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ORIGINAL

Decision No. 63814

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of TRANS WORLD AIRLINES, INC., for authority to increase intrastate passenger fares.	Application No. 44239 (Filed March 5, 1962, Amended April 12, 1962)
Application of AMERICAN AIRLINES, INC., for authority to increase intrastate passenger fares.	Application No. 44244 (Filed March 7, 1962)

Brobeck, Phleger & Harrison, by Geo. D. Rives and Gordon E. Davis, for Trans World Airlines, Inc.; Lawrence G. Wire, for American Airlines, Inc., applicants.
E. C. Crawford and Timothy J. Canty, for the Commission staff.

O P I N I O N

These applications were heard before Examiner J. E. Thompson at San Francisco on April 18, 1962, on which date they were submitted. Both airlines seek authority to increase passenger fares by three percent. The proposed increased fares would be the same as those maintained by United Air Lines, Inc., and Western Air Lines, Inc., for transportation services between the same points.

American's operations within California consist of service between San Francisco and Oakland and between Los Angeles and San Diego. Flights serving those points have point of origin or destination outside the State. Table I shows its present fares and proposed fares.

TABLE I
AMERICAN AIRLINES, INC.
Present and Proposed Fares

	Jet 1/ First Class	Jet 1/ Coach	Other than Jet First Class	Other than Jet Coach
San Diego-Los Angeles				
Present Fare	$11.35	$10.55	$10.35	$8.00
Proposed Fare	11.75	10.90	10.70	8.25
Increase	$ 0.40	$ 0.35	$ 0.35	$0.25
Oakland-San Francisco				
Present Fare			$ 5.80	$5.80
Proposed Fare			6.00 2/	6.00 2/
Increase			$ 0.20	$0.20

1/ Includes present surcharge of $1.00 and proposed surcharge of $1.05.

2/ American's minimum fare applying to any very short segment.

There are very few passengers who purchase tickets for transportation solely between San Francisco and Oakland. The substantial portion of American's California intrastate passenger traffic is between Los Angeles and San Diego. The passenger miles for that segment, however, amount to less than five-hundredths of one percent of its total passenger miles. Applicant contends that separation and allocation of expenses for intrastate service on that segment would be meaningless.

American presented evidence of the number of flights operated between San Diego and Los Angeles, the type of aircraft operated, the number of seats available on the aircraft, the load factor experience of the planes, the direct flying costs of operating the segment and the terminal cost per passenger at San Diego and at Los Angeles. The following is a summary of that evidence:

TABLE II
AMERICAN AIRLINES, INC.
Service Between Los Angeles
and San Diego

Type of Aircraft	No. Daily Flights	Available Seats First Class	Available Seats Coach	Direct Flying Cost Per Trip	Average No. Passengers
B-720 (Jet)	4	48	80	$430.60	44
DC-6 (Piston)	4	-	80	213.70	43
DC-7 (Piston)	2	60*	85*	404.61	37

*DC-7 is operated in dual configuration. The figures shown are the maximum number of passengers for each type of service if used in single configuration.

In the above table, the average number of passengers shown includes all passengers on the aircraft regardless of origin or destination. The reason for the substantial difference in the flying cost of the DC-6 aircraft from the cost of the others is principally due to the fact that the book value of the DC-6 aircraft is the residual or salvage value of the planes and therefore no depreciation expense is included in the cost figure.

During the third quarter of 1961 American incurred costs at the San Diego terminal which amounted to $9.16 for each passenger. The cost experienced at Los Angeles during the same period was $9.03 per passenger enplaned. American's facilities at Los Angeles have expanded greatly since October 1961 and it was estimated that the present cost per passenger boarded exceeds $9.03.

From the above figures, using the $9.03 terminal cost per passenger at Los Angeles, and assuming that each available seat on the aircraft was filled with an intrastate passenger, it is apparent that the flying cost plus the terminal cost at Los Angeles exceeds the proposed fares.1/

American estimates the proposed increased fares will provide $8,000 annually in additional passenger revenue.

Applicant is aware that the cost of providing service exceeds the proposed fares. It contends that fares which would be equal to the cost would be greater than the passengers would be willing to pay. It contends that the traffic between those points provides revenue for the miles that applicant would have to operate anyway and that it serves to attract a potential passenger who may be planning a trip for a longer distance, say between San Diego and New York, which would be profitable.

Trans World Airlines, Inc. (TWA) serves San Francisco, Oakland, Fresno and Los Angeles. TWA provides service with jet aircraft only between San Francisco and Los Angeles. The present and proposed fares for transportation on jet aircraft are as follows:

TABLE III
Present and Proposed Fares*
For Transportation on TWA Jet Aircraft
San Francisco-Los Angeles

	First Class	Coach
Present Fare	$27.55	$22.95
Proposed Fare	28.45	23.70
Increase	$ 0.90	$ 0.75

*Fares include surcharges applicable to jet fares.

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Type of Aircraft	B-720	DC-6	DC-7
Type of Service	Joint	Coach	Coach
No. Passengers	128	80	85
Flying Cost per passenger	$3.36)	$2.67)	$4.76)
Terminal Cost per passenger	9.03)	9.03)	9.03)
Total	$12.39	$11.70	$13.79
Proposed Fare	$11.75 (F)	$ 8.25 (C)	$ 8.25 (C)

TWA serves all of the points with piston-type aircraft. The present and proposed fares for that service are shown in the following table:

TABLE IV
Present and Proposed Fares for
Transportation in TWA Piston Aircraft

		First Class		Coach	
Between	And	Present	Proposed	Present	Proposed
Fresno	Los Angeles	$17.05	$17.60	$13.60	$14.05
Fresno	Oakland	13.45	13.90	10.80	11.15
Fresno	San Francisco	13.45	13.90	10.80	11.15
Los Angeles	Oakland	25.55	26.35	16.45	16.95
Los Angeles	San Francisco	25.55	26.35	16.45	16.95
Oakland	San Francisco	5.80*	6.00	4.20	4.35

*$5.80 fare authorized but not published as there presently is no first class service between those points.

TWA estimates the proposed fares will provide an additional $47,830 in annual passenger revenue. It was shown that for the twelve months ended June 30, 1961, applicant had a loss from intrastate operations of $1,252,017. If the proposed fares had been in effect during that period, applicant would have had a loss of $1,067,672.

A restriction in TWA's certificate from the Civil Aeronautics Board preventing turn-around service between San Francisco and Los Angeles has been removed.2/ Applicant contemplates increasing the number of flights between San Francisco and Los Angeles so as to increase its traffic from an estimated eight percent of the market to twenty percent. TWA presented a forecast of the results of operations for the twelve months ending December 31, 1962, assuming that with additional flight schedules it would capture twenty percent of the market. The forecast shows

2/ The removal of the restriction is not yet final because other airlines have sought reconsideration of the decision of the Civil Aeronautics Board.

an operating loss of $1,555,573 under present fares and a loss of $1,492,516 under the proposed fares. The expanded service would be performed principally with jet aircraft. TWA showed that in order to break even under the proposed fares the load factor for first class must be 81.13 percent and for coach 76.78 percent for the service on jet aircraft. For the year 1961 the load factor on TWA jet aircraft on California segments was 57.3 percent and in 1960 it was 68.1 percent. With the proposed increase in jet schedules, it appears very unlikely that TWA will approach the break-even point during a future rate year.

The representative for TWA stated that the short hops cannot pay the expenses of operation. In the fourth quarter of 1961 on its 72 flight segments of between 200 and 300 miles, operating 343 flights per day, TWA had an out-of-pocket loss of $1,640,000, and on the 40 segments of between 300 and 399 miles, which includes the San Francisco to Los Angeles segment, TWA had a loss during that quarter of $932,700. Those short segments, however, provide certain operating advantages which permit better use of the aircraft and they also provide a reservoir of contacts with potential passengers for the profitable long distance flights. According to the witness, San Francisco and Los Angeles are desirable markets for long-haul traffic and the flight segment between the points provides advantages in the operation and dispatch of aircraft on its system.

The evidence in this record shows that the costs of both applicants herein of providing California intrastate service exceeds the revenues that can be earned under the proposed fares. 3/

Other airlines serve the same segments as these applicants. United and Western are the only two other airlines serving the points with jet aircraft. 4/ The jet fares proposed by applicants are the same as those of Western and United. Both applicants also operate piston-type aircraft over those segments; the proposed fares for that service are the same as those of Western and United for the same service with piston-type aircraft and turbo-prop airplanes. Pacific Airlines operates piston-type and turbo-prop aircraft between Los Angeles and San Francisco and Bonanza Airlines operates turbo-prop airplanes between Los Angeles and San Diego. The fares of those airlines are the same as the applicants' present fares. Pacific Southwest Airlines operates turbo-prop aircraft between San Francisco, Los Angeles and San Diego. Its fares are lower than the proposed fares for comparable service. Between Los Angeles and San Diego American proposes a fare of $8.25 whereas PSA's fare is $6.35; between San Francisco and Los Angeles, TWA proposes a fare of $16.95 whereas the fare of PSA is $13.50.

3/ This finding is not an approval of the methods used by applicants in determining their costs. The matter of reasonable and proper methods of allocations and separations of costs by air transportation companies is within the scope of Case No. 7158, now pending.

4/ National Airlines, Inc., filed Application No. 44264 on March 13, 1962 seeking authority to establish fares at the same level as those proposed herein. According to that application, National intended to inaugurate service with jet aircraft between Los Angeles and San Diego on or about April 9, 1962.

It is possible that some of the traffic enjoyed by applicants will be diverted to other carriers; however, the principal service provided by applicants is with jet aircraft containing both first class and coach accommodations. We believe that there is a definite market for the type of service provided by jet aircraft, both first class and coach, as distinguished from service in turbo-prop[5/] or piston-type aircraft and that the fare differences will not result in an undue diversion of traffic. The services with turbo-prop or piston-type aircraft of these applicants, as well as the other airlines, are available at lesser fares to those persons who do not desire or require the service provided by jet aircraft.

After consideration of all of the facts and circumstances, we find that the increases in fares are justified and that the applications should be granted.

5/ The term used by the aircraft industry for a jet plane is "turbo-jet". Such planes have no propellers and are driven directly by the thrust from hot compressed gases. Turbo-prop airplanes and piston-type airplanes are driven by propellers; the essential difference between the two is that the power for turning the propeller in the first instance is provided by a turbine engine; whereas the power for turning the propeller in the latter instance is provided by a piston internal combustion engine.

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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. Trans World Airlines, Inc., and American Airlines, Inc., and each of them, are authorized to establish the increased passenger fares proposed in their respective applications.

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

3. The authorities granted herein shall expire unless exercised within ninety days after 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 12th day of JUNE, 1962.

President

C. Lyn Fox

George G. Grover

Frederick B. Holoboff

Commissioners

I dissent. Will file an opinion later.
~~Everett C. McKeage~~
~~President~~

I dissent:
Peter E. Mitchell

McKEAGE, President, dissenting.

Because of the state of the record in this consolidated proceeding, I am compelled to dissent to the action of the majority.

In my judgment, the record herein does not support the rate relief requested by these two air carriers. The financial data presented is meaningless from the standpoint of efficient rate-fixing. Furthermore, the rate relief requested is unrealistic and impracticable of realization in the present circumstances.

In my opinion, the experience of these air carriers would indicate that reduction in rates, rather than an increase, would prove more realistic. A rate increase, unless accepted by the public, tends to reduce revenues rather than increase them.

It is true that this Commission, in the past, has been very tolerant with these air carriers from the standpoint of rate increases. We have issued rate increase decisions upon records which have left much to be desired. However, in my opinion, the time has come when these air carriers should be required to prove the justification for rate relief in the same manner as is required of other large public utilities. These applicants are public utilities (People v. Western Airlines, 42 Cal. (2d) 621). The fact that these air carriers may need an increase in revenues is not sufficient to justify the granting of rate relief. There must be lawful justification for the granting of such relief. Regulation does not assure a public utility that it will earn net revenues (Federal Power Commission v. Natural Gas Pipeline Co., 315 U.S. 575, 590). There is no reason in law or in fact why air carriers should not be subjected to the elementary principles of regulation as applied to the fixing of their rates.

The statement in the majority decision to the effect that the evidence shows that the costs of providing California intrastate service by these two air carriers exceed the revenues that can be earned under the proposed fares is, to say the very least, naive.

Everett McKeage

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