

ORIGINALDecision No. 75689

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of AIR WEST, INC.,)
 for authority to increase its)
 intrastate passenger fares.)

Application No. 50925
 (Filed March 4, 1969)

Arthur M. Taylor and Ray Costello, for applicant.
W. S. Lewis, for Aero Commuter, interested party.
William C. Bricca, Counsel, Milton DeBarr, Jr.,
and Clyde T. Neary, for the Commission staff.

INTERIM OPINION

Air West, Inc. (Air West) is a passenger air carrier operating between points in California.^{1/} It also operates as an air carrier within and between the several western states, and portions of Canada and Mexico. In California, applicant operates in intrastate and interstate commerce, providing local service between California cities.

In this application Air West seeks authority to increase its fares generally by the following amounts:

- | | |
|--|--------|
| (a) First Class fares | \$3.00 |
| (b) Coach fares: | |
| 500 miles or less | 2.00 |
| Over 500 miles | 1.00 |
| (c) Commuter fares, government travel fares, and regular excursion fares | 2.00 |
| (d) Discover America Excursion fares. | 3.00 |

Applicant also seeks to establish a minimum one-way fare of \$10.00 and a minimum round-trip fare of \$20.00.

The application seeks both interim and permanent relief at the fare levels set forth above.

^{1/} Air West, Inc. was formed by the merger of Pacific Air Lines, Inc., West Coast Airlines Inc. and Bonanza Airlines, Inc. (CAB Order E26665, effective April 17, 1968).

Public hearing was held before Examiner Mallory at San Francisco on April 25, 1969. The granting of permanent relief was opposed by the Commission staff. The staff recommended that the full amount of the sought increase be granted on an interim basis pending staff review of applicant's books and records and the exhibits submitted by applicant. The request for interim relief was submitted, and the application was temporarily removed from the calendar.^{2/}

Applicant's evidence was presented through three witnesses who testified to eleven exhibits. The Commission staff presented four witnesses: two financial examiners from the Commission's Finance and Accounts Division and two transportation engineers from the Commission's Transportation Division. Based upon the data set forth in an exhibit presented by a financial examiner, and upon a review and analysis of applicant's current financial condition and historical operating results, it was the conclusion of the witnesses appearing for the Commission's Finance and Accounts Division that applicant should be granted interim authorization for the full amount of its requested increase in revenues from intrastate fares on the basis of the financial emergency evident as of December 31, 1968, and the substantial indication that continuing losses of significant magnitude would jeopardize applicant's ability to render service in California. The witnesses appearing for the Commission's Transportation Division submitted an exhibit showing comparative fares and stated that a significant diversion of traffic to competing airlines could be anticipated if the full amount of the

^{2/} Submission of this phase of the proceeding was subject to the condition that the staff notify the Commission and applicant within sixty days that it is ready to proceed; in the absence of such notification final submission will be made and an appropriate order issued.

increase sought in the application were authorized. However, at this point the application should be granted on an interim basis.

The data presented by applicant's witnesses included studies of results of operations, on a system basis and for intra-state service within California, for an historical period and for a future rate year. Exhibit C contains a comparison of recorded system operating results for the years 1967 and 1968. These data are summarized below.

Table 1

AIR WEST, INC.

System Results of Operations
Year to Date December 31, 1968
With Comparative Figures for 1967

	<u>Year to Date</u> <u>December 31,</u>	
	<u>1968</u>	<u>1967</u>
Operating Revenues:		
Passenger	\$51,640,373	\$42,611,030
Mail, express, freight and excess baggage	2,639,536	2,201,800
Charter and incidental	1,493,707	1,711,059
	<u>55,773,616</u>	<u>46,523,889</u>
Public service (subsidy)	10,366,071	10,810,461
	<u>66,139,687</u>	<u>57,334,350</u>
Operating Expenses:		
Flying operations	22,145,986	16,753,742
Maintenance	12,154,203	11,439,640
Passenger service	4,465,590	2,962,195
Aircraft and traffic servicing	16,467,490	13,062,727
Promotion and sales	7,326,661	6,485,613
General and administrative	6,164,659	5,039,405
Depreciation and amortization	5,205,937	4,260,225
Amortization of development and preoperating costs	1,052,735	533,252
	<u>74,983,261</u>	<u>60,536,799</u>
Operating loss	8,843,574	3,202,449
Nonoperating Expense:		
Interest, net	2,651,893	1,311,602
Write-off of development and preoperating costs	259,570	164,253
Other, net	12,877	115,620
	<u>2,924,340</u>	<u>1,591,475</u>
Loss before taxes on income and extraordinary items	11,767,914	4,793,924
Net loss (after income taxes and extraordinary items)	10,905,004	3,586,103

Exhibit K depicts applicant's estimates of operating results under present and proposed fares for its California intra-state and system operations for a test year. Such data are set forth below.

Table 2

AIR WEST, INC.
System Results of Operations
Forecast 12 Months Ended June 30, 1970

	<u>Before Fare Increase</u>		<u>After Fare Increase</u>	
	<u>System</u> (000)	<u>Intra-Calif.</u> (000)	<u>System</u> (000)	<u>Intra-Calif.</u> (000)
Revenue - Passenger	\$ 65,679	\$ 9,064	\$ 72,918	\$ 10,061
- Cargo and Incid.	4,608	608	4,608	608
- Subsidy	9,453	1,475	9,043	1,419
Total Operating Revenues	79,740	11,147	86,569	12,088
Operating Expenses	89,008	12,461	89,403	12,516
Net Operating Profit	(9,268)	(1,314)	(2,834)	(428)
Debt (Expense)	(4,182)	(627)	(4,182)	(627)
Net Profit (Loss)	(13,450)	(1,941)	(7,016)	(1,055)

Applicant's witnesses also presented evidence to show that applicant's operating cost statistics are substantially the same as those of ten other regional air carriers operating under CAB subsidy, while its average fares are lower than the average of the ten carriers. These comparisons are set forth in the following table.

Table 3

AIR WEST, INC.
 Comparison - Operating Characteristics
Air West - Regional Carrier Average
 3rd Quarter 1968

	<u>Air West</u>	<u>Ten Regional Carrier Average</u>	<u>Air West Over(Under) Industry</u>
<u>Revenue Characteristics</u>			
Average Passenger Fare	\$ 16.87	\$ 18.73	(10.0)%
Passenger Revenue Per Passenger Mile	6.77¢	7.41¢	(8.6)
Commercial Revenue Per: Station Operated	\$194,471	\$222,270	(12.5)
Employee	4,172	4,925	(15.3)
<u>Cost Characteristics</u>			
Total Operating Expense Per:			
Available Seat Mile	4.02¢	4.03¢	(.2)
Available Ton Mile	34.29¢	33.76¢	1.6
Mile Flown	238.61¢	239.00¢	(.2)
<u>Operating Characteristics</u>			
Average Available Seats	59.3	59.2	.2
Passenger Journey (miles)	249	255	(2.4)
Revenue Miles Per Employee	2,260	2,220	1.8
Passengers Per Station	10,747	10,795	(.4)
Revenue Ton Miles Per Aircraft	386,657	393,026	(1.4)

Based upon the evidence adduced, the Commission finds that:

1. Applicant's system operations are being conducted at a loss and continuation of such losses into the future is projected.

2. Applicant's California intrastate operations are being conducted at a loss, with further losses expected in the future based upon studies of projected and separated operating results at both present and proposed fares.

3. Applicant is in urgent and immediate need of additional revenues.

4. Applicant has been authorized by the CAB to increase its interstate fares in the same amounts as sought herein with respect to its intrastate fares.

5. The increases in fares sought herein are justified.

The Commission concludes that the interim relief sought in the application herein should be granted, pending further hearing in this matter. In view of applicant's indicated need for additional revenue, it will be authorized to place the increased fares in effect on three days' notice.

INTERIM ORDER

IT IS ORDERED that:

1. Air West, Inc. is authorized to establish, collect and assess until further order of the Commission, the increased fares proposed in Application No. 50926. Tariff publications authorized to be made as a result of the order herein may be made effective not earlier than three days after the effective date hereof on not less than three 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 20th day of MAY, 1969.

William Synovis, Jr.
President

August

John R. Monsey
Michael J.

Commissioners