

Decision No. 66964**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of LOS ANGELES AIRWAYS,
INC., for an increase in intra-
state air passenger fares.

Application No. 45768
(Filed September 12, 1963)

Royal M. Sorensen and John T. Kane, for applicant.
Donald G. Mauldin and Ralph H. Prince, for the
City of San Bernardino, protestant.
Robert W. Russell, by K. D. Walpert, for the City
of Los Angeles, interested party.
C. V. Shawler and Charles J. Astrue, for the
Commission staff.

O P I N I O N

By this application, Los Angeles Airways, Inc. seeks authority to increase its one-way fares filed with this Commission.^{1/} Applicant is an air transportation company and air common carrier providing helicopter service between Los Angeles International Airport and Burbank Airport, on the one hand, and heliports located within a radius of approximately 65 miles of Los Angeles, on the other hand. Applicant maintains one-way fares and charter fares for its helicopter passenger service. It also transports mail, express and baggage. Applicant began helicopter service in 1947, pursuant to a certificate from the Civil Aeronautics Board authorizing the transportation of air mail. Air express service was added in 1953, and passenger service was inaugurated in October 1954. According to the application, the present fare levels were established prior to the inception of passenger service and without benefit of previous operating experience under the fares.

^{1/} Round-trip fares are double the one-way fares.

Applicant proposes to increase from \$5.45 to \$6 its fare for the mileage block of 0-20 miles, and to add \$1 to the \$6 fare for each additional 10 miles or fraction thereof, with a maximum fare of \$10. The proposed increases range from 10 to 37 percent. The increase in revenues resulting from the increased fares is estimated by applicant to be 19.64 percent. Examples of present and proposed fares and airline mileages between heliports are set forth in the following table:

Los Angeles Airways, Inc.

<u>Between Los Angeles and:</u>	<u>Airline Miles</u>	<u>Present Fares</u>	<u>Proposed Fares</u>
Anaheim/Disneyland	29	\$6.36	\$ 7.00
San Bernardino	65	7.27	10.00
Newport Beach	37	7.27	8.00
Pomona	36	6.36	8.00
Riverside	59	7.27	10.00
Burbank/Lockheed Terminal	18	5.45	6.00
Van Nuys	15	5.45	6.00

A duly noticed public hearing was held in Los Angeles on February 19, 1964, before Commissioner Holoboff and Examiner Mallory. Evidence was offered on behalf of applicant, the City of San Bernardino and the Commission staff. The City of San Bernardino protests the amount of the increase sought in the fare between San Bernardino and Los Angeles.

Evidence in support of the application was presented by applicant's vice president (accounting) and by its vice president (sales). The accountant presented evidence concerning applicant's financial results of operation, including a balance sheet as of May 31, 1963, a statement of earnings for the twelve-month period ended May 31, 1963, an estimate of the amount of increased passenger revenue which would result if the application is granted, and an

estimate of operating results under present and proposed fares. According to the testimony of this witness, applicant operates pursuant to a certificate of public convenience and necessity from the Civil Aeronautics Board issued to determine the feasibility of commercial helicopter service. Since its inception, applicant has received federal subsidy under the terms of the Federal Aviation Act of 1958 and prior legislation. The witness asserted that its present and proposed fares would not be sufficient to cover its operating expenses if such subsidy payments were discontinued. The operating revenues and expenses, developed in accordance with Civil Aeronautics Board^{2/} accounting procedures, are set forth in Table I below:

Table I

Los Angeles Airways, Inc.
Statement of Earnings

	<u>Actual</u>	<u>Test Year</u>	
	<u>Year Ended</u> <u>3/31/63</u>	<u>Present</u> <u>Fares</u>	<u>Proposed</u> <u>Fares</u>
Transport Revenues:			
Scheduled Passenger Service	\$ 737,193	\$ 693,930	\$ 839,759
Other	338,729	331,420	332,488
Total	<u>1,075,922</u>	<u>1,025,350</u>	<u>1,172,247</u>
Federal Subsidy	1,850,947	1,932,712	1,932,712
Total Revenues	2,926,869	2,958,062	3,104,959
Operating Expenses	2,867,576	2,936,152	2,936,152
Net Operating Profit	59,293	21,910	168,807
NonOperating Income (Exp.)	(120,766)	(152,100)	(152,100)
Net Income before Special Items & Taxes (Loss)	(61,474)	(130,190)	16,707
Special Items	298,169	-	-
Federal Income Tax	85,992	(100,088)	(23,702)
Net Profit after Taxes	150,724	(30,102)	40,409
Operating Ratio	97.6%	99.2%	94.5%
Rate Base	3,371,580	3,371,580	3,371,580
Rate of Return	4.04%	-	1.20%

^{2/} Hereinafter sometimes referred to as C.A.B.

The witness testified that the estimates for a test year as shown in Table I were developed by annualizing its results of operation for the six-month period ended March 31, 1963. Depreciation expense was determined in accordance with procedures established by the C.A.B. Generally, straight-line depreciation, not liberalized depreciation, was recorded. Flying equipment is depreciated over a period of ten years.

The results set forth in Table I for the test year reflect a federal operating subsidy of \$1,932,712. The witness testified that its subsidy payments have declined in the past two fiscal years and are expected to decline in the future. The witness stated that helicopter service subsidies for the fiscal year 1963-64 have been under consideration by the C.A.B., and that agency, on February 13, 1964, issued an order containing provisional findings which would grant applicant a federal subsidy for the 1963-64 fiscal year of \$1,600,000. The witness did not supply information to show the effect on net revenues and income taxes of the anticipated decrease in subsidy payments.

The witness also testified as to his estimates of revenues and expenses (based on the current level of service) for future periods as follows:

	(a)	
	<u>12-Month Period Ending</u>	
	<u>June 30, 1964</u>	<u>June 30, 1965</u>
Operating revenue, excluding subsidy	\$1,738,138	\$1,882,804
Operating expenses	<u>3,354,824</u>	<u>3,521,984</u>
Net Loss	\$1,616,686	\$1,639,180

(a) Revenue based on proposed fares becoming effective February 1, 1964. The above estimates were prepared by the witness for presentation before C.A.B. in applicant's subsidy hearings and in his opinion are more representative of current and future operations than those set forth in Table I.

Applicant's vice president (sales) testified concerning the applicant's fare structure. He stated that applicant's local fares for interstate and intrastate traffic have been maintained on the same level. Applicant has filed with the C.A.B., to become effective March 5, 1964, fares on the same levels as proposed herein. Applicant requests that it be authorized to establish the increased fares on intrastate traffic as soon as possible, to avoid conflict in the selling of tickets when different fare structures are in effect for intrastate and interstate service between the same points.

A witness from the Commission's Finance and Accounts Division presented in evidence a report on the financial position

and results of operation of Los Angeles Airways, Inc. for the twelve-month periods ended December 31, 1961, December 31, 1962, and November 30, 1963. Operating results for these periods are summarized in the following table:

Table II

Los Angeles Airways, Inc.
Comparative Income Statement

<u>Operating Income</u>	<u>Year Ended</u>		
	<u>Dec. 31,</u> <u>1961</u>	<u>Dec. 31,</u> <u>1962</u>	<u>Nov. 30,</u> <u>1963</u>
Operating Revenues:			
Transport Revenues	\$ 565,800	\$ 802,543	\$1,373,471
Other Incidental Revenues	1,984	323	3,983
Total	<u>567,784</u>	<u>802,866</u>	<u>1,377,454</u>
Operating Expenses:			
Flying Operations	352,558	555,706	646,144
Direct Maintenance	308,439	439,808	704,787
Maintenance Burden	147,801	193,894	225,827
Genl. Services & Admin.	678,937	911,220	1,075,532
Depreciation & Amortization	60,095	272,978	365,350
Total	<u>1,547,830</u>	<u>2,373,606</u>	<u>3,017,640</u>
Operating Loss before Subsidy	<u>(980,046)</u>	<u>(1,570,740)</u>	<u>(1,640,186)</u>
Subsidy	<u>1,083,420</u>	<u>1,824,078</u>	<u>1,923,889</u>
Net Operating Revenues After Subsidy	103,374	253,338	283,703
NonOperating Income (Loss)	<u>11,026</u>	<u>(104,881)</u>	<u>(67,441)</u>
Gross Income	114,400	148,457	216,262
Taxes on Income	<u>67,892</u>	<u>58,570</u>	<u>72,504</u>
Net Income	46,508	89,887	143,758

The following table portrays the accountant's study of rates of return under present and proposed fares, using the twelve months ending November 30, 1963 as a base period.

Table III

Los Angeles Airways, Inc.

Rates of Return
Year Ended November 30, 1963

	<u>Year Ended November 30, 1963</u>	
	<u>Present Rates</u>	<u>Company Proposed Rates</u>
Increase in Passenger Revenue	\$	\$ 199,147
Recorded Operating Revenues		
Excluding Subsidy	<u>1,373,471</u>	<u>1,373,471</u>
Total	<u>1,373,471</u>	<u>1,572,618</u>
Operating Expenses Excluding Taxes on Income	<u>3,017,640</u>	<u>3,017,640</u>
Operating Loss before Subsidy	<u>(1,644,169)</u>	<u>(1,445,022)</u>
Subsidy	1,923,889	1,923,889
Taxes on Income (deduct)	<u>(47,361)</u>	<u>(156,175)</u>
Net Operating Revenues	232,359	322,692
Interest on Long-Term Debt	<u>130,167</u>	<u>130,167</u>
Earnings Available to Equity	102,192	192,525
Return on Rate Base	6.49%	9.02%

<u>Rate Base</u>	<u>November 30, 1963</u>
Plant Investment - Net	\$3,181,260
Working Capital	377,124
Special Deposit	20,194
Investment in Associated Company	<u>250</u>
Total Assumed Rate Base	3,578,828

The witness stated that in his opinion, in light of the nature of applicant's services and applicant's need to rely upon a federal subsidy, the rate of return of approximately 9 percent under the proposed fares shown in Table III does not appear unreasonable.

A senior transportation engineer of the Commission's Transportation Division presented in evidence estimates of passenger

revenues for the twelve-month period ending March 31, 1965 of \$1,542,200 under present fares and \$1,824,900 under proposed fares. These estimates are based upon the witness's interpretation of the trends in the number of passengers utilizing applicant's services. The witness concluded that the number of passengers and passenger revenues would continue to increase but at a lesser rate of growth than occurred during the past two years. The evidence shows that beginning in 1961, applicant started a program of replacing its Model S-55 helicopters seating 7 passengers with faster and larger Model S-61 helicopters, which seat 28 passengers. The phasing out of the Model S-55 equipment on passenger runs is completed; however, they will continue to be operated for carrying mail for some time. It appears that much of the recent increase in passenger traffic was due to the increased speed and larger seating capacity of the new equipment, and now that such equipment is in general usage, the number of passengers will not continue to increase at the rate enjoyed during 1962 and 1963. The engineer did not offer in evidence estimates of expenses, net income and return on investment for the period covered by his estimate of revenues.

The Mayor of the City of San Bernardino testified in opposition to the level of the proposed fare between San Bernardino and Los Angeles. The witness pointed out that applicant provides the only scheduled air service from and to San Bernardino and that passengers use applicant's service to connect with flights from or to Los Angeles. The witness asserted that San Bernardino generates a large volume of airline traffic from military bases, missile contractors and other industrial firms. The only alternative to

applicant's service is the ground service offered by an airport coach, a local bus line and a railroad. The fares for the latter services are already well below applicant's present fare and would be substantially below applicant's proposed fare, which could have a tendency to divert traffic from applicant. It was the position of this witness that the 37 percent increase, from \$7.27 to \$10, is more than the traffic will bear for this service. He stated that in his opinion the maximum amount of increase which should be made is 25 percent, or a fare of \$9. The witness asserted that this fare level would provide applicant with a substantial increase without exceeding what the traffic will bear for the service rendered.

In rebuttal to this testimony, applicant presented evidence to show that earnings per passenger mile under the San Bernardino fare are less than for other points served, and that the C.A.B., in considering applicant's subsidy payments has urged applicant to raise its fare structure to return a minimum of 25 cents per passenger mile. Assertedly, the proposed fare to San Bernardino will yield 15.38 cents per passenger mile.

Discussion, Findings
and Conclusions

The evidence shows that under current operations the federal subsidy contributes more than fifty percent of applicant's total revenues. Therefore, the considerations which underlie the amount applicant will receive as subsidy payments for the future are important in the disposition of this proceeding. The Commission takes official notice of the Civil Aeronautics Board Order No. E-20495, adopted February 20, 1964, in Docket 13204 (Helicopter Operators Consolidated Mail Rate Proceeding). In that order the C.A.B. fixed final subsidy payments for the period July 1, 1963

through June 30, 1964, for applicant and other helicopter operators receiving federal subsidy. The federal subsidy so fixed for applicant was \$1,600,000. The C.A.B. order states that with pending fare increases, applicant's system yield per revenue passenger mile would be 18.9 cents.^{3/} It urged applicant to continue efforts to increase its yield to 25 cents per mile in order to bring about a reasonable ratio between subsidy and commercial revenues. While applicant was not specifically ordered by the C.A.B. to curtail further expansion of its services, future subsidy payments essential to its operations appear to be contingent upon meeting the operating criteria suggested by the C.A.B.

The statement of revenues, expenses and rate base for the year ended November 30, 1963, as developed by the Commission staff accountant, reflects a later period than that presented by applicant. In addition, interest expense, which is an expense related to capital and not to operations, has been eliminated from operating expenses in the staff accountant's statement. For the purposes of this proceeding, the revenues, expenses (including depreciation expense) and rate bases developed by the staff accountant for the year ended November 30, 1963, adjusted to reflect the decreased federal subsidy payment, are adopted by the Commission as reasonably

^{3/} The C.A.B., in its Order No. E-24095, took notice of the instant application to raise intrastate fares and of the filing with the C.A.B. of corresponding fare increases on interstate traffic to become effective March 5, 1964.

representing the results of applicant's past operations. These data are set forth in the following table:

Table IV

Los Angeles Airways, Inc.

Results of Operation
For 12 Months Ended Nov. 30, 1963

	<u>Present Fares</u>	<u>Proposed Fares</u>
Operating Income	\$1,373,471	\$1,572,618
Federal Subsidy	1,600,000	1,600,000
Total	<u>2,973,471</u>	<u>3,172,618</u>
Operating Expenses	3,017,640	3,017,640
Net Operating Revenues	(44,169)	154,978
Taxes on Income	100	8,400
Net Income	(44,269)	146,578
Operating Ratio*	101.5%	95.1%
Rate Base	3,578,828	3,578,828
Rate of Return	-	4.10%

* Before taxes on income.

Applicant's estimates for the 12-month period ending June 30, 1965, under proposed fares, would show a net operating loss of \$39,180 based on a continuation of the \$1,600,000 of federal subsidy granted for the fiscal year ending June 30, 1964. Applicant's passenger revenue estimate appears to be somewhat lower than the staff engineer's estimate of \$1,824,900 as applicant's estimate of \$1,882,804 includes mail, express and charter revenue as well as passenger revenue.^{4/} While the record does not reveal the exact difference, it appears that, even if the engineer's estimate of revenue were adopted, unreasonable earnings would not be produced by the proposed fares after taking into account the current amount of federal subsidy.

4/ The revenue for the items other than passenger revenue for the 12 months ending June 30, 1964 was estimated by applicant to be \$364,940. Applicant testified that the corresponding amount for 12 months ending June 30, 1965 would be substantially less but did not state the amount.

We turn now to the protest of the City of San Bernardino. The distance of 65 miles between Los Angeles and San Bernardino is the greatest in applicant's operations. The present fare between these points yields 11.18 cents per passenger mile, the lowest of any pairs of points in applicant's present operations. Under the proposed fare, the yield would be 15.38 cents. Only the Anaheim/Disneyland-Los Angeles service generates more traffic than San Bernardino-Los Angeles. The distance between Anaheim/Disneyland heliport and Los Angeles is 29 miles, and the yield per passenger mile under present and proposed fares between these points is 21.93 cents and 24.14 cents, respectively. The yield per passenger mile between San Bernardino and Los Angeles is well below any other pairs of points in applicant's present operations. It is clear that if applicant is to achieve the operating results set forth in Table IV, the full increase in fares proposed in the application will be necessary. The City of San Bernardino contends that passengers between San Bernardino and Los Angeles will use surface transportation in preference to applicant's service if the full amount of increase is granted. Other than the service provided by an airport limousine, no surface transportation company operates directly between San Bernardino and Los Angeles Airport. The difference in fares between surface transportation and helicopter service would be substantial under either the fare level recommended by the City of San Bernardino or that proposed by applicant. It would appear that no greater amount of diversion to surface transportation would occur under the sought \$10 fare than under the \$9 fare recommended by the City of San Bernardino. Moreover, the staff transportation representative testified that in an operation such as this, diminution resulting from fare increases is not likely.

It appears, and we find, that the increases in fares sought herein are reasonable and are justified. We conclude that the application should be granted.

In view of applicant's need for additional revenue and to lessen the time in which different fares are in effect on intrastate and interstate traffic, applicant will be authorized to publish and file the increased fares on five days' notice.

O R D E R

IT IS ORDERED that:

1. Los Angeles Airways, Inc. is authorized to establish the increased fares as proposed in Application No. 45768. Tariff publications authorized to be made as a result of the order herein may be made effective not earlier than the effective date hereof on not less than five 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 ten days after the date hereof. ✓

Dated at San Francisco, California, this 17th day of March, 1964.

William L. Bennett
President

Ed. [unclear]

George T. Grover

Fredrick B. Hallock

Commissioners