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ORIGINAL

Decision No. 75898

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of UNITED AIR LINES, INC., for authority to increase its intrastate passenger fares.	Application No. 50464 (Filed August 8, 1968; Petition for Interim Relief Filed February 13, 1969)

Brobeck, Phleger & Harrison, by Gordon E. Davis, for applicant.
Norris M. Webb, for himself, interested party.
W. C. Bricca, Counsel, for the Commission staff.

O P I N I O N

In this application, United Air Lines, Inc. (United), a passenger air carrier, seeks authority to increase its California 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 26, 1969 and the application and petition were submitted. Evidence in this proceeding was presented by witnesses for applicant and the Commission staff. No member of the public participated in this proceeding. The Commission staff opposed the granting of interim relief.

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 their interstate fares by an overall 3.8 percent. Said increases

1/ The application, as filed, sought increases in all intrastate fares. Because of changes in fare levels on interstate traffic and in the type of aircraft operated on route segments other than between San Diego, Los Angeles, San Francisco and Sacramento, the evidence adduced was limited at the hearing to "commuter" fares between the aforementioned metropolitan areas, and request was made that the balance of the application be dismissed. (Application No. 51075, filed May 15, 1969, seeks authority to increase intrastate air fares other than commuter air fares.)

were greater for shorter hauls. Carriers were authorized to round their fares upward to the next higher dollar, and to further increase coach fares by $2.00 for distances of 500 miles or less, and $1.00 for distances above 500 miles.[2] United seeks authority to increase its intrastate commuter fares applicable between major metropolitan centers (the so-called "California corridor") by $1.00 less than the general increase authorized by CAB.[3]

Evidence on behalf of United was presented by its Manager of Rate Proceedings, and by a senior accountant on the staff of its controller. The first mentioned witness testified concerning the history of the fares and services maintained by United in the California corridor and as to the fare increases sought herein. All-jet commuter services were inaugurated by United in September of 1964, at a fare of $14.50 between Los Angeles and San Francisco. On April 1, 1965, the Los Angeles/San Francisco fare was reduced to $13.50. The following depicts present and proposed fares for "commuter" air travel:

Points	Present Fares	Proposed Permanent Fares	Proposed Interim Fares
Los Angeles/San Diego	$ 6.35	$ 8.00	$ 7.14
Los Angeles/Sacramento	$15.24	$17.00	$16.19
San Diego/Bay Area	$19.85	$21.00	$20.95
San Diego/Sacramento	$21.59	$23.00	$22.86
Los Angeles/Bay Area	$13.50	$15.00	$14.52

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

3/ According to the record all route segments involved herein are 500 miles or less in length.

The increases proposed herein on an interim basis are the same as the fares sought by Pacific Southwest Airlines (PSA) in Application No. 50847.[4/] The witness testified that United seeks interim relief at fares lower than the sought permanent fares because it cannot maintain higher fares than other major air carriers (PSA, Western and Air California) in the highly competitive market in the California corridor. The witness testified that, at present levels, United's commuter fares are not producing a profit; the proposed fares, while not fully compensatory, would improve United's cost/revenue relationship for its commuter route segments.

This witness also testified that in 1968 United completed the replacement of its "commuter" fleet with Boeing 727-200 aircraft. The increased capacity of these aircraft, coupled with a lesser rate of passenger growth than estimated, resulted in reduction in load factor for the California corridor from 68 percent in the first half of 1968 to 64 percent in the second half of that year.[5/] The witness estimated that United would obtain a 60 percent load factor for commuter operations in 1969.

The witness compared fares maintained for its commuter service in the California corridor with fares for similar markets in other parts of the country. According to the witness fares per passenger mile in the California corridor are substantially below those maintained elsewhere. The witness characterized its commuter fares as an extraordinary bargain.

Applicant's accounting witness presented in evidence exhibits designed to show the revenues and expenses for United's

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4/ Fare applications also have been filed by Air California (Application No. 50770) and Western Air Lines, Inc. (Application No. 50888).

5/ Load factor for commuter operations was 71 percent in 1967.

California intrastate passenger operations. The witness testified that the data developed in his Exhibit 7 were developed from data applicable to United's system operations by the means of allocation procedures. Assertedly the same procedures were used by the witness as were used in prior fare increase proceedings before this Commission and before the CAB. The following table summarizes the results of operation for United's commuter service under present and proposed permanent fares (before income taxes):

TABLE 1

UNITED AIR LINES, INC. COMMUTER SERVICE

Allocated Revenues and Expenses For the Year 1967, and Projected Revenues and Expenses for the Year 1969, Under Present and Proposed Permanent Fares (+000)

	1967 (Actual)(a)	1969 (Estimated) B727-200 Aircraft only (b)	1969 (Estimated) All Aircraft (c)
Passenger Revenue			
At Existing Fares	$15,588	$16,671	$18,862
At Proposed Fares	17,293	18,488	21,065
Operating Expenses			
Flying Operations	5,430	4,691	-
Maint. & Depreciation	4,347	4,002	-
Passenger Service	1,152	1,289	-
Aircraft & Traff. Serv.	4,319	4,388	-
Selling & Admin.	3,044	3,150	-
Total Operating Expenses	$18,292	$17,520	$19,970
Profit or (Loss)			
At Existing Fares	($2,704)	($849)	($1,108)
At Proposed Fares (d)	($999)	$968	$1,095

(a) 1967 data reflect operations of DC-8, DC-861, DC-6, DC-6-B and B727-100 aircraft.

(b) Data reflect operations of six B727-200 aircraft, placed in service in 1968.

(c) Data reflect operations of all aircraft used in commuter service, principally B727-200 and B727-100 aircraft.

(d) Based on competing carriers maintaining the same fares.

The witness estimated that the proposed interim fares would produce the following revenues and expenses for commuter services (before income taxes):

TABLE 2

UNITED AIR LINES, INC.

Estimated Revenues and Expenses for Year 1969
at Interim Fares
(+000)

	B727-200 Aircraft	All Aircraft
Revenues	$17,863	$20,325
Expenses	17,520	19,970
Operating Profit	343	355

This witness also presented in evidence exhibits showing applicant's revenues and expenses for the year 1967 for applicant's other California intrastate operations. According to the witness, these are the most current data for a full year available at the time of hearing. These data are summarized in the following table:

TABLE 3

UNITED AIR LINES, INC.

California Intrastate
Operating Revenues and Expenses for Year 1967 (before taxes)
(+000)

	Total Calif. Intrastate	California Intrastate Other Than Commuter
Passenger Revenue	$22,941	$7,353
Operating Expenses		
Flying Operations	$ 8,085	$2,655
Maint. & Depreciation	6,723	2,376
Passenger Service	1,862	710
Aircraft B Traffic Service	6,582	2,263
Selling & Administration	4,079	1,035
Total	$27,331	$9,039
Net Profit (Loss)	$(4,390)	$(1,686)

The witness also presented an income statement for the twelve-month period ended September 30, 1968 for United's system operations. Said data are summarized in the following table:

TABLE 4

UNITED AIR LINES, INC.

System Operations
For the Twelve-Month Period Ended September 30, 1968

Revenues	$1,216,480,439
Operating Expenses	$1,125,037,789
Operating Profit	$ 91,442,650
Nonoperating Exp. (Net)	$ 9,568,322
Net Income Before Income Taxes	$ 81,874,328
Income Taxes	$ 35,262,000
Net Income After Taxes	$ 46,612,328

An engineer from the Commission's Transportation Division staff presented four exhibits in evidence. Two of the exhibits show the load factors maintained by United in the California corridor and its share of this market over a period of years. The witness testified that United's load factor in the California corridor is more favorable than its system load factor. United's share of the market in 1966 and 1967 for the California corridor was as follows:

	1967	1966
Los Angeles-San Fran.	22%	28%
Los Angeles-San Diego	15%	19%
Los Angeles-Sacramento	24%	48%

The staff witness testified that competition is very strong in this market and the market is very sensitive to changes in fares and in equipment. The witness took the position that no carrier can effectively compete in this market at fares higher than its competitors. The staff witness opposed the granting of interim relief to applicant on the ground that United cannot effectively increase its fares unless PSA is simultaneously granted a fare increase. The Commission staff opposed an interim increase for PSA because that carrier is in no financial emergency. The staff urged that no increases in fares be granted to PSA (or to United) until staff studies relating to PSA operations have been completed and presented at hearings in Application No. 50847.

The staff witness also presented in evidence an exhibit designed to show that the cost per flying hour for aircraft operation does not increase over a period of years in face of operating cost increases. Using the data in United's accounting records, the witness's Exhibit 12 shows that the cost per hour of operating B727-100 aircraft was as follows:

Year ended 9-30-65	$619
" " 9-30-66	$633
" " 9-30-67	$655
" " 9-30-68	$633

The witness stated that after three or four years' operations, the cost per flying hour is lower than the year before because the Federal Aviation Administration provides for a greater period between major safety or maintenance checks as experience is gained in the operation of the aircraft. From this the witness concluded that flying costs for B727-200 aircraft would level off or be reduced below the costs reflected in applicant's projected 1969 operating results in Exhibit 8.

The Commission staff counsel also argued against granting of interim relief in this proceeding on the basis that United's overall operations are profitable; that it is a principle of regulatory law that every segment of a public utility's operation need not be making a profit; and that United faces no dire emergency which would require the immediate granting of interim fare increases on an emergency basis.

Applicant's position is that its California intrastate operations are conducted at a loss; operations in the California corridor are a substantial portion of its total California intrastate operations; fares in the corridor are maintained at levels substantially lower than anywhere else in the nation; and that an increase is required to bring such fares up to a reasonable level. United admits that it cannot maintain fares in the California corridor on a higher level than its principal competitors; therefore, it seeks interim fares on the same level as those proposed by PSA.

Discussion

The record herein is completed and the application has been submitted, both as to the interim and final relief sought. The record shows that applicant's intrastate operations in the California corridor have been conducted at a loss, and will be conducted at a loss during 1969 unless fares are increased. Based on the record herein, an increase in fares is justified and should be authorized. The record herein clearly shows, however, that United cannot maintain higher air fares for its jet commuter operations than those maintained by PSA, its principal competitor.

Findings and Conclusions

The Commission finds as follows:

1. No financial emergency exists with respect to operations of United which requires an interim increase in its commuter fares.

2. United will not exercise authority to increase its commuter fares in the California corridor to a level higher than the fares of competing air carriers in the California corridor.

3. PSA is United's principal competitor in the so-called California corridor. Increased air fares authorized to PSA in a decision issued today in Application No. 50847 are on the same level as the "interim" fares sought in the application herein.

4. Based upon allocation and separation procedures used by applicant, operations in the California corridor at commuter air fares were conducted at a loss in 1967.

5.a. The estimate of commuter operations for the year 1969, as set forth in Table 1, indicates that operations under present fares will be conducted at a loss, as represented by an operating ratio (before taxes) of 105.8 percent.

b. The estimate of 1969 operations at the full amount of the revenue increase sought herein (Table 1, Column (c)) indicates commuter operations would be conducted at a profit, as represented by an operating ratio (before taxes) of 94.8 percent. These results would be obtained only if competing carriers' fares were at the same level.

c. The estimate of 1969 operations at the sought "interim" fares (Table 2) indicates that operations would be conducted at a profit, as represented by an operating ratio (before taxes) of 98.2 percent.

6. Increased fares at the level sought as "interim" herein are the maximum jet commuter air fares that United can maintain in the so-called California corridor and continue to compete effectively; said fares would produce revenues which will exceed estimated expenses and provide a margin of profit; and said increased commuter air fares are justified.

The Commission concludes as follows:

1. The request for interim relief should be denied.

2. Applicant should be authorized to establish the sought "interim" commuter air fares set forth in the application herein.

3. The application should be dismissed with respect to sought fare increases other than commuter fares, as such portion of the application has been withdrawn.

O R D E R

IT IS ORDERED that:

1. United Air Lines, Inc. is authorized to establish the increased commuter air fares set forth in paragraph III of its Petition for Interim Relief filed February 13, 1969 in Application No. 50464. Tariff publications authorized to be made 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.

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

3. The Petition for Interim Relief in Application No. 50464 filed February 13, 1969 is denied, and all portions of the

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application except those seeking increases in commuter air fares are dismissed.

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 Symons Jr.
President

Commissioners