

Decision No. 66616

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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC AIR LINES, INC., for authority to make certain changes in its intrastate air freight rates resulting in an increase.

Application No. 45685
(Filed August 19, 1963; Amended November 5, 1963 and November 26, 1963)

Application of PACIFIC AIR LINES, INC., for authority under Rule 9 of General Order No. 105-A.

Application No. 45984
(Filed November 26, 1963)

R. E. Costello, for applicant.

Robert H. Baida, for the City of Fresno, and Bill Hendric, by Robert H. Baida, for Fresno City and County Chamber of Commerce, interested parties.

Charles J. Astrue and Henry E. Frank, for the Commission staff.

O P I N I O N

Public hearing in Application No. 45685 was held before Examiner Mallory at San Francisco on October 22, 1963. The matter was submitted upon the filing of amendments to the application. The application and amendments were served in accordance with Rule 4.3 of General Order No. 105-A. No one appeared in opposition to the relief sought.

Pacific Air Lines, Inc. (Pacific) is an air transportation company and a common carrier providing passenger, mail, express and air freight service between numerous points in California, and between points in California and points in Oregon and Nevada. By this application it seeks authority to increase its air freight rates for service in California. Pacific's air freight

rates were last considered by this Commission in Decision No. 63444, dated March 20, 1962 (59 Cal. PUC 463). In that decision we authorized Pacific to increase its air freight rates to levels which were less than were sought in the application in that proceeding, but which were no higher than the air freight rates maintained by United Air Lines, Inc. (United) and Western Air Lines, Inc. (Western) between common points served by Pacific and also by United or Western.^{1/} We concluded in Decision No. 63444 that the air freight rates authorized to Pacific therein were the maximum levels of rates justified under the then current competitive situation (59 Cal. PUC 463, 468 and 469).

Subsequently, United was authorized to increase its intrastate air freight rates in California.^{2/} In Application No. 45685, Pacific seeks to increase its air freight rates on a per-pound basis and on a minimum weight of 100 pounds to the levels of the corresponding rates authorized to United between competitive points.^{3/} Pacific also seeks to increase rates between other points so that long- and short-haul departures will not exist because of increases in rates from, to or between intermediate points. As pointed out at the hearing, certain long- and short-haul departures were not eliminated from applicant's rate proposal. As a result,

1/ Pacific serves several points in common with United or Western in Pacific's southern segment (as that term is defined in Decision No. 63444, supra). In Pacific's northern segment, the Commission, in Decision No. 63444, authorized increases which were not higher than the corresponding air express rates maintained by Railway Express Agency, Incorporated, between competitive points.

2/ Decision No. 66307, dated November 12, 1963, in Application No. 45558.

3/ United was authorized to increase its minimum charge, and also to publish lower rates on graduated minimum weights of 1,000 and 5,000 pounds. Pacific does not seek to establish the latter rates or to increase its minimum charge.

Application No. 45984 was filed on November 26, 1963, in which Pacific seeks authority to depart from Rule 9 of General Order No. 105-A in order to maintain rates lower between Long Beach and Stockton than between Long Beach and the intermediate points of San Jose and San Francisco. That application alleges that Pacific's service between Long Beach and Stockton is competitive with United's service between Los Angeles and Stockton, and that United flies direct between Los Angeles and Stockton without serving the out-of-line points of San Jose and San Francisco.^{4/}

Application No. 45685 contains a statement of Pacific's revenues and expenses for the 6-month period ending June 30, 1963, as summarized in the following table:

Pacific Air Lines, Inc.
Revenues and Expenses for
Six-Month Period Ending
June 30, 1963

<u>Operating Revenues</u>	
Passenger	\$3,602,856
Express, freight and excess baggage	130,318
Mail	105,640
Contract and Charter	41,930
Incidental	20,044
Subsidy	<u>1,871,377</u>
Total Revenues	\$5,772,165
Operating Expenses	\$5,612,508
Operating Income	\$ 159,657
Interest and Other Charges	\$ 183,824
Provision for Federal Income Taxes	\$ 2,362
Net Profit (Loss)	\$ (26,529)

^{4/} It was also brought out at the hearing that Pacific's current rates (in which no change is sought) between San Diego and Stockton are higher than its rates between San Diego and the intermediate points of San Jose and San Francisco. Maintenance of such rates is in violation of Article XII, Section 21 of the Constitution of the State of California and Rule 9 of General Order No. 105-A. Such violations should be promptly removed by appropriate filings.

Pacific's secretary-treasurer testified that freight revenue for the six-month period (included with express and excess baggage revenues in the above table) amounted to \$74,134. He estimated that the sought increase would produce approximately \$10,000 additional revenue annually. The witness concluded that even with this additional revenue, applicant would continue to operate at a loss. With respect to this conclusion of the witness, interest expense is not includable as an operating expense in rate increase proceedings before this Commission.^{5/} Excluding interest, the figures in the above table indicate that applicant's operations for the period shown were conducted at a profit. The operating ratio before income taxes for this period is 97.2 percent. With the addition of the increased revenue sought herein, such operating ratio would be 97.1 percent.

Discussion and Findings

In Decision No. 63444, supra, Pacific's air freight rates were held down to the level of competing carriers. Since the date of that decision the competitive situation mentioned therein has changed in that United, Pacific's principal competitor in its southern segment, has been authorized to increase its air freight rates. Pacific's air freight service in California contributes only a small portion of its total operating revenues. The increased air freight rates sought herein will not materially increase applicant's overall revenues and net operating income. The rate increases sought, however, would place Pacific's intrastate

^{5/} Although interest is an expense actually borne by applicant, it is an expense related to capital and not to operations. For rate-making purposes, interest is not included as an operating expense, but is considered in determining the revenue needs of the carrier in its rate of return. Rate base and rate of return figures are not a matter of record in this proceeding.

rates in California on the levels of the corresponding air freight rates maintained by its principal competitor. The increase also would place Pacific's intrastate rates on the same general level as its interstate air freight rates.

In the circumstances, we find that the increased rates proposed in Application No. 45685, as amended, are justified, and that the increased revenues expected to result from such increased rates will be reasonable. We further find that a special case exists in which Pacific should be authorized to depart from the long- and short-haul provisions of General Order No. 105-A. We conclude that Application No. 45685, as amended, and Application No. 45984 should be granted.

Applicant requests that it be permitted to establish the increased rates on three days' notice. The order which follows will provide that the rates authorized therein may be published and filed on not less than ten days' notice to the Commission and the public.

O R D E R

IT IS ORDERED that:

1. Pacific Air Lines, Inc., is authorized to establish the increased air freight rates set forth in Application No. 45685, as amended. 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 the public.

2. In establishing and maintaining the air freight rates authorized hereinabove, applicant is authorized to depart from the provisions of Article XII, Section 21 of the Constitution of the

State of California and Rule 9 of General Order No. 105-A, to the extent necessary to maintain air freight rates between Stockton and Long Beach which are less than the air freight rates between San Francisco and San Jose, on the one hand, and Long Beach, on the other hand, as requested in Application No. 45984. Schedules containing the rates published under the authority granted in this order shall make reference to this order.

3. The authority granted herein shall expire unless exercised within ninety days after the effective date hereof.

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

Dated at San Francisco, California, this 14th day of January, 1964.

William A. Bennett
President
George L. Trover
Fredrick B. Holshoff
Commissioners