

Decision No. 82995

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of:  
CATALINA FREIGHT LINE, a corporation,  
to increase rates for the transpor-  
tation of freight between LOS ANGELES  
HARBOR and CATALINA ISLAND, CALIFORNIA,  
pursuant to Section 454 of the Public  
Utilities Code.

Application No. 53856  
(Filed February 22, 1973)

Application No. 54712  
(Filed March 5, 1974)

Russell and Schureman, by Carl H. Fritze,  
Attorney at Law, for Catalina Freight  
Line, applicant.  
Chalmers Lones, Attorney at Law, for  
the City of Avalon; Ralph J. Staunton,  
for the County of Los Angeles; Gregor  
W. Milne, Dennis F. Reiting, John G.  
Wigely, and John P. De Board, for  
themselves; interested parties.  
George L. Hunt and A. L. Gielegem, for  
the Commission staff.

O P I N I O N

Catalina Freight Line (CFL) is a vessel common carrier engaged in the transportation of property by barge<sup>1/</sup> between the port of Los Angeles and Santa Catalina Island (Avalon or the Isthmus). By Decision No. 81309 (1973) in Application No. 53856 the carrier was granted authority to increase freight rates on an interim basis to the level sought in the application.<sup>2/</sup>

<sup>1/</sup> Freight is carried in truck semitrailers which are rolled on and off the barge by the use of truck tractors.

<sup>2/</sup> The increases vary with respect to the several rates in applicant's freight tariff applicable to different shipment weights. The rates in effect prior to Decision No. 81309 were established by Decision No. 57163 (1958). During the intervening 14 years there was no general increase in rates.

Public hearings on Application No. 53856 were held before Examiner Norman Haley in Avalon on October 25 and 26, 1973, and in San Pedro on November 23, 1973. Testimony was presented through eight witnesses. Eight exhibits were presented. The city of Avalon, the staff, and other parties assisted in the development of the record through examination of witnesses. The matter was submitted by letter dated November 27, 1973 from the examiner to interested parties.

Financial and other operating data relative to applicant, and increases in labor rates, terminal expenses, and certain other elements of cost between 1958 and 1972, were detailed in Application No. 53856 and summarized in Decision No. 81309. This opinion relates to the matters developed during the three days of hearing on Application No. 53856, and the additional matters contained in Application No. 54712.

A labor negotiator<sup>3/</sup> testified on behalf of applicant. The witness has acted as labor consultant and negotiator for CFL for approximately four years. He outlined the labor negotiations applicant had been engaged in during that time. He explained that the Teamsters Union has exclusive jurisdiction over the roll-on-roll-off operation, including the platform or dock workers, and the men who actually drive the vehicles on and off the barge. The employees on the tugboat are members of the Inland Boatmen's Union of the Pacific.

The labor witness stated that when he came with CFL there was a pending strike over a dispute wherein the Teamsters

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<sup>3/</sup> The labor negotiator is experienced in the field of transportation labor negotiations. He currently is manager of the Associated Independent Owner-Operators, a statewide trucking organization. He also is the administrator for the health and welfare trust fund for that organization. In that capacity he has negotiated health and welfare programs with various insurance companies. He formerly was an official of the Seafarers International Union.

Union alleged that CFL was a party to the Master Freight Agreement, which is a nationwide trucking agreement. He said that after several meetings with the union applicant was able to negotiate and consummate a different type of labor contract as an exception to the Master Freight Agreement. That contract, which was ratified and is now in effect, contains certain provisions more favorable to applicant. The witness explained that effective January 1, 1973 applicant's contract provided that truck drivers, freight handlers, and roll-on-roll-off workers would receive as take home pay \$5.18 per hour on the mainland and \$4.93 per hour at Avalon. In January 1974 the rates on the mainland and at Avalon became \$5.44 and \$5.19, respectively. In January 1975 those rates will be increased again to \$5.70 and \$5.45, respectively.<sup>4/</sup> The labor negotiator said that the contractual arrangements provide for health and welfare contributions by the employer of a little over \$90.00 per month per employee. He also said that there is a substantial pension contribution provided in the Master Freight Agreement.

The labor negotiator introduced Exhibit 1 which showed some California labor statistics gathered by the California Trucking Association. Among other things the exhibit shows that a platform worker in the Los Angeles area received as of July 1973, a total of \$9.26 per hour or \$22,751.82 per year. Of this the employee would take home \$6.09 per hour or \$14,957 per year. Higher figures are shown for a bobtail truck driver in the San Francisco Bay Area. The witness contended that applicant's teamster contract is substantially under the market in the transportation industry, and that it would be very difficult for any company to attract comparable drivers for less money. He asserted that the union official with whom they negotiated

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<sup>4/</sup> The witness explained that if the Santa Catalina Island Company were to negotiate a higher labor rate applicant would be required, under Section 7 of its contract with the Teamsters Union, to pay such higher rate.

was well informed and realized that the Catalina situation was different from any other. He characterized the contract with applicant as one without any featherbedding clauses and one which provides pay for work done.

The labor negotiator asserted that the functions of the truck driver in rolling semitrailers on and off the barge are very different from ordinary operations of backing into a dock. He explained that applicant's drivers have a more difficult job in backing down onto the barge with the water in motion, tying up, unloading, and reloading. He was of the opinion that the company had done a good job training the employees to meet the needs of the operation and that they should be considered permanent, steady employees. At certain times of the year applicant hires additional temporary help.

The labor negotiator stated that there are no longshoremen used to assist the operation in any way. He said that if longshoremen were involved there would be a minimum of six more employees added to the labor force without cutting down on any of the existing employees. He said that in the negotiations with the Teamsters Union they were able to keep the work force to a minimum.

The labor negotiator also asserted that there was no featherbedding in the contract with the Boatmens Union. He said that in negotiating the contract with that union there was an issue whether the employees should be paid for 40 hours a week whether they worked or not. He explained that applicant has a provision in the contract that the tug employees, consisting of a skipper and deckhand, will only be paid for work done. He said that the agreement provides that only necessary people will man the tug for both operational and safety purposes. He classified the tug and barge operation as one requiring a skilled job. He asserted that the agreement protects the company and the public both from a service and safety standpoint. He said that experience has shown that two

people can very adequately handle the tug and barge. It was his opinion that it would not be safe for only one man to operate the tug towing a barge loaded with roll-on-roll-off containers which should be watched all the time, particularly when the weather is windy and the seas are rough. He was of the opinion that if there were an unsafe condition, both the union and the Coast Guard would have intervened. He said that in 1972 the union requested that a marine engineer be hired for 40 hours pay a week, but that this demand was successfully negotiated away.

Applicant's president<sup>5/</sup> testified concerning the sought rate increases. The witness described in detail the tug, barge, and automotive equipment, the methods of operation, and the CFL equipment rental costs. This witness also testified concerning the financial results of operation under the interim rates authorized by Decision No. 81309, as well as anticipated results of operation.

The tug, barge, and truck tractors were especially designed for the Catalina service. The tug has an advantage over most tow boats in that it has two engines and two propellers. This affords more maneuverability and added safety. If one engine stops, the tug can continue to operate. If the steering mechanism goes out the tug can be steered on an approximate course by controlling the two propellers. The barge is 128 feet long, 38 feet wide, approximately 8 feet deep, and has a capacity of approximately 600 tons. It usually can accommodate 16 trailers loaded four abreast and four deep.

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<sup>5/</sup> The CFL president is a certified public accountant. He was formerly engaged in that capacity with Arthur Anderson and Company and with the Santa Catalina Island Company. He has been associated with the freight service of applicant since 1947. He devotes all of his time to the freight operation. He is the sole stockholder of CFL. The president, with the help of his son, is capable of bringing the tug and barge across the channel and driving the truck tractors in the event that this becomes necessary to prevent interruption of service.

It is equipped with three skegs (runners) along about 20 feet of the bottom to keep the barge off the rocks when landing, and to get into areas on a lower tide than otherwise would be possible. The barge has a heavy 20-foot ramp which is raised and lowered by a winch on the barge to form a bridge to permit loading and unloading of the trailers at Wilmington and Avalon. The truck tractors are highly maneuverable. They are equipped with hydraulic fifth wheels with a maximum lift of 14 inches. This permits the trailers to be raised sufficiently high to avoid hitting the ground during loading and unloading. Some of the trailers that are carried on the barge are operated by CFL. The remainder belong to shippers and to connecting motor carriers.

The CFL president explained that CFL leases the tug, barge, three truck tractors, approximately 40 semitrailers, and two forklifts for a total of \$95 an hour from an affiliated company, Seaway Company of California (Seaway).<sup>6/</sup> In 1972 this approximated \$38,000 for the tugboat,<sup>7/</sup> \$7,000 for the barge, and \$10,000 for the motor vehicle equipment. In 1972 Seaway had a gross revenue of \$198,377, of which slightly more than half was received from the equipment rentals to CFL. The witness stated that there is no scheduled increase of any kind in the CFL payment to Seaway, although he believed there should be one. CFL has 21 employees. The number of employees

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<sup>6/</sup> The tug and most of the automotive equipment used by CFL is owned by Seaway. This equipment was purchased second hand. The barge is leased by Seaway from Wilmington Transportation Company. The CFL president has no interest in Wilmington Transportation Company.

<sup>7/</sup> The tug is also chartered to tow a barge for Standard Oil Company of California. This increases the usage of the tug and crew, which is a benefit shared by CFL. The tug is used approximately half the time for CFL and half the time to tow the oil barge. Tugboat use hours in 1972 were 1,117 for CFL and 1,085 for other towing.

at Seaway varies, but approximates seven. Three employees receive salaries both from Seaway and CFL. Those salaries are apportioned on the basis of the hours worked. In 1972 Seaway had a loss of \$1,656.<sup>8/</sup> Neither CFL nor Seaway have ever paid a dividend.

The witness stated that the United States Salvage Association has estimated that it would cost \$150,000 to replace the barge and that its estimated current market value is \$90,000. The current building cost of the tug was estimated at \$180,000 and its current market value at \$140,000. The witness stated that he believed the estimated building cost of \$180,000 for the tug was very conservative. He said he had shopped around and found that 65-foot tugs would cost over \$200,000 for the hull alone and with the machinery and other equipment it would be around \$250,000.<sup>9/</sup> The CFL president estimated that it would cost at least \$50,000 to replace all of the automotive equipment.

In arriving at the amount of rental that CFL pays Seaway for transportation equipment the witness stated that he first determined what other tug owners charge for similar service in the area. He found that the prevailing rate was \$112 per hour for the tug alone plus a pending increase. That compares to \$95 that CFL pays Seaway for the tug, the barge, and all of the automotive equipment owned by Seaway. The witness asserted that Seaway is charging CFL substantially less for tug service than it could get on the open market.

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<sup>8/</sup> In 1972 CFL had a loss of \$21,692.71. The witness stated that the accounting records utilized to arrive at a loss are exactly the same type as are turned in to the Internal Revenue Service. CFL and Seaway assertedly have been unable to borrow money. Credit has been obtained by applicant's president and other family members guaranteeing it on a personal basis.

<sup>9/</sup> The witness related a substantial amount of deferred maintenance that Seaway must perform on both the tug and the barge. He also asserted that depreciation has been inadequate.

For the Avalon terminal CFL pays the Santa Catalina Island Company<sup>10/</sup> \$20,000 and six percent of the excess of revenue over \$215,000, plus the taxes on the premises. These payments have been made for approximately nine years. The witness stated that the taxes have increased substantially in the last two years.

The witness testified that CFL conducts regular business during normal working hours five days a week. Barge schedules vary with demand. Normally there are two barge schedules a week with at least three barges a week in the summertime. Extra barge trips are run as needed. The barges are brought to Avalon on Monday and Thursday nights so that the freight is ready for delivery on Tuesday and Friday mornings.<sup>11/</sup> It takes between three and a half to four hours to make the trip across the channel. Applicant's president said it would be much safer and more efficient and economical to operate the barge on the ocean solely by daylight. The operation is conducted at night, however, as a means of providing the best service for the city of Avalon, including the merchants and contractors who need the supplies. Night barge operation permits the freight to be ready in the morning at 7:00 a.m. for bill sorting, and with the freight and billing ready for pickup at 8:00 a.m. Freight is unloaded at the Catalina terminal where it is made available at the shed for the consignees to pick it up. Applicant does not deliver freight to the ultimate consignees on the island. Freight that is not picked up by the consignees is usually delivered to them by two transfer companies. Applicant has no interest in the

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<sup>10/</sup> There is no relationship between CFL and the Santa Catalina Island Company. The only business arrangement between them is that applicant rents the land its Catalina terminal is located on from the Santa Catalina Island Company.

<sup>11/</sup> Although CFL takes many things to the island it takes very little freight back to the mainland. A substantial amount of the return traffic consists of empty bottles and other empty containers.

transfer companies. The average number of shipments per trip to the island is approximately 130.

The CFL president testified that since 1958 when the freight rates were last increased labor rates have increased well over 100 percent. In addition, the health and welfare plan has been instituted at a cost of approximately \$90 per man. Labor, other than union labor, has been increased an equivalent amount. The witness testified concerning rate increases that other transportation agencies serving the island had placed in effect since 1958 to offset labor and other cost increases. He stated that the labor cost increases experienced by other agencies were similar to labor cost increases experienced by CFL because some of the same unions were involved. He made comparisons to show that prices for tugboat services, and certain other prices<sup>12/</sup> have risen generally by substantially greater percentages since 1958 than the approximate 40 percent overall increase resulting from the CFL interim rates. He calculated that there had been a 200 percent increase in tugboat hourly charges by San Pedro Tugboat Company, and by Wilmington Transportation Company. The 1956 rates and the current rates of Wilmington Transportation Company are contained in Exhibits 2 and 3. He said that the H-10 Water Taxi minimum charge

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<sup>12/</sup> The witness also compared rate increases since 1958 which had been placed in effect for passenger vessel common carriers serving the island, amphibian airline service, pleasure boats, island motor tours, Los Angeles Harbor Department dockage, city of Avalon boat mooring, a number of consumer goods and services on the island, and the consumer price index of the Merchants and Manufacturers Association. He also compared certain motor carrier rates with rates of CFL.

for a freight vessel with a maximum load capacity of 25 tons is \$80 per hour for daytime and \$96 per hour at night. This compares with \$95 an hour applicant pays Seaway for the tug, the 600-ton barge, and the automotive equipment.

The CFL president stated that the various prices of other transportation agencies had been gradually increased over the 14-year period since 1958, and that those agencies therefore had received the advantage of some of the increases during that period. He stated that he was proud of the fact that service has been maintained to the island for 14 years without interruption for mechanical breakdown or labor disputes and without any increase in rates.<sup>13/</sup> He said he now realizes that smaller, more frequent rate increases should have been sought for CFL during that period. The witness calculated that if CFL had raised its rates three percent per year for the intervening 14 years it would have collected \$720,000 more in freight which will not be retrieved.

The witness introduced Exhibit 6 comparing revenue for September 1972 (freight bills rerated on Decision No. 81309 rates), with September, 1973 actual revenue. The results are reproduced below:

<u>Decision No. 81309</u> <u>Rate Category</u>	<u>Sept. 1972</u> <u>Traffic Rerated</u>	<u>Actual Sept. 1973</u> <u>Revenue</u>	<u>Revenue</u> <u>Change</u>
\$3.00 - Min. Charge	\$ 1,146.00	\$ 996.00	\$ (150.00)
2.50	10,508.55	9,621.76	(886.79)
2.00	2,761.25	2,281.00	(480.25)
1.00	3,532.64	3,010.10	(522.54)
.80	5,137.63	5,326.56	188.93
5.00 - Vehicles	6,404.45	2,438.85	(3,965.60)
1.00 - Empties Return	1,929.44	1,163.98	(765.46)
Serv. Charges	-	22.50	22.50
	<u>\$31,419.96</u>	<u>\$24,860.75</u>	<u>(\$6,559.21)</u>

                     denotes decrease

<sup>13/</sup> The only interruptions in service have been due to bad weather.

The witness testified that he considered the month of September to be a typical month with respect to traffic for the island which has its peak in the months of July and August and its low in the winter months. The above analysis shows that for September, 1973 there was a decrease in each rate category from September, 1972 with the exception of the 80-cent rate which was subject to a minimum weight of 30,000 pounds. The largest reduction, totalling nearly \$4,000 was for automobiles. The witness attributed this reduction to an ordinance which he asserted had been passed to stabilize the number of vehicles on the island at the present level and possibly to reduce it.

Applicant's president attributed the reduction in revenue on small shipment traffic to competition from the amphibian airline and from United States Parcel Post. There is also competition from United Parcel Service. He stated that the amphibian airline charges \$1.50 for small shipments compared to the CFL minimum charge of \$3. He contended that the airline treats the freight operation as a no-cost by-product of the passenger service. He asserted that the amphibian aircraft are not subject to economic regulation by either the state or the federal government. The witness explained that the airline takes the easy-to-handle packages,<sup>14/</sup> which leaves CFL with a large number of unpackaged bicycles, growing plants, chairs, beds, and other personal effects. He said CFL handles a very large number of bicycles and that five to six weigh only 100 pounds. He said loose articles of this kind return very little revenue for the large amount of space which they occupy. Nevertheless, he stated that the simplified rate structure (freight regardless of form, packaging, density, value, or classification), which was inaugurated in 1958, has resulted in substantial cost savings because it simplifies billing and avoids the salaries of

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<sup>14/</sup> Some of the packages transported by the airline are for United Parcel Service and the Post Office.

two tariff clerks at \$15,000 each, one at Avalon and the other on the mainland.<sup>15/</sup> The witness said that CFL has never received any complaints concerning the simplified rate structure since it was inaugurated in 1958. He said that CFL had received

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15/ The CFL tariff provides a scale of freight rates based on the weight of the shipment only. The savings from such a simplified rate structure benefit the carrier and the shippers and receivers as well. It has certain offsetting disadvantages to CFL, however, in that the cost of handling and transporting articles with poor transportation characteristics may not be fully recovered in all instances. Such articles include, in particular, those received loose or in an unpackaged condition (highly susceptible to damage), articles of low density in pounds per cubic foot of space occupied (excessive space required), and articles of high value (high risk). The record shows that the cost of handling, stowing, and transporting an unpackaged bicycle, for example, exceeds \$5.00, whereas the minimum per shipment charge in the CFL tariff is \$3.00. Steamship, truck, and other transportation tariffs contain rules and/or are governed by freight classifications which provide bases for different rates for articles or shipments having substantially different transportation characteristics. However, many of such tariff provisions are technical and can be time consuming to apply. Some, such as cubic foot rules and measurement ton rules, can be very complicated and controversial in their application. This would be particularly true where the carrier has the freight in its possession too short a time to accurately determine linear dimensions, make cubic calculations, and then attempt to settle disputes as to the measurements and the resulting freight charges. On page 8 of Decision No. 57163 we noted that the all-freight rates then proposed for certain commodities, would be somewhat lower than those which would apply were they based on normal classification ratings. We stated that applicant in seeking increases should give primary consideration to applying increases on those commodities which under normal classification practices would bear higher rates than those resulting under a single scale of rates. One approach for CFL may be to seek authority to publish non-alternating commodity rates (higher than all-freight rates) on bicycles, chairs, etc. in a set up, unpackaged condition.

complaints about the new \$3.00 minimum charge which replaced a series of lesser charges, although it is about one-half of the minimum charge truck carriers assess for short hauls on the mainland.

The witness developed figures to demonstrate that approximately 90 percent of the shipments (and billing), 25 percent of the weight of the traffic carried, and 33 percent of CFL revenue is generated by shipments weighing 500 pounds and less. He asserted that the bulk of the total transportation expense results from handling such shipments. The witness asserted that it takes almost as much work to handle a 500-pound shipment as it does to handle a full trailer load for Safeway Stores. He explained that in the case of the trailer load shipments Safeway brings down their own truck or trailer and provides their own weight certificate. Such a trailer load requires only one freight bill. There is no handling either on the mainland or at Avalon. A full trailer load takes less than one hour of handling time. This contrasts with a smaller shipment (less than full trailer load) which takes a total of approximately one hour to receive at the mainland terminal, to prepare billing, to load and unload, and to tender to the consignee at the freight terminal at Avalon. He stated that it was for these reasons that it was necessary to assign the

greatest percentage increase in freight rates and charges to the small shipments.<sup>16/</sup>

In Application No. 53856 applicant estimated that the net effect of the rate request would be an overall increase of approximately 42 percent, assuming the volume of traffic handled in 1973 was the same as that handled in 1972. Applicant's president testified that he reviewed the records from May 10, 1973 to September 30, 1973 to determine the overall percentage increase actually experienced under the interim rates. He determined that for that period the interim increase actually amounted to 40.68 percent.

The witness introduced Exhibit 4 which shows assets, liabilities, revenues, and expenses for the period of May 10 through September 30, 1973 (including the interim increase), and anticipated future results. The anticipated results were calculated by adding to the actual data for May 10 through September 30, 1973 the experience from October 1972 through April 1973 increased by 40.68 percent. The projected results

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<sup>16/</sup> Applicant's president testified concerning the effect of the interim freight rate increases on prices of certain commodities on the island. He estimated that the applicable freight rate increases would increase the average cost of a 1½-pound restaurant meal by 1 1/3 cents, and the cost of a shirt about one cent. The witness explained that the freight rate increase had caused no increase in grocery prices at the Safeway store because that company has equalized prices and absorbs freight rate differences with respect to the different stores in southern California. Therefore, the price of food at the Safeway store in Avalon is the same as it is on the mainland.

show a net loss of \$1,542.80.<sup>17/</sup> The witness stated that although the summer season of 1973 was an excellent one, the months of June, September, and October showed a decrease of approximately 14 percent in volume of business compared to 1972. He was apprehensive that the projection of a 40.68 percent increase experienced largely in the summer of 1973 to 12 months could have resulted in an extreme overestimate of revenue. He said that the summer of 1973 was one of the biggest the island had ever experienced.

The principal items of projected increases in expenses in Exhibit 4 were in the categories of maintenance of terminal and equipment, and salaries of terminal workers, general officers, and clerks. The projected salary increases include the addition of one man at Wilmington. The witness related in detail the methods he utilized in projecting each of the expense accounts for the projected rate year. The witness introduced Exhibit 7 which is an updated estimate of revenue for a projected rate year beginning November 1, 1973 and ending October 31, 1974. In Application No. 54712, discussed below, applicant updated its results of operations and projections. Revenues and expenses for 1972 and 1973, and the projections for a future year are reproduced in Appendix A.

With respect to future projections of operating results the CFL president stated that year after year CFL has experienced a generally level amount of business. He said that one year the streets of Avalon will be surfaced, the next year some apartment houses will be built, then a pipeline will be constructed, and so on. He said he would like to see the island

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<sup>17/</sup> The witness anticipated that CFL would be required to seek a further increase to offset the loss. This subsequently was done in Application 54712, discussed below.

grow to the extent where he could give regular service three and four times a week. He said that such additional service would be of great value to the people of Avalon. He said that if anticipated construction actually takes place, increased business could require more runs by CFL which would be at additional cost. He explained, however, that sometimes additional runs are not always profitable. He cited a recent trip to the Isthmus where the revenue was \$450 but the cost was \$2,000.

The CFL president testified with respect to construction of basic utilities and other major building projects which had taken place on the island in the past. The purpose of this testimony was to demonstrate (1) that CFL had participated in the traffic these projects had generated and that its participation has been reflected in its financial results of operation through the years, and (2) although CFL revenue projections anticipate future growth on the island that past experience and present business conditions indicate that an abnormal amount of additional freight in one future 12-month period is unlikely. The carrier's results of operation for the years 1966 through 1972 are shown on page 6 of Decision No. 81309. Included among the major projects that generated freight which CFL handled in the past were additions to the Southern California Edison Company plant,<sup>12/</sup> construction of

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12/ Exhibit 8 contains figures furnished to the witness by Southern California Edison Company showing total increase in net investment on the island between late 1963 and December 31, 1972 for water, gas, and electricity. The witness stated that the additions had been put in over the years and that CFL had participated in hauling the freight as it developed. He anticipates that freight business from Edison will taper off because most of the preparatory work has been done. He said that freight now received from Edison is principally for maintenance.

the Wrigley Dam and reservoir, a 12,000 foot, 10-inch pipeline, a USC Science Marine Center, and a breakwater. The witness pointed out that some of the materials and large construction equipment for these projects were brought in by private barges for the contractors. He said that some large articles and jobs are beyond the capacity of CFL to handle, having only one barge.

The witness read excerpts from various newspaper articles since 1964 concerning a number of building projects and developments which had been planned but either not started or not completed. He said that a number of building booms have been anticipated on the island but have never taken place. The witness stated that CFL has grown along with the growth in basic utilities serving Avalon and is hopeful for a continuation of that type of growth. He was of the opinion that since the basic utilities are now established there is a greater likelihood for further growth. He asserted, however, that based upon past experience it would be foolish to include a substantial number of additional housing units in projections of revenue based on plans or newspaper stories. He cited high interest rates which have required changes in financing, and also difficulties certain building contractors were having paying their freight bills to CFL. He said that one development, wherein 450 units are planned, seems to have a shortage of money every time plans are brought up to date. CFL has transported some freight for that project. He said that based on past experience he would question whether 400 or more units will be constructed on the island in a short time. With respect to that project and other identified projects, the witness stated that CFL would expect to participate in the freight if and when

it develops.<sup>19/</sup> In reference to a proposed stolport<sup>20/</sup> the witness stated that such an operation would call for huge derricks and other equipment which would be beyond the capacity of CFL to handle. He was certain that transportation for such a project would be done largely by outside contractors. He said CFL would handle the incidental freight for such a project. He explained that if a great deal more business materialized then CFL would have to put on more freight schedules (at additional cost). The witness stated that there are other boat and barge companies which could compete with CFL on large projects. He said that he will believe there is increased freight due to building projects when he sees it on the barge coming over. He pointed out that in 1958 CFL forecast that revenue would approach \$265,000 per year, that the staff estimated \$278,000 (Decision No. 57183), and that neither figure was reached in 14 years.

Four additional witnesses testified on behalf of applicant. They were the owner of Avalon Transfer and Storage, the owner of a company operating two clothing stores in Avalon, a pharmacist and former mayor of Avalon, and the operator of a grocery store in Avalon. It was the substance of the testimony of these witnesses that CFL service has been dependable, efficient, economical, and far superior to freight operations conducted prior

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<sup>19/</sup> The witness testified that Santa Catalina Island is an area of 48,000 acres of which only 700 acres are reasonably flat and therefore capable of being developed. He said that the Proposition 20 Coastal Initiative (Coastal Zone Conservation Act of 1972) which provides limitation on building within 1000 yards of the water, applies to practically all of the land on the island capable of development. He said that rock quarrying, formerly a major business, has practically stopped.

<sup>20/</sup> An airport for aircraft capable of short takeoff and landing.

to commencement of service by applicant.<sup>21/</sup> It was stated prices for everything affecting the island had risen, and that the minimum charge and rates of CFL are reasonable in comparison to the charges of other agencies of transportation. These witnesses were in general support of the application. Another Catalina Island businessman made a statement that it was his opinion that if CFL is losing money on the \$3.00 minimum charge it should not be reduced.

In Application No. 54712, filed March 5, 1974, applicant seeks increases in rates subject to minimum weights of 20,000 and 30,000 pounds, in addition to those authorized on an interim basis by Decision No. 81309. Specifically, applicant seeks to increase the rate in Item 50 of its tariff, minimum weight 20,000 pounds, from \$1.00 to \$1.15; and the rate, minimum weight 30,000 pounds, from 85 cents to 95 cents. Application No. 54712 contains updates of the balance sheet and profit and loss figures to December 31, 1973, and revisions of projected

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<sup>21/</sup> Prior to CFL freight was handled along with passengers on the steamships Catalina and Avalon and on the motor ship Cabrillo. Freight was handled by stevedores and unloaded by the use of conveyor belts from the ship's hold to trailers. Compared to CFL this was asserted to have been substantially less efficient, less reliable, and less convenient. It was asserted that the former freight service was subsidized by the passenger business. Exhibit 5 introduced by the former mayor consists of a compilation of old newspaper clippings describing problems the island faced at various times resulting from interruptions of freight service due to work stoppages, prior to commencement of operations by CFL.

future operating results. Attached to the application are the following exhibits:

- Exhibit A - Copy of page 14 of applicant's current tariff, Cal PUC No. 2.
- Exhibit B - Copy of applicant's proposed tariff item and proposed increases.
- Exhibit C - Balance sheet for year 1973 and profit and loss statement for year 1973.
- Exhibit D - Estimated revenue for year ended May 10, 1974, compared to revenue originally projected in Application No. 53856.
- Exhibit E - Statement showing increases by category, using months of January and July 1973 as test months.
- Exhibit F - Statement of employees.

Exhibit D to Application No. 54712 is a method utilized to demonstrate that CFL would need \$17,389 or 5.36 percent more revenue per year in order to reach the revenue of \$341,806 originally estimated for a future year in Appendix C of Application No. 53856.

From Exhibit E of Application No. 54712 the projected additional revenue increase per year under the proposed rates for minimum weights of 20,000 and 30,000 pounds would be approximately

\$17,500 developed by recomputing freight bills for July, 1973, and January, 1974, as follows:

<u>RATES</u>		<u>REVENUE</u>		<u>INCREASE</u>	
<u>Present</u>	<u>Proposed</u>	<u>Actual</u>	<u>Projected</u>		
<u>July 1973</u>					
\$1.00	\$1.15(1)	\$3,428.30	\$4,481.92	\$1,053.62	
.80	.95(2)	8,753.25	9,824.48	1,071.23	
				<u>\$2,124.85</u>	\$2,124.85
<u>January 1974</u>					
\$1.00	\$1.15(1)	\$1,654.12	\$2,165.37	\$ 511.25	
.80	.95(2)	3,030.24	3,313.43	283.19	
				<u>\$ 794.44</u>	\$ 794.44
					<u>\$2,919.29</u>
					x 6
					<u>Per Year-\$17,515.74</u>

(1) Minimum Weight - 20,000 pounds

(2) Minimum Weight - 30,000 pounds

The projected revenues and expenses in Appendix A show that even with the addition of approximately \$17,500, as anticipated under the rates sought in Application No. 54712, that CFL would have a loss of approximately \$12,815.

Applicant contends there have been further cost increases, and that in less than a year the cost of diesel fuel has increased over 150 percent. Applicant requests that Application No. 54712 be disposed of by ex parte action. A copy of the application was served on the city of Avalon on or about March 5, 1974. The application was listed on the Commission's Daily Calendar of March 7, 1974. No objection to the granting of Application No. 54712 has been received.

Findings

1. CFL is a vessel common carrier engaged in the transportation of property by barge between the port of Los Angeles and Santa Catalina Island (Avalon or the Isthmus).

2. Freight is transported on the barge principally in semitrailers which are loaded and unloaded by truck tractors. Some of the semitrailers are operated by CFL. Others are operated by shippers and connecting motor carriers.

3. CFL does not provide delivery service beyond its Catalina terminal.

4. By Decision No. 81309 (1973) CFL was authorized to establish on an interim basis the increased rates and charges and other provisions contained in Exhibit B to Application No. 53856 (Local Freight Tariff No. 4) and to cancel concurrently its Local Freight Tariff No. 3.

5. The last general increase in CFL freight rates prior to Decision No. 81309 was made pursuant to Decision No. 57163 (1958).

6. Since 1958 applicant has experienced substantial increases in terminal costs at Wilmington and at Avalon, in the costs of labor, and in certain other costs, as related in Decision No. 81309.

7. Since Decision No. 81309 applicant has experienced further increases in costs:

8. Labor rates paid by CFL, work rules, and other labor contract provisions, have been the result of agreements reached following a number of bargaining sessions in recent years between CFL and (1) the Inland Boatmen's Union of the Pacific, and (2) the Teamsters Union.

9. The labor costs of CFL are not in excess of reasonable labor costs for ratemaking purposes.

10. The rental of \$95 per hour that CFL pays Seaway for the tugboat, barge, and automotive equipment owned by Seaway is below the market rental for the tugboat alone. The equipment rental of \$95 per hour is not in excess of a reasonable cost to CFL for ratemaking purposes.

11. The financial data presented by applicant for 1972 and 1973, reproduced in Appendix A, in general provide a fair portrayal of applicant's revenues and expenses. The financial data for 1973 disclose that the interim rates authorized by Decision No. 81309 have not resulted in excessive earnings from CFL operations.

12. Exhibit D to Application No. 54712 demonstrates that CFL would need \$17,388 or approximately 5.4 percent more revenue to equal the revenue of \$341,806 originally estimated for a future year in Exhibit C of Application No. 53856. Exhibit E to Application No. 54712 demonstrates that the increased rates proposed for minimum weights of 20,000 and 30,000 pounds would produce approximately \$17,500, assuming the volume of traffic is the same as that estimated in Exhibit D for the year ended May 10, 1974.

13. The projected revenues of \$341,806.00 and the projected expenses of \$354,621.00, (resulting in a loss of \$12,815 and an operating ratio of 103.75), reproduced in Appendix A, are reasonable projections of revenues and expenses for a future year under the interim rates in Decision No. 81309 and the proposed rates in Application No. 54712.

14. Approximately 90 percent of the shipments of CFL, 25 percent of the weight of the traffic carried, and 33 percent of the revenue, are generated by shipments weighing 500 pounds and less.

15. CFL competes with the amphibian airline serving Catalina, United Parcel Service, and United States Parcel Post for transportation of small shipments in packages. The rates of such competing agencies of transportation are substantially lower, in certain important respects, than the \$3.00 minimum charge maintained by CFL.

16. CFL receives a relatively large number of small shipments of size, shape, or without packaging, which are not accepted by the competing companies. Many of such unpackaged shipments have relatively poor transportation characteristics and are generally more costly to transport than shipments in packages.

17. The cost to CFL of transporting an unpackaged bicycle is approximately \$5.00, whereas the minimum charge in the CFL tariff is \$3.00.

18. CFL competes with other barge operators when construction equipment and material is required for large construction projects on Santa Catalina Island. However, some such movements are beyond the capacity of CFL to handle with one 600-ton barge engaged in scheduled service.

19. CFL has transported all of the freight tendered to it in the past that has generated from construction projects on Santa Catalina Island. This transportation has been reflected in CFL results of operation as shown on page 6 of Decision No. 81309 for the years 1966 through 1972.

20. Since 1958 CFL improved facilities and schedules for better service to the public.

21. Since 1958 there have been no interruptions of service by CFL due to mechanical failure or labor disputes.

22. The increased rates sought in Application No. 53856 (authorized on an interim basis by Decision No. 81309), and the increased rates sought in Application No. 54712, are justified.

Conclusions

1. The Commission concludes that the increases authorized on an interim basis by Decision No. 81309 should be authorized on a permanent basis, and that the refund provision in the decision should be rescinded.

2. The Commission concludes that the increases in rates subject to minimum weights of 20,000 and 30,000 pounds sought in Application No. 54712 also should be authorized.

O R D E R

IT IS ORDERED that:

1. The interim rate increase authority granted Catalina Freight Line by Decision No. 81309 is hereby made permanent.

2. Catalina Freight Line is authorized to establish the increased rates proposed in Application No. 54712.

3. Tariff publications authorized to be made as a result of the order herein shall be filed not earlier than the effective date of this order and may be made effective not earlier than five days after the effective date hereof on not less than five days' notice to the Commission and to the public.

4. The authority granted in Ordering Paragraph 1 is subject to the express condition that applicant will never urge before this Commission in any proceeding under Section 734 of the Public Utilities Code, or in any other proceeding, that the opinion and order herein constitute a finding of fact of the reasonableness of any particular rate or charge, and that the filing of rates and charges pursuant to the authority herein granted will be construed as a consent to this condition.

5. The authority granted in Decision No. 31309 and the authority herein granted shall expire unless exercised within one hundred twenty days of the effective date of this order.

6. The condition specified in Ordering Paragraph 1 of Decision No. 31309 is rescinded.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 18<sup>th</sup> day of JUNE, 1974.

Vernon L. Steyer  
President  
William J. ...  
...  
...  
Commissioners

APPENDIX A

Catalina Freight Line

Revenues and Expenses, 1972 and 1973,  
and for Projected Year

	<u>Year Ended</u> <u>12-31-72</u>	<u>Year Ended</u> <u>12-31-73</u>	<u>Projected</u> <u>Year</u>
Operating Freight Revenue	\$240,043.62	\$315,569.28	\$341,806.00
Other Revenue	2,000.78	915.41	-
Total Revenue	<u>\$242,044.40</u>	<u>\$316,484.69</u>	<u>\$341,806.00</u> <sup>(1)</sup> <sub>(3)</sub>
<u>Acct. Nos.</u>	<u>Expense Account</u>		
404	Maintenance of Terminal & Equipment	\$ 914.50	\$ 2,063.28
441	Terminal Salaries & Wages	46,576.03	\$ 19,584.00
442	Terminal Utilities	1,844.61	49,210.93
443	Operating Vehicles	3,115.51	69,162.00
444	Stationery & Printing	1,278.47	3,873.04
445	Other Terminal Expense	6,978.20	3,956.00
461	General Officers & Clerks	51,653.00	2,121.02
462	Supplies	488.65	1,130.38
463	Telephone	3,813.95	1,130.00
464	Other General Expense	8,639.90	7,127.43
471	Casualty & Insurance	5,972.83	6,878.00
481	Operating Rents	126,188.10	7,127.43
485	Payroll Taxes	5,298.63	61,453.52
486	Licenses	19.00	63,909.00
487	Taxes	55.00	465.85
501	Bad Debts	900.73	919.00
	Total Expense	<u>\$263,737.11</u>	<u>\$302,842.17</u>
	Net Profit or Loss	<u>\$(21,692.71)</u>	<u>\$354,621.00</u> <sup>(2)</sup>
	Operating Ratio	108.96	\$13,642.52
			<u>\$(12,815.00)</u>
		95.69	103.75 <sup>(3)</sup>

- (1) Exhibit C, Application No. 53856; Exhibit C, Application No. 54712.  
 (2) Exhibit 4, Application No. 53856; Exhibit C, Application No. 54712.  
 (3) Reflects proposed increase in Application No. 54712.