

**ORIGINAL**Decision No. 56848

## BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of UNITED AIR LINES, INC., for authority to increase intrastate passenger fares.	) ) )	Application No. 39775 (As Amended)
In the matter of the application of WESTERN AIR LINES, INC., for an increase in intrastate air passenger fares.	) ) )	Application No. 39776 (As Amended)
Application of AMERICAN AIRLINES, INC., for authority to increase intrastate passenger fares.	) ) )	Application No. 39795
Application of SOUTHWEST AIRWAYS COMPANY for an increase in intrastate air passenger fares.	) ) )	Application No. 39807
Application of TRANS WORLD AIRLINES, INC., for authority to increase passen- ger fares and excess baggage charges under Section 454 of the California Public Utilities Commission of the State of California.	) ) ) ) ) ) ) ) ) ) )	Application No. 39809
Application of BONANZA AIR LINES, INC., for an increase in intrastate air passen- ger fares.	) ) )	Application No. 39811

Thos. A. Daly, and Brobeck Phleger & Harrison  
by Geo. D. Rives, for United Air Lines, Inc.,  
D. P. Renda and John W. Simpson, for Western  
Air Lines, Inc., applicants;  
Lawrence G. Wire, for American Airlines, Inc.,  
applicant;  
R. E. Costello, for Southwest Airways Co.,  
applicant;  
Brobeck Phleger & Harrison, by Geo. D. Rives  
for Trans World Airlines, Inc., applicant;  
Robert J. Sherer, for Bonanza Air Lines, Inc.,  
applicant;

Chas. C. Miller, for San Francisco Chamber of  
Commerce; Frederick B. Holoboff, for City  
of San Diego; B. Lawrence Lloyd, for  
General Services Administration, U. S.  
Government, interested parties.

H. J. McCarthy, John Pearson, Edw. C. Crawford  
and John F. Donovan, for the Commission's  
staff,

O P I N I O N

Applicants are engaged in the transportation of passengers by aircraft. By these applications they seek authority pursuant to Article XII, Section 20 of the Constitution of the State of California to increase their intrastate passenger fares.

The applications were consolidated for hearing and were heard before Examiner Jack E. Thompson at San Francisco on March 12, 13 and 21, 1958 and April 2, 3, 4 and 9, 1958.

On January 24, 1958, the Civil Aeronautics Board issued a press release stating that it would approve an increase in the interstate passenger fares of airlines of four per cent plus one dollar additional charge on each one-way ticket. The airlines operating in the United States, in general, pursuant to such notice, published and filed increased interstate fares to become effective February 10, 1958. A decision was issued by the Civil Aeronautics Board on February 25, 1958, in Docket No. 8008, setting forth its findings in a general investigation of airline passenger fares upon which it ordered an interim increase in passenger fares as above indicated. In the proceedings before us applicants seek authority at this time to increase their California intrastate fares to the same extent as the increases authorized by the Civil Aeronautics Board.

United Air Lines, Inc.

United operates a transcontinental system between the principal east coast cities, several large cities in the middle west and points on the Pacific Coast. It also serves Hawaii and Vancouver, B. C. Within California, United operates from San Diego on the south to San Francisco and Sacramento on the north. It serves 15 California cities which is over 20 per cent of the total number of cities to which it provides service on its entire system.

By its application, United seeks a 17 per cent increase in passenger fares. Pending further action by the Civil Aeronautics Board on an application for a similar increase in interstate fares, United requests, at this time, an interim increase of four per cent plus one dollar per one-way fare, such increase in fares not to exceed the 17 per cent sought in its application as amended.

Testimony and exhibits were presented by the vice-president and treasurer, the assistant secretary, the assistant comptroller and the manager of the economic and research division of applicant. The evidence shows that since 1948 there has been an increase each year over the preceding year in the number of planes operated, the number of miles flown, the number of passengers transported, the amount of gross passenger revenue, and the amount of operating expense. In ten years the total assets of the company have increased from 99-1/2 millions of dollars to 286 millions of dollars. Its net earnings reached a peak in 1955 of 11 millions. In 1956 its net earnings were 10-1/3 millions and in 1957, almost 5 millions. While the number of passengers transported was increased, since 1955 there has been a decrease in applicant's passenger load factor. With an increase in fares of four per cent plus one dollar, United's forecast of 1958 operating results shows net earnings of 7-1/2 millions.

The applicant introduced analyses of its California intra-state operations which show that, for the year ended December 31, 1957, operations were conducted at a loss and its forecast, under the analysis prepared by its marketing and research division, is a loss on passenger operations in California of some 2 millions of dollars assuming the fares sought under the interim increase were established January 1, 1958.

Western Air Lines, Inc.

Western is a trunk line carrier with operations along the Pacific Coast from San Diego to Seattle and serves cities in the

northwestern part of the United States as far east as Minneapolis. California points served include San Diego, Long Beach, Los Angeles, Palm Springs, San Bernardino, Oakland and San Francisco. Twenty-eight per cent of its passengers are California intrastate passengers. Its California operations account for 13.7 per cent of its total passenger revenues and 16 per cent of its revenue passenger miles.

Western seeks an increase in fares of six per cent plus \$2 per one-way ticket. This is also the increase Western is seeking for its interstate fares before the Civil Aeronautics Board. Pending further action by the Board, it requests the Commission to grant an interim increase of four per cent plus \$1 as recently authorized by the Board.

Testimony and exhibits were presented by applicant's vice-president and treasurer and by its assistant director of research. Operating statements for the year ended September 30, 1957, show a gross operating revenue of \$40,725,460 of which \$37,856,678 was derived from passenger fares. Net income for the period was \$3,334,629.

An analysis of California intrastate operations was presented by applicant. It shows for the year ended December 31, 1957, a loss of \$627,809. According to the applicant, if the interim increase in fares here sought had been in effect, there would have been a loss of \$48,249.

American Air Lines, Inc.

American is one of the four major airlines operating in the United States. It has a large number of routes that it operates on its system, several of which are transcontinental. It serves San Francisco, Oakland, Los Angeles and San Diego. Its California intrastate operations, which account for less than four one-hundredths of one per cent of its passenger traffic, are restricted to service

between Los Angeles and San Diego and between San Francisco and Oakland. These intrastate operations are portions of flights operating out of the State.

Testimony was presented by applicant's chief analyst of rates and fares. He stated that traffic study of American disclosed that, while 8 round-trip flights per day were made by American between Los Angeles and San Diego, they transported an average of 54.3 intrastate passengers per day. According to the witness the number of intrastate passengers between San Francisco and Oakland is negligible.

American's system passenger revenues have increased from 232 millions of dollars in 1955 to 261 millions in 1956 and to 272-1/2 millions in 1957. At the same time American's operating profits have declined from 39 millions of dollars in 1955 to 37 millions in 1956 and to 17-1/2 millions in 1957. The witness stated that without a fare increase it appears that while American's passenger revenues should increase 8.5 per cent in 1958 there would be a net operating loss of \$1,161,000.

American seeks an increase in its fares of 4 per cent plus \$1 for each one-way fare. Specifically, this is an increase in the one-way first-class fare between San Diego and Los Angeles from \$7.75 to \$9.10 and the coach fare from \$6.10 to \$7.35. While the present and proposed coach fares are higher than those maintained and proposed by competing airlines, American is requesting that the increase be granted by the Commission in order that the intrastate fares remain on the same basis as the system fares.

Southwest Airways Co.

Southwest is a short-line carrier operating principally in California. The only two points served outside the State are Medford, Oregon and Las Vegas, Nevada. Within California it serves the principal coastal cities from Los Angeles to Crescent City, the

principal cities in the Sacramento Valley and Yreka, Bakersfield, Palmdale and Lancaster. Ninety-eight per cent of its total passenger transportation is California intrastate traffic.

It seeks authority to increase fares by four per cent plus \$1 per one-way fare.

Testimony and exhibits were presented by applicant's vice-president and by its treasurer. Operating statements show that Southwest is, and since 1952 has been, transporting passengers at a loss. It has been receiving federal subsidy.

Trans World Airlines, Inc.

Trans World Airlines, Inc. is one of the four major trans-continental airlines and maintains passenger service to other parts of the world. Points served in California include San Francisco, Oakland, Fresno and Los Angeles. Schedules maintained between these points are segments of interstate or intercontinental flights. Its operating rights from the Civil Aeronautics Board are restricted so that it is not authorized to transport passengers between California points except on flights originating at or destined to Albuquerque or east thereof. Approximately one half of one per cent of its revenue derived from the transportation of passengers wholly within the continental limits of the United States is from the transportation of California intrastate traffic.

Trans World Airlines, Inc. has an application before the Civil Aeronautics Board seeking authority to increase interstate fares by 15 per cent. The application before the Commission seeks similar authority with respect to California intrastate fares. As in the cases of United and Western, Trans World Airlines, Inc. requests that it be granted interim authority to increase California fares by four per cent plus \$1 per one-way fare.

Testimony and exhibits were presented by applicant's director of economic proceedings. Operating statements show that for the years 1956 and 1957 applicant operated at a loss on its system operations as well as its domestic operations. According to an analysis prepared by the witness, applicant anticipates a loss in the transportation of California intrastate passengers at the fares being sought under the proposed 15 per cent increase as well as under the proposed interim increase.

Bonanza Air Lines, Inc.

Bonanza is a short-line carrier serving points in Nevada, Utah, Arizona and Southern California. Points served in California are Apple Valley, Ontario-Riverside, Blythe, Palm Springs-Indio, Santa Ana-Laguna Beach, Los Angeles, El Centro and San Diego. All flights operated within California have a point of origin or a point of termination in another state.

Bonanza seeks authority to increase its intrastate fares by 4 per cent plus \$1 per one-way fare.

Testimony and exhibits were presented by applicant's treasurer. Operating statements show that Bonanza has been transporting passengers at an operating loss since 1952. The loss in 1957 was greater than that in 1956 by \$246,000. Applicant is receiving and has been receiving federal subsidy.

Conclusions

Other than American, all of the airlines forecast the results of California intrastate passenger operations under the proposed fares (at the increase of 4 per cent plus \$1.00). The estimated results are as follows:

United	\$ (2,069,000)
Western	\$ ( 48,249)
T.W.A.	\$ ( 549,880)
Southwest	\$ (1,672,000) (1)
Bonanza	\$ ( 771,000) (1)

(Loss)

(1) Before Federal Subsidy

*new pt*

The forecasts were predicated upon formulae for the allocation and separation of revenues and expenses from system revenues and expenses. In some instances the formulae and methods used are new to the Commission and differ from the time-tested methods used by other transportation companies and utilities. This is a case of first impression in so far as the Commission is concerned and it is the first instance in which applicants have been required to determine their intrastate revenues and expenses.

The airlines presented evidence showing the manner in which operations are conducted in California, the system operating results for 1957 and a number of preceding years and made a showing that expenses such as the salaries of flying personnel and ground personnel and the cost of equipment and supplies have increased.

Notices of the filing of the applications and notices of hearing were posted and published and were mailed to officers of each county and city served by the respective applicants. No one has appeared in opposition to the granting of the application. The City of San Diego and the San Francisco Chamber of Commerce appeared and supported applicants' requests for an early determination of the applications.

Without meaning to express our approval of the integrity of the separation methods and formulae employed by these carriers to separate California intrastate operations from their system operations, we find that the showings made by applicants have sufficient probative value to justify the increases in fares which we will authorize herein.

O R D E R

Based on the evidence of record and on the findings and conclusions set forth in the preceding opinion,



IT IS ORDERED:

1. That applicants, and each of them, are authorized to establish, and to make effective on not less than five days' notice to the Commission and to the public, increases in passenger fares not to exceed four per cent plus one dollar per one-way fare.
2. That the increases authorized by paragraph 1 to United Air Lines, Inc., shall in no case exceed seventeen per cent.
3. That the increases authorized by paragraph 1 to Trans World Airlines, Inc., shall in no case exceed fifteen per cent.
4. That proceedings in Applications Nos. 39775, 39776 and 39809 are kept open and that hearings in those proceedings are continued to a date to be set.

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

Dated at San Francisco, California, this 17<sup>th</sup> day of June, 1958.

[Signature]  
President

[Signature]

[Signature]

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Commissioners