

ORIGINALDecision No. 84672

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
CALIFORNIA WESTERN RAILROAD for
Authority under §§ 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)

Raymond A. Regalia, for California Western
Railroad, applicant.

Russell E. Ruegamer, for United Transportation
Union, Legislative Board, interested party.

Marc E. Gottlieb and Harold H. Webster, for
the Commission staff.

O P I N I O N

Applicant California Western Railroad, a railroad corporation and wholly owned subsidiary of Georgia-Pacific Corporation, requests authority to increase its passenger fares 30 percent between Fort Bragg and Willits, California, and intermediate points. At applicant's request the Commission granted applicant interim authority to charge the requested rates in Decisions Nos. 84132 and 84163. pending the outcome of a hearing on the application. The matter came on for hearing at Fort Bragg on April 7, 1975 before Examiner Pilling and upon the receipt of a late-filed exhibit on April 21, 1975 the matter was submitted. No protest to the application has been received.

Applicant's witness, its general manager and auditor, testified 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, the 31 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.

The witness stated 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:

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

Applicant represented 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. Applicant's traffic declined from 110,762 and 102,055 passengers for the years 1972 and 1973, respectively, to approximately 88,757 passengers in 1974.

The vast majority of passengers are tourists and 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, applicant 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.

Applicant also transports freight over its line. Its freight revenue, however, declined from \$925,787 in 1972 to \$444,508 in 1974 and its freight operations for 1974 resulted in a substantial loss and probably will result in a loss in 1975. For this reason applicant does not feel that its freight operations are in a position to subsidize its passenger operations. Applicant's

decrease in freight business was due to losing in 1974 a large portion of its wood chip movement, a 32 percent loss of its freight traffic based on movements during 1973. Applicant does not anticipate that it will handle any wood chip movements during 1975. Its loss of the wood chip movements was due to the drying up of certain markets located on rail sidings, and while there is still a large volume of wood chip movements from the same consignee, they are destined to off-rail points in other areas of the state thus eliminating applicant's participation in the moves.

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 the cost of ties has risen 109 percent; rails, 175 percent; and ballast, 29 percent. Overall, the cost per train mile will have risen 49 percent since 1971.

Applicant submitted its results of passenger operations for the years 1972, 1973, and 1974 and the estimated results of operations for the year 1975 under the present rates and under the proposed rates (Exhibit 3). The Commission's Finance and Accounts Division conducted a study of applicant's total and separated passenger operations and submitted the results of that study (Exhibit 12) into evidence. Applicant estimates its 1975 passenger revenue at the present rates would be \$354,030. The staff concurs with applicant that this is a reasonable estimate in that the estimate is comparable to the average reported revenue for the years 1972 and

1973 of \$358,597^{1/} and concurs with applicant that the increase in annual revenue in operations under the requested rates will be \$91,220.

On the following page are the results of passenger operations, as adjusted by the staff for the calendar years 1973 and 1974 at present rates and for the test year 1975 under proposed rates.

1/ Exhibit 12, page 2

Item	Recorded			Estimated
	1972	1973	1974	Present Rate: 1975
<u>Revenues</u>				
Steam Passenger	\$214,929	\$196,554	\$147,209	\$192,900
Motor Cars**	106,400	107,864	106,862	111,150
Other Revenue & Sales	46,154	45,293	39,655	49,980
Total	367,483	349,711	293,726*	354,030
1972	367,483			
1973	349,711			
	717,194			
Average	358,597			

** "Motor Cars" refers to a one unit passenger diesel engine train.

* Trains did not operate between 1-15-74 through 3-16-74, and 3-29-74 through 4-21-74, on account of storm damage to the road.

Item	Passenger Operations-Adjusted:		Passenger Operations	
	Calendar Year		Applicant :	Staff Adj. :
	1973	1974	Exhibit #3 : Est. 1975	Est. 1975
<u>Operating Revenues</u>				
Passenger - Steam	\$196,554	\$138,596	\$250,770	\$250,770
Passenger - Motor Cars	107,864	122,468	144,500	144,500
Mail	8,741	8,384	8,400	8,400
Novelty Shop Sales	30,831	26,418	35,400	35,400
Train Sales	<u>5,721</u>	<u>4,259</u>	<u>6,180</u>	<u>6,180</u>
Total Rev. & Sales	\$349,711	\$300,125	\$445,250	\$445,250
<u>Operating Expenses</u>				
Maintenance of Ways & Structures	\$ 30,103	\$ 36,059	\$ 36,444	\$ 26,411 ^{d/}
Traffic & General	62,926 ^{a/}	64,183 ^{a/}	65,048	65,048
Transport. & Equipment	200,237	197,845	262,570	230,570 ^{c/}
Novelty Shop Costs	20,753	19,417	25,941	25,941
Train Sales Costs	8,069	5,954	10,086	10,086
Depreciation	20,049	26,187	21,533	21,533
Lease Expense	4,064	5,957	3,000	3,000
Property Taxes	6,744	6,732	7,245	7,245
Insurance	21,563	14,038	22,397	22,397
Storm Damages	<u>-</u>	<u>4,522 ^{b/}</u>	<u>-</u>	<u>4,522 ^{b/}</u>
Total Operating Exp.	\$374,508	\$380,019	\$454,264	\$416,756
Net Operating Income or (Loss) Before Income Taxes	\$(24,797)	\$(79,866)	\$ (9,014)	\$ 28,494
Operating Ratio	107%	127%	102%	94%

^{a/} Adjusted for the inclusion of general expenses previously omitted of \$3,695 for 1973 and \$6,140 for 1974.

^{b/} Adjusted for normalization of storm damage expense.

^{c/} Reduced by \$32,000 to normalize overhaul expense of two steam engines.

^{d/} Adjusted to five-year average of 15.8%.

In regard to Footnote d/ in the above table the passenger portion of maintenance of ways and structures expenses for the year 1974 was allocated by applicant based on the estimated car and locomotive miles of 21.8 percent. It is the staff's opinion that a five-year average of actual passenger car and locomotive miles to total system miles is a more appropriate base for distribution of maintenance of ways and structures expenses. The following tabulation from the staff's Exhibit 12 shows the percentage of passenger miles to total miles for the years 1970 through 1974:

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
Grand Total Car & Loco. Mi.	666,494	703,681	707,062	665,420	306,663
Total Passenger Car & Locomotive Miles	102,150	98,647	94,690	85,717	71,858
Percentage of Passenger Mile to Grand Total	15.3%	13.9%	13.4%	12.9%	23.4%
Five-Year Average	15.8%				

Applicant allocates certain common railroad expenditures between passenger and freight operations. The following table shows the percentage relationship between direct operating expenses and allocated expenses by various methods used by applicant for the calendar years 1973 and 1974:

<u>Passenger Operations</u>	<u>1973</u>	<u>1974</u>
Direct Charges	53.98%	74.90%
<u>Allocation Methods</u>		
One-half Freight		
One-half Passenger	11.78	11.10
Car & Locomotive Miles	9.02	9.05
Other	25.22	4.95
Total	<u>100.00</u>	<u>100.00</u>

Individual operating expenses within a functional department are at times allocated by all of the above allocation methods. Allocation of property taxes to passenger operations is based upon a developed percentage ratio of maintenance of ways and structures plus repairs to passenger equipment to the depreciated value of roadways. This percentage ratio, applied to property taxes, represents the portion charged to passenger operations. The staff takes no exception to applicant's method of allocation used in connection with this application, except for the allocation of maintenance of ways and structures as described previously.

The staff points out that the parent company files a consolidated tax return to which applicant is one of the least significant parties in terms of size. The parent company is expected to utilize the California railroad 1974 operating losses as an offset against other earnings. However, the income tax effect of the 1974 losses as utilized by the parent in its consolidated tax return is not reflected in applicant's records as a credit.

Applicant's condensed balance sheets as of December 31, 1972, 1973, and 1974 are as follows:

Comparative Balance Sheet

<u>Account</u>	<u>As of December 31</u>		
	<u>1972</u>	<u>1973</u>	<u>1974</u>
Current Assets	\$ 225,043	\$ 372,106	\$ 209,652
Investments	253,892	-	-
Transportation Property Less Depreciation Amortization	2,353,035	2,339,794	2,400,937
Other Assets and Deferred Charges	3,639	21,034	20,788
Total Assets	<u>2,835,609</u>	<u>2,732,934</u>	<u>2,631,377</u>
Current Liabilities ..	202,315	112,742	526,596
Reserves	-	-	14,571
Other Liabilities and Deferred Credits	2,500	18,742	10,114
Shareholders' Equity Common Stock, \$100 par 100,000 Shares Authorized and Issued	1,000,000	1,000,000	1,000,000
Retained Income, Unappropriated	<u>1,630,794</u>	<u>1,601,450</u>	<u>1,080,096</u>
Total Shareholders' Equity	<u>2,630,794</u>	<u>2,601,450</u>	<u>2,080,096</u>
Total Liabilities and Shareholders' Equity	2,835,609	2,732,934	2,631,377

The staff points out that the applicant's balance sheet as of December 31, 1974 shows a substantial decline over the previous years in the ratio of current assets to current liabilities and that current assets decreased \$162,454 in 1974 compared with 1973, whereas current liabilities decreased by only \$48,998 for the same period. This adverse current position gives no consideration to

borrowings of \$458,645 from Georgia-Pacific in 1974. It is the staff's view that applicant cannot sustain a similar drain on its assets during 1975 without some rate or other financial relief and recommends that the application be granted.

After consideration the Commission finds that the interim fares authorized by Decisions Nos. 84132 and 84163 are justified and are reasonable and should be made permanent.

O R D E R

IT IS ORDERED that:



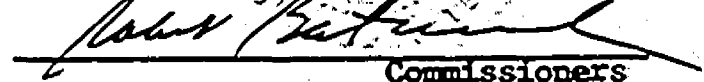
1. California Western Railroad is authorized to make permanent the increased fares proposed in Application No. 55320. Tariff publications authorized to be made as a result of this order shall be filed not earlier than the effective date of this order and may be made effective not earlier than thirty days after the effective date of this order on not less than thirty 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 interim authority to charge requested rates granted by Decisions Nos. 84132 and 84163 is extended for a sufficient period to allow the exercising of the authority granted herein, but in no event shall it exceed more than ninety days from the date hereof.
4. The authority granted by this order 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 this opinion and order constitute a finding of fact of the reasonableness of any

particular rate or charge. The filing of rates and charges pursuant to this order will be construed as a consent to this condition.

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

Dated at San Francisco, California, this 15th day of JULY, 1975.


President




Commissioners

Commissioner William Symons, Jr., being necessarily absent, did not participate in the disposition of this proceeding.