

Decision No. 53952**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
THE RIVER LINES, INC., a corporation,
for an order authorizing increases in
rates in the State of California.

Application No. 38161

In the Matter of the Application of
THE HARBOR TUG AND BARGE COMPANY, a
corporation, for an increase in rates.

Application No. 38162

In the Matter of the Application of
BAY CITIES TRANSPORTATION COMPANY, a
corporation, for an order for an
increase in the rates for the trans-
portation of liquid petroleum in bulk.

Application No. 38163

In the Matter of the Application of
J. C. FREESE COMPANY, a copartnership,
for an order authorizing it to increase
and revise its rates within the State
of California.

Application No. 38165

Allan P. Matthew and Gerald H. Trautman, for The River Lines, Inc.; Vaughan, Paul and Lyons by John Lyons, for the Harbor Tug and Barge Company; Douglas Brookman for Bay Cities Transportation Company; and Pillsbury, Madison and Sutro by Noel Dyer for J. C. Freese Company; applicants.
R. E. Thornton for Tidewater Oil Co.; and R. Langrainer and A. E. Patton for Richfield Oil Company; interested parties.
Timothy Canty and John R. Laurie, for the Commission's staff.

FINAL OPINION

Applicants seek authority to increase, by approximately 16 per cent, their rates applicable to the transportation of petroleum products in bulk by barge on the waters of San Francisco Bay, Sacramento River, San Joaquin River and tributaries of such waters. An interim opinion and order in Decision No. 53426 dated July 16, 1956, in these proceedings authorized the applicants to increase said

rates by the application of an 8 per cent surcharge pending final determination of the applications.

Public hearings were held before Examiner J. E. Thompson at San Francisco on August 6 and 7, 1956. The applications were consolidated for the purpose of hearing and decision, and the matters were taken under submission August 17, 1956, the applicants being granted leave to amend their applications to the extent of clarifying proposed rules in their tariffs for the application of rates and for the purpose of obtaining uniformity of proposed rules in their respective tariffs.

The management of the applicants testified in support of the applications. The Commission's staff assisted in the development of the record through the cross-examination of the witnesses.

The record shows that with the exception of proprietary operations by Standard Oil Company all of the barge traffic of petroleum products in bulk on the waters with which we are here concerned is handled by the four applicants. While applicant Bay Cities Transportation Company publishes rates for this transportation, they participate in the traffic to a very small extent. There is vigorous competition among the other three applicants for this traffic. For many years there has been no upward adjustment of the rates. The record shows that J. C. Freese Company, which is engaged solely in transportation of petroleum products by barge, has never sought authority from the Commission to increase rates, and The River Lines which has had rates on bulk petroleum in effect since 1932 and 1940 has never increased those rates. Since the rates were published, there have been a number of rates which have been reduced.

All of the applicants' operations are conducted through work performed by tugboat operators who are represented by the Marine Engineers' Beneficial Associations, and by deckhands and tankermen who are represented by the Inland Boatmen's Union. On or about January 2,

1956, both of these operating unions put into effect a strike which terminated on May 14, 1956, by agreement. As a result of this agreement the tugboat operators, deckhands and tankermen received substantial increases in wages and additional fringe benefits. The agreement which is in force for three years provides for additional wage increases to become effective in 1957 and in 1958.

The applications, if granted, are intended to accomplish two results. One is to provide additional revenues through increased rates, the other is to establish a greater uniformity of tariff rules and regulations governing the application of rates of the applicants. Each of the applicants has rules and charges covering circumstances that it has encountered. According to the testimony the shippers have informed the carriers that some uniformity of rules in the tariffs is desirable. As a result of this expression by the shippers, the other applicants propose to publish rules concerning barge contamination similar to that published by J. C. Freese Company, and all of the operators propose to establish more uniform charges and rules for particular services. All of the services involve unusual circumstances or services that are required only occasionally. The amount of revenue which is anticipated to result from such charges is practically negligible when considered for a period of one year.

The River Lines, Inc. offered exhibits showing a summary of earnings for the year 1955 and showing estimates of revenues and expenses for a 12-month period ending August 31, 1957, with respect to its over-all operations and also with respect to the petroleum traffic only. The following summarizes the operating results as shown on the aforesaid exhibits.

The River Lines, Inc.
Summary of Operating Results

	<u>Actual, 1955</u>	<u>Estimated 9/1/56 to 8/31/57</u>	
	<u>Over-all</u>	<u>Over-all</u>	<u>Petroleum Only</u>
Revenues	\$1,271,123	\$1,437,955	\$ 972,186
Expenses	<u>1,166,040</u>	<u>1,278,541</u>	<u>894,825</u>
Gross Income	\$ 105,083	\$ 159,414	\$ 77,361
Income Tax	<u>51,161</u>	<u>80,456</u>	<u>38,990</u>
Net Income	\$ 53,922	\$ 78,958	\$ 38,371
Rate Base	\$1,657,783	\$1,467,783	\$1,129,729
Rate of Return	3.25%	5.38%	3.4%
Operating Ratio	95.7%	94.5%	96.0%

From the record it appears that the estimate of revenue is understated and that the estimate of income tax is overstated. The record shows that the petroleum shippers are not opposed to the proposed increase and that the proposed rates will be far below the rates of competing forms of transportation. Any loss of traffic that might result from the establishment of the proposed rates should be minute. Applicant did not deduct interest in computing income tax. While interest is not an item which should be considered in operating expenses, it is a factor in determining income taxes. Upon estimating revenues without allowance for diminution and income tax with a \$20,000 deduction for interest, a recalculation of the summary of earnings indicates that the proposed rates should provide a rate of return on over-all operations of 6.30 per cent and on the petroleum operation of 4.21 per cent; both rates of return being on the rate bases shown above.

The River Lines, Inc. is the only one of the applicants that operates both the tugs and barges that are used in transporting petroleum by barge. The J. C. Freese Company operates its barges but engages the towing services of The San Francisco Towing Company, a corporation whose principal officers are the general manager and accountant of J. C. Freese Company. Harbor Tug and Barge Company contracts its towing with United Towing Company, an affiliated corporation and contracts for the use of barges owned by other affiliates. Bay Cities Transportation Company has the United Towing Company perform the transportation of petroleum products by barge and pays it 95 per cent of the gross revenue earned.

The statements of operating results of these applicants are not reliable for the purpose of determining just and reasonable rates for the transportation here involved. It is apparent, however, that regardless of the method of operation by these applicants, the cost of operating tugs and tank barges on the waters of San Francisco Bay and the Sacramento and San Joaquin Rivers has increased substantially. The operating results of The River Lines, Inc. provides a reasonable measure of the effect of the higher costs. Upon consideration of all of the facts and circumstances of record the Commission is of the opinion and finds that the increases resulting from the rates, rules and regulations proposed by the applicants are justified. The applications, as amended, will be granted.

FINAL ORDER

Based on the evidence of record and on the findings and conclusions set forth in the preceding opinion,

IT IS ORDERED that The River Lines, Inc., The Harbor Tug and Barge Company, Bay Cities Transportation Company and R. F. Conway and C. C. White, doing business as J. C. Freese Company, be and they are hereby authorized to publish and file, on not less than five days' notice to the Commission and to the public, the rates, charges, rules and regulations set forth in their respective applications as amended.

The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 1st day of OCTOBER, 1956.

E. E. Mitchell President
Justus F. Casper
Paul J. Lutz
Wm. H. ...
R. ... Commissioners