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Decision No. 84132

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of CALIFORNIA WESTERN RAILROAD for Authority under SS 454 and 491 of the Public Utilities Code to increase passenger fares between Fort Bragg and Willits, California, and intermediate points.

Application No. 55320
(Filed November 18, 1974; amended January 10, 1975)

INTERIM OPINION

Applicant California Western Railroad, a railroad corporation, requests authority to increase its passenger fares 30 percent between Fort Bragg and Willits, California, and intermediate points and for authority to charge such increased rates on an interim basis. No protests to the application have been received.

The application shows that the main line of applicant consists of about 40 miles running from Fort Bragg to Willits. Maximum grade is 3.3 percent, the sharpest curvature 24 degrees, and at one point it would be necessary to travel 8.5 miles to cover 1.5 airline miles. There is not a stretch of over one mile of tangent track. Due to heavy fills and cuts, many bridges and trestles, two tunnels, severe grades and curvatures, and heavy winter rainfalls averaging 36.73 inches annually, maintenance of ways and structures is exceedingly expensive. Applicant contends that this expense is greater in most instances than encountered by other rail lines.

Applicant states that very few people live along applicant's right-of-way at stations located between Fort Bragg and Willits. This area is primarily composed of summer cabins which are used only during summer months. Applicant estimates the present population is as follows:

Town	Population
Fort Bragg	5,000
Ranch	8
Camp Mendocino	2
Northspur	8
Irmulco	2
Shake City	2
Crowley	1
Summit	5
Willits	3,500

Applicant represents that its passenger service is seasonal and is primarily used during the summer by tourists desiring to observe the scenic sights offered by this unique passenger train service. Over 95 percent of the passengers are through passengers, originating either at Fort Bragg or Willits; only 5 percent stop at intermediate points along the line. Applicant anticipates that, if the proposed increase is granted, it is reasonable to believe that there will be some diminution in traffic.

The total number of one-way passengers for each month from January through December, years 1972, 1973, and 1974, were as follows:

	1972	1973	1974
January	554	598	444
February	1,015	1,421	-0-
March	3,549	1,650	495
April	3,397	7,043	881
May	6,906	6,252	5,428
June	17,567	14,563	8,153
July	25,184	28,744	28,174
August	33,707	26,404	28,901
September	12,690	9,562	10,581
October	4,430	3,825	3,800 (est.)
November	1,097	1,281	1,200 (est.)
December	666	712	700 (est.)
	110,762	102,055	88,757

The vast majority of passengers transported by applicant were carried during the months of June, July, August, and September, representing 80 percent of the total carried in 1972, 79 percent of the total carried in 1973, and 85 percent of the total carried in 1974.

In the last nine years applicant has invested $238,762 in the following equipment:

1. Extension of Motor Car seating capacity, July 1965 - $3,054.
2. Purchase and renovation of Steam Locomotive No. 45, July 1965 - $36,687.
3. Purchase and renovation of four Coach Cars, July 1965 - $79,467.
4. Purchase and renovation of Steam Locomotive No. 46, 1968-1970 - $64,501.
5. Purchase of four Southern Pacific Coach Cars, May 1966 - $4,120.
6. Renovation of one of the aforementioned Southern Pacific Coach Cars, December 1969 - $13,745.
7. Renovation and extension of passenger station, 1970 - $37,188.

In addition to the above investment, carrier is required to install self-contained waste disposal units in all passenger equipment at a cost of an estimated $20,000 before equipment can be put into service after November 1974.

The application shows that for the first nine months of 1974 applicant suffered a loss of $145,858 before storm damage costs, and an additional loss of $182,996 for storm damage to September 30, 1974. An additional loss for storm damage will be written off in the amount of $87,000 during the last quarter of 1974.

The increase in passenger fares as herein proposed is made necessary by the marked rise in operating expenses. Labor costs for passenger service have risen 32 percent and the cost of fuel has risen by 159 percent. Since 1971 ties have risen 101 percent; rail, 175 percent; and ballast, 23 percent. Overall, the cost per train mile will have risen 49 percent since 1971. Because of these increased expenses, applicant has lost, or will lose, $9,820 in its passenger operations for the calendar year of 1973, an estimated loss of $73,969 in 1974, and an estimated loss in 1975 of $88,234 at the present rates. With the increased rates applicant expects a net profit of $13,116 for the year 1975 from its passenger operations. A three-year comparison of revenue and expenses for passenger operations and a comparison of estimated revenues and expenses at the present rates and proposed rates for 1975 are set forth in the application to substantiate these figures.

Applicant's forecast for 1975 shows that applicant will have a loss of $44,400 in its overall operation, even with an anticipated 30 percent increase in passenger fares. Without this increase, applicant can look forward to an additional loss of $100,000 or a total loss of $144,400 from all operations.

The staff conducted a limited investigation into the propriety of the requested interim rate increase and rendered a report in this case. No analysis of the accounting records was performed nor was the validity of the expenses allocated to passenger train operations examined at the time. Instead, an evaluation was made of the total company's operations. The report of the investigation stated that this approach appears to be sufficient for the purpose of the interim rate proceeding.

Exhibit C, attached to the original application, shows comparative income statements on a recorded basis for the years ended December 31, 1972, 1973, and nine months ended September 30, 1974. The report points out that these statements for the years ended December 31, 1972 and 1973 do not reflect the company's operations as reported to this Commission and the I.C.C. primarily because of accelerated amortization on road property, nor do they reflect income taxes, if applicable, in those years in which a net profit was realized. Cost of storm damage during 1974 amounted to $318,578. Of this amount, $32,361 was capitalized and $286,217 was charged to expense. The investigation revealed that, beginning in 1954, the Internal Revenue Service authorized applicant to amortize unrecovered costs of $1,956,347 on all depreciable road property, with the exception of equipment, and less salvage, over a 25-year estimated service life. This service life was increased by an additional five years in 1967. The annual amount being amortized is shown in Exhibits C and D as "Additional Depreciation" and in Exhibit E as "Depreciation and Amort. Road".

On February 14, 1973, Georgia-Pacific Corporation acquired all of the outstanding stock of California Western Railroad from Boise-Cascade Corporation. Insufficient cash resources or cash flow during 1974 forced the railroad to borrow $458,045 from Georgia-Pacific to finance the cost of storm damage and operations. The loan is non-interest bearing. As reported to the staff, Georgia-Pacific files a consolidated tax return, and is expected to utilize the California Western Railroad 1974 operating losses as an offset against other earnings. The income tax effect of 1974 losses will probably not be reflected on applicant's records, and in any event, should not be considered for ratemaking purposes for the test year in this proceeding.

Based on a summary of the staff investigation, the adjusted net operating loss for 1974 from all operations is as follows:

Net Operating Loss (Recorded)	$573,152
Deduct:	
Additional Income Tax Depreciation	55,248
Deferred Storm Damage1/	257,595
Adjusted Net Loss	$260,309

In Exhibit E of the original application, passenger revenues at proposed rates are estimated to produce $455,380, or an increase of $155,240 over 1974 recorded passenger revenues. Even adopting the lower adjusted total expenses incurred in 1974, the staff estimates the resulting loss will amount to $105,069 ($260,309 less $155,240).

The staff report states:

"In Exhibit D, applicant forecasts a net operating loss from all operations of $44,980 for the year 1975. The forecast includes the increase requested in passenger fares. However, the forecast includes additional depreciation for accelerated amortization of road properties and excludes amortization of storm damage. Adjusting for these two expense items would result in a net operating loss of $3,602. In the staff's opinion, this loss is underestimated in view of more current information on possible freight revenues. Freight revenues for the first nine months of 1974 amounted to $381,076 and for the last three months $67,242. The company estimates that freight revenue in the first quarter of 1975 will be $65,300. The company's balance sheet at December 31, 1974 shows a substantial decline over the previous year in the ratio of current assets to current liabilities. Current assets decreased $162,699 whereas current liabilities only decreased $38,458. This adverse current position does not include the effect of $458,045 borrowed from Georgia-Pacific. It is evident that the company cannot sustain a similar drain on its assets during 1975 without some rate or other financial relief."

1/ Estimated ten-year amortization, nine years deferred.

Based on the foregoing, the staff recommends that the company's request for an interim order authorizing the full requested increase in passenger fares be granted.

After consideration the Commission finds that, subject to further consideration of evidence which may be adduced at a public hearing, the increases in rates and charges authorized by this decision are justified and are reasonable; and the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

INTERIM ORDER

IT IS ORDERED that:

1. California Western Railroad is authorized to establish the increased rates proposed in Application No. 55320. Tariff publications authorized to be made as a result of this order shall be filed not earlier than the effective date of this order and may be made effective not earlier than ten days after the effective date of this order on not less than ten days' notice to the Commission and to the public.

2. The authority shall expire unless exercised within ninety days after the effective date of this order.

3. The authority granted herein shall expire on June 30, 1975 unless sooner canceled, modified, or extended.

4. A public hearing shall be scheduled in this proceeding for receipt of evidence on the application and full disposition thereof.

5. If the final order of the Commission grants applicant a lesser increase in rates and charges than is obtained in this interim order, applicant's rates and charges will be reduced pro tanto until such time as the excess fund has been exhausted. Applicant shall submit a plan to the Commission within forty-five days of the effective date of this interim order showing its proposal for implementation of this program should the final decision of the Commission authorize lower rates than this interim decision.

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

Dated at San Francisco, California, this 19th day of FEBRUARY, 1975.

Vernon L. Sturgeon
President
William Symons Jr.

Leonard Ross
Commissioners