

Decision 90 06 014 JUN 06 1990

ORIGINAL CA-20

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of CALIFORNIA WESTERN)
RAILROAD, INC. for the authority)
under Sections 454 and 491 of the)
Public Utilities Code to increase)
tourist passenger rates between Fort)
Bragg and Willits, California)

Application 90-01-021
(Filed January 16, 1990)

OPINION

Background

California Western Railroad, Inc. (CWR), originally requested authority to increase passenger fares between Fort Bragg and Willits in A.85-11-016, filed November 12 1985 and amended December 17, 1985. CWR requested the increase to raise passenger revenues by 28% because its passenger service (both the scheduled and tourist service) was operating at a loss.

CWR later filed A.85-12-005 to discontinue its scheduled passenger service. Since the proposed discontinuance of scheduled passenger service would affect the results of operation in A.85-11-016, the requested fare increase was granted by Interim D.86-02-053, to be made final after the issue of discontinuance was decided.

CWR claimed authority from the Interstate Commerce Commission (ICC) to discontinue its scheduled passenger service, while we issued D.86-05-094 denying discontinuance of service and directing the staff to audit CWR. ICC assumed jurisdiction over the matter of discontinuance and asked CWR to refile its application with that Commission.

The application for discontinuance was refiled with the IOC and hearings were scheduled in Fort Bragg. Prior to hearings Georgia Pacific sold CWR to Kyle Railroads, Inc. (Kyle). Kyle was not interested in discontinuing service and withdrew the request. The IOC subsequently cancelled the hearings on discontinuance of CWR scheduled passenger service.

The Application

In A.90-01-021, CWR requests an increase of three dollars on adult tourist rates and one dollar on child tourist rates. The increases are shown in the table below.

| | <u>Present Rates</u> | | <u>Proposed Rates</u> | |
|---|----------------------|---------|-----------------------|---------|
| | Adult | Child | Adult | Child |
| Willits - Fort Bragg Round Trip | \$20.00 | \$10.00 | \$23.00 | \$11.00 |
| Willits - Fort Bragg One-Way | \$16.00 | \$8.00 | \$18.50 | \$9.00 |
| Fort Bragg or Willits Northspur Round Trip | \$16.00 | \$8.00 | \$18.50 | \$9.00 |

CWR estimates that this proposed rate increase will result in an additional \$189,763 of annual gross revenues, which represents a 14.25% increase over 1989 gross revenues.

The rate increase is intended to cover substantial additional capital expenditures for track, tunnel and bridge restoration as well as acquisition of additional rolling stock. CWR anticipates these expenditures will exceed \$140,000 annually.

The Protests

There are two responses filed in this case which protest the requested rate increase -- one by the Mendocino County Railway Society (MCRS) and the other by Kampgrounds of America (KOA). Both responses ask for scheduled hearings.

MCRS states the higher rates would result in lower ridership and revenue. MCRS suggests that operating a Willits-based service during the off-season would increase ridership and revenue in the belief that there is an un-met demand for such service.

KOA is concerned that revenue loss resulting from a rate increase could cause closure of CWR and have a negative effect on business in Willits. Repeated comments from tourists that the rates are already too high are cited as cause for this concern. If the rate increase is granted, KOA recommends that revenues be used to provide year-round service originating in Willits, in part to accommodate winter tourists.

CWR responds to the comments by showing that its fares are lower than those of other tourist railroads. Revenue data also shows that ridership was not affected by previous rate increases. Company records indicate Willits generates only 30% of tourist excursions during the summer months, so CWR concludes that service based in Willits could not operate profitably.

MCRS and KOA are withdrawing their protests on the CWR proposed rate increase. Both intervening parties agree that the increase is necessary to pursue the financial health of the tourist service. Both parties are still requesting hearings to discuss the establishment of a Willits-based service during the off-season.

The Staff Study

The staff identifies four types of service provided by CWR: freight, mail, local commuter, and tourist. The freight service hauls logs for the Georgia Pacific Lumber Company. The mail service transports mail for those who live alongside the track. The commuter service carries passengers to various points between Fort Bragg and Willits. The tourist service transports passengers from Fort Bragg to Willits or halfway to Northspur. The tourist service is heavily patronized during the summer months.

As CWR does not isolate tourist operations in its application, the staff finds CWR financials inadequate and provides a recalculation of revenues and requested revenue increases. The recalculation of CWR financials reveals a revenue increase of \$199,000 which represents a 15% increase over 1989 gross revenues.

CWR provides the staff with accurate estimates of the expenses that the requested rate increase is intended to cover. An estimate of \$190,000 in annual expenses includes capital expenditures as well as labor cost increases not previously detailed.

The staff finds the CWR request for rate increase reasonable, and notes that CWR should seek to improve profits by increasing the number of tourist passengers.

Discussion

Using the data from the staff report, we calculate an operating ratio of 0.97. CWR seeks a rate increase to accommodate anticipated increases in maintenance and operating expenses. The estimated revenues resulting from the requested increase exceed the expected increase in expenses by only \$9,000. Including the revenues and expenses from this request, the operating ratio remains essentially unchanged. The Commission finds this request for increase reasonable.

Although the protesting parties raise the issue of profitability, CWR is confident that a rate increase will not significantly affect tourist passenger ridership. The staff recommends an increase in the number of tourist passengers as a means of attracting higher revenues. The addition of an off-season service from Willits is considered a possible source of new passengers.

Both KOA and MCRS express interest in establishing Willits-based service during the off-season, in part to generate additional revenue. However, no local residents appeared to argue

that such service is necessary. The issue is whether such service would increase the railroad's profits and viability.

The Commission will provide a forum for discussion of the pertinent issues. A workshop will be scheduled to discuss the addition of Willits-based service.

Findings of Fact

1. The issue of discontinuance is resolved.
2. CWR seeks authority to increase tourist rates by three dollars for adult passes and one dollar for child passes.
3. CWR estimates the proposed increase will result in an additional \$189,763 which represents a 14.25% over 1989 gross revenues.
4. KOA files a response protesting the proposed rate increase and supporting the addition of Willits-based service in the off-season.
5. MCRS files a response protesting the proposed rate increase and supporting the addition of Willits-based service in the off-season.
6. Both KOA and MCRS withdraw their protests to the requested rate increase but still support the addition of Willits-based service in the off-season.
7. The staff finds CWR financials inadequate because tourist operations are not isolated in the application.
8. The staff recalculates CWR financials to reveal a revenue increase of \$199,000 which represents a 15% increase over 1989 gross revenues.
9. The requested rate increase is intended to cover \$190,000 in annual expenses resulting from increased capital expenditures and labor cost increases.
10. The staff finds the CWR request for rate increase reasonable.
11. The Commission is willing to provide a forum for the discussion of additional Willits-based service.

12. A workshop will be scheduled to discuss the addition of Willits-based service.

Conclusions of Law

1. The requested rate increase is reasonable and should be authorized.

ORDER

IT IS ORDERED that:

1. The California Western Railroad, Inc. is authorized to establish the increased rates as set forth in Application 90-01-021. Tariff publications authorized to be made as a result of this order may be made effective after the effective date of this order and after not fewer than five days notice to the Commission and to the public.

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

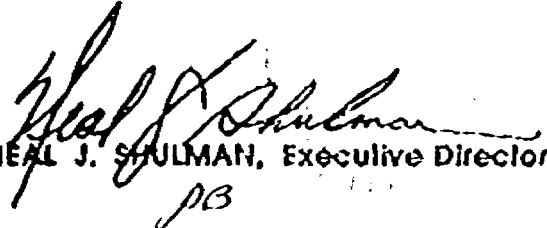
3. The Transportation Division will arrange a workshop to discuss additional Willits-based service at a time and place amenable to all parties.

This order is effective today.

Dated JUN 06 1990, at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY


NEAL J. SHULMAN, Executive Director
PB