AG

ORIGINAL

Decision No. 57990

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

| | |
|---|---|
| Application of UNITED AIR LINES, INC., for authority to make certain changes in its intrastate passenger fares, resulting in increases. | Application No. 40490 |
| In the Matter of the Application of WESTERN AIR LINES, INC., for an increase in intrastate air passenger fares. | Application No. 40536 |
| Application of Trans World Airlines, Inc., for authority to make certain changes in its intrastate passenger fares which result in increases. | Application No. 40547 |
| Application of American Airlines, Inc., for authority to make certain changes in its intrastate passenger fares, resulting in increases. | Application No. 40548 |
| Application of BONANZA AIR LINES, INC., for authority to make certain changes in its intra-state passenger fares, resulting in increases. | Application No. 40577 |

Brobeck, Phleger & Harrison, by George D. Rives, for United Air Lines, Inc., and Trans World Airlines, applicants.
D. P. Renda, by John W. Simpson, for Western Air Lines, Inc., applicant.
Bayard F. Ellis, for American Airlines, Inc., applicant.
Chas. D. Driskill, for Bonanza Air Lines, Inc., applicant.
Dion R. Holm, Frank J. Needles and Robert R. Laughead, for City and County of San Francisco; Charles C. Miller, for San Francisco Chamber of Commerce, interested parties.
Harold J. McCarthy and John L. Pearson, for the Commission staff.

# OPINION

Applicants are engaged in the transportation of passengers by aircraft. The scope of their respective operations is set forth in Decision No. 56849, dated June 17, 1958, in Applications Nos. 39775 (United), 39776 (Western), 39795 (American), 39807 (Southwest), 39809 (T.W.A.) and 39811 (Bonanza). By said decision, the applicants were authorized to increase fares by four per cent plus $1.00 per one way fare. Proceedings in Applications Nos. 39775, 39776 and 39809 were kept open and further hearings were ordered to be continued to a date to be set. Further hearings have not yet been held.

On October 14, 1958, the Civil Aeronautics Board authorized applicants to (1) eliminate the discount for round trips and (2) adjust the family fare discount from 50 per cent to 33-1/3 per cent. The adjustments in interstate fares were made effective October 20, 1958. On December 6, 1958, applicants, with approval of the Civil Aeronautics Board, modified their interstate fare structure to cancel stopover privileges without additional charge on interstate first class trips and on coach trips in connection with certain international or overseas transportation.

By these applications, authority is sought to make similar adjustments in California intrastate fares. The proposed adjustments affect first class fares and not coach fares. The applications were consolidated for hearing and were heard before Examiner Jack E. Thompson at San Francisco on December 3, 1958. The matters were taken under submission December 11, 1958, upon the filing of late filed Exhibit No. U-9.

In the initial phases of air transportation, airlines established round trip fares and accompanying circle trip and open-jaw discounts in order to attract traffic from their railroad competitors.[1/] On July 1, 1942, because of the amount of traffic generated by war conditions, the carriers cancelled the discounts. The discounts were made a part of the carriers' fare structures on September 1, 1948. At present the round trip fares are 190 per cent of the first class one way fares. The situation respecting circle trip, open jaw discounts and stopover privileges is similar. The airlines established such rules in their tariffs because circle routings, open jaw tickets and stopover privileges were a part of the railroads' fare structures.

In 1948 the family fare plan was introduced as a part of the airlines' fare structure. Its purpose was twofold, the leveling out of the flow of traffic on midweek days so as to permit more efficient utilization of capacity, and the generation of additional traffic. Subsequently, for competitive reasons, the interstate scheduled airlines introduced coach service. Coach fares are one way fares applicable between specified points via specific routings on designated flights. The airlines have found that the first class family fares compete with their coach fares.[2/]

Applicants contend that the special fares and discounts have lost much of their effectiveness in generating traffic and whatever benefit or economic value such fares may have is outweighed

---

1/ United's tariff provides for a discount where a passenger travels from Long Beach to San Francisco and returns to Los Angeles or vice versa. The term "open jaw" is derived from the break in the round trip movement.

2/ A family of four traveling via United between Los Angeles and San Francisco would pay $60.20 via coach and $59.95 via first class under the family plan. A family of three traveling via United from San Francisco to San Diego via coach would pay $62.55 whereas under the family plan it could obtain first class passage at $62.00.

by other considerations including simplification of the fare structure.

According to applicants, at the present time competition with the railroads no longer has the same importance or is of the same character as it was in 1938 or in 1948. Frequency of service by the airlines has increased substantially whereas the number of trains operated has been reduced. Rail fares have increased to a greater extent than air fares. It was stated, for example, that while the first class rail fares in 1957 had increased 42 per cent over 1942, the air fares within California had increased only 20 per cent over the same period.

From ticket lifts for sample periods, applicants estimated the additional revenues which would be derived from the proposed modifications in the fare structures. A summary of their estimates of the increased annual revenues follows:

| | United | Western | T.W.A. | American | Bonanza |
|---|---|---|---|---|---|
| Round trip | $489,319 | $125,107 | $1,744 | $9,000 | $14,000 |
| Family fares | 43,836 | 19,708 | 224 | 2,000 | 1,000 |
| Stopovers | 12,220 | 1,040 | 32 | - | - |
| | $545,375 | $145,855 | $2,000 | $11,000 | $15,000 |

Other than American, the applicants presented estimates of the results of California intrastate passenger operations under the proposed fares. Their estimates were determined by applying the above-estimated additional revenues to the forecast of results presented in Decision No. 56849.[3/] The estimates of United, T.W.A., and Bonanza are losses. Western estimated that the proposed

[3/] The forecasts are set forth in said Decision No. 56849, United Air Lines, Inc., et al., 56 Cal P.U.C. 374, 379 (1958).

modifications in fares will result in a profit on California intrastate operations. The effect of the proposal, on the operating results of T.W.A., American and Bonanza is small. The following summarizes the forecasts of United and Western for their respective California intrastate operations.

| | United | Western |
|---|---|---|
| Revenue at 1957 Fares | $15,903,000 | $5,406,277 |
| Increase from Dec. 56849 | 1,605,000 | 579,560 |
| Revenue from Proposal | 545,375 | 145,855 |
| Total Revenue | $18,053,375 | $6,131,692 |
| Total Expenses | 19,577,000 | 6,034,086 |
| Net Revenue | $(1,523,625) | $ 97,606 |
| Income Taxes (56%) | - | 54,659 |
| Net Income | | $ 42,947 |
| Investment Base 4/ | | $4,500,918 |
| Return on Investment | | 0.95% |

Discounts for round trip, circle trip and open jaw tickets and free stopover privileges are promotional features intended to provide an incentive to passengers to route their entire passage, or as much as possible, via the line ticketing the outbound movement. The family plan fares are intended to divert

4/ The investment base is composed of the following:

| | |
|---|---|
| Capital Stock | $ 813,836 |
| Capital Surplus | 6,269,484 |
| Earned Surplus | 9,146,894 |
| Long Term Debt | 13,252,000 |
| Deferred Federal Taxes | 1,432,500 |
| System Investment Base | $30,914,714 |

California Intrastate $ 4,500,918

passage which might ordinarily be made on days of peak travel to days when the carrier has more available seats on aircraft. Essentially the fares involved herein are promotional fares and have economic value to the airlines only in the attraction, retention, and leveling the periodic demands of passengers. deletion

We find that the proposals herein are neither discriminatory nor unjust. With respect to the effect of the proposed changes upon applicants' earnings, it is clear that the increased revenue resulting therefrom would have very little effect upon the operating results of Bonanza, American and T.W.A. In the case of United, applicant estimated that it would still incur a substantial loss on California intrastate operations even though the proposals, if approved, would result in increased passenger revenue of one half million dollars. Western estimated that the additional revenue of $145,855 would result in a profit of $42,947 on California intrastate operations. These estimates were based upon the same allocation and separation of revenues and expenses from system revenues and expenses as those submitted by United in Application No. 39775 and by Western in Application No. 39776. As in Decision

No. 56849, in the above applications, because the determination of the intrastate revenues and expenses of air transportation companies is new to the Commission and to the applicants, the finding in this decision that the proposed fares have been justified is made without expressing our approval of the integrity of the separation methods and formulae employed by these carriers to separate California intrastate operations from their system operations.

Applicants, and each of them, have made a showing which is uncontroverted in the record; and, on the basis of that showing, we find that the proposals have been justified.

In late filed Exhibit No. U-9, United set forth with particularity the proposed modification of its tariff with regard to stopovers. It provides for a free stopover of up to four hours from the time of arrival at an intermediate point or junction point. At the hearing, Western stated that it desired to publish whatever rule that United does in connection with stopovers. The other applicants made no representations other than as specified in their respective applications. In the case of American, its operations in California are such that there is no situation where there would be a stopover. During the hearing several witnesses stated that a uniform and systematic fare structure is important. United and Western compete with each other and with the other applicants. In the circumstances, T.W.A., Bonanza and American should be authorized to either cancel free stopovers or to restrict free stopovers to four hours as proposed by United.

# 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 publish and make effective the following changes in fares for first-class transportation.

(a) Cancellation of round trip, circle trip and open-jaw discounts and fares based on said discounts.

(b) Reduction of the family excursion-fare discount from 50 per cent to 33-1/3 per cent.

(2) That applicants are authorized to cancel stopover privileges without charge, or in lieu thereof to establish the stopover rule set forth in Exhibit U-9 in this proceeding.

(3) That applicants are authorized to establish the fare changes authorized herein on not less than five days' notice to the Commission and to the public.

(4) That the authority granted herein will expire unless exercised within sixty days of the effective date of this order.

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

Dated at San Francisco, California, this 9th day of February, 1959.

President

Commissioners

Commissioner Theodore H. Jenner, being necessarily absent, did not participate in the disposition of this proceeding.