

**ORIGINAL**

Decision No. 66307

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA.

Application of UNITED AIR LINES, INC., for authority to make certain changes in its intrastate air freight rates, resulting in increase.	} } }	Application No. 45558 (Filed June 26, 1963)
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Brobeck, Phleger & Harrison, by Gordon E. Davis,  
 for applicant.  
Bill L. Mendrie, for Fresno County and City Chamber  
 of Commerce; Robert H. Baida, for City of Fresno;  
 Interested parties.  
Henry E. Frank and Chas. J. Astrue, for the  
 Commission staff.

O P I N I O N

This application was heard and submitted September 24, 1963, before Examiner Thompson at San Francisco.

United Air Lines, Inc., is a common carrier by air of passengers and property. It seeks authority herein to make certain changes in its rates applicable to California intrastate air freight traffic. Most of the changes would result in increases.

Applicant's present rates are set forth in its Intrastate Local Air Freight Tariff No. 12, Cal. P.U.C. No. AF-12. Said tariff provides rates in cents per pound for shipments weighing under 100 pounds, and rates in cents per 100 pounds for shipments weighing over 100 pounds. Those rates are subject to a minimum charge of \$4.00 or the charge for 50 pounds, whichever is higher. The present rates were made effective March 20, 1961, pursuant to authorization granted by the Commission (United Air Lines, Inc., 58 Cal. P.U.C. 530).

Applicant proposes increasing all of the rates applicable to shipments weighing less than 100 pounds and increasing the minimum charge per shipment to \$6.00 or the charge for 50 pounds, whichever is higher. It also proposes to establish rates in cents per

100 pounds for six minimum weight brackets. In some instances the proposed rates are reductions for all minimum weights. In all cases the rates are lower than the present rates for shipments weighing 5,000 pounds or more. The proposed rates conform to the applicant's interstate rates which are based upon the following mileage block scale:

Mileage Blocks	Rates in Cents			
	Per Pound Less than 100 lbs.	100 lbs.	Per 100 Pounds 1,000 lbs.    5,000 lbs.	
1 - 350	9	600	600	505
351 - 400	10	600	600	505
401 - 450	10	675	615	505
451 - 550	11	690	615	505
551 - 600	12	750	675	565

All points served by applicant in California are less than 550 miles apart. The distances between points are determined from a table of distances promulgated by the Civil Aeronautics Board.

The City of Fresno and the Fresno County and City Chamber of Commerce, hereinafter called Fresno, oppose the present rate structure and the proposed rates. It is their contention that the establishment and maintenance by applicant of the same rates from Fresno to Los Angeles and to San Francisco as the rates between San Francisco and Los Angeles is unreasonable insofar as the rates fail to reflect the differences in distances and the differences in equipment used in providing the services.<sup>1</sup> It is their position that the maintenance of the same rates is prejudicial to the economic development of Fresno and to its attempt to exploit its geographical advantages as a mid-point between the major markets of San Francisco and Los Angeles. They also contend that the

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<sup>1</sup> The rates are those for the initial mileage block of 1 - 350 Miles. The distance between San Francisco and Los Angeles, according to the evidence, is 340 miles.

proposed rates would impose upon the shippers of small shipments a disproportionate share of the burden of the increases in rates.

Applicant presented evidence through the testimony of, and exhibits prepared by, its manager of rate proceedings and its assistant to the vice president in charge of finance and property. No evidence was offered by any other party. Fresno and the Commission staff participated by cross-examination of applicant's witnesses.

The evidence shows that applicant's intra-California air freight revenues for the year ended December 31, 1962, amounted to \$272,532 and if the proposed fares had been in effect for the period the air freight revenues would have been \$285,965, an increase of \$13,433 or 4.9 percent. Those revenues were reflected in Exhibit 3 wherein the expenses associated with air freight traffic are estimated and the resultant profit or loss on intra-California air freight operations are calculated. The exhibit shows an operating loss of \$20,504 under the present air freight rates and an estimated loss of \$7,071 under the proposed rates.

United operates a number of types of aircraft in California. Jet aircraft, which include DC-8 and B-720, serve only San Diego, Los Angeles, San Francisco and Oakland. There are some turn-around flights between San Francisco and Los Angeles, but in the main the points are served on extended routes to or from points outside California, such as Seattle, Honolulu, Chicago and New York. These are primarily passenger carrying aircraft that also transport mail, air express and air freight. Passenger aircraft of the piston-type operated by United includes DC-7, DC-6 and CV-340. The principal operation of the DC-7 includes direct flights between Sacramento on the one hand and Los Angeles and San Francisco on the other. The DC-6 is also used on the routes over which the DC-7 is operated and

in addition is used for turn-around flights between San Diego and Los Angeles. The CV-340, commonly called the Convair, is used by United to serve the intermediate points between Los Angeles and San Francisco and Sacramento located on the coast and in the San Joaquin Valley. Applicant has all-cargo planes of the DC-7A and DC-6A type which it uses in its system air freight operations. Those planes are used in California intrastate operations only between San Francisco and Los Angeles.

In separating and allocating expenses of conducting California intrastate operations from its system expenses, applicant assigned some of the flying expense to California on the basis of the direct flying costs per mile of average hop on its system for the various types of aircraft used, adjusted to reflect the average hop of the aircraft in California operations. The direct flying costs per mile of average hop for the various aircraft operated in California reported by applicant in Exhibit 3 are:

DC-8	\$1.34	D-6	\$1.05
B-720	1.14	CV-340	.90
DC-7	1.25	DC-7A	1.17
		DC-6A	1.07

It is Fresno's contention that the rates to and from points served by CV-340 aircraft, which would include the San Joaquin Valley points, should be on a lower basis per mile than points served by the other aircraft because of the lower direct flying costs. Certain elements included in the direct flying cost, such as the taxi between loading area and the runway and the ascent to and descent from flight altitude, are the same regardless of length of flight. The chart on page 10 of Exhibit 3 shows that the cost curves of direct flying costs of the various aircraft for various lengths of haul slope sharply and it is at approximately

300 miles in the cases of jets and about 500 miles in the cases of piston-type aircraft that the slope of the curve begins to flatten. Additionally, the direct flying cost is only one element of the total cost of providing service. Terminal expenses, dispatch, meteorology, communications and traffic expenses do not vary with the type of aircraft used. Those expenses comprise a large portion of the total cost. Applicant showed the expenses in cents per revenue ton mile of performing air-freight service in California:

Expenses:	Cents per RTM
Flying Operations	9.13
Maintenance and Depreciation	13.53
Aircraft and Traffic Servicing	20.94
Sales	.84
Advertising and Publicity	.36
General and Administration	<u>1.81</u>
Total	46.61

It is readily apparent that the expenses that vary directly with the length of flight have very little effect upon the cost of performing air-freight service between California points because the points in California served by applicant most distant from one another are less than 500 miles apart.

In addition to the fixed costs of providing service, the space available for revenue freight is also a factor in developing the cost of service. Applicant showed that the cost per available ton mile of operating CV-340 aircraft is more than twice the cost of operating B-720, DC-7A and DC-6A equipment. Load factor, which reflects the demand for service, is also an element which is to be considered. The total unit cost per revenue ton mile of operating CV-340 aircraft in California was shown to be 37.9 cents; the cost per revenue ton mile of the other aircraft are: DC-8, 18.4 cents; B-720, 16.1 cents; DC-7, 33.9 cents; DC-6, 29.0 cents; DC-7A, 34 cents; DC-6A, 26.1 cents. Applicant showed that the cost to

applicant of transporting a 200-pound shipment in CV-340 aircraft for a distance of 150 miles is the same as the cost of transporting a 200-pound shipment 350 miles in B-720 aircraft.

It is Fresno's contention that the proposed rate structure imposes a greater burden of the increases upon the San Joaquin Valley points than upon San Francisco, San Diego and Sacramento and therefore is preferential to the latter to the prejudice of the Valley points, including Fresno. There are only four rate scales in California under the proposed rates. Those scales conform to the pattern of the interstate rates mentioned earlier herein. The following is a comparison of the present rates and the proposed rates.<sup>2</sup>

RATES IN CENTS

<u>Line No.</u>	<u>Between</u>	<u>And</u>	<u>Present Rates</u>		<u>Proposed Rates</u>		
			<u>Per lb.</u>	<u>Per 100 lb.</u>	<u>Per lb.</u>	<u>Per 100 lb.</u>	
						<u>Min. Wt.</u>	<u>Min. Wt.</u>
						<u>100</u>	<u>1,000</u>
1	Fresno	Los Angeles	8	526	9	600	600
2	San Diego	Merced	8	580	10	600	600
3	San Diego	Stockton	9	642	10	675	615
4	San Diego	San Francisco	10	706	11	690	615

Line 2 also includes: San Diego/Monterey, San Diego/Modesto, Los Angeles/Sacramento

Line 3 only includes: San Diego/Stockton

Line 4 also includes: San Diego/Sacramento, San Diego/Oakland

Line 1 includes: Between all other points in California

For all shipments weighing 55 pounds or less, the increases are approximately the same because the shipments are subject to the

<sup>2</sup> Only the proposed rates for minimum weights up to 1,000 pounds are shown. The proposed rates for minimum weights of 2,000 pounds, 3,000 pounds, 5,000 pounds and 10,000 pounds are the same between all points in California.

minimum charge. Under the proposed rates, the rates in cents per pound have application only with respect to shipments weighing between 60 and 67 pounds transported between points included in Line 3 and 55 to 63 pounds for those in Line 4 above.<sup>3</sup> Comparisons of increases, therefore, are valid only with respect to the rates in cents per 100 pounds. With respect to shipments weighing more than 100 pounds and less than 900 pounds the proposed rates result in increases of 14.1 percent for points included in Line 1, 3.4 percent for those included in Line 2, 5.1 percent for those included in Line 3 and a reduction of 2.3 percent for those included in Line 4. It should be noted that the average weight per shipment transported by applicant in California is less than 300 pounds. While the tabulation above shows that in all cases except Line 1 San Diego is included as an origin or destination point, it should also be noted that the rates for transportation from San Diego to Los Angeles as well as to all other points south of Monterey and Merced are the same as those shown in Line 1.

Fresno contends that the reductions resulting from the proposed volume rates impose an unreasonable burden upon the shippers of the smaller shipments in the form of substantial increases in rates. It was asserted that shippers in the San Joaquin Valley ordinarily tender air freight in small shipments. It is a customary practice in transportation for carriers to maintain lower rates for shipments tendered in volume. The Commission in Minimum Rate Tariff No. 2 has established a minimum rate structure applicable

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The charge for 100 pounds is the maximum charge for shipments weighing less than 100 pounds.

to highway carriers that prescribes rates for various minimum weights. The minimum rates were established after consideration of evidence showing that the cost per 100 pounds of transporting freight decreases with the volume of the freight tendered until truckload or carload quantities are received.

We find:

1. The earnings which applicant would receive under the proposed rate structure are not excessive.
2. The relationships of the rates in the proposed air freight rate structure are reasonably related to the costs of providing transportation services between the points served by applicant in California.
3. The proposed rate structure does not impose an undue burden upon the shippers of small shipments. ✓
4. The establishment of the proposed air freight rates would not result in any undue discrimination in charges between places in California or between classes of traffic. ✓
5. Applicant is incurring an operating loss in the transportation of air freight at its present rates. ✓
6. The increases which would result from the establishment of the proposed air freight rates are justified.

Based upon the foregoing findings, we conclude that applicant should be authorized to establish the proposed rates on not less than ten days' notice to the Commission and to the public.

O R D E R

IT IS ORDERED that:

1. United Air Lines, Inc., is authorized to establish the increased air freight rates proposed in Application No. 45558.



Tariff publications authorized to be made as a result of the order herein may be made effective not earlier than ten days after the effective date hereof on not less than ten days' notice to the Commission and to the public.

2. 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 November, 1963.

Alexander Brandt  
President

John Mitchell  
Walter H. Ray

George L. Trover

Fredrick B. Halblaff  
Commissioners