

ORIGINAL

Decision No. 75897

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of WESTERN AIR LINES, INC., for authority to increase certain of its intra-California passenger fares.

Application No. 50833 (Filed February 17, 1969; and Petition For Temporary (Interim) Authority, filed February 17, 1969)

Darling, Mack, Hall and Call, by Donald K. Hall, for applicant.
Edward L. Colby, for City of Palm Springs; and Norris M. Webb, for himself; interested parties.
W. C. Bricca, Counsel, and Milton DeBarr, for the Commission staff.

O P I N I O N

In this application Western Air Lines, Inc., (Western) seeks authority to increase its intrastate air passenger fares.^{1/}

Public hearing was held on the application and on the Petition for Interim Relief before Examiner Mallory at San Francisco on February 27, 1969, and the application and petition were submitted. Evidence was presented by witnesses for applicant and the Commission staff. The City of Palm Springs opposed the granting of an increase in fares for service between Palm Springs and San Francisco. The Commission staff opposed the granting of interim relief.^{2/}

The application alleges that air carriers operating over interstate routes in the continental United States recently have been authorized by the Civil Aeronautics Board (CAB) to increase

^{1/} Western provides service from and to the following points: Long Beach, Los Angeles, Palm Springs, Sacramento, San Bernardino (Ontario), San Diego, San Francisco and Oakland. Western maintains the following types of fares: jet first class, jet commuter, jet coach, standby, round-trip excursion and military leave reservation fares.

^{2/} Requests for interim fare relief also have been submitted for Pacific Southwest Airlines (PSA), United Airlines (United) and Air California (Applications Nos. 50847, 50464 and 50770, respectively).

their interstate fares by an overall 3.8 percent. Said increases were greater for shorter hauls. Carriers were authorized to round their fares upward to the next higher dollar, and to further increase their first class fares by \$3.00 and their coach fares by \$2.00.^{3/}

Western seeks authority to increase its first class fares, by rounding up to next highest dollar and adding \$3.00; and to increase its jet commuter fares and jet coach fares by rounding up to next highest dollar and adding \$1.00.^{4/}

Evidence on behalf of Western was presented by its Assistant Vice President - Tariff and by the Manager of its Economics Research Department. The former testified and presented exhibits concerning the manner in which Western's fare proposals were developed and comparisons of present and proposed fares with those maintained in other markets. According to this witness the present and proposed fares of Western are less per mile than elsewhere in the United States.

The second witness testified and presented exhibits reflecting revenue and expense data for Western's operations. The witness testified to allocations made to separate California intra-state revenues and expenses for Western's total operations. The following table is a summary of Western's results of operations for its entire system for the year 1968.

^{3/} CAB Order 69-2-98, dated February 19, 1969 in Dockets 20696 and 20719.

^{4/} Western proposes to cancel its jet coach fares at points where it also maintains jet commuter fares, as the latter fares are lower. The staff opposed cancellation of jet coach fares, on the contention that such action will negate the use of family plan fares.

TABLE I

Western Air Lines, Inc.
Results of Operations
Year 1968

Operating Revenues	\$221,952,867
Operating Expenses	202,271,446
Operating Income	\$ 19,681,421
Income Deductions (Net)	\$ 13,160,770
Income Taxes	4,725,000
Net Earnings	\$ 8,435,770

The witness pointed out that Western's net earnings in 1968, as reflected in the above table dropped from \$12,221,465 for the year 1967. The data for California operations were developed from the revenues and expenses for the year 1967. California intrastate passenger revenues are based upon passenger counts for each intrastate route segment. Operating expenses were allocated based on the relationships of various operating factors such as revenue ton-miles, tons enplaned, number of revenue passengers, number of departures and flight personnel hours. The following table depicts Western's revenues and expenses for California intrastate service, as developed by this witness, using allocation procedures.

TABLE 2

Western Air Lines, Inc.
 Operating Results for Year 1967
For California Intrastate Service

	<u>At Present Fares</u>	<u>At Proposed Fares</u>
<u>Operating Revenues</u>		
Passenger	\$14,692,847	\$16,254,319
Excess Baggage	26,892	26,892
Total	\$14,719,739	\$16,281,211
<u>Operating Expenses</u>		
<u>Direct Aircraft</u>		
Flying Operations	\$ 3,795,397	
Maint. - Flight Equipment	2,614,570	
Depr. - Flight Equipment	1,641,321	
Total Direct	\$ 8,051,348	
<u>Indirect Expenses</u>		
Maint. & Depr. - Ground Prop. & Equip.	\$ 600,632	
Aircraft Servicing	2,137,764	
Traffic Servicing	2,118,991	
Servicing Admin.	328,604	
Passenger Service	1,340,041	
Reservations & Sales	3,587,498	
Advertising & Publicity	548,147	
General & Admin.	776,204	
Total Indirect	\$11,437,931	
Total Operating Expenses	\$19,489,279	
Operating Loss	\$ 4,769,540	\$ 3,208,063

The witness also presented in evidence an exhibit showing that the number of intrastate passengers and passenger revenue was less in 1968 than in 1967, as summarized in the table below.

TABLE 3

Western Air Lines, Inc.
 Comparison of Number of California
 Intrastate Passengers and
Passenger Revenues for 1967 and 1968

	<u>1967</u>	<u>1968</u>
<u>Passengers:</u>		
First Class	41,527	42,108
Coach	1,015,654	995,523
Total	1,057,241	1,037,631
 <u>Passenger Revenues</u>		
Present Fares	\$14,692,847	\$14,460,627
Proposed Fares	\$16,254,319	\$15,877,124

A transportation engineer from the Commission's Transportation Division testified in opposition to the interim fare increase. He presented exhibits to show that traffic of competing airlines in the California corridor is highly variable with respect to fare levels and equipment operated. He stated that jet commuter fares are now maintained on the same level in the California corridor by the four principal air carriers operating therein (Western, United, PSA and Air California). Said carriers now all operate jet equipment. Said carriers, therefore, compete on the basis of fares. It was his conclusion that none of these air carriers can increase fares unless the other carriers concurrently increase their fares. He testified that no financial emergency exists with respect to Western which would require an immediate fare increase. Pending completion of the proceeding involving PSA's request for fare increase in Application No. 50847, the witness recommended that no fare increases be granted in the California corridor.^{5/}

^{5/} The witness made the same recommendation in the PSA, United and Air California applications for interim relief.

The representative of the City of Palm Springs opposed the levels of proposed coach fares between Palm Springs and San Francisco. He argued that present fare of \$25.00 (one-way) between these points is out of line on a passenger-mile basis with other coach or commuter fares maintained by Western and no increase in said fare should be made as a means of partially reducing such fare disparity.

Findings and Conclusions:

The Commission finds that:

1. Western's intrastate operations have been conducted at a loss under present fares and will be conducted at a loss in the future if the proposed fares are authorized.
2. Western Air Lines, Inc., is not in a financial emergency which would require an immediate interim increase in fares.
3. There is no basis in this record to make a determination as to the reasonableness of the fares for service by Western between Palm Springs and San Francisco.
4. Cancellation of jet coach fares between points where lower jet commuter fares will be maintained (which results in a cancellation of coach family plan fares between the same points) is justified, in view of applicant's need for additional revenues.
5. The proposed increase in fares, other than the proposed increases in jet commuter air fares, are justified.
6. In decisions issued today in Applications Nos. 50347 and 50364, PSA and United were authorized to increase jet commuter air fares in the California corridor to levels below those sought in the application herein.
7. Increased fares at the level authorized to PSA and United in Applications Nos. 50347 and 50364 are the maximum jet commuter air fares that Western can maintain in the so-called California corridor and continue to compete effectively; said increased air fares are justified.

The Commission concludes:

1. The request for interim relief should be denied.
2. Applicant should be authorized to establish the increased air fares found justified above.
3. To the extent not granted herein, the application should be denied.

O R D E R

IT IS ORDERED that:

1. Western Air Lines, Inc. is authorized to establish the increased air fares, other than jet commuter air fares, set forth in Application No. 50223. Western Air Lines, Inc. is authorized to establish the following jet commuter air fares:

Jet Commuter Air Fares

<u>Between</u>	<u>And</u>	<u>Fares</u>
Long Beach	San Diego	\$ 9.00
	San Francisco	16.00
	Oakland	16.00
Los Angeles	Palm Springs	13.00
	Sacramento	16.19
	San Bernardino	8.00
	San Francisco	14.52
	Oakland	14.52
Palm Springs	Sacramento	23.00
	San Bernardino	11.00
	San Diego	10.00
	San Francisco	26.00
	Oakland	26.00
Sacramento	San Bernardino	24.00
	San Diego	22.36
San Bernardino	San Francisco	16.19
	Oakland	16.19
San Diego	San Francisco	20.95
	Oakland	20.95

2. Tariff publications authorized to be made effective as a result of the order herein shall be filed not earlier than the effective date of this order and 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.

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

4. The Petition for Temporary (Interim) Authority is denied.
The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 8th
day of JULY, 1969.

William J. ...
President
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Commissioners