HW

ORIGINAL

Decision No. 77736

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of HOLIDAY AIRLINES, INC., a corporation, for authority to increase passenger air carrier fares.	Application No. 52131 (Filed August 13, 1970)

INTERIM OPINION

Holiday Airlines, Inc. (Holiday) is a passenger air carrier authorized to transport passenger and freight between airports in Oakland (OAK), San Jose (SJC), South Lake Tahoe (TVL), Truckee-Tahoe (TTA), Hollywood-Burbank (BUR), Long Beach (LGB), and Los Angeles (LAX). All of these points are in California and no passenger may be carried whose transportation does not originate or terminate at either South Lake Tahoe or Truckee-Tahoe.

In this application Holiday seeks an interim ex parte order increasing its passenger fares. (Present and proposed fares are set forth in Appendix A.) In support of this request, Holiday alleges that it has never made a profit in its almost five years of operations. An income statement attached to the application shows that Holiday had net operating losses, as follows:

TABLE 1

HOLIDAY AIRLINES, INC.

Fiscal Period	Net Operating Loss ($)	Operating Ratio (%)
Year Ended October 31:		
1966	41,601	133.3
1967	167,558	287.0
1968	531,744	518.4
1969	1,414,399	214.2
Eight Months Ended June 30, 1970	947,594	171.5

The application alleges that the historic problems of Holiday are: (1) inadequate yield, (2) low traffic, (3) the seasonality peaking and directional nature of its traffic, and (4) cost inefficiency. The application asserts that the fare plan proposed herein is designed as a first step toward solving all of these problems. The application states that although the present inadequate fare level can be quickly cured by the fare structure proposed, the total solution to Holiday's problems of traffic and cost levels will require more time; consequently, the income statement for fiscal 1971 shown in Table 2 does not reflect a profit, although there will be a substantial improvement over the current loss experience.1/

The application states that the fare proposals requested represent only one facet of a comprehensive program--also including aggressive marketing and cost-cutting--by which Holiday's management hopes to generate a return for its shareholders; however, that the first step in this program is obtaining a reasonable return for the service offered.

1/ For example, the operating loss for the eight months ended June 30, 1970 ($917,591) was 69% of the operating revenues. The operating loss forecast for fiscal 1971 ($410,468) is only 11% of the operating revenues.

A.52131 HW

TABLE 2

HOLIDAY AIRLINES, INC.

PROJECTED INCOME STATEMENT UNDER
PRESENT AND PROPOSED FARE STRUCTURES

Year Ending June 30, 1971

	Present Fare Structure	Proposed Fare Structure
Operating Revenues		
Passenger	$2,816,324	$3,467,499
Baggage and Freight	84,490	84,490
Charter (net)	69,000	69,000
Liquor Sales (net)	28,163	28,163
Total Revenues	2,997,977	3,649,152
Operating Costs		
Flying Operations	1,146,780	1,146,780
Maintenance	866,500	866,500
Depreciation	318,000	318,000
Total Direct Operating Costs	2,331,280	2,331,280
Passenger Service	100,210	100,210
Aircraft & Traffic Servicing	401,660	401,660
Reservations, Sales & Promotion	698,380	698,380
Administrative	558,470	558,470
Total Indirect Oper. Costs	1,728,340	1,728,340
Total Operating Costs	4,059,620	4,059,620
Operating Profit (Loss)	$(1,061,643)	$ (410,468)
Operating Breakeven Load Factor	64.3%	49.1%
Operating Ratio	135.4%	111.2%

The application alleges that, although operations will not be conducted at a profit under proposed fares levels, such fares will improve Holiday's financial position and will help reduce Holiday's cash loss of over $100,000 per month.

The application contains fare comparisons to show that proposed fares are not out-of-line with fares of competing carriers. The application asserts that the total fare package Holiday proposes will minimize diversion to other carriers as well as diversion from planned travel altogether. Holiday represents that its proposed fares are reasonable and in the public interest.

Holiday requests that proposed fares be granted on an expedited basis so that Holiday can receive their benefits during what remains of the summer season. The application asserts that nature of Holiday's traffic is such that substantial profits must be shown in the months of June, July, August and September in order to support continued service during the winter months. The application states that without substantial financial stimulation in what remains of the peak period, Holiday faces the prospect of a critical cash shortage before 1971. Holiday's audited balance sheet at October 31, 1969, shows cash and time certificates of deposit in the total amount of $1,770,000. Holiday's balance sheet as of June 30, 1970 shows that its cash balance has shrunk to $409,346 and that it had an average cash drain per month of over $170,000. The application asserts that if this trend is not remedied while summer traffic volumes can significantly contribute to Holiday's revenues, a financial crisis appears certain.

Holiday requests that the Commission issue an ex parte order authorizing Holiday to increase its fares as proposed herein on five days' notice to the public and the Commission; that these fares be interim fares effective until a decision is had after full hearing before the Commission; and that the Commission set this matter down for full public hearing to render the interim fares permanent.

The Commission finds that:

1. Holiday has not operated profitably since its inception. (Table 1)

2. Operations under present and proposed fares will be conducted at a loss for the year ended October 31, 1971, under estimates set forth in the application and reproduced in Table 2.

3. Holiday is incurring a rapid depletion of its cash reserves under existing fare levels.

4. Applicant is in immediate need of additional operating revenues to avoid a financial emergency.

5. An emergency interim increase in fares, as requested in the application, is justified pending review by the Commission following public hearings.

The Commission concludes that the fares proposed in the application should be granted on an interim basis for a period of six months, pending further review following public hearing.

INTERIM ORDER

IT IS ORDERED that:

1. Holiday Airlines, Inc. is authorized to increase passenger air fares as proposed in Application No. 52131, for a period of 180 days from the effective date of the increased fares. Tariff publications authorized to be made as a result of this order 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 sixty 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 22nd day of SEPTEMBER, 1970.

Chairman

Commissioners

Commissioner William Symons, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner Thomas Moran, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

HOLIDAY AIRLINES, INC.

PRESENT AND PROPOSED BASIC FARES

Federal Excise Tax Excluded

Between Lake Tahoe and:	Present Fares			Proposed Fares	
		Round Trip		One-way	
	One-Way	Peak 1/	Off-peak 2/	Peak 1/	Off-peak 2/
Hollywood-Burbank	$24.54	$49.07	$40.05	$31.02	$26.39
Long Beach 3/	24.54	49.07	40.05	31.02	26.39
Los Angeles	24.54	49.07	40.05	31.02	26.39
Oakland	13.66	27.31	23.15	18.06	15.28
San Jose	13.66	27.31	23.15	18.06	15.28

1/ Friday through Sunday

2/ Monday through Thursday

3/ Since the City of Long Beach has not as yet agreed to provide Holiday with facilities at Long Beach International Airport, no service is currently provided in this market.

HOLIDAY AIRLINES, INC.

PRESENT AND PROPOSED DISCOUNT FARES

Present

1. Children's Fare:	50% discount of the adult fare for children between 2 and 12 years of age.

Proposed

1. Children's Fare:	50% discount of the adult fare for children between 2 and 12 years of age.
2. Five Roundtrip Book:	15% discount of the peak period fare with the purchase of a book of five roundtrip tickets (the same fare level as the off-peak fare except there are no travel restrictions). The ticket book is valid for six months. Refunds may be made prior to the expiration date or thirty days thereafter on the unused portion of the book, less the peak period fare per ticket used (no discount).
3. Ten Roundtrip Book:	25% discount of the peak period fare with the purchase of a book of ten roundtrip tickets. The ticket book is valid for nine months. There are no travel restrictions. Refunds may be made prior to the expiration date or thirty days thereafter on the unused portion of the book, less the peak period fare per ticket used (no discount). If five or more tickets have been used, a 15% discount will be allowed on each ticket used and the balance of the purchase price refunded.