

ORIGINAL

Decision No. 63444

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC AIR LINES,)
 INC., for order authorizing an)
 increase in intrastate air freight)
 rates and charges.)

Application No. 43099
 (Filed January 25, 1961)
 (Amended December 21, 1961)

Raymond E. Costello and Cooper, White & Cooper,
 by James B. Schnake, for applicant.
Miss Marjorie Childs, for County of Humboldt;
Harold A. Irish, for City of Ukiah, protestants.
J. Kerwin Rooney and Don W. Martin, for Board of
 Port Commissioners of City of Oakland; Donald
J. Falk, for Eureka Chamber of Commerce;
John R. Stokes, for City of Arcata, interested
 parties.
Timothy J. Canty and John R. Laurie, for the
 Commission staff.

O P I N I O N

By this application Pacific Air Lines, Inc., seeks authority to increase air freight rates. Hearings in this application were consolidated with those in Application No. 43119 of Pacific Air Lines, Inc., for convenience of the parties and were held March 9 and 10, 1961, at San Francisco and March 23, 1961, at Eureka before Examiner J. E. Thompson. The issues of the two applications are different and the positions of the interested parties differed with respect to each application. The matters, therefore, were not consolidated for decision. On June 27, 1961, the Commission set aside the submission of this application and further hearing was held at San Francisco December 21, 1961, when the matter was taken under submission. At the further hearing evidence was presented by the Commission's Transportation Division.

With the exception of Santa Barbara, applicant provides air freight transportation to and from points it serves in transporting passengers. While it publishes rates for freight transportation to and from Santa Barbara, according to its vice president in charge of traffic, applicant has embargoed such traffic because the layout of the Santa Barbara Terminal has prevented it from satisfactorily storing and processing air freight shipments.

Applicant proposes an air freight rate structure of 10 cents per pound for the first 100 miles of distance, plus one cent per pound for each additional 150 miles. The proposed rates in cents per 100 pounds were determined at 80 or 85 percent of the proposed rates in cents per pound. Pacific proposes to increase its minimum charge from \$2 to the charge for 50 pounds or \$4, whichever is the higher. The proposed increases in the rates in cents per pound range from 60 percent to 450 percent. Only 24 of some 180 rates in cents per pound are proposed to be increased less than 100 percent. The proposed rates in cents per 100 pounds also reflect substantial increases. A comparison of present rates and proposed rates between certain points is set forth in Appendix A.

According to the vice president in charge of traffic, the proposed rate structure is intended to yield 71.7 cents per ton-mile. This figure was calculated by dividing the sum of all of the rates in cents per pound from all points to all other points, which is \$72,180 per ton, by the sum of the mileages from all points on the system to all other points, which sum is 100,615 miles. The 71.7 cents per ton-mile figure was compared to the yields on operations conducted during the calendar year 1960 which

are set forth in the margin.¹ The computed figure, however, is not comparable with the yields from actual operations in that it assumes an equal proportion of traffic between all points and all other points, which, as shown by the evidence, is not the case. During November 1960, out of a total of 108,328 pounds accepted by the carrier, 32,316 pounds had origin at Los Angeles and 34,679 pounds had origin at San Francisco.

The proposed rates have been filed with the Civil Aeronautics Board and became effective on interstate shipments on February 26, 1961.

Applicant's vice president in charge of finance testified that, if air freight operations were discontinued, applicant could reduce expenses at San Francisco and Los Angeles terminals in the amount of \$79,240. This out-of-pocket cost represents the salaries, wages, payroll taxes and fringe benefits of the equivalent of 16 employees at those terminals required for the handling of air freight and the supervision thereof, terminal rents at San Francisco where a facility separate from the passenger facilities is maintained, and the salaries and related expenses of the equivalent of 2½ employees in the accounting department required for the billing and accounting of air freight. According to the vice president, based on an average of 101,400 ton-miles for the past six years, revenues yielding 72 cents per ton-mile will produce less than the

Operations for Year Ended December 31, 1960:

<u>Operation</u>	<u>Revenue</u>	<u>Ton-Miles</u>	<u>Yield</u>
Passenger	\$6,194,022	10,906,939	\$.568
U. S. Mail	149,993	196,837	.762
Freight	56,240	106,908	.526
Express)	82,343	53,891)	.853
Excess Baggage)		42,677)	

out-of-pocket cost of handling air freight at the San Francisco and Los Angeles terminals.²

Exhibit No. 9 is a summary showing the frequency and routing of freight shipments transported by applicant on March 9 and 14, 1961. There were 230 shipments transported with a total weight of 9,759 pounds, of which 178 shipments had origin or destination at San Francisco or Los Angeles. The mean weight per shipment was 42.4 pounds. According to applicant, 163 of the shipments moved at the minimum charge; of those, 126 were intrastate shipments and 37 were interstate.

An analysis of Exhibit No. 9 reveals that 22 shipments had origin or destination at a point on applicant's line outside California. Of the 208 remaining shipments, 6 were between California points where applicant does not maintain intrastate tariff rates. The exhibit does not show the weight of each shipment; however, if all of the 202 ratable California shipments moved under the intrastate rates in cents per pound, the proposed rates would reflect an increase in revenues of 190 percent. If all 202 shipments moved under the rates in cents per 100 pounds, the increased revenues which would result from the proposed rates is 232 percent. If all shipments moved at the minimum charge of \$4, the increase, of course, would be 100 percent. A tabulation in the exhibit discloses that 43 shipments weighed over 80 pounds.

² Air Freight Statistics, Pacific Air Lines, Inc., Operations, 1955-1960:

<u>Year</u>	<u>Ton-Miles</u>	<u>Revenue</u>	<u>Yield</u>
1955	129,737	\$ 51,350	\$.3958
1956	101,724	46,816	.4602
1957	78,992	40,845	.5171
1958	91,983	43,675	.4748
1959	99,024	46,538	.4705
1960	106,908	56,240	.5261
Average	101,400	\$ 47,600	\$.4693

Applicant's proposed rate structure, as well as its present rate structure, is such that, in general, the rates in cents per 100 pounds break back to the rates in cents per pound at about 80 pounds.

In justifying the proposed increases, applicant argued that the increases in revenues will not offset the out-of-pocket cost of transporting air freight, and directed attention to Decision No. 61601 dated February 28, 1961, in Application No. 43064 of United Air Lines, Inc., in which the Commission authorized United to increase air freight rates. We also take official notice of our Decision No. 61794 dated April 4, 1961, in Application No. 43225 in which Western Air Lines, Inc., was authorized to increase air freight rates. United and Western compete with Pacific between a number of California points. Pacific also pointed out that its air freight earnings per ton-mile are lower than its yield from other services.

The County of Humboldt and the City of Ukiah protested the application. The County operates the Eureka-Arcata Airport. Pacific is the only airline serving that airport. The County receives a portion of the revenues of Pacific derived from passengers and freight enplaning at the airport. Evidence was offered showing that the amount of air freight generated at the Eureka-Arcata Airport was 23.946 tons in 1958, 21.039 tons in 1959 and 30.363 tons in 1960. A substantial portion of the traffic is cut flowers which move mainly during the month of February. The County contends that Pacific has been obtaining an increasing amount of traffic from the Eureka-Arcata Airport despite an economic recession prevailing in Humboldt County, and that there is, and will be, an even greater amount of tonnage available to the carrier

provided it accords the shippers reasonable service at reasonable rates. Witnesses testified that, while in their opinion the service offered by Pacific in times past has been poor, since September 1960 applicant has been improving its air freight service to and from the Eureka-Arcata Airport. It was stated, however, that actual, as well as potential, traffic will be diverted to other means of transportation if the proposed increases, which in the case of Eureka range from 100 percent to 400 percent, are placed in effect. This, it was asserted, will not only be disadvantageous to the airline and to the shipping public, but will result in lesser revenues to the County for the operation and maintenance of airport facilities and will discourage the use of air transportation which, at this time, the County is desirous of encouraging.

The Commission's staff presented a suggested rate structure and an estimate of the amount of gross revenue which would be derived therefrom. It was shown that, except for flights between Los Angeles and Las Vegas, almost all flights of applicant either originate or terminate at San Francisco or Sacramento. San Francisco might be termed the hub of applicant's operations. Applicant encounters competition from other airlines between San Francisco and Sacramento and points south thereof, which for purposes here we will call the southern segment. It does not encounter such competition, other than from Air Express for which applicant is an underlying carrier, in the northern segment, which extends from San Francisco and Sacramento north to Crescent City and Redding. The rate structure developed by the staff reflects the rates maintained by United Air Lines and Western Air Lines for the southern segment between points served in common by Pacific and also by either United or Western, or both. The same rates were suggested for application

between all points in the northern segment because the distances are less than those in the southern segment. The intersegment rates were developed by combining the suggested rates for each segment with modifications necessary to reflect the competitive rates of air express, avoidance of long- and short-haul departures and the desirability of providing reasonable rate relationships for comparable distances.

From a sample of freight bills covering operations conducted on July 26, 28, and 31, 1961, the staff estimated the amount of gross revenues which would be derived from the rates proposed by applicant and those suggested by the staff. Those estimates follow:

Estimates of Revenues from
Freight Operations Based
upon Results for Year 1960

	<u>Revenue</u>	<u>Increase</u>
Actual 1960	\$ 56,240	
Under Applicant's Proposal	149,598	166%
Under Staff's Proposal	114,730	104%

Applicant's vice president in charge of traffic testified that management doubted whether there would be any diversion of traffic if Pacific maintains higher rates than United or Western. He said that the shippers are interested in speed and when the schedules of Pacific provide the earliest arrivals at destination the shipper uses its service and when the schedules of United or Western provide earlier departures, and, therefore, earlier arrival at destination, those carriers obtain the traffic. He stated that differences in rates have had very little effect upon traffic, as Pacific has had lower rates than United and Western for some time and it has not caused any great shift in traffic between competitive points from those carriers.

Conclusions

It is readily apparent that, without any diversion of traffic as assumed by applicant, the rates proposed by it would result in an increase in revenue far beyond the 36 percent increase estimated by it. The proposed rates themselves represent increases ranging between 62 percent and 450 percent. The staff estimated that without any diversion of traffic the applicant's proposed rates would result in an increase in revenues of 166 percent. We are of the opinion, however, that such theoretical increase would not be achieved. We do not share applicant's opinion that there would be no diversion of traffic. Appendix A, attached hereto, compares some of the rates proposed by Pacific and by the staff with those of United Air Lines and Western Air Lines and with Railway Express Agency's air express rates, for which latter company Pacific is an underlying carrier. It is possible that applicant would continue to receive small shipments that would move at the minimum charge which corresponds to that of United. With respect to shipments of greater weight, however, the differences in rates could well strain whatever loyalty applicant's present shippers may have. The proposed rates in a number of instances exceed air express rates. The proposed rate in cents per 100 pounds between San Francisco and Eureka is \$9.60 and between San Francisco and Ukiah is \$8.80. The air express rate from San Francisco to Eureka and Ukiah is \$7.00 per 100 pounds. Air express between those points moves over the lines of Pacific and at a higher priority than the latter's own air freight. Additionally, in many instances, air express rates include pickup or delivery. In the circumstances, it is unlikely that a shipper would pay a greater charge for a lesser service. While Pacific receives revenue from air express

moving over its line, such revenue would not exceed the revenues received by the express corporation under the air express rates.

There are other services available to shippers for the transportation of property by both air and surface carriers and, under ordinary circumstances, the determination of whether or not to meet the rates of competitors is a prerogative of management. In the instant case there are circumstances which make it questionable whether the proposed air freight rates which are substantially higher than those of competitors can be justified. Pacific is a local service carrier providing a necessary passenger air service to points and areas in this State which cannot support major airline service. Those necessary operations are being supported by federal subsidy at the present time. The transportation of air freight by applicant is incidental to the passenger service.³ Any contributions in revenue from air freight over and above out-of-pocket cost is of assistance to the carrier, and, under the circumstances, to the public. The loss of freight traffic between competitive points or the diversion of traffic to other transportation agencies will not significantly reduce the terminal costs or billing expenses but will merely reduce revenues.

The rates suggested by the staff do not exceed the rates of competing carriers by air. Other than in one instance, namely, the rate for transportation between Crescent City and Stockton, the proposed rate structure would not result in any discrimination or unfair disadvantage to any locality. Applicant pointed out that, by reason of certain routings, the rate between the aforementioned points may exceed the rate to a beyond point and suggested that if

3

The order of priority of space on aircraft is:

1. Passengers
2. Mail
3. Air Express
4. Air Freight

The staff's suggestion is adopted the rates from Crescent City to Stockton should not exceed those to San Jose. The minimum charge suggested by the staff is the same as that originally proposed by applicant. At the hearing of December 21, 1961, after the staff suggestions had been introduced, applicant amended its application to request that it be authorized to establish a minimum charge at the same level as that maintained by United, asserting that if Pacific's rates are to be maintained at the same levels as United's the minimum charge also should be maintained at the same level.

From the evidence we find that the rates proposed by the staff, other than for the rates between Crescent City and Stockton, are reasonable and nondiscriminatory. We further find that the aforesaid rates between Crescent City and Stockton should not exceed the rates between Crescent City and San Jose. We further find that the minimum charge proposed by applicant is reasonable.

The rate structure described above should provide applicant with additional freight revenue in the amount of approximately \$59,000. Even with such additional revenues applicant will continue to conduct intrastate operations at a loss. We find the increases which would result from the establishment of the rates described above are justified.

There remains the question of whether increases greater than those set forth above are justified. The evidence shows that the rates suggested for the southern segment provide the maximum increases justified under present competitive conditions. With respect to the rates for the northern segment and the intersegment rates, it is clear that reasonable rates must be lower than the air express rates. It may be that there are rates somewhere between those suggested by the staff and those maintained by air express which may be reasonable and nondiscriminatory; however, the record herein does not permit such determination. Applicant has the burden of presenting evidence to justify the increases; this record does not support increases greater than those found justified hereinabove.

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. Pacific Air Lines, Inc., is authorized to establish the increased air freight rates set forth in Appendix B attached hereto and by this reference made a part hereof.

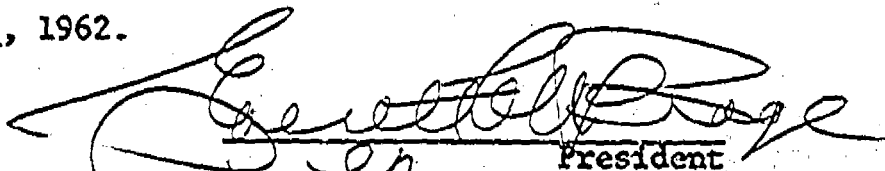
2. The tariff publications authorized as a result of this order may be filed not earlier than the effective date hereof and may be made effective on not less than ten days' notice to the Commission and to the public.

3. The authorities granted above shall expire unless exercised within sixty days after the effective date of this order.

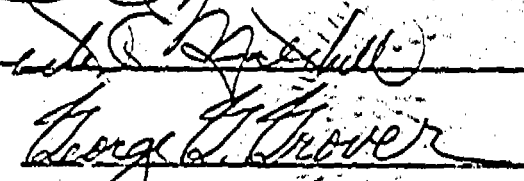
4. In all other respects the application of Pacific Air Lines, Inc., is denied.

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

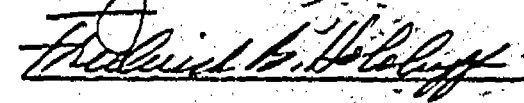
Dated at San Francisco, California, this 20th day of MARCH, 1962.



 President



 George E. Hoover



 Frederick B. Helms

Commissioners

Commissioner C. Lynn Fox, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
(Page 1 of 2)

Comparison of Present and Proposed Rates of Pacific Air Lines, Inc., between San Francisco and Los Angeles, on the one hand, and certain points, with competitive Air Freight and Air Express Rates and those suggested by the Commission's staff.

Between San Francisco and:

	<u>Cents Per Pound</u>	<u>Cents Per 100 Pounds</u>
Los Angeles:		
PAL Present	5	405
PAL Proposed	12	960
UAL	8	526
WAL	8	526
Air Express	*	1020
Staff's Suggested Rates	8	526
Monterey:		
PAL Present	2	165
PAL Proposed	10	800
UAL	8	526
Air Express	*	700
Staff's Suggested Rates	8	526
Ukiah:		
PAL Present	3	213
PAL Proposed	11	880
Air Express	*	700
Staff's Suggested Rates	8	526
Eureka:		
PAL Present	4	307
PAL Proposed	12	960
Air Express	*	700
Staff's Suggested Rates	8	526

* Air Express Tariff No. 1 provides specific charges for shipments over 0 but not over 100 pounds in one pound increments.

Note: UAL is United Air Lines; WAL is Western Air Lines.

APPENDIX A
(Page 2 of 2)

Between Los Angeles and:

	<u>Cents Per Pound</u>	<u>Cents Per 100 Pounds</u>
Oakland:		
PAL Present	5	405
PAL Proposed	12	960
UAL	8	526
WAL	8	526
Air Express	*	1020
Staff's Suggested Rates	8	526
Sacramento:		
PAL Present	5	405
PAL Proposed	13	1170
UAL	8	580
Air Express	*	1020
Staff's Suggested Rates	8	580
Monterey:		
PAL Present	4	355
PAL Proposed	12	960
UAL	8	526
Air Express	*	1020
Staff's Suggested Rates	8	526
San Jose:		
PAL Present	5	405
PAL Proposed	12	960
Air Express	*	1020
Staff's Suggested Rates	8	526

* Air Express Tariff No. 1 provides specific charges for shipments over 0 but not over 100 pounds in one pound increments.

Note: UAL is United Air Lines; WAL is Western Air Lines.

A. 43099

APPENDIX B
(Page 1 of 3)

PACIFIC AIR LINES, INC.
AUTHORIZED FREIGHT RATES

Column A - Rates in cents per pound,

Column B - Rates in cents per 100 pounds,

Minimum Charge - \$4.00 or the charge for 50 pounds, whichever is the higher.

BETWEEN AND	Bakersfield		Burbank		Chico		Crescent City		Eureka- Arcata	
	Column		Column		Column		Column		Column	
	A	B	A	B	A	B	A	B	A	B
Burbank	8	526								
Chico	10	789	12	1052						
Crescent City	12	1052	12	1052	8	526				
Eureka-Arcata	12	1052	12	1052	8	526	8	526		
Los Angeles	8	526	8	526	12	1052	12	1052	12	1052
Marysville-Yuba City	10	789	10	789	8	526	8	526	8	526
Monterey	8	526	8	526	8	526	10	789	10	789
Oakland	8	526	8	526	8	526	8	526	8	526
Oxnard-Ventura	8	526	8	526	12	1052	12	1052	12	1052
Palmdale-Lancaster	8	526	8	526	12	1052	12	1052	12	1052
Paso Robles	8	526	8	526	10	789	12	1052	12	1052
Red Bluff	12	1052	12	1052	8	526	8	526	8	526
Redding	12	1052	12	1052	8	526	8	526	8	526
Sacramento	8	526	8	580	8	526	8	526	8	526
San Francisco	8	526	8	526	8	526	8	526	8	526
San Jose	8	526	8	526	8	526	8	526	8	526
Santa Barbara	8	526	8	526	12	1052	12	1052	12	1052
Santa Maria	8	526	8	526	12	1052	12	1052	12	1052
Santa Rosa	10	789	10	789	8	526	8	526	8	526
Stockton	8	526	8	526	8	526	8	526	8	526
Ukiah	10	789	12	1052	8	526	8	526	8	526

APPENDIX B
(Page 2 of 3)

AND \ BETWEEN	Los Angeles		Marysville-Yuba City		Monterey		Oakland		Oxnard-Ventura	
	Column		Column		Column		Column		Column	
	A	B	A	B	A	B	A	B	A	B
Marysville-Yuba City	10	789								
Monterey	8	526	8	526						
Oakland	8	526	8	526	8	526				
Oxnard-Ventura	8	526	10	789	8	526	8	526		
Palmdale-Lancaster	8	526	10	789	8	526	8	526	8	526
Paso Robles	8	526	10	789	8	526	8	526	8	526
Red Bluff	12	1052	8	526	10	789	8	526	12	1052
Redding	12	1052	8	526	10	789	8	526	12	1052
Sacramento	8	580	8	526	8	526	8	526	8	580
San Francisco	8	526	8	526	8	526	8	526	8	526
San Jose	8	526	8	526	8	526	8	526	8	526
Santa Barbara	8	526	10	789	8	526	8	526	8	526
Santa Maria	8	526	10	789	8	526	8	526	8	526
Santa Rosa	10	789	8	526	8	526	8	526	10	789
Stockton	8	526	8	526	8	526	8	526	8	526
Ukiah	12	1052	8	526	8	526	8	526	12	1052

APPENDIX B
(Page 3 of 3)

BETWEEN AND	Palmdale-Lancaster		Paso Robles		Red Bluff		Redding		Sacramento	
	Column		Column		Column		Column		Column	
	A	B	A	B	A	B	A	B	A	B
Paso Robles	8	526								
Red Bluff	12	1052	10	789						
Redding	12	1052	12	1052	8	526				
Sacramento	8	580	8	526	8	526	8	526		
San Francisco	8	526	8	526	8	526	8	526	8	526
San Jose	8	526	8	526	8	526	8	526	8	526
Santa Barbara	8	526	8	526	12	1052	12	1052	8	526
Santa Maria	8	526	8	526	12	1052	12	1052	8	526
Santa Rosa	10	789	10	789	8	526	8	526	8	526
Stockton	8	526	8	526	8	526	8	526	8	526
Ucliah	12	1052	10	789	8	526	8	526	8	526

BETWEEN AND	San Francisco		San Jose		Santa Barbara		Santa Maria		Santa Rosa	
	Column		Column		Column		Column		Column	
	A	B	A	B	A	B	A	B	A	B
San Jose	8	526								
Santa Barbara	8	526	8	526						
Santa Maria	8	526	8	526	8	526				
Santa Rosa	8	526	8	526	10	789	10	789		
Stockton	8	526	8	526	8	526	8	526	8	526
Ucliah	8	526	8	526	12	1052	12	1052	8	526

	Column	
	A	B
BETWEEN Stockton AND Ucliah	8	526