

Decision No. 60068**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of THE RIVER LINES, INC.,
a corporation, for an order author-
izing increases in rates and charges
for transportation by water.

Application No. 41790

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

Application No. 41793

In the Matter of Application of
BAY CITIES TRANSPORTATION COMPANY,
a corporation, for an order authorizing
increases in its rates and charges for
the transportation of petroleum and
petroleum products, in bulk.

Application No. 41876

In the Matter of Application of THE
HARBOR TUG AND BARGE COMPANY,
a corporation, for an order authorizing
increases in its rates and charges for
the transportation of petroleum and
petroleum products, in bulk.

Application No. 41877

Gerald H. Trautman for The River Lines, Inc.,
Noel Dyer for J. C. Freese Company,
Frank Loughran for Bay Cities Transportation
Company and The Harbor Tug and Barge Company,
applicants.
E. J. Dunne, by S. M. Key, for Shell Oil Co.,
Philip J. Ryan for Union Oil Co.
A. E. Patton for Richfield Oil Co.,
Clarence C. Fox for Tidewater Oil Co.,
interested parties.
Grant L. Malquist for the Commission staff.

O P I N I O N

Applicants operate as carriers of property by barge on the
waters of San Francisco Bay, the Sacramento and San Joaquin Rivers,
and tributaries thereto. By these applications they seek authority
to increase their rates and charges applicable to the transportation

of petroleum products in bulk by approximately 21 percent. The River Lines also seeks a similar rate increase on dry freight.

Applicants stated that immediate relief was necessary to recover the immediate effect of increased wages incurred as a result of the settlement of a strike of their operating employees, which shut down their operations from May 15, 1959 to November 29, 1959. A study made by the transportation engineers of the Commission staff indicated that an interim increase of 12 percent should be authorized pending public hearing on the applications. Such increase was granted to applicants by Decision No. 59532, dated January 15, 1960, in Applications Nos. 41790 and 41793, and by Decision No. 59554, dated January 26, 1960, in Applications Nos. 41876 and 41877.

The four applications were consolidated for hearing and decision. Public hearings were held at San Francisco on March 3, 4 and 11, 1960, before Examiner William E. Turpen. Evidence was presented by officials and representatives of each of the four applicants and by an associate transportation engineer of the Commission's staff.

The record shows that, with the exception of a small amount of proprietary operations by the oil companies, all of the transportation of petroleum products by barge in the area here involved is performed by the four applicants. The record also shows that competitive factors require that the four applicants maintain their rates and charges at the same levels. The same four applicants were authorized to increase their rates and charges by approximately 16 percent by Decision No. 53852, dated October 1, 1956, in Applications Nos. 38161, 38162, 38163, and 38165. The increase authorized at that time also followed settlement of a lengthy strike by applicants' employees.

The record shows that the various applicants have different methods of operation. The River Lines owns and operates its tow boats and barges, except for one barge which is leased. J. C. Freese Company operates six barges, of which four are leased, and it contracts for all of its towing to be done by San Francisco Towing Company. As for the other two applicants, bulk oil transportation is not the major part of their business; and they both contract with United Towing Company to perform all bulk petroleum operations, for which they pay United Towing Company 95 percent of the revenues received.¹ All applicants introduced into evidence studies showing operating results for the year 1958, and adjustments of these results to reflect the known increases in costs, the increases in revenues if the sought rate increase is granted, and any expected loss of traffic. Operating results for the year 1958 were used because of the strike during 1959. In computing the operating results for Harbor Tug & Barge Company and for Bay Cities Transportation Company, the accounting witness calculated their expenses by using that percentage of United Towing Company's expenses which was the same as the percentage of United Towing Company's total revenue which was received from the applicant involved. J. C. Freese Company did not develop a rate base, due to the fact that most of the equipment which it uses is leased by it. The witness for Harbor Tug and Barge Company and Bay Cities Transportation Company developed a rate base for the adjusted operating results by computing the dollar investment on a cost less depreciation per revenue dollar earned basis for United Towing Company and relating that figure to applicants' revenues.

¹ The record shows that the bulk oil amounts to about 37 percent of the business of Harbor Tug and Barge Company, and about 10 percent of the business of Bay Cities Transportation Company. The payments made by these two companies to United Towing Company equal 43.5 percent of the latter company's total revenue.

The rate bases developed by the three applicants included working capital equal to one month's expenses. The operating results, as developed by applicants, for the year 1958 are shown in Table I, and as adjusted for increased revenues and expenses in Table II.

TABLE I

SUMMARY OF OPERATING RESULTS - YEAR 1958

	<u>The River Lines</u>	<u>J.C. Freesc Co.</u>	<u>Harbor Tug & Barge</u>	<u>Bay Cities Transp. Co.</u>
Revenues	\$1,427,349	\$1,278,081	\$616,598	\$102,212
Expenses	<u>1,243,566</u>	<u>1,083,673</u>	<u>591,825</u>	<u>101,098</u>
Net Income	\$ 183,783	\$ 194,408	\$ 24,773	\$ 1,114
Income Taxes	<u>90,012</u>	<u>95,592</u>	* 8,386	* 377
Net after Tax	\$ 93,771	\$ 98,816	*\$ 16,387	*\$ 737
Rate Base	\$1,398,083	(2)	(2)	(2)
Operating Ratio	(1) 93.43%	92.27%	*97.34%	*99.28%
Rate of Return	(1) 6.70%	-	-	-

* Computed by Commission Staff
 (1) After Income Taxes
 (2) Not supplied

TABLE IIADJUSTED OPERATING RESULTSAdjusted for increased expenses and
revenues under sought rates

	The River Lines (3)	J.C. Freese Co. (4)	Harbor Tug & Barge (5)	Bay Cities Transp. Co. (5)
Revenues	\$1,627,443	\$1,227,046	\$697,683	\$ 95,176
Expenses	<u>1,474,596</u>	<u>1,084,245</u>	<u>641,340</u>	<u>99,369</u>
Net Income	\$ 152,847	\$ 142,801	\$ 56,343	<u>(\$ 4,193)</u>
Income Taxes	<u>73,349</u>	<u>68,756</u>	<u>23,798</u>	<u>-</u>
Net after Tax	\$ 79,498	\$ 74,045	\$ 32,545	<u>(\$ 4,193)</u>
Rate Base	\$1,500,684	(2)	\$595,019	\$ 98,904
Operating Ratio	(1) 95.12%	93.97%	95.33%	104.41%
Rate of Return	(1) 5.3%	-	5.47%	-

() Indicates loss

(1) After Income Taxes

(2) Not supplied

(3) Estimate for year June 1, 1960 to May 31, 1961.

(4) Estimate for calendar year 1960

(5) 1958 results adjusted.

An associate transportation engineer of the Commission's staff testified and introduced into evidence studies he had made of applicants' operations. In addition to studies of operating results prepared in a manner similar to those prepared by the applicants, he prepared operating results in which he treated the barges and tow boats as owned by applicants. The record shows that the leasing of barges and towing service for each of the applicants is between affiliated companies. Expenses adjusted to reflect an ownership basis were included to show the results of operation after inter-company rentals are eliminated. In order to determine the expenses he studied the records of the charter companies performing the towing and leasing the equipment. Table III, below, shows for each of the applicants operating results for the year 1958, as developed by the

engineer, and for the 12 months ending June 30, 1961, under the proposed rates according to applicants' methods of operation, under the proposed rates with all equipment treated as owned by applicants, and under the 12 percent interim rates with all equipment treated as owned by applicants. The engineer's rate base includes a working capital allowance equal to one-half month's operating expenses less depreciation. The figures reflect only the bulk oil operations.²

² Following submission, it was discovered that the expenses shown for The River Lines under the interim rates were in error. It is obvious that such expenses would not be higher than under the proposed rates. The figures in Table III have been changed accordingly.

TABLE III
STAFF'S ESTIMATED RESULT OF OPERATIONS
BULK OIL OPERATIONS

	<u>1958</u>	<u>12-Months Ending 6-30-61</u>		
	<u>Former</u>	<u>Proposed Rates</u>		<u>Interim</u>
	<u>Rates</u>			<u>Rates</u>
	<u>(1)</u>	<u>(1)</u>	<u>(2)</u>	<u>(2)</u>
<u>The River Lines</u>				
Revenues	\$1,046,362	\$1,217,000	\$1,217,000	\$1,143,700
Expenses	<u>976,984</u>	<u>1,149,870</u>	<u>1,087,490</u>	<u>1,087,490</u>
Net Income	\$ 69,378	\$ 67,130	\$ 129,510	\$ 56,210
Income Taxes	<u>26,389</u>	<u>31,920</u>	<u>65,850</u>	<u>25,990</u>
Net after Tax	\$ 42,982	\$ 35,210	\$ 63,660	\$ 30,220
Rate Base	\$ 928,742	\$ 715,420	\$1,025,920	\$1,025,920
Operating Ratio (3)	95.9%	97.1%	94.8%	97.4%
Rate of Return (3)	4.6%	4.9%	6.2%	2.9%
<u>J. C. Freese Company</u>				
Revenues	\$1,278,081	\$1,275,000	\$1,275,000	\$1,198,000
Expenses	<u>1,083,672</u>	<u>1,144,600</u>	<u>921,680</u>	<u>921,680</u>
Net Income	\$ 194,409	\$ 130,400	\$ 353,320	\$ 276,320
Income Taxes	<u>99,325</u>	<u>65,400</u>	<u>186,710</u>	<u>144,820</u>
Net after Tax	\$ 95,084	\$ 65,000	\$ 166,610	\$ 131,500
Rate Base	(4)	\$ 76,000	\$ 860,000	\$ 860,000
Operating Ratio (3)	92.6%	94.9%	86.9%	89.0%
Rate of Return (3)	-	85.5%	19.4%	15.3%
<u>The Harbor Tug and Barge Company</u>				
Revenues	\$ 616,598	\$ 717,100	\$ 717,100	\$ 673,950
Expenses	<u>551,217</u>	<u>620,170</u>	<u>408,560</u>	<u>408,560</u>
Net Income	\$ 65,381	\$ 96,930	\$ 308,540	\$ 265,390
Income Taxes	<u>30,180</u>	<u>47,230</u>	<u>162,350</u>	<u>138,870</u>
Net after Tax	\$ 35,201	\$ 49,700	\$ 146,190	\$ 126,520
Rate Base	(4)	(4)	\$ 294,000	\$ 294,000
Operating Ratio (3)	94.3%	93.1%	79.6%	81.2%
Rate of Return (3)	-	-	49.7%	43.0%

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TABLE III (cont'd.)

STAFF'S ESTIMATED RESULT OF OPERATIONSBULK OIL OPERATIONS

	<u>1958</u>	<u>12-Months Ending 6-30-61</u>		
	<u>Former</u>	<u>Proposed</u>	<u>Rates</u>	<u>Interim</u>
	<u>Rates</u>			<u>Rates</u>
	<u>(1)</u>	<u>(1)</u>	<u>(2)</u>	<u>(2)</u>
<u>Bay Cities Transportation Company</u>				
Revenues	\$ 102,212	\$118,900	\$118,900	\$111,720
Expenses	<u>91,368</u>	<u>102,800</u>	<u>71,160</u>	<u>71,160</u>
Net Income	\$ 10,844	\$ 16,100	\$ 47,740	\$ 40,560
Income Taxes	<u>3,633</u>	<u>5,390</u>	<u>20,470</u>	<u>16,560</u>
Net after Tax	\$ 7,211	\$ 10,710	\$ 27,270	\$ 24,000
Rate Base	(4)	(4)	\$ 50,000	\$ 50,000
Operating Ratio (3)	92.9%	91.0%	77.1%	78.5%
Rate of Return (3)	-	-	54.5%	48.0%

- (1) As operations are conducted
 (2) Assuming ownership by applicant of all equipment
 (3) After Income Taxes
 (4) Not supplied

Because of the different methods of computing the operating results, it is difficult to make direct comparisons between the statements introduced by the applicants and those introduced by the staff. It is clear that the operating results presented by Harbor Tug and Barge Company and by Bay Cities Transportation Company are not reliable for the purpose of determining just and reasonable rates for the transportation here involved, due to the large amount of payments to other companies for services performed. To a lesser extent, the same holds true with regard to J. C. Freese Company. While the studies of the staff give a better indication of the actual costs of performing this service, we are not convinced that the staff studies reflect the full picture. It is clearly apparent, however, that the proposed rates

would result in a level of earnings for these three carriers which is in excess of that justified on this record.

The record is clear, however, that the costs of operating tugs and tank barges in the area involved here has increased substantially. The operating results of The River Lines, as developed by the staff, provide a reasonable picture of the effect of the increases on that company and demonstrate the necessity for some increase in rates. As has been stated previously, the competitive conditions that exist on San Francisco Bay in the transportation of bulk petroleum products by barge require that all four applicants maintain their rates and charges at identical levels.

The record shows that more than 80 percent of the bulk petroleum traffic handled by The River Lines is destined to Stockton, Sacramento or points beyond; that J. C. Freese Company has about half of its hauls to such points; and that nearly all the traffic of Harbor Tug and Barge Company and Bay Cities Transportation Company is to points short of Stockton and Sacramento.

In the light of all the conditions, the proposed increase of 21 percent for traffic destined to Stockton, Sacramento and points beyond, coupled with no increase in rates for the short-haul traffic (i.e., the rates in effect prior to the interim increases authorized in Decisions Nos. 59532 and 59554), and the proposed tariff rules and regulations appear to be justified. These increases would produce the following results of operation based on the staff engineers' exhibits:

	<u>Net Income</u>	<u>Rate of Return</u>	<u>Operating Ratio</u>
The River Lines	\$ 53,600	5.27	95.5%
J. C. Freese Company	126,700	14.7%	89.3%
The Harbor Tug and Barge Company	104,900	35.7%	83.0%
Bay Cities Transportation Co.	19,600	33.3%	80.8%

While these results may overstate the earnings for Freese, Harbor and Bay Cities to some extent, we must conclude that greater increases have not been justified on this record.

Upon consideration of all of the facts and circumstances of record the Commission is of the opinion and finds that the increases in rates and the rules and regulations proposed by applicants are justified, except that no increases in rates applicable to points down river from Sacramento and Stockton are justified. The applications, as amended, will be granted to that extent.

O R D E R

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

IT IS ORDERED:

(1) That The River Lines, Inc., R. F. Conway and C. C. White, doing business as J. C. Freese Company, the Harbor Tug and Barge Company and Bay Cities Transportation 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 increased rates, charges, rules and regulations set forth in their respective applications as amended, except as provided in paragraph (2) below.

(2) That there shall be no increases in rates in the following items in the specified exhibits noted below, except that this restriction shall not apply to rates applicable to the points of Stockton, Sacramento, Colusa, Meridian and Butte City:

Exhibit B-1 of Appl. No. 41790 - Items 100 and 105.
Exhibit 6 of Appl. No. 41793 - Items 200, 210 and 220.
Exhibit D of Appl. No. 41876 - Items 85 and 90.
Exhibit D of Appl. No. 41877 - Items 85 and 95.

(3) That the increases hereinabove authorized shall be in lieu of the interim increases authorized by Decision No. 59532, dated January 15, 1960, in Applications Nos. 41790 and 41793, and by

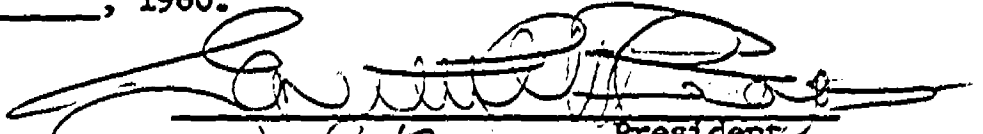
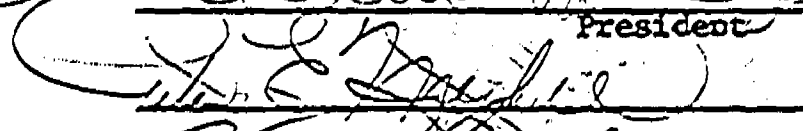
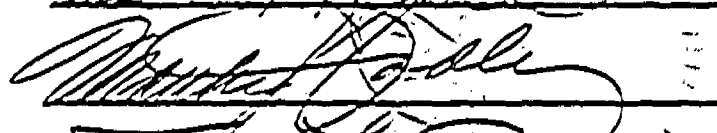
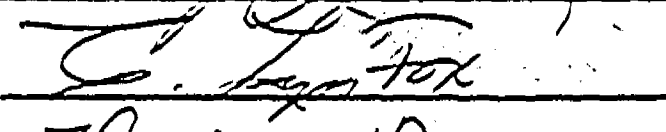
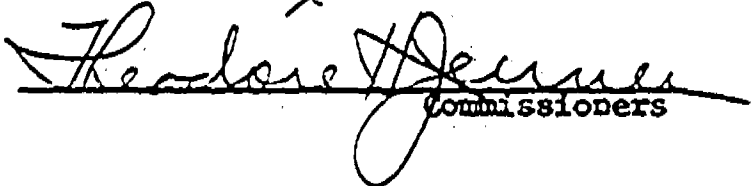
Decision No. 59554, dated January 26, 1960, in Applications Nos. 41876 and 41877, and where such increases are greater than herein authorized they shall be appropriately reduced.

(4) That the authority herein granted shall expire unless exercised within sixty days after the effective date of this order.

(5) That, except as hereinabove granted, Applications No. 41790, 41793, 41876 and 41877, be and they are hereby denied.

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

Dated at San Francisco, California, this 9th day of May, 1960.


President




Commissioners