arriving at these rates, it is required to consider "quality and regularity of service and class and speed of vessels." If the Commission must determine rates on a basis which will permit "fair" competition between land and water carriers, and must consider "quality and regularity of service," it undoubtedly is clothed with some discretion in arriving at the result. Should the facts show that no differential is required to permit "fair" competition, then the establishment of such a differential is not essential.

Although the language of Section 34(a) is sufficiently comprehensive to embrace within the term "land carriers" motor carriers as well as railroads, these provisions must be read in the light of Section 10, Highway Carriers' Act, (Statutes 1935, Chapter 223), where the Commission is authorized to establish just, reasonable and non-discriminatory maximum or minimum rates to be observed by highway carriers, other than highway common carriers, subject to the limitation, however, that "such rates shall not exceed the current rates of common carriers for the transportation of the same kind of property between the same points." Here there is an express prohibition against the establishment of a differential in the rates of water common carriers below those of Highway Carriers. However, in prescribing these rates, due consideration must be given to the cost of performing "additional transportation" and "accessorial" services (20) which the

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(20) Applicants state such services embrace:
(a) Split pick-ups and deliveries.
(b) Handling freight between sidewalk or loading platform and the interior of the truck.
(c) Handling freight between place of rest in the warehouse and the tail gate of the truck.
(d) Advertising on trucks.

other types of carriers do not perform. From the evidence in this proceeding it appears that, after making allowances for such services, the trucks can meet the common carrier water rate.

Furthermore, Section 34(a) must be construed in conjunction with Section 13½, Public Utilities Act, added in 1935 (Statutes 1935, Chapter 700), a later enactment than Section 34(a). Here any common carrier may establish less than maximum reasonable rates "when the needs of commerce or public interest require," subject to the limitation that where such a reduction is sought "for the purpose of meeting the competitive charges of other carriers or the cost of other means of transportation," the carrier may not reduce the rates below the charges of competing carriers or the cost of transportation incurred through other means of transportation, "except upon such showing as may be required by the Commission and a finding by it that the rate is justified by transportation conditions." From this language there is clearly implied the authority to consider the competition existing between the carriers serving the field and in determining the extent to which any proposed reduction may be justified by competition between carriers, including that existing between the railroads and the water carriers, the Commission's discretion, under the terms of this section, is subject to no limitation requiring it, in establishing rates applicable to the different types of carriers, to observe any differential.

Turning now to Section 32½, it will be observed that this section, added in 1935 (Statutes 1935, Chapter 700), also subsequent to the passage of Section 34(a), authorizes the Commission under certain conditions to "prescribe such rates as will provide an equality of transportation rates for the transportation of property between all such competing agencies of transportation," and in so doing, the Commission may, when in its judgment it becomes necessary to preserve equality of transportation conditions, prescribe a reasonable differential between the rates of rail and water common carriers. Obviously the provisions of this section are not mandatory; on the contrary,

they expressly clothe the Commission with discretionary power to establish such a differential. In arriving at this conclusion, the Commission is authorized to consider and determine whether or not the competition is of such a character as to warrant the creation of a differential. Moreover, this section by its terms is limited to rail and water carriers; highway carriers are not included.

Sections 34(a) and 32½ are silent as to the problem of fixing water rates at a differential under the land carriers' rates when there may be no corresponding differential in the cost by water vs. rail. An examination of these sections does not lead to the conclusion that land carrier rates should be raised above what would otherwise be considered a "reasonable and sufficient" level in order that "the use of all waterways, ports, and harbors of this State shall be encouraged," especially when the requested differentials apply not only on the port-to-port rates, but on combination or joint water-rail rates to inland points. Water carriers contend, for example, that they are entitled to a fair opportunity to compete for the business of Los Angeles in the south and the sugar traffic of Tracy, Manteca and Spreckels in the north and that the differentials established to this end should be sufficient to absorb such water route handicaps as the extra costs of getting goods to the dock, tolls or wharfage, marine insurance, rail line haul at destination, and, in addition, an allowance for the so-called nuisance factors of water transportation.(21) When the cost of these items (excluding nuisance factors) is summed up on a San Francisco-Los Angeles movement, it may exceed the cost by the all-rail route.(22)

From a consideration of all the applicable statutory provisions, we must conclude that the terms of Section 34(a) are not mandatory.

(21) These latter include the greater liability for damage, loss of transit privileges, slower service, less dependability, etc.

(22) Compare the all-rail cost of 27.7 cents per cwt. on 30,000-pound shipments (Table IV) with the cost by water and rail of approximately 30 cents (Table III).

POSITION OF THE STOCKTON TRAFFIC BUREAU (23)

The Stockton Traffic Bureau pointed toward the fact that with few exceptions the rail rates from Stockton to Southern California points are the same as those from the San Francisco Bay points to Southern California. In so far as the movement of the commodities under consideration is involved, Stockton is competitive with San Francisco and is a related point. Therefore, the rates between San Francisco Bay points and Southern California cannot properly be considered without considering the corresponding rates between Stockton and the same Southern California points.

It was pointed out that any increase in San Francisco rates must do one of two things, either the Stockton rail rates must be increased by reason of the intermediate application of the increased San Francisco rate at Stockton, or the long standing competitive relationship between Stockton and San Francisco Bay points must be disturbed. After taking the position that the record did not justify any increase in the rail rates between Stockton and the Los Angeles area, the Bureau further contended that the existing adjustments of rail and water rates is unreasonable and unjustly discriminatory. Its position may be set forth briefly as follows:

> EITHER:
> If any of the land rates to and from Southern California are blanketed at Stockton and San Francisco Bay points, the water rates should also be blanketed in the case of vessels calling directly at Stockton.
>
> OR:
> If the water rates to and from Southern California points are higher at Stockton than at San Francisco Bay points, the land transportation rates to and from Southern California points should be lower at Stockton than at San Francisco Bay points.

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(23) The Stockton Traffic Bureau represents the interests of the City of Stockton, the Stockton Chamber of Commerce, the Stockton Port District, and the San Joaquin County Farm Bureau Federation in traffic and transportation matters.

As pointed out elsewhere in this Opinion, the present rail rate blanket has been long established, generally embracing San Francisco, Stockton and, in many cases, Sacramento. It is based upon a consideration of many factors, among which distance is only one. On the other hand, the water carriers are a separate corporate entity. Their rate adjustments are by no means bound by the rail adjustments. To superimpose upon them by order the features of the rail rate structure may prove burdensome, particularly as this order will grant them no relief from their present financial plight. Under these circumstances an order requiring them to extend their present rates (certain of which are herein found to be non-compensatory) 86 miles inland, does not appear as justified nor does the record justify an order disturbing the present blanketing of the rail rates.

CONCLUSIONS

The water carriers state that the combination of their rate reductions, plus increased costs, places them in a position where they must have immediate relief in the form of rate increases, and furthermore, that such increases cannot be applied unless the rates of competing land carriers are correspondingly raised to maintain existing differentials. They support this position with the contention that the present land carrier rates are neither compensatory from a cost standpoint nor justified by competition. On the other hand, the rail lines strongly oppose any increase in their rates, urging, firstly, that their existing rates are compensatory, and secondly, that market competition and the competition from "for hire" trucks and from the threatened operation of proprietary trucks necessitates and permits the continuance of their present charges. Truck operators took no position one way or the other. Shippers also opposed the increase for the reasons already

presented.

The issues may be summed up briefly as follows:

1. Does the record justify the increase in water rates as requested?

2. Does the evidence justify an order directing the land carriers to increase their rates correspondingly, as requested by the water carriers?

Concerning the first of these issues, the record is clear as to the water carriers' need for relief. The proposed average port-to-port rate of 19.5 cents per cwt. is to be compared with an average cost of 19.7 cents. The mounting cost of labor and supplies, coupled with the rate reductions of recent years, has, without doubt, served to justify the increases requested.

Two questions arise in answering the second issue:

1. Are the present land carrier rates below a reasonable and sufficient level?

2. Are the present land carrier rates justified by competition?

Considering the first of these questions, a comparison of the rail costs developed in Table IV with the truck costs shown in Table XI indicates the railroad to be the low cost carrier, even though the truck costs include pick-up and delivery. The question thus turns upon the sufficiency of the present rail rates. Table IV was developed for the purpose of providing such reasonable test as the record would permit of the sufficiency of the rail rates in question. An examination of this table indicates that the revenues earned by each of the groups of commodities named is sufficient to meet full operating costs. Furthermore, the revenues upon all the commodities, except ten, more than meet the burden of fixed charges allocated to them.

The items failing to meet the full burden of fixed charges laid against them are listed below with the amount of such deficiencies.

Commodity	Amount by which items fail to meet fixed charges (Unadjusted for actual instead of minimum car loadings and for classification).
1. Beverages	2.73 Cents per Cwt.
2. Carpets and Carpeting	2.73 "
3. Dessert Preparations	5.73 "
4. Metals and Metal Articles	3.73 "
5. Metal Scrap	3.73 "
6. Paints, etc.	2.73 "
7. Rags	2.73 "
8. Roofing and Building Materials	3.73 "
9. Salt	6.23 "
10. Sea Shells	4.49 "

In considering these items it must be remembered that the costs are not adjusted for actual average car loadings. If such adjustments were made, the reduction in the direct costs of hauling beverages would amount to 3.0 cents; on roofing and building materials 4.1 cents; and on salt 3.1 cents.(24) If the corresponding adjustments were also made in the indirect operating expenses, these reductions in costs would be about 50 per cent greater. It is evident that such corrections in the cost data would result in the rates on many of the above commodities being found compensatory. However, the data necessary to make such adjustments is not in the record except as to a few items.

On the other hand it must be remembered that a proper adjustment for high and low-rated commodities and classification has not been made. Such an adjustment would serve in some instances to increase rates and in the other cases to further reduce them. The desired data is here also unavailable.

In summing up it may be stated that while the cost data presented in this proceeding are extensive, yet the inability to

(24) See Table VI.

make the various needed adjustments, plus the use of system average unit costs, cannot but leave an element of doubt as to the degree they reflect true cost. However, after careful consideration of all the rate and cost data presented, and the various rate and cost comparisons drawn therefrom (with such adjustments as the records permit), it does not appear that the evidence justifies a finding that the rail rates are below a reasonable and sufficient level.

Turning to the second question, the record indicates that the factor of competition becomes the most effective in the struggle between the rail carriers and the "for hire" trucks for traffic. The rail lines point, for example, to their difficulty in competing for the business of industries not served by spur tracks. The cost to such shippers of moving their freight by rail and truck is compared below.

The present rail rate between San Francisco and Los Angeles upon the 29 commodities, when moving under 30,000 to 40,000-pound minima averages about 27 cents per cwt., to which must be added an allowance for drayage to and from team tracks and for car loading and unloading. Assuming from the evidence in the record an approximate cost of four cents per cwt. for drayage and a cost of one cent per cwt. for loading and unloading each, the total cost becomes as follows:

Drayage to Team Tracks	4 cents per cwt.
Car loading	1 " " "
Present Rail Rate (Average)	27 " " "
Car Unloading	1 " " "
Drayage from Team Tracks	4 " " "
Total Cost, Store-door to Store-door	37 cents per cwt.

The cost by rail is thus 37 cents (or 33 cents if one of the parties is located on a spur track). On the other hand, the evidence indicates that the costs of "for hire" trucking between San Francisco and Los Angeles will vary in relation to the size of the vehicle, the type of fuel, the load factor, and the use factor. Estimates range from near 50 cents per cwt. down to near 30 cents, including loading and unloading, depending upon the allowances for these factors. Estimates by shippers went as low as 18 or 20 cents but these latter were based upon 100 per cent load factors, extremely high use factors, and in certain cases excluded allowances for supervision, garage maintenance, office overheads, and fair return. A careful review of the evidence justifies a conclusion that under certain favorable conditions assumed in the studies set forth herein, commodities can be moved by the "for hire" carriers at costs somewhere between 30 and 40 cents per cwt. As there is little evidence as to the vehicle capacities, types of fuel, load factors, and use factors obtaining among the San Francisco-Los Angeles truck operators, it is difficult on the present record to reach any closer conclusions.

This truck cost of between 30 and 40 cents is to be compared with the present cost by rail of 37 cents on rail movements between industries not served by spur tracks. As the applicant water lines are proposing to increase the average rail rate of 27 cents to 32 cents, the cost estimate of 37 cents store-door to store-door, shown above, will be increased to about 42 cents. The position of the rail carriers that competition does not permit of the increase in their rates appears justified.

To sum up, inasmuch as the rail rates are not found to be less than reasonable and sufficient, and inasmuch as the proposed rail rate increases are greater than the competition will reasonably permit, an order prescribing increased rates for the land carriers

is not justified. Furthermore, a careful consideration of the rate making provisions of the Public Utilities Act and the Highway Carriers' Act does not justify a change in such conclusion.

As the applicant water lines have requested that no increase be prescribed in the rates of the steamer lines unless and until related adjustments are likewise ordered in the rates of the competing land carriers, no order prescribing such increase will be made as to such water lines.

Mention has been made earlier in this Opinion concerning the effect of the proposed rate increases upon the present rail rate blankets and the problems arising therefrom. As these inland rate relationships have been of relatively long standing, and as the traffic has become adjusted to them, they should only be disturbed after serious consideration. On the other hand, if such rate relationships are not to be disturbed, applicants' proposal will require an average increase of approximately $1.00 per ton on all land movements of the 29 commodities between Central and Southern California points. Question was raised by shippers as to whether these rate increases on many of the commodities would be of aid to the water carriers where the preponderant volume of the tonnage is now moved by land. The water carriers, however, point to the fact that their intrastate business has become so unprofitable that two of the three interstate lines now operating have ceased to solicit it, i.e., the Hammond Shipping Company, Ltd., and the Pacific Steamship Lines, Ltd. It now constitutes not over 5 per cent of the interstate business of the latter company, where formerly it was 20 per cent. Rate increases are necessary if they are to regain and profitably handle the tonnage they once had. The conclusions reached above, however, obviate the necessity for further discussion upon these points.

In virtue of these conclusions, and in view of the fact that the contract carrier and radial highway common carrier operations here involved are also the subject of another pending investigation by this Commission (Case No. 4088, Part "H"), no order prescribing rates will be made herein as to such carriers.

O R D E R

Public hearings having been held in the above entitled proceedings and based upon the evidence received at the hearings held therein and upon the conclusions set forth in the preceding Opinion,

IT IS HEREBY ORDERED that Application No. 20535 be and it is hereby denied, without prejudice.

IT IS HEREBY FURTHER ORDERED that Case No. 4128 be and it is hereby dismissed.

IT IS HEREBY FURTHER ORDERED that subject to the terms of the following paragraph of this Order, upon consideration of the evidence introduced in Case No. 4088, Part "I," no maximum or minimum, or maximum and minimum rates, rules, regulations or differentials relating to any of the matters or things considered in Case No. 4088, Part "I," shall at this time be established or approved, to be observed, charged and collected by any Radial Highway Common Carrier or Highway Contract Carrier.

IT IS HEREBY FURTHER ORDERED that the Commission shall and it does hereby retain jurisdiction of Case No. 4088 to establish, approve, alter or amend any just, reasonable and nondiscriminatory maximum or minimum, or maximum and minimum rates, charges, classifications, rules and regulations to be charged, collected and observed by Radial Highway Common Carriers and Highway Contract Carriers, both for the transportation and accessorial

services hereinabove described, and for other transportation and accessorial services as may from time to time appear proper in the light of other or further evidence received therein.

The effective date of this Order shall be twenty (20) days from the date hereof.

Dated at San Francisco, California, this 8th day of February, 1937.

Commissioners