

ORIGINAL

Decision No. 61224

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of WESTERN AIR LINES, INC., for an increase in intrastate air passenger fares.)))	Application No. 42417
Application of TRANS WORLD AIRLINES, INC., for Order authorizing passenger rate increases and authority for short notice filing pursuant to Sections 4.1 and 4.2 of General Order 105-A.))))))	Application No. 42430
Application of BONANZA AIR LINES, INC., for an increase in intrastate air passenger fares.)))	Application No. 42435
Application of AMERICAN AIRLINES, INC., for authority to increase intrastate passenger fares.)))	Application No. 42452
Application of UNITED AIR LINES, INC., for authority to make certain changes in its intrastate passenger fares, resulting in increase.)))))	Application No. 42461
Application of WEST COAST AIRLINES, INC., for authority to increase intrastate air passenger fares.)))	Application No. 42537

D. P. Renda and John W. Simpson, for Western Air Lines, Inc.; Brobeck, Phleger and Harrison, by Geo. Rives, for Trans World Airlines, Inc., and United Air Lines, Inc.; R. E. Hill, for Bonanza Air Lines, Inc.; Lawrence G. Wire, for American Airlines, Inc.; Dennis R. Kelley, for West Coast Airlines, Inc.; applicants.
Chas. C. Miller, for San Francisco Chamber of Commerce; Henry E. Jordan, for City of Long Beach; interested parties.
J. Calvin Simpson, for the Commission staff.

O P I N I O N

On June 23, 1960, the Civil Aeronautics Board in its Order No. E-15436 in Docket No. 11428 authorized air lines to increase their interstate fares by 2½ percent plus \$1.00 per one-way ticket,

to become effective July 1, 1960. Applicants have published the increases in interstate fares and in intrastate fares in all states other than California and Pennsylvania. At the times of the hearings herein the matter of increased fares in Pennsylvania was under consideration by the regulatory agency in that state. By these applications, applicants seek authority to publish the increased fares in California.

Public hearings were held at San Francisco before Commissioner Matthew J. Dooley and Examiner J. E. Thompson on October 11, 13 and 14, 1960. The matters were taken under submission October 21, 1960 upon the filing of late-filed Exhibit No. B-2.

With one exception, the local and joint fares proposed by applicants are uniform. American presently has a higher coach fare between San Diego and Los Angeles. It proposes to increase its present \$7.35 fare first by \$0.75 which was authorized by CAB July 24, 1959 and then by 2½ percent plus \$1.00 to \$9.35.

On some of the short segments, such as Los Angeles to San Diego, San Francisco to Oakland and San Francisco to Sacramento some applicants propose increases greater than 2½ percent plus \$1.00. This results from a difference in the authorities granted to United Airlines by the Civil Aeronautics Board in February 1958 and by the Commission in United Airlines, Inc., et al., 56 Cal. P.U.C. 374. The former granted United authority to increase all fares by 4 percent plus \$1.00. The Commission granted a similar increase, held down, however, to the 17 percent increase sought by United in its application. This resulted in United having lower intrastate fares than interstate fares for those segments where 4 percent plus \$1.00 exceeded 17 percent. Western and TWA published fares competitive to those of United's on those short-haul segments. The following is a tabulation of some of the present fares and proposed fares.

TABLE I

ONE-WAY FARES

(Not Including Jet Surcharge)

FIRST CLASS

<u>Between</u>	<u>Carriers</u>	<u>Present</u>	<u>Proposed</u>
Los Angeles and:			
San Francisco	WA, UA, TWA	\$23.95	\$25.55
San Diego	WA, UA, BL, AA	9.10	10.35
Palm Springs	WA, BL	10.30	11.60
Fresno	UA, TWA	15.65	17.05
San Francisco and:			
San Diego	WA, UA	31.00	32.80
Fresno	UA, TWA	12.10	13.45
Sacramento	UA	6.95	8.35(1)
"	WCA	7.15	8.35
Oakland	WA, UA, TWA	4.10	5.80(1)
"	WCA, AA	4.65	5.80

COACH

<u>Between</u>			
Los Angeles and:			
San Francisco	WA, UA, TWA	\$15.05	\$16.45
San Diego	WA, UA	6.50	8.00(1)
"	AA	7.35	9.35(2)
San Francisco and:			
San Diego	UA, WA	20.85	22.40
Sacramento	UA	5.90	7.05

(1) Increase greater than 2½ percent plus \$1.00 but does not exceed an amount computed by taking fare applicable in 1957 and applying increases of 4 percent plus \$1.00 and 2½ percent plus \$1.00.

(2) American's proposed fare is determined by taking present fare of \$7.35 and adding 75 cents, which increase was authorized by the CAB July 24, 1959, and increasing by 2½ percent plus \$1.00.

Bonanza and West Coast are local service lines which have been eligible to receive and have received federal subsidy. The increases in revenues which would result from the proposed fare increases would not result in their operations being conducted at a profit. We find that the increases proposed by these applicants are

justified. We recognize that West Coast and Bonanza compete with trunk line carriers on segments operated in California and that fares higher than those maintained by competing trunk lines may not be economically feasible.

American is one of the four major domestic air lines and has extensive operations in North America. Its California service is restricted to transportation between San Francisco and Oakland and between San Diego and Los Angeles. Patronage on the former segment is negligible. The San Diego to Los Angeles segment, which is served as a part of through flights to or from eastern points, provides 0.06 percent of American's total passenger miles. That percentage includes both intrastate and interstate traffic on that segment. Three other applicants transport passengers between Los Angeles and San Diego. A local air line not involved in this proceeding provides coach service between said points at a fare substantially lower than that proposed by American. American stated that had the proposed fares been in effect September 1959 the amount of additional revenues, annualized, would have been \$36,500. It is important to American to maintain its intrastate fare structure on the same basis as its interstate fare structure. Upon consideration of all the facts, we find that the proposed fare increases are justified.

TWA serves Los Angeles, Fresno, Oakland and San Francisco. Its intrastate service is restricted to flights having origin or destination at Albuquerque or east thereof. At present Fresno is served only with coach service consisting of one flight in either direction to San Francisco or Los Angeles.

TWA maintains comprehensive statistical data regarding its operations. It has separated expenses and revenues on California operations by types of aircraft, by types of service and also with respect to operations between each pair of termini served in California.

TABLE II

TWA
CALIFORNIA INTRASTATE OPERATIONS
FOR YEAR ENDED JUNE 30, 1960

<u>Segment</u> (1)	<u>California</u> <u>Passengers</u>	<u>Intrastate</u> <u>Passengers</u>	<u>Total</u> <u>Revenue</u>	<u>Total</u> <u>Cost</u>	<u>Net</u> <u>Operating</u> <u>Income</u> *
<u>First Class</u>					
LAX-SFO	26,960	13,551	\$ 322,911	\$ 624,268	\$(291,357)
<u>Coach</u>					
LAX-SFO	95,616	59,288	888,193	1,735,857	(847,664)
LAX-FAT	6,367	3,393	40,140	93,701	(53,561)
SFO-FAT	5,272	3,440	32,303	101,833	(69,530)
SFO-OAK	287	198	606	4,997	(4,391)
LAX-BUR	47	-	-	-	-
Total	134,549	79,870	\$1,294,153	\$2,560,656	\$(1,266,503)

(1) In both directions. LAX = Los Angeles,
SFO = San Francisco, FAT = Fresno,
OAK = Oakland, and BUR = Burbank.

* Red Figure.

TWA estimates that had the proposed fares been in effect, its net operating loss would have been \$1,156,837 representing an increase in net income on First Class of \$21,096 and on Coach of \$88,570.

TWA's proposed fares compare favorably with those maintained by it on segments of comparable distance in the United States. We find that the increases proposed by TWA have been justified.

Western Air Lines, Inc., hereinafter called Western, is a trunk line carrier with operations in the western states and serving Edmonton, Canada and Mexico City, Mexico. It serves the following California cities: San Diego, Long Beach, Los Angeles, Palm Springs, San Bernardino, Oakland and San Francisco. It publishes fares for coach service between those cities other than Palm Springs and San Bernardino. Western also provides service to other California points

under joint fares with the other applicants herein and Pacific Air Lines, Inc.^{1/}

If offered an exhibit showing that for the year ended June 30, 1960 it operated at a loss on California intrastate operations as well as on California segments. Table III sets forth the results shown for its intrastate operations.

TABLE III

SUMMARY OF REVENUES AND EXPENSES FOR
CALIFORNIA INTRASTATE PASSENGER OPERATIONS
OF WESTERN AIR LINES, INC.
YEAR ENDED JUNE 30, 1960

	<u>First Class Traffic</u>	<u>Coach Traffic</u>	<u>Total Traffic</u>
Passenger Revenue	\$3,706,186	\$2,168,873	\$5,875,059
Excess Baggage Revenue	<u>31,140</u>	<u>18,062</u>	<u>49,202</u>
Total	\$3,737,326	\$2,186,935	\$5,924,261
Passenger Expenses	<u>3,869,266</u>	<u>2,536,721</u>	<u>6,405,987</u>
Operating Profit (Loss)	\$ (131,940)	\$ (349,786)	\$ (481,726)
<u>Increases in Revenues from Proposed Increased Fares</u>			
Passenger Revenue	\$ 277,141	\$ 217,608	\$ 494,749
Excess Baggage Revenue	<u>2,328</u>	<u>1,806</u>	<u>4,134</u>
Total	\$ 279,469	\$ 219,414	\$ 498,883
Operating Profit (Loss) Had Proposed Fares Been in Effect	\$ 147,529	\$ (130,372)	\$ 17,157

The results shown in Table III as operating profit had proposed fares been in effect do not take into consideration increases in expenses which are related to revenues, such as commission expense. We find the proposed increases are justified.

^{1/} Pacific Air Lines, Inc., filed Application No. 42750 on October 13, 1960, seeking authority to increase its fares by 2½ percent plus \$1.00 per one-way ticket.

United Air Lines has extensive operations in California. Its California intrastate passenger revenues are more than those of the other applicants combined. It was estimated that had the proposed fares been in effect in California for the twelve-month period ended June 30, 1960, the gross passenger revenue would have been increased by 1½ million dollars or an average increase in California intrastate revenues of 8.3 percent.

United presented a summary statement of the operating results for the twelve months ended June 30, 1960 under present fares and under proposed fares. Those results are set forth in Table IV.

TABLE IV

SUMMARY OF REVENUES AND EXPENSES FOR
CALIFORNIA INTRASTATE PASSENGER OPERATIONS
OF UNITED AIR LINES, INC.
YEAR ENDED JUNE 30, 1960

	<u>Piston Aircraft</u>	<u>Jet Aircraft</u>	<u>Total</u>
Present Fares:			
Passenger & Baggage Revenue	\$16,324,374	\$2,016,373	\$18,340,747
Operating Expenses	<u>20,373,174</u>	<u>1,842,474</u>	<u>22,215,648</u>
Operating Income (Loss)	\$(4,048,800)	\$ 173,899	\$(3,874,901)
Proposed Fares:			
Passenger & Baggage Revenue	\$17,690,073	\$2,174,681	\$19,864,754
Operating Expenses	<u>20,373,174</u>	<u>1,842,474</u>	<u>22,215,648</u>
Operating Income (Loss)	\$(2,683,101)	\$ 332,207	\$(2,350,894)

United inaugurated jet service in California on October 31, 1959 with DC-8 flights between Los Angeles and San Francisco. It attributes the profitable operation of these aircraft during the period ended June 30, 1960 to very high load factors caused by the newness or novelty of jet service. It was stated that United expects that high load factor to diminish somewhat. On September 1, 1960, United inaugurated service with Boeing 720 jet aircraft between

San Diego, Los Angeles and San Francisco. The evidence shows that it has more of that type aircraft as well as twenty Caravelle aircraft ordered. Those aircraft are designated as medium short range jet aircraft; however, that designation relates to distances of 500 to 1,000 miles. It would appear that for the immediate future, expansion of jet service by United in California will consist of increasing jet schedules between San Diego, Los Angeles and San Francisco rather than extension of jet service to other California points which are served on schedules of comparatively short hops. United's present plans contemplate continuance of the use of its piston aircraft on the short hops in California.

No one has opposed the granting of the increases sought. The methods of separations and allocations of expense in many respects are different from methods used by public utilities; however, the procedures used by United and the other applicants in allocating expenses to types of aircraft and the showings made by them are similar to those submitted by applicants to the Civil Aeronautics Board. We find that the showing made by the respective applicants justifies the increases sought. In so doing we are not approving the separation methods and formulae employed to show results of California intrastate operations.

Applicants requested authority to make the increased fares effective on five days' notice. The request is justified and will be granted.

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 West Coast Airlines, Inc., is authorized to establish the increased passenger fares proposed in its application herein.

2. That Bonanza Air Lines, Inc., is authorized to establish the increased passenger fares set forth in its Exhibit No. B-2 in this proceeding.

3. That American Airlines, Inc., is authorized to establish the increased passenger fares proposed in its application herein.

4. That Trans World Airlines, Inc., is authorized to establish the increased passenger fares set forth in its Exhibit No. TWA-4 in this proceeding.

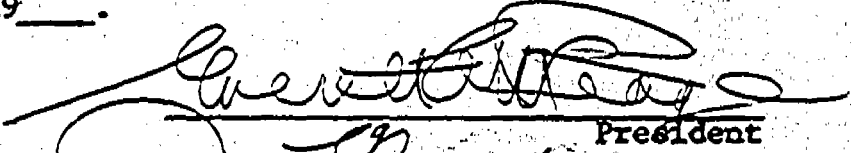
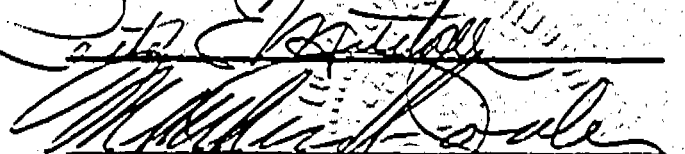

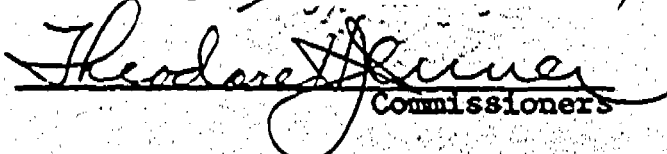
5. That Western Air Lines, Inc., is authorized to establish the increased passenger fares set forth in its Exhibit No. WAL-19 in this proceeding.

6. That United Air Lines, Inc., is authorized to establish the increased passenger fares set forth in its Exhibit No. U-2 in this proceeding.

7. That applicants are authorized to establish the increased fares authorized herein to become effective on not less than five days' notice to the Commission and to the public.

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

Dated at San Francisco, California, this 20th day of December, 19 .


President



Commissioners