



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

090555 110-14

71-106 24

APR 2 - 1971
4-21-71

B-171707 **RESTRICTED** — Not to be released outside the General Accounting Office except on the basis of specific approval by the Office of Legislative Liaison, a record of which is maintained by the Distribution Section, Publications Branch, GAO.

RELEASED



Dear Senator Gravel:

In your letter of January 4, 1971, you requested us to consider investigating a proposed rate increase of the Alaska Railroad. In response to your request, we have developed the following information.

The authority to fix, change, or modify rates for the transportation of passengers and property by the Alaska Railroad presently is vested by law and executive order in the Secretary of Transportation subject to the requirement that he give due regard to certain actions of the Interstate Commerce Commission.

The construction and operation of the Alaska Railroad was authorized by the act of March 12, 1914 (38 Stat. 305), entitled "An Act to authorize the President of the United States to locate, construct, and operate railroads in the Territory of Alaska, and for other purposes." By Executive Order No. 11107, April 25, 1963 (28 F.R. 4225), the President delegated authority for operation of the railroad to the Secretary of the Interior (subsequently transferred to the Secretary of Transportation). Section 3 of the order, in effect, authorized the Interstate Commerce Commission to act with regard to rates of the Alaska Railroad in the same manner as it acts with regard to the regulation of interstate railroad rates under part I of the Interstate Commerce Act.

The Secretary of Transportation granted permission to the Alaska Railroad to petition the Interstate Commerce Commission (Special Permission 71-2500) for a 15-percent rate increase, effective January 14, 1971. Some of the reasons given by the railroad for the requested increase were (1) substantial increases in its cost of operation, including labor costs, (2) increase in the cost of supplies, (3) the fact that its traffic pattern is largely one way, which results in an extraordinarily high percentage of empty car, non-revenue-producing movements, and (4) present projections of a net loss of \$642,000 for fiscal year 1971.

Because of the many protests to the proposed rate increase, including those received from the State of Alaska, local city governments in Alaska, and numerous private shippers and interested parties, the Interstate Commerce Commission suspended the proposed rate increase until August 14, 1971 (Investigation and Suspension Docket No. 8604). The proposed rate increase is currently under investigation by the Commission.

BEST DOCUMENT AVAILABLE

900569

090555

B-171707

We found that the Alaska Railroad has had only one overall rate increase since 1939. This was a 9-percent increase authorized by the Interstate Commerce Commission to become effective on September 1, 1968. By comparison, the railroads in the contiguous United States have been granted numerous rate increases in the post-World War II period. Between 1968 and 1970, U.S. railroads, exclusive of Alaska, were granted two rate increases totaling 12 percent. These railroads petitioned for additional increases to become effective in November 1970. These proposed increases were suspended by the Interstate Commerce Commission and placed under investigation. On March 23, 1971, the Commission authorized increases for these railroads ranging from 6 percent to 14 percent to become effective upon not less than 15 days notice to the Commission and the general public.

Shortly after the railroads petitioned for increases in November 1970, the Commission announced that it was going to investigate (ex parte 270) not only the railroad freight rate structure but also the rail rate base to be used in determining the rate of return as a factor in ruling on general freight rate increase requests by railroads. One of the issues in the investigation of the freight rate structure is the possible self-defeating nature of general rate increases with respect to generating revenue.

In view of the investigation proceedings currently being conducted by the Interstate Commerce Commission on the proposed increases by the Alaska Railroad and considering the fact that a study is now being made by the Commission to determine whether or not rate increases have the desired result of increasing revenues, we believe that further investigation of the matter by this Office at this time would merely duplicate the work being done by the Commission.

With regard to your comment concerning the use of subcontractors by the Alaska Railroad, we have been advised by the Assistant to the General Manager of the Alaska Railroad that the railroad has no subcontracts for hauling services. This official has told us that they do have one agreement with the Mukluk Freight Lines, Inc., for the delivery on an irregular basis of well-drilling supplies, equipment, etc., from the railroad's tracks to the Fairbanks International Airport. This irregular service is performed for a charge corresponding to the portion of the through rate applicable to that part of the movement. The governing tariff is on file with and is subject to the regulations of the Interstate Commerce Commission.

B-171707

We will be happy to discuss these matters with you or members of your staff.

Sincerely yours,

Assistant


Comptroller General
of the United States

The Honorable Mike Gravel
United States Senate