A.33412-mm

ORIGINAL

Decision No. 47873

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of The San Francisco and Napa Valley Railroad for an order granting permission to put in effect an increase of 1¢ per cwt on intrastate traffic handled between Napa Junction and Mare Island, California. Also to make the date effective upon less than statutory requirements.	))))))))	Application No. 33412

Appearances

J. U. Friend, for applicant
Wm. E. Turpen, for the Transportation Division, Rate Section, Public Utilities Commission of the State of California.

O P I N I O N

Applicant is a common carrier by railroad operating between Napa Junction Transfer and Mare Island. It provides the only rail service from and to the Mare Island Navy Yard. The distance between the island and Napa Junction is a little over seven miles. At the junction freight is interchanged with Southern Pacific Company. Applicant increased its interstate rate, applicable on all freight, from 7 cents to 8 cents per 100 pounds, effective June 2, 1952. This action did not require the specific approval or authorization of the Interstate Commerce Commission. The higher rate was established merely by filing a tariff revision with that Commission. Applicant seeks authority, under Section 454 of the Public Utilities Code, to make a like increase on intrastate traffic.

A public hearing was held at San Francisco before Examiner Mulgrew.

Notices of the hearing were sent by the Commission's Secretary to persons believed to be interested. No one appeared in opposition to the granting of the application.

In support of the proposed intrastate increase, applicant relies largely upon estimated future operating results which reflect the treatment of rental payments to Sacramento Northern Railway as an expense. The estimates, as to the volume of traffic, are based upon applicant's 1951 experience. In that year, the rental payment was $29,372. The estimated annual future payments under 7-cent and 8-cent rates for both intrastate and interstate traffic are $17,090 and $24,814, respectively. The strong influence of such payments on applicant's net earnings is illustrated by the table which follows:

OPERATING RESULTS

	Actual 1951	Applicant's Estimates for Future	
		7¢ Rate	8¢ Rate
Operating Revenues	$112,445	$112,000	$128,000
Operating Expenses	57,485	82,997	82,997
Net Operating Revenue	$ 54,960	$ 29,003	$ 45,003
Rental Payment	29,372	17,090	24,814
Net Income	$ 25,588	$ 11,913	$ 20,189
Income Tax	8,517	3,907	6,622
Net After Tax	$ 17,071	$ 8,006	$ 13,567

The significance of the rental payment figures becomes more pronounced when they are considered in connection with applicant's investment in transportation property. That investment, less depreciation, is shown in applicant's annual reports filed with the Commission as amounting to $68,409 at the beginning of 1951 and $66,206 at the close of that year. The rental payments are made under a lease agreement which provides that Sacramento Northern shall

receive "half the net revenue" from the operation of applicant's line. Obviously, if such a basis is to be used in making determinations of revenue requirements or in passing on the propriety of proposed increases, it must be established that the payments are not excessive.

Applicant volunteered no information about the lease agreement. Upon questioning, its vice president and general manager testified that part of his line's trackage was constructed as a joint venture with Sacramento Northern and that the capital outlay of each was 50 percent. He was unable to furnish the amount of the total original investment or to supply any information with respect to depreciation accruals either on an over-all or individual company basis. However, according to the annual reports, "ways and structures" for the entire line accounted for only $37,072 of applicant's $68,409 total depreciated investment. Presumably, Sacramento Northern had no greater depreciated investment in the joint venture involving only part of the total trackage. Nevertheless, it derived $29,372 from it in 1951. Over the five-year period, 1947 through 1951, Sacramento Northern was paid $64,395 under the agreement.

This is a proceeding in which the burden of proof rests squarely upon applicant. With respect to the rental payments, applicant has not shown that they are reasonable or proper elements of expense. It has failed to disclose Sacramento Northern's investment in the joint venture, or otherwise to provide means of determining what, if any, charge against applicant's earnings is justified as a payment to Sacramento Northern. Indeed, as the matter now stands, the record tends to show that Sacramento Northern has more than fully recovered its investment in the line. The record in no way suggests -and proof is entirely lacking -that

the rental payments are justified as charges against future operations. With the unsubstantiated rental charges eliminated from applicant's 1951 figures and from its estimates for the future, the following operating results are indicated.

ADJUSTED OPERATING RESULTS

	Actual 1951	Applicant's Estimates for Future	
		7¢ Rate	8¢ Rate
Operating Revenues	$112,445	$112,000	$128,000
Operating Expenses	57,485	82,997	82,997
Net Operating Revenue	$ 54,960	$ 29,003	$ 45,003
Income Tax	8,517	3,907	6,622
Net After Tax	$ 46,443	$ 25,096	$ 38,381

From the foregoing, it is plain that, unless substantial rental payments may properly be considered as a charge against operations, revenues from the 7-cent rate would be adequate and that applicant has not shown that it is in need of a rate increase.

In view of the foregoing conclusions, it is not necessary to discuss other evidence submitted by applicant. It should be observed, however, that it claims that depreciation accruals on equipment should be calculated on replacement cost, that investment and rate of return should be based on replacement values at present prices, that allowance should be made for so-called "emergency working capital," and that other deviations should be made from usual rate appraisal methods. The fact that these contentions are not discussed is not to be construed as acceptance of their soundness or propriety. As a matter of fact, applicant did little more than state its position in these matters. If it should again advance such contentions in any similar rate proceeding it is placed on notice that it will be expected to offer evidence and argument thereon.

Upon consideration of all the facts and circumstances of record, we are of the opinion and hereby find that the rate increase proposed in this application has not been justified. Accordingly, the application will be denied.

O R D E R

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

IT IS HEREBY ORDERED that the above-entitled application be and it is hereby denied.

The effective date of this order shall be twenty (20) days after the date hereof.

Dated at San Francisco, California, this 28th day of October, 1952.

President

Commissioners