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Decision No. 65589

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC AIR LINES, INC., for order authorizing cancellation of certain intrastate air passenger fares and authority for short notice filing pursuant to applicable statutes and regulations.	Application No. 44618 (Filed July 9, 1962)
Application of PACIFIC AIR LINES, INC., for order authorizing cancellation of certain intrastate air passenger fares.	Application No. 44778 (Filed September 13, 1962)
Application of PACIFIC AIR LINES, INC., for authority to make certain changes in its intrastate passenger fares, resulting in an increase.	Application No. 45071 (Filed December 28, 1962) (Amended March 11, 1963)

Cooper, White & Cooper, by Robert M. Raymer, for applicant.

Timothy J. Canty, for the Commission staff.

OPINION

These applications were heard before Examiner Thompson on April 2, 1962 and were submitted April 6, 1962 on the filing of Exhibits 1 and 2. Copies of the applications were served and notices of the hearing were posted and published in accordance with the Commission's procedural rules. There are no protests.

Pacific Air Lines is an air transportation company serving many California points along the coast as well as inland from San Diego to Crescent City. It also serves Portland, Oregon; Medford, Oregon; Reno, Nevada; and Las Vegas, Nevada. By these applications it seeks to revise its fare structure in California to conform with the routings of its flights and to increase its passenger fares by three percent.

Pacific has a certificate of public convenience and necessity to perform air transportation as a local service carrier issued by the Federal Civil Aeronautics Board, hereinafter called C.A.B. Sometime prior to 1957, Pacific sought authority from the C.A.B. to operate between San Francisco and Reno. At that time, the certificates issued by the C.A.B. to local service carriers, and in particular to Pacific, usually required service to intermediate points between major terminal points or otherwise restricted service between major terminals.[1/] Pacific anticipated that if the C.A.B. authorized service to Reno, the route would require service at intermediate stops such as Stockton and Sacramento. The authority granted by the C.A.B. did not authorize service to Reno and the certificate provided for service over the following route:

> Segment 4: Between the coterminal points San Francisco and Oakland, Calif., the intermediate points San Jose and Stockton, Calif., and the terminal point Sacramento.

Pacific was already authorized to perform service between San Francisco and Sacramento without intermediate stops. It believed that it would not be able to attract traffic on flights over Segment 4 unless it established depressed incentive fares. Management also believed that it was necessary to attract traffic because the C.A.B. has a so-called "use it or lose it" policy, under which

1/ For example, Pacific is authorized to perform service between San Diego and Los Angeles on the one hand, and other points on the other, but may not transport passengers between San Diego and Los Angeles.

they measure the traffic producing qualities of a station by requiring the station to produce five passengers per day, and Pacific still had hopes of obtaining authority to serve Reno as a terminal point on Segment 4. Applicant therefore established depressed fares as excursion fares over Segment 4. In its Order No. E-18291, dated May 1, 1962, the C.A.B. authorized Pacific to serve Reno and also realigned various route segments in applicant's certificate so as to eliminate the routing in Segment 4. Applicant has routed its flights so as to conform with the C.A.B.'s order and it no longer operates between San Francisco, on the one hand, and Stockton and Sacramento, on the other, via San Jose. It now provides service between San Jose and Stockton or Sacramento via San Francisco.

By Application No. 44618 it seeks authority to cancel the excursion fares between the points formerly served on Segment 4. By Application No. 44778 it seeks authority to cancel certain first class fares between Sacramento and Los Angeles and Burbank which are restricted to service along the routing in Segment 4 via San Jose and Stockton. The fares are no longer available because of the changes in routing.

In a letter dated July 20, 1962, the Commission suggested to applicant that it amend its tariffs so that its fares reflect the routings actually in use. At a prehearing conference held September 13, 1962, in Application No. 44618, applicant's attention was directed to certain fares which, because of changes in routings other than Segment 4, were greater for a shorter than for a longer distance over the same line or route in the same direction.[2] Applicant determined that it would be necessary to revise its tariffs entirely.

On December 28, 1961 by Order No. E-17835, the C.A.B. authorized air carriers to increase interstate fares by three percent. Pacific did not immediately avail itself of that authority. During 1962, Pacific participated in conferences with other local service carriers and the C.A.B. regarding federal subsidy for 1963. It became apparent to the management of Pacific that a new subsidy formula would be recommended which would result in less subsidy to Pacific.[3] Applicant decided that if the new subsidy formula were to be approved by the C.A.B., it would be necessary to increase its operating revenues and to reduce operating

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2/ For example, applicant formerly had flights between Bakersfield and Los Angeles via Palmdale. The first class fare between Bakersfield and Palmdale is $6.35 and between Bakersfield and Los Angeles is $10.40. Applicant discontinued that routing and now operates between Bakersfield and Palmdale via Los Angeles. This results in the fare between Bakersfield and Los Angeles being greater than the fare between Bakersfield and Palmdale, although Los Angeles is intermediate between the latter points. Article XII, Section 21 of the Constitution of the State of California provides that it is unlawful for any transportation company to charge any greater compensation for the transportation of passengers for a shorter than for a longer distance over the same line or route in the same direction.

3/ The new subsidy formula was initially approved by the C.A.B. in a show cause order dated March 1, 1963. Twelve of the 14 local service carriers have accepted the new subsidy formula. The other two, of which Pacific is one, protested the subsidy rate and were given until April 24, 1963 in which to file an answer to the show cause order.

costs. It increased its interstate fares by three percent effective February 1, 1963. On January 19, 1963 it reduced the number of schedules over its routes.

By Application No. 45071, as amended, Pacific proposes to revise its fares to reflect the routes actually operated, and thereby eliminate the long- and short-haul departures that now exist, and to increase all of its intrastate fares by three percent to the levels of those maintained for interstate transportation.

Applicant presented a profit and loss statement for the year 1962. It shows:

Revenues:		
Passenger	$7,425,887	
Other Operating Revenues	518,546	$ 7,944,433
Expenses		11,334,429
Net Income from Operations		$(3,389,996)
Federal Subsidy	$4,132,949	
Other Income	42,075	$ 4,175,024
Gross Income		$ 785,028
Interest Expense		362,614
Net Income before Income Taxes		$ 422,414
Estimated Federal Taxes		252,052
Net Income		$ 170,362

(Red Figure)

Applicant estimated that had the three percent increase in interstate and intrastate fares been effective during 1962 it would have received $207,158 additional passenger revenue.

Applicant also presented an estimate of its earnings for the year 1963 under the present fares and under the proposed fares. The following is a summary of that estimate.

PACIFIC AIR LINES ESTIMATE OF EARNINGS FOR YEAR 1963

Passenger Revenue	$7,475,598	
Interstate Increase Effective February 1, 1963	63,065	
Other Operating Revenue	488,798	$ 8,027,461
Expenses		11,568,248
Net from Operations		$(3,540,787)
Federal Subsidy[1]		$ 3,655,373
Income under present fares (before interest expense and income taxes)		$ 114,586
Proposed Intrastate Increase (Eight Months)[2]		91,731
Income under proposed fares (before interest expense and income taxes)		$ 206,317
Interest Expense		321,440
Net Income before income taxes for 1963		$ (115,123)

(Red Figure)

1 Maximum subsidy under 1963 formula.

2 Assumes proposed three percent intrastate fare increase effective May 1, 1963.

It was estimated that the proposed increase will provide $137,600 additional California intrastate passenger revenue for a full 12-month period.

It is readily apparent that the operating revenues under the proposed fares will not cover operating expenses. It also is apparent that even with the federal subsidy the applicant will not have excessive earnings under the proposed increased fares.

Pacific has competition from other airlines in the transportation of passengers between major terminals. Its principal competitors are United Air Lines, Inc., Western Air Lines, Inc., and Trans World Airlines, Inc. Those carriers availed themselves of the authority in C.A.B.'s Order No. E-17385 to increase interstate fares. They were also granted authority by the Commission to increase California intrastate fares to the level of their interstate fares. Pacific's proposed fares are generally the same as those maintained by United, Western and T.W.A. for similar service between the same points.

We find that the proposed increases in passenger fares are justified and that applicant should be authorized to establish the proposed fares on five days' notice.

O R D E R

IT IS ORDERED that:

1. Pacific Air Lines, Inc., a corporation, is authorized to cancel the fares proposed in its applications herein and to establish the fares proposed in its Application No. 45071, as amended.

2. Tariff publications authorized to be made as a result of the order herein 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 authority herein granted 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 1963.

George G. Grover
President

Peter E. Mitchell

C. Lyn Fox

Frederick B. Holoboff

William M. Bennett
Commissioners