

ORIGINAL

Decision No. 76447

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC SOUTHWEST
AIRLINES for an ex-parte order or
expedited authority to increase
its intrastate fares. }

Application No. 51278
(Filed July 29, 1969)

John W. McInnis, for applicant.
Brobeck, Phleger and Harrison, by Gordon E.
Davis, for United Air Lines, Inc., and
Carl Anderson, for Western Air Lines, Inc.,
interested parties.
William C. Bricca, Counsel, for the Commission
staff.

O P I N I O N

Pacific Southwest Airlines (PSA), a corporation, operates as a passenger air carrier under certificates issued by this Commission. It seeks authority to increase fares as set forth in Appendix A hereto. The increased fares are designed to produce a 2.2 percent annual increase in revenues.

Public hearing was held and the matter submitted before Examiner Mallory at San Francisco on October 1, 1969. Evidence was adduced by representatives of applicant and the Commission staff. There were no protests.

PSA's fares were last adjusted pursuant to Decision No. 75899, dated July 8, 1969, in Application No. 50847. Table 8 (mimeo page 18) of said decision sets forth adopted results of operation of the year ending June 30, 1970, which were found

reasonable for the purposes of that proceeding. Said Table 8 is reproduced below.^{1/} Decision No. 75899 also found that fares which would produce an estimated rate of return of 9.35 percent and an operating ratio (after taxes) of 83.8 percent would be just and reasonable.

Applicant's vice president-finance presented evidence in support of the relief sought herein. The witness stated that applicant seeks, in this proceeding, to recover increased costs of operation incurred by PSA since the record was closed in Application No. 50847.

1/ Decision No. 75899

TABLE 8

Pacific Southwest Airlines
Adopted Results of Operation Year Ending June 30, 1970
Under Authorized Fares

(Amounts in Thousands)

Item	
Total Flying Hours	482
B-727-200 (14)	284
B-737-200 (8)	198
Operating Revenues	\$ 67,212
<u>Expenses</u>	
Flying Operations	16,768
Direct Maintenance	10,709
Indirect Maintenance	1,511
Passenger Service	3,346
Airport Terminal Operations	5,137
Reservations & Ticket Sales	3,542
Sales & Advertising	2,206
General & Administration	3,178
Depreciation	9,945
Total Expenses	56,342
Income Before Taxes	10,870
Income Taxes	-0-
Net Income	10,870
Rate Base	116,259
Operating Ratio	83.8%
Rate of Return	9.35

The following table, extracted from Exhibit 1, sets forth major items of increased expenses for the year ending June 30, 1970, as estimated by applicant's witness.

TABLE I
PACIFIC SOUTHWEST AIRLINES
Major Items of Cost Increase

<u>Item</u>	<u>Estimated Amount for Year July 1, 1969 through June 30, 1970</u>
Flight crew salaries	\$ 398,766
Hull insurance	11,992
Maintenance salaries	681,900
Cabin attendants salaries	478,080
Passenger liability insurance	104,053
Reservation & terminal personnel salaries	283,939
Landing fees and terminal rents	193,032
General & Administration salaries	66,840
Property taxes	791,880
Sales salaries	<u>15,840</u>
Total	\$3,026,322

The witness testified that the additional expenses depicted in Table I are not reflected in the adopted results of operations in Decision No. 75899 (footnote 1) and, therefore, were not considered by the Commission in connection with establishment of PSA's present fares. The witness offered Exhibit 2, which is a revision of Table 8 of Decision No. 75899 to reflect the estimated revenue increases from the fares proposed herein and the estimated increased expenses, as set forth in Table I above. Said exhibit is reproduced in Table II, below:

TABLE II
PACIFIC SOUTHWEST AIRLINES
Applicant's Adjusted Results of Operation Year Ending June 30, 1970
(In Thousands of Dollars)

<u>Item</u>	<u>Applicant's Present Fares</u>	<u>Adjustments</u>	<u>Adjusted at Proposed Fares</u>
Total Flying Hours	482		
B-727-200 (14)	284		
B-737-200 (8)	198		
Operating Revenues	\$ 67,212	4) \$ 1,526	\$ 68,738
<u>Expenses</u>			
Flying Operations	16,768	1) 399	17,179
Direct Maintenance	10,709	2) 12	
		1) 567	11,276
Indirect Maintenance	1,511	1) 115	1,626
Passenger Service	3,346	1) 478	
		2) 104	3,928
Airport Terminal Operations	5,137	1) 199	
		5) 193	5,529
Reservations and Ticket Sales	3,542	1) 85	3,627
Sales & Advertising	2,206	1) 15	2,221
General & Administration	3,178	1) 67	
		3) 792	4,037
Depreciation	<u>9,945</u>		<u>9,945</u>
Total Expenses	56,342	<u>3,026</u>	59,368
Income Before Taxes	10,870	(1,500)	9,370
Income Taxes	- 0 -	- 0 -	- 0 -
Net Income	10,870	(1,500)	9,370
Rate Base	116,259		116,259
Operating Ratio	83.8%		86.4%
Rate of Return	9.35%		8.0%
1) Payroll increases			
2) Insurance increases			
3) Property tax increases			
4) Increase in proposed fares			
5) Increase in landing fees and terminal rents			

(Red Figure)

Applicant's witness testified that the revised results of operation reflecting known increases in expenses and the fares proposed herein would result in a rate of return and operating ratio less favorable than that found to be reasonable for PSA's operations in Decision No. 75899. The witness also stated the amount of increased revenue sought herein of \$1,526,000 is about half of the known increases in expenses of \$3,026,000 for the test year reflected in Table II.

A transportation engineer from the Commission's Transportation Division staff presented Exhibit 3 in evidence. The witness testified that members of the Commission staff have examined PSA's records and prepared an estimate of the company's increase in expenses which have been incurred subsequent to the hearings in Application No. 50847. These increases were applied to the expenses adopted by the Commission in Decision No. 75899 in Application No. 50847 issued on July 8, 1969, to obtain estimated adjusted expenses for the 12-month period ending June 30, 1970; increases in revenues to be expected from the proposed increase in fares were also calculated. The engineer's estimated results of operation for the year ending June 30, 1970 are shown on the following table.

TABLE III

PACIFIC SOUTHWEST AIRLINES

Commission Staff's Estimated Results of Operations
 Year Ending June 30, 1970
 (In Thousands of Dollars)

Item	: Present : Fares (a)	: Adjustment : Fares (b)	: Adjusted: : Proposed: : Fares (c)
Operating Revenues	\$ 67,212	\$1,526	\$ 68,738
<u>Expenses</u>			
Flying Operations	16,768	370 ^(b)	17,115
Direct Maintenance	10,709	401	11,110
Indirect Maintenance	1,511	86	1,597
Passenger Service	3,346	381 ^(b)	3,831
Airport Terminal Operations	5,137	159 ^(c)	5,417
Reservations and Ticket Sales	3,542	66	3,608
Sales and Advertising	2,206	9	2,215
General and Administrative	3,178	15 ^(d)	3,891
Depreciation	9,945	698	9,945
Total Expenses	\$ 56,342	\$2,417	\$ 58,759
Income Before Taxes	\$ 10,870	\$ (891)	\$ 9,979
Income Taxes	-	-	-
Net Income	10,870	(891)	9,979
Rate Base	\$116,259		\$116,259
Operating Ratio	83.8%		85.5%
Rate of Return	9.35%		8.58%

NOTES: (a) From Column (3), page 18 of Decision No. 75899.
 (b) Insurance.
 (c) Landing Fees and Rentals.
 (d) Property Taxes.

(Red Figure)

The staff witness testified that the increase in revenues to be expected from the proposed increase in fares will not exceed the increase in expenses and that the operating ratio and rate of return will not be more favorable to the company than was allowed in Decision No. 75899 in Application No. 50847. Therefore, it is the conclusion of the Commission's Transportation Division and

Finance and Accounts Division that the proposed fare increases would be reasonable.

Discussion, Findings and Conclusions

The methods of calculating increases in expenses followed by applicant and the staff differ principally because applicant calculated its projections on PSA's overall operations and aircraft, while the staff developed its projections based on the lesser number of aircraft and personnel found in Decision No. 75899 to be required for reasonably efficient operations. Said differences need not be resolved in deciding this matter, as it appears from the presentations of both applicant and the staff that the sought fare increases are justified.

The Commission finds as follows:

1. PSA's fares were last adjusted by Decision No. 75899 dated July 8, 1969 in Application No. 50847. That decision contained an adopted estimate of revenues, expenses and rate base for the year ended June 30, 1970 (footnote 1). Based on said estimated results of operations, the Commission found that fares designed to produce a rate of return of 9.35 percent and an operating ratio (after taxes) of 83.8 percent would be reasonable.

2. Since the close of the record in Application No. 50847, applicant has incurred substantial increases in expenses for operations in the current year, which expenses are not reflected in the estimated results of operations adopted in Decision No. 75899.

3. Estimates of the amount of said increase of expenses and the amount of increased revenues from the fares proposed herein have been presented in evidence by applicant and the Commission staff. The methods followed by applicant and the staff in depicting changes

in revenues and expenses since the last fare adjustment proceeding are reasonable for the purposes of this proceeding.

4. The least favorable of the foregoing estimates, as set forth in Table III of the opinion, indicates that the sought revenue increases (\$1,526,000) are less than the increased expenses (\$2,417,000); and that by revising the data in Table 8 of Decision No. 75899 to reflect said amounts, applicant's operations for the year ending July 30, 1970, would result in an estimated rate of return of 8.58 percent and an estimated operating ratio (after taxes) of 85.5 percent. Said rate of return and operating ratio are less favorable than those recently found reasonable for PSA's operations in Decision No. 75899.

5. The absence of sufficient time since the effective date of Decision No. 75899, together with the absence of significant evidence in the record herein, makes unnecessary any comment on the question of whether or not the operation of 22 aircraft and the flying of 48,200 hours authorized in Decision No. 75899 would continue to be required to give adequate effect to the type of service heretofore provided.

6. The fares proposed herein will be just and reasonable and the fare increases have been shown to be justified.

The Commission concludes that the application should be granted, and that applicant should be authorized to establish the increased fares on five days' notice.

O R D E R

IT IS ORDERED that:

1. Pacific Southwest Airlines, a corporation, is authorized to establish the increased passenger fares proposed in Application No. 51278. Tariff publication 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.

The effective date of this order shall be ten days after the date hereof. ✓

Dated at San Francisco, California, this 15th day of NOVEMBER, 1969.

William Synovis P.
President

Augustin

J. P. Volasini, Jr.

James L. Stinson
Commissioners

Commissioner J. P. Volasini, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

PACIFIC SOUTHWEST AIRLINES

Present and Proposed Fares

<u>ROUTE/ Between Points</u>	<u>Present Fare</u>	<u>Proposed Fare</u>	<u>Percent Increase</u>	<u>Proposed Fare with Transportation Tax</u>
San Diego/				
Los Angeles	\$ 7.14	\$ 7.38	3.36	\$ 7.75
Burbank	7.14	7.38	3.36	7.75
Ontario	7.14	7.38	3.36	7.75
Los Angeles/				
San Francisco	14.52	15.00	3.30	15.75
San Jose	14.52	15.00	3.30	15.75
Oakland	14.52	15.00	3.30	15.75
Sacramento	16.19	16.19	-	17.00
Ontario/				
San Francisco	16.19	16.19	-	17.00
Burbank/				
San Francisco	14.52	15.00	3.30	15.75
San Jose	14.52	15.00	3.30	15.75
Oakland	14.52	15.00	3.30	15.75
San Diego/				
San Francisco	20.95	20.95	-	22.00
Oakland	20.95	20.95	-	22.00
San Jose	20.95	20.95	-	22.00
Sacramento	22.86	22.86	-	24.00

Average fare increase 2.2%