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Decision No. 63410

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. 43675 (Filed August 14, 1961)
Application of UNITED AIR LINES, INC., for authority to make certain changes in its intrastate passenger fares, resulting in increase.	Application No. 43763 (Filed September 18, 1961)
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. 43802 (Filed October 3, 1961)
Application of American Airlines, Inc. for authority to increase intrastate passenger fares.	Application No. 43822 (Filed October 9, 1961)

D. P. Renda and John W. Simpson, for Western Air Lines, Inc.; Brobeck, Phleger & Harrison by Geo. D. Rives and Gordon E. Davis, for United Air Lines, Inc., and Trans World Airlines, Inc.; Lawrence G. Wire, for American Airlines, Inc.; applicants.
Elmer Sjostrom, for the Commission's staff.

O P I N I O N

Public hearing in these applications was held at San Francisco before Examiner J. E. Thompson on December 11 and 12, 1961 and before Examiner W. E. Turpen on December 13, 1961. The matters were taken under submission January 2, 1962 with the filing of a late-filed Exhibit by Western Air Lines, Inc.

Applicants are common carriers by aircraft. By these applications they seek authority to increase jet coach fares. The applications do not propose fare increases for coach flights on propeller or turbo-prop aircraft. Applicants are the only common carriers transporting passengers on full jet aircraft between points in California. The only points served by jet aircraft are San Francisco, Oakland, Los Angeles and San Diego. The present coach fares and the proposed coach fares for passage on jet aircraft are as follows: 1/

Comparison of Present Fares and Proposed Fares for Coach Flights on Jet Aircraft.

	Present Fare (1)	Proposed Fare (1)
Between Los Angeles and		
San Francisco/Oakland Local Fare of WAL, UAL & TWA	$18.45	$22.95
San Diego Local Fare of WAL, UAL & AAL	$ 9.00	$10.55
Between San Diego and		
San Francisco/Oakland Local Fare of WAL & UAL	$24.40	$28.35
Joint Fare	$25.40	$29.35

(1) Includes jet surcharges of $1.00 per passage between Los Angeles and San Diego and $2.00 for transportation between other points.

Note: WAL - Western Air Lines, Inc.;
UAL - United Air Lines, Inc.;
TWA - Trans World Airlines, Inc.; and
AAL - American Airlines, Inc.

These applications were filed following the granting of authority by the Civil Aeronautics Board to airlines to establish jet coach air fares at a level of 75 percent of the corresponding first class fares. The construction of the proposed jet coach fare between Los Angeles and San Francisco is as follows:

First Class Fare on Jet Aircraft:	$27.55
Less $2.00 Jet aircraft surcharge	25.55
Less $3.00 Ticket increases authorized	22.55
Multiplied by 75% and increased to the next higher $.05	16.95
Plus $3.00 ticket increases	19.95
Plus $1.00 service charge(1)	20.95
Plus $2.00 Jet aircraft surcharge	22.95

(1) The service charge represents a charge for snacks or meals.

1/ Subsequent to the submission of these proceedings, Western and United filed applications for authority to increase all fares, including those herein proposed, by three percent. That authority was granted by Decision No. 63315 dated February 23, 1962. American and T.W.A. did not file applications for the three percent increase. Insofar as Western and United are concerned, the fares proposed herein, including surcharges, would be: SF/LA, $23.70, SF/SD, $29.25, LA/SD, $10.90. The figures shown in this opinion are those of record herein unadjusted to reflect Decision No.63315.

The manner of the construction of the proposed fares is the same used by applicants in the construction of jet coach fares on all of their domestic interstate operations. The proposed fares have been made effective on the interstate transportation of passengers between the California points here involved.

Applicants presented evidence concerning their operations under present fares and under proposed fares. The Commission's staff presented estimates of the results of operation of jet aircraft by Western and by United under present fares and under the proposed fares showing the results of operation of the first class service and of the coach service on the planes.

American operates three jet coach flights daily between Los Angeles and San Diego. All such flights have origin or destination outside the State of California. For domestic operations conducted during the twelve months ended June 30, 1961, American had revenues from all sources amounting to $418,283,583 and operating expenses of $393,648,766 with an operating income of $24,634,817 before income taxes. An analysis by American of its traffic over the San Diego - Los Angeles segment indicates that annually about $26,000 in additional revenues will result from the proposed increased fares from intrastate and interstate traffic combined. American's coach passenger miles from traffic carried between San Diego and Los Angeles is less than 0.07 percent of American's total coach passenger miles (and less than 0.03 percent of its combined service passenger miles) on its domestic system. Because of the small amount of traffic involved, American believes that any allocation of its system costs applicable to intrastate transportation between San Diego and Los Angeles would be of little value.

T.W.A. has 10 jet flights with combined first class and coach service operating daily between San Francisco and Los Angeles. All such flights have origin or destination beyond Los Angeles at points outside California. For domestic operations conducted during the twelve months ended June 30, 1961, T.W.A. had revenues from all sources amounting to $275,764,000 and operating expenses of $278,207,000 for an operating loss of $2,443,000. On the basis of separations and allocations from domestic results, it had California intrastate revenues amounting to $1,455,002 and operating expenses of $2,707,019 resulting in a net operating loss from California intrastate operations of $1,252,017. T.W.A. showed that it has conducted jet coach intrastate operations in California at a loss of about $188,925 and that the additional revenue which would result from the establishment of the proposed fares would amount to $136,515. T.W.A. forecast that with the proposed fares the California intrastate operations would be conducted at an operating loss of $1,115,502.

Western and United probably have the most flights between the points involved herein. American and T.W.A. serve California points as a part of through interstate flights while Western and United serve the points involved not only on flights to beyond points but also in turn-around service. Western has only six jet coach flights daily, however, it has a number of coach flights on piston type aircraft and turbo-prop aircraft, the fares on which are not involved herein. United has well over forty daily flights between the points here involved, about 65 percent of which have both coach and first class service on the same jet aircraft.[2] United also provides service with piston type aircraft but not with turbo-prop

(2) The jet aircraft operated by the applicants in California include Boeing 707, Boeing 720, Douglas DC-8 and Convair CV-880.

aircraft. For the twelve months ended June 30, 1961, Western's system revenues, which include revenues on interstate traffic and foreign traffic, amounted to $60,760,007 on which it had net operating revenues of $1,578,186 before income taxes. Western did not separate California intrastate revenues and expenses from system results. The record, however, indicates that the over-all California intrastate operations were conducted at a loss. United presented exhibits showing that it had gross revenues from domestic operations, that is to say transportation performed within continental United States, amounting to $411,291,624 on which it received a net operating revenue of $21,950,901 before income taxes. It separated and allocated total California intrastate revenues and expenses from those operations and the results show that on $21,006,530 gross revenues from California intrastate operations it had a deficit in the amount of $2,663,348.

The Commission's staff, as well as Western and United, made estimates of the results of operating jet aircraft between San Francisco and Los Angeles under present fares and made estimates of the amount of additional net operating revenue the proposed fares should produce. A comparison of their estimates follows:

TABLE I

Results of Operations of Jet Aircraft Between San Francisco and Los Angeles Under Present Fares.

	United's Operation		Western's Operation	
	United (1)	Staff (2)	Western (3)	Staff (4)
Total California Jet Operation:				
Revenues		$15,783,444	$3,146,157	$3,691,369
Expenses		14,897,332	3,283,480	3,656,839
Net Oper. Rev. (Loss)		$ 886,112	$ (137,323)	$ 34,530
Total California Intrastate Jet:				
Revenues	$6,129,501	$ 9,864,819	$1,385,325	$1,637,081
Expenses	5,460,642	9,375,590	1,444,579	1,619,700
Net Oper.Rev.(Loss)	$ 668,859	$ 489,229	$ (59,254)	$ 17,381
California Intrastate Jet First Class:				
Revenues		$ 3,937,496	$ 586,184	$ 479,938
Expenses		4,226,259	633,324	512,218
Net Oper. Rev. (Loss		$ (288,763)	$ (47,140)	$ (32,280)
California Intrastate Jet Coach				
Revenues		$ 5,927,323	$ 799,141	$1,157,143
Expenses		5,149,331	811,255	1,107,482
Net Oper. Rev. (Loss)		$ 777,992	$ (12,114)	$ 49,661
Estimated Additional Net Rev. Under Proposed Fares	$717,948	$ 1,288,905	$ 173,407	$ 251,799

(1) For 12 months ended May 31, 1961.
(2) July, August and September, 1961, annualized.
(3) Twelve months ending June 30, 1962 based upon experience of year ended May 31, 1961 exclusive of February, March and April when Western had a work stoppage.
(4) Same as (3) above except load factor adjusted to reflect plane configuration as of November, 1961.

The evidence presented by United and Western indicates a downtrend in passenger traffic generally and a continuing shift in traffic from first class accommodations to coach. Known increases in expenses from those reflected in the base periods were not included in the computations of the results of Western. Those increases in expenses occur in wages, welfare benefits, insurance expenses, flight maintenance expense and in ground or terminal expense. It was demonstrated that new terminal facilities at Los Angeles International Airport have resulted and will result in increased operating expenses to the carriers. It should also be noted that where the results are shown separately for first class and for coach service, those results are predicated upon allocations based primarily upon the space of the aircraft dedicated to each type of service. The estimates of the additional revenues which would result from the proposed fares do not take into consideration any diversion of traffic to coach service provided in other aircraft operated by applicants.

The above comments characterize all of the estimates and indicate that the net operating revenues shown are over estimated. Western contends that the net revenues forecast by the staff are further over estimated because the load factors for coach and first class were developed by using data included in Western's Exhibit WAL-16 showing load factors during the five months from June to October, 1961, both inclusive, which were based upon B-720 aircraft configuration having 40 first class seats and 74 coach seats, totaling 114 seats, and applied to the configuration adopted during October of 28 first class seats and 92 coach seats, totaling 120 seats. The load factor used by the staff for first class was 70 percent and the load factor for coach was 70 percent. This compares to the figures in WAL-16 for the month of October of 58.0 percent for first class and 69.3 percent for coach. The estimates of the staff imply that the lessening of number of seats will increase the load factor for first class and the increasing of the number of coach seats will result in additional new passengers using coach. Western points out that it has never had an over-all 70 percent load factor on the San Francisco-Los Angeles segment and, in the light of recent authorizations by the Civil Aeronautics Board to other carriers to fly that segment without restrictions, it is doubtful whether it will ever achieve that high factor.

United contends that the method used by the staff results in overstating the results of its jet coach operation. It was pointed out that the staff used the data, including the expense amounts, shown in United's exhibits. Those exhibits do not reflect any expenses directly assignable to operations other than to passenger transportation; for example expenses related to advertising and sales of cargo services were not included. The staff estimates included revenues derived from mail, cargo and express as well as from passengers without recognizing that certain expenses directly assignable to the former operations were intentionally excluded from United's summaries of expenses. They also point out that the allocations of expenses between first class and coach were made on a space basis and that while United also used that method, it did so only because that type of allocation is the only one that has ever been used to allocate expenses common to all traffic, said formula having been developed for the separation and allocation of costs of handling express. United does not agree, however, that the method is a fair one for the purpose of separating and allocating expenses for intrastate passenger transportation on jet aircraft as between first class and coach. It was pointed out that United attempts to maintain a uniform load factor for coach and first class on its domestic operations and the configuration of the aircraft is intended to reflect the operations for which the aircraft is used rather than those for the San Francisco - Los Angeles segment. It was further pointed out that if the configuration of the plane were changed to more closely equalize the load factors for first class and coach on the San Francisco - Los Angeles segment, instead of allocating the expenses on the basis of 46.02 percent of space available to first class and 53.98 percent to coach, the split would be based upon 40 percent first class and 60 percent coach. Applied to the staff's estimates this would transfer $575,623 in expenses from first class to coach resulting in a better showing for first class and a poorer showing for coach.

The engineer for the Commission's staff testified that while he used the space formula for allocating certain expenses, he did not wish that such use be considered as acceptance of or agreement with this procedure. He stated that the staff is in the process of developing and analyzing suitable procedures for separations and allocations in connection with operations by airlines.

After consideration, it appears that the methods used for allocating and separating expenses between coach service and first class service on the same aircraft provide results which are favorable to coach. In this connection, the witness for T.W.A. testified that if the entire aircraft were devoted to coach service, the operation would be conducted at a loss. All factors considered, the methods used for allocating expenses appear to understate the expenses of operating jet aircraft in California intrastate service. All of Western's jet flights have point of origin in or destination at Seattle on the north, and Mexico City and Phoenix on the south. The San Francisco - Los Angeles segment is less than one-sixth of the distance involved. The majority of United's jet flights on the intrastate segment have origin or destination far beyond California.

For the reasons set forth above, we find that the results shown in the foregoing tabulation provide net revenues substantially in excess of those which would be realized for a rate year.

The net operating revenues of applicants have been declining. One of the factors contributing to this decline is a shifting of passenger traffic from first class service to coach service. If the jet aircraft were to be dedicated solely to coach service, extremely high load factors would be required to produce sufficient revenues under present fares to pay for the cost of operation. While we are uncertain that the separations and allocations methods used by the applicants and by the staff provide reasonably reliable estimates of the results of California intrastate operations, the evidence as a whole leaves little doubt that the results of those operations are not as favorable as the results obtained from domestic operations as a whole. The evidence of record provides a strong inference that the California intrastate operations of applicants are not compensatory. The average length of hop in California is shorter and more costly to perform than the average length of hop for total domestic operations.

If there is any portion of applicants' California intrastate operations under present fares that is compensatory under present cost conditions, it is the jet aircraft service between San Francisco and Los Angeles. This results from the number of passenger seats on the aircraft and the relatively high load factor resulting from the traffic on that segment and the desire on the part of the public to ride the jet aircraft. The reasons given by applicants for increasing the jet coach fares as a means of implementing revenues are:

(1) They have received authority from the Civil Aeronautics Board to increase the interstate fares;

(2) They desire to maintain a uniformity of their intrastate fare structure with their domestic fare structure;

(3) It may result in deceleration of the trend of the shifting of traffic from first class to coach;

(4) Any further increase in the spread of the jet first class fares and the jet coach fares, or a reduction in the spread of jet coach fares and coach fares on other aircraft would result in increasing the shift of traffic to jet coach.

There is little doubt that at the present fares the jet coach service is more attractive to the public than other services offered by the airlines. This has resulted in the applicants having higher load factors on jets than on piston type or turbo-prop type aircraft operated by them between the same points and has also resulted in lower revenues per trip on jet aircraft caused by the shifting of traffic from first class to coach. The following is a comparison of the present and proposed first class fares and coach fares of applicants for transportation between San Francisco and Los Angeles.

	Jet Aircraft	Other Aircraft
First class fare:	$27.55	$25.55
Present coach fare:	18.45	16.45
Proposed coach fare:	22.95	16.45

It can be seen that one result of the establishment of the proposed fare may be a diversion of traffic from jet coach to jet first class and to transportation on flights with other aircraft maintained by applicants.

While the evidence shows that based upon the separations and allocations of expenses of operating jet aircraft in dual configuration, the proposed coach fares for jet aircraft may provide a return, this should not militate against the granting of the authority sought in that the proposed fares will not result in the applicants receiving an excessive return, if indeed any return, upon their total California intrastate operations. Short of substantially increasing all of the passenger fares, the only reasonable approach by applicants towards increasing their California intrastate revenues is to increase the fares for jet coach service as proposed. We find that the proposed fares are reasonable and that the increases are justified.

The Commission's Decision No. 63315 considered data reflecting the increases in jet coach fares involved herein. The order which follows will authorize United and Western to apply those increases, which are temporary, to the fares here.

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 that:

1. Western Air Lines, Inc., United Air Lines, Inc., Trans World Airlines, Inc., and American Airlines, Inc., and each of them, are authorized to establish the increased local and joint passenger fares for coach service on turbo-jet aircraft as proposed in their respective applications filed in these proceedings.

2. Western Air Lines, Inc., and United Air Lines, Inc. are authorized to apply the increases authorized in Decision No. 63315 dated February 23, 1962 to the increased jet coach fares authorized in paragraph 1 hereof.

3. The tariff publications authorized as a result of this order may be filed not earlier than the effective date hereof and

may be made 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 13th day of March, 1962.

President

E. Lyon Fox

George G. Grover

Frederick B. Holoboff

Commissioners

I dissent.
In my opinion the evidence fails to warrant the relief granted.

Everett C. McKeage

I dissent, A further explanation will be filed late.

Peter E. Mitchell

I dissent.

I cannot support an order which will require the people of the State of California to subsidize the operation of airlines in other parts of the United States. I am sure the people of this State will pay a fair price for services that are rendered to them in this State, but I am equally as sure that they have no desire to pay for services which they do not receive. Evidence presented in this matter by United Air Lines, Inc. (the carrier transporting the greatest number of passengers between San Francisco and Los Angeles) reveals that it operates its California jet coach service at a substantial profit. Yet, this is the type of service, and the only one, for which a 25% increase was sought and granted!

This decision was proposed by the applicants and adopted by the majority of this Commission as stated on page 2: "These applications were filed following the granting of authority by the Civil Aeronautics Board to airlines to establish jet coach air fares at a level of 75% of the corresponding first class fares."

However, it should be pointed out that such a grant was originally authorized by the Civil Aeronautics Board about 1955. This grant was contained in Section 399.19 of a statement of policy by the Civil Aeronautics Board headed: "Domestic Coach Policy". The purpose delineated was: "to encourage regular coach service by the certificated air carrier as one means of achieving the maximum development of civil aviation in the United States through placing air travel within the economic reach of the great majority of the traveling public."

Paragraph 4 of the said policy says: "Both high density and off-peak services will be subject to a fare ceiling of 75% of the corresponding first class fare."

Thus, the policy was to encourage regular coach service within the economic means of the traveling public. However, the applicants admit, as does the majority decision, that this policy has been too effective in California; that the jet coach is more attractive than first class, and that one result of the establishment of the proposed fare will be a diversion of traffic from jet coach to jet first class. Obviously, by the air coach increase, they wish to discourage regular air coach service. Does anyone really believe that an $11.55 round-trip increase (including tax) in the jet air coach fare between San Francisco and Los Angeles will effectuate a policy of encouraging regular coach service within the economic reach of the great majority of the traveling public?

This domestic coach policy was promulgated by the Civil Aeronautics Board at a time when jet travel was in the future and coach service in its infancy. The air transportation industry today is in the midst of a transition from piston type aircraft to jet aircraft. Policies of yesterday are not adaptable for tomorrow, even if applied correctly.

The Civil Aeronautics Board itself has recognized that increased prices in air travel is not the solution to the problems plaguing the air transportation industry.[1/] With the advent of the jet has come savings in time of travel, and increases in seating availability. The concepts of adequacy of service and sufficient load factors are the harbingers of success today in the air transportation industry.

It should be noted that the San Francisco-Los Angeles air segment is the heaviest traveled in the country. Every major airline in the United States is desirous of participating in the remunerative

1/ Order E-17885, Docket 13313, dated December 28, 1961.

air traffic of this State. Within the month, Transworld Airlines was granted permission by the Civil Aeronautics Board to serve San Francisco and Los Angeles on a turn-around basis. Two other airlines who wished to share in the lucrative market, Continental and Pacific Air Lines, were denied permission to operate between San Francisco and Los Angeles. Certainly these three air companies would not apply to operate in an area where they would expect to lose money. Nor would the Civil Aeronautics Board grant Transworld Airlines authorization to so operate on the premise they would lose money. These applications to serve California were filed at the time the present fares were in effect.

But, as I indicated in connection with Decision No. 63315 (Applications Nos. 44104 and 44118), the problems of the Civil Aeronautics Board (and they do have many) are not always the problems of the California Public Utilities Commission. Likewise, the policies of the Civil Aeronautics Board, while applicable to interstate air travel, may not always be applicable to intrastate air travel. Accepting a formula of the Civil Aeronautics Board adopted for interstate traffic may bring financial hardship to airlines or cause unwarranted fare increases to the people of the State of California. In my opinion, the majority decision will cause an unwarranted fare increase to the people of California and may cause financial hardship to the applicants through diversion of traffic.

The evidence presented by the applicants consisted primarily of revenues and expenses relating to their system-wide domestic operations. The methods and formulae used by the applicants in an attempt to allocate their California operations were not acceptable to the Commission's staff. There was no detailed breakdown of many of the expenses incurred by the applicants and consequently, no testing as to their necessity and reasonableness. The majority decision admits: "While we are uncertain that the separations and allocations methods used by the applicants and by the staff provide reasonably reliable estimates of the results of California intrastate operations........"

The burden of proof is the obligation of the public utility. If it sustains that burden of proof in a rate application, the rate increase is justified. If the utility presents estimates that are not reasonably reliable as to its operations, it has failed to sustain the burden of proof and a rate increase is not justified and is an unwarranted increase to the customers of the utility.

I suggest in all sincerity that the applicants - United Air Lines, Western Airlines, Transworld Airlines, and American Airlines - re-examine the posture of their competitive position for air travel between the points involved if they place these proposed rates in effect. United Air Lines and Western Airlines will charge $52.14 (including tax) for a round trip jet air coach flight between San Francisco and Los Angeles (TWA and American will be slightly less.[2/]) Pacific Southwest Airlines services the same points: San Francisco, Oakland, Los Angeles, and San Diego, utilizing electra jets, with a negligible difference in flying time. Their total cost round trip between San Francisco and Los Angeles is $29.70 (including tax), a difference of $22.44 round trip between the carriers Pacific Southwest, United and Western.

Suffice to say, there has been diversion of air traffic to Pacific Southwest under the presently-existing tariffs. It would seem that coincident with a larger spread in tariffs, there would result a greater diversion.

Certainly a goodly percentage of air traffic today is represented by employees of governmental agencies. These agencies, such as the State of California and the Federal government, are functioning within the limitations of economy budgets. I do not

2/ They have filed for the 3% increase which was granted to United and Western in Decision No. 63315, Applications Nos. 44104 and 44118.

think we would be realistic if we did not recognize that their travel budgets have already been allotted for this fiscal year and that many, if not most, agencies cannot absorb an appreciable increase in travel fares. I think we must also recognize that as a result, there will be increased diversion to Pacific Southwest Airlines or other modes of transportation. This would, to some degree, apply as well to private enterprise. I do not wish to appear ominous but such a large increase as is herein granted will have an impact throughout the State.

It is my firm belief that the California Public Utilities Commission is required to determine what the fair and reasonable rates of these applicants should be and not the Civil Aeronautics Board. I believe that with the assistance of our staff and the cooperation of the airline companies operating in California, we can assure the airlines of a fair rate of return on their investment and we can assure the people of this State adequate air transportation at reasonable prices. How long will California continue to play follow the leader?

Peter E. Mitchell,
Commissioner

San Francisco, California
March 15, 1962