

GM: Port Townsend

2-1132

Chicago - December 27, 1965

Mr. F. O. McGinn:

The Milwaukee Road owns and maintains a barge landing and a connecting track between the landing and the trackage of the Port Townsend Railroad at Port Townsend, Washington. Milwaukee also owns and maintains a line of railroad between Discovery Junction and Port Angeles, Washington.

The Port Townsend Railroad Company owns and maintains trackage connecting with the Milwaukee's track at Port Townsend and with Milwaukee track at Discovery Junction.

Switching at Port Townsend is performed with Port Townsend locomotive, manned by Milwaukee crews from the board at Port Angeles. The Port Townsend Railroad is billed for switching crew expense.

Road crew work between Port Angeles and Port Townsend is performed with Milwaukee locomotive, manned by Milwaukee crews for the entire distance. Port Townsend Railroad is billed for the portion of expense of operating between Discovery Junction and Port Townsend, Wash.

Pursuant to terms of Secretary Agreement R-334 dated April 22, 1915, Port Townsend Railroad is obligated to switch cars on and off of the barge, for which they receive in addition to a division of earnings, \$1.75 per loaded car switched. The agreement provides that the interchange point is on the barge. On the assumption that our barges are the interchange point for traffic between the two companies, then the Port Townsend Railroad should stand the expense of switching the cars originating on the Peninsula to the barges, and our company should assume the expense of delivering the cars (unloading the barges) to the Port Townsend Railroad.

The manner of billing has not been questioned, however, Mr. Ivan R. Maxfield, Auditor of the Port Townsend Railroad, advised me by letter of May 6, 1964 that the switching rate of \$1.75 was insufficient to defray their cost of operation and that effective June 1, 1964 their switching rate would be increased to \$5.53 per car switched. The change in rate was computed by the same formula for Ex parte Changes No. 148 through 223 level.

I advised Mr. Maxfield that inasmuch as the \$1.75 rate established in the agreement of April 22, 1915 was an operating figure not subject to division sheet changes, ex parte increases were not applicable.

Subsequent to correspondence with Mr. Maxfield, I have had conversations with Mr. Fox, General Manager of the Port Townsend Railroad,

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and explained to him that our computations do not bear out justification for the increase requested. Mr. Fox is adamant in his position that the present switching rate of \$1.75 is insufficient to cover expenses for maintaining and operating its property. This, of course, may be true, were they to depend solely on switching income.

The agreement provides appropriately for empties handled and the \$1.75 rate is used solely in billing for loaded cars switched on and off the barges. In arriving at a basic rate, I contend that whether a car is empty or loaded, it should be used in the computation to determine a basic rate for switching. For instance, during January 1965 there were a total of 561 loads and 465 empties to and from the barges. During the same period, the total switching cost at Port Townsend was \$4,302.48. Mr. Garelick advises that only 38% of the time was spent on barge switching and the remaining 62% applicable to other than barge switching, which is solely for Port Townsend switching. Applying 38% against the \$4,302.48 results in \$1,634.94 against the barge switching. To determine an appropriate rate for cars switched I have divided \$1,634.94 by 1026 (total loads and empties), which gives roughly \$1.60 per car. If I were to divide the total switch cost of \$4,302.48 by the total cars switched, the rate would be \$4.19 per car. If I were to compute the basic rate by excluding empties from the count, I arrive at \$2.91 per car.

On the basis of the above computations, there is no justification for recommending an increase in the switching rate nor does the ex parte escalation apply.

Mr. Fox has indicated that the Port Townsend Railroad has over the years cooperated with the Milwaukee in establishment of competitive rates and can no longer look to rate adjustment as a means of meeting its costs and other than the means of increased switching rates, have no other source of income.

The agreement provides for termination by either party upon one year's written notice and we, of course, would be seriously handicapped in handling our traffic to and from Port Angeles were the Port Townsend Railroad to arbitrarily exercise this option.

Pending our acceptance of the revised rate, the Port Townsend Railroad has refused to accept our vouchers for switching pursuant to the existing agreement, nor have they paid the Milwaukee for crew wages since January 1, 1964. As of October 31, 1965, bills receivable from the Port Townsend are \$50,770.04 and those payable to the Port Townsend Railroad

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based on a rate of \$5.50 are \$40,000.00, leaving a difference to the Milwaukee of \$14,233.73. The difference would be much greater based on the \$1.75 rate.

I can see no basis nor justification for the requested rate increase based on cars handled versus switching costs, however, in view of the termination provisions of the agreement, I recommend that consideration be given to the possible acquisition of the Port Townsend Railroad and if that can be accomplished there may be economies we could make in performing switching with road crews at Port Townsend.

I will appreciate your views.

W Anderson