

ORIGINALDecision No. 76064

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Francisco &
Oakland Helicopter Airlines,
Inc. for Authority to Increase
Passenger and Excursion Fares,
and to Increase Freight Tariffs.

Application No. 51226
(Filed July 31, 1969)

O P I N I O N

San Francisco & Oakland Helicopter Airlines, Inc. (SFO) is an air carrier transporting passengers, property and express as a common carrier between Oakland International Airport and points located within a fifty-mile radius thereof.

SFO seeks an ex parte order authorizing the following:

1. Increase passenger fares in the amount of \$1 per passenger for each of its full fares on each of its route segments except for the segments between San Francisco International Airport and Sunnyvale (served through the San Jose Municipal Airport) and the San Francisco International Airport and Buchanan Field, Contra Costa County, for which authorization is sought to increase fares in the amount of \$2 per passenger;

2. Increase excursion fares from \$6 per adult passenger, on a "space available" round-trip basis, to \$10 per adult passenger with confirmed space between 1000 and 1700 hours and "space available" at other times, as set forth in Exhibit "I" attached to the application;

3. Increase its air freight tariff as set forth in Exhibit "I" attached to the application.

SFO further requests authority to have said passenger fare, excursion fare and freight tariff increases become effective on not less than five days' notice.

The application alleges that SFO has concurrently filed a revised tariff with the Civil Aeronautics Board (CAB), pursuant to Part 211 of the CAB Economic Regulations, setting forth identical fare increases as are requested by this application, and that applicant believes said CAB revised tariff will become effective as filed.

The application contains copies of income statements and balance sheets for recent periods. Said statements cover SFO's total operation, including the aircraft contract maintenance facility and scheduled helicopter transportation. The application also contains statements showing month-by-month revenues, expenses and net profit for SFO's helicopter operations, for the period November 1967, through May 1969. The latter statement indicates that SFO incurred net losses for 15 of the 19 monthly periods shown, and that losses were incurred in each of the last 12 monthly periods shown in said statement. During the first five months of 1969, such losses exceeded \$447,000. The application stated that in June 1969, SFO carried more passengers than ever before in the company's history, yet it lost approximately \$67,000 from its helicopter operations.

The application alleges that SFO's current "break-even" passenger load factor, based on operating costs, is approximately 51 percent. During the first six months of 1969, the actual passenger load factors were 26.9, 27.7, 33.4, 35.2, 36.1 and 43 percent, respectively. The application alleges that under SFO's present fare structure, the "break-even" point cannot be obtained, even with a substantial increase in passenger traffic.

Applicant estimates that it will carry approximately 290,825 passengers during the next twelve months. Applicant estimates that, under the fares proposed herein, its average yield per passenger will increase from \$8.74 to \$9.61, and will produce \$318,276 of additional

revenue annually. Applicant believes that the proposed fare increase will not cause any substantial reduction in the number of passengers carried, since the majority of its passengers are commercial travelers to whom the time and convenience afforded by helicopter service are of prime importance. The application states that approximately 85 percent of SFO's passengers are in interstate commerce, and, hence are governed by the CAB tariff.

The application alleges that proposed amendments to SFO's air freight tariff will increase the yield, but this phase of SFO's operations is minimal, thus any change will not produce a significant increase in revenue. The application further alleges that additional revenues anticipated by the proposed passenger fare and freight tariff increases will not, of themselves, bring applicant's helicopter operations to the "break-even" point. SFO intends to renegotiate the joint-fare agreements it now has with most of the major trunk-line air carriers in an effort to increase SFO's yield from this source. To what extent SFO's efforts in this regard will be successful is not yet known.

The application states that immediate ex parte action is requested for the following reasons: 35 percent of SFO's passengers are governed by the CAB tariff which will become effective without hearing, SFO faces the prospect of continuing losses from its helicopter operations, and its cash position will become increasingly critical within the next sixty days.

The following table sets forth SFO's consolidated income statement for the years ended December 31, 1967 and 1968, and for the five-month period ended May 31, 1969.

Table I

San Francisco & Oakland Helicopter Airlines, Inc.

	<u>1967</u>	<u>1968</u>	<u>Year to Date May 31, 1969</u>
OPERATING REVENUES:			
Helicopter-			
Passenger	\$2,201,445	\$2,499,150	\$1,018,696
Contract revenue (Note 1)	641,730	697,237	285,932
Mail, express and other	118,145	88,416	35,546
	<u>2,961,320</u>	<u>3,284,803</u>	<u>1,340,174</u>
Maintenance	2,839,515	2,088,557	660,922
Manufacturing (Note 2)	-	429,687	410,655
Total operating revenues	<u>5,800,835</u>	<u>5,803,047</u>	<u>2,411,751</u>
OPERATING EXPENSES:			
Helicopter-			
Flying operations	521,137	599,275	324,629
Helicopter maintenance	929,468	1,154,554	569,086
General service and administration	1,080,479	1,406,702	626,652
Depreciation and amortization (Note 3)	267,409	252,904	129,680
	<u>2,798,493</u>	<u>3,413,435</u>	<u>1,650,047</u>
Maintenance	2,629,859	2,330,276	733,040
Manufacturing (Note 2)	-	487,892	332,549
Total operating expenses	<u>5,428,352</u>	<u>6,231,603</u>	<u>2,715,636</u>
Income (loss) from operations	<u>372,483</u>	<u>(428,556)</u>	<u>(303,885)</u>
NONOPERATING EXPENSE (INCOME):			
Interest expense	186,389	215,619	150,258
Other, net	17,423	(6,092)	2,218
	<u>203,812</u>	<u>209,527</u>	<u>152,476</u>
Income (loss) before provision for federal income taxes	168,671	(638,083)	-
PROVISION FOR FEDERAL INCOME TAXES	75,000	-	-
Income (loss) before extraordinary item	93,671	(638,083)	-
EXTRAORDINARY ITEM-Reduction of federal income taxes resulting from carry-forward of prior years' operating losses	75,000	-	-
Net income (loss) for the period	<u>\$ 168,671</u>	<u>\$ (638,083)</u>	<u>\$ (456,361)</u>

Note 1 - Two major airlines, in agreements expiring in 1969 and 1973, have guaranteed certain minimum revenues to the company. These agreements may be extended for an additional three years and four years from the respective termination dates, at the options of the airlines.

The maximum assistance to be granted under the agreement expiring in 1969 is limited to \$275,000 per year; under the agreement expiring in 1973, the maximum is \$333,000 during 1971, and \$75,000 during each calendar year thereafter.

Note 2 - As of January 31, 1968, the company acquired substantially all of the net assets of Larkin Specialty Manufacturing Company for \$268,900. This included \$112,528 cash, \$56,372 promissory notes due within two years, and 14,546 shares of its common capital stock valued at \$100,000. This financial statement includes the accounts of this subsidiary consolidated as of December 31, 1968, and for the period from date of acquisition.

Note 3 - Depreciation on property and equipment has been computed for book and tax purposes using the straight-line method. Total depreciation and amortization was \$279,883 in 1968 and \$276,047 in 1967. The annual rates (applied to individual items) used for the more important property classifications are as follows:

Helicopters and related equipment	10%
Flight equipment - major rotatable parts	10%
Flight equipment - minor rotatable parts	24%
Ground property and equipment	10% to 20%
Maintenance and manufacturing equipment	8%

Beginning in 1968, the company increased the residual values assigned to its engines to reflect the effect of reserves being provided for engine overhauls, resulting in a reduction of depreciation expense of approximately \$27,000 for the year ended December 31, 1968.

The application shows that copies thereof were served in accordance with the Commission's rules. In addition, notice of the filing of the application appeared on the Commission's Daily Calendar of August 1, 1969. There are no protests.

The Commission finds as follows:

1. SFO incurred an operating loss for its helicopter operations during the year 1968 and during the first five months of 1969. SFO's total operations, including its non-public utility manufacturing and maintenance operations, were also conducted at a loss in this period. SFO expects such losses to continue into the future.

2. SFO is in urgent need of additional revenues from its common carrier services.

3. Based upon SFO estimates of the number of passengers to be transported during the next twelve months, the CAB tariff increases together with the increased fares, rates and charges sought herein will produce \$313,276 additional revenue annually. The operating loss from SFO's helicopter operations for the five months ended May 31, 1969, as set forth in Exhibit "D" to the application, was \$447,397. The increases in revenue sought herein will not be sufficient to wipe out SFO's deficit from its helicopter operations in the future.

4. The increases in rates and charges sought herein are justified.

5. A public hearing is not necessary.

The Commission concludes that the application should be granted. In view of applicant's immediate need for additional revenues, it will be authorized to publish the increased fares and rates on five days' notice.

O R D E R

IT IS ORDERED that:

1. San Francisco & Oakland Helicopter Airlines, Inc. is authorized to establish the increased fares, rates and charges

proposed in Application No. 51286. 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 the public.

2. The authority granted herein 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 19th day of AUGUST, 1969.

William J. Amos Jr.
President

August

William J. Amos Jr.

Thomas J. Amos
Commissioners

I dissent and
would set this matter
down for formal
hearing
Fred P. Monks