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ORIGINAL

Decision No. 78179

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Air West, Inc., for authority to cancel certain of its intra-California excursion tariffs.	Application No. 51654 (Filed January 27, 1970)
Application of Hughes Air Corp., dba Air West, to increase its intrastate passenger fares.	Application No. 51723 (Filed February 24, 1970; Amended September 17, 1970 and October 22, 1970)

Arthur M. Taylor, Attorney at Law, for Hughes Air Corp., doing business as Air West, applicant.
Raymond W. Schneider, Attorney at Law, for the County of Humboldt; and Paul F. Dauer, Attorney at Law, for City of Santa Barbara; protestants.
Wilmer J. Garrett, for City of Fresno; Morris Michelson, for himself; and Frederick R. Davis, for Air California; interested parties.
B. A. Peeters, Attorney at Law, for the Commission staff.

OPINION

In Application No. 51654, Hughes Air Corp., doing business as Air West (Air West), seeks authority to cancel round-trip excursion air fares applicable to its intrastate air transportation services.[1/] Interim Decision No. 77144, dated April 28, 1970, authorized Air West to cancel certain of its round-trip excursion fares. In Application No. 51723, as amended, Air West seeks a general increase in its intrastate air fares, and also seeks to cancel its remaining round-trip excursion fares.

1/ Hughes Air Corp., dba Air West, succeeded to the assets of Air West, Inc., including operative rights, on April 1, 1970.

Applications Nos. 51723 and 51654 were consolidated and heard on a common record. Hearing was held before Examiner Mallory at San Francisco on November 23, 1970, and the matters were submitted. The sought fare increases were opposed by Humboldt County and the Cities of Santa Barbara and Fresno. The Commission staff recommended that the applications be granted. Evidence was presented on behalf of applicant and the aforementioned parties.

Applicant's Showing

Air West, through a consultant formerly in its employ, presented evidence explaining the background and methods used in determining the levels of the proposed fares; an economic study separating revenues and expenses of Air West's California operations from its system operations; and a study of projected California revenues and expenses under existing and proposed fare levels. The detailed separation study prepared by the consultant was based upon cost formulae developed for use in federal Civil Aeronautics Board (CAB) proceedings.

The consultant explained that the fares sought herein are based on the same formulae as fares approved by the CAB for interstate travel over Air West's system. Air West proposes to establish standard fares applicable to service in both jet and prop-jet equipment which are similar to "S" fares maintained by other regional air carriers. Said "standard" fares are approximately 115 percent of the "Y" coach fare levels maintained by trunk-line interstate air carriers. The formula for construction of the proposed fares is based on a flat charge of $9.00 plus the following additional charges per short-line air mile:

Mileage Blocks	Rate Per Mile (cents)
0- 500	6.0
501-1,000	5.6
1,001-1,500	5.2
1,501-2,000	5.0
2,001 and over	4.8

The total fare so determined is increased by 15 percent to convert to the standard fare level. The result is then rounded to the nearest dollar. This amount is then increased by 8 percent (for federal transportation tax) and rounded to the next highest dollar. The published fare is obtained by dividing the latter amount by 1.08. As an exception to the foregoing, fares in certain selected competitive markets are not increased by the 15 percent factor.[2/]

Air West seeks to maintain the following promotional fares at the percentage discount from its standard fares indicated below:

Type of Fare	Discount
Discover America	20%
Youth - Reservation	20%
Family Plan:	
Children 2 to 11 years	50%
Children 12 to 21 years	33-1/3%
Clergy Fare	33-1/3%

Air West alleges that its systemwide operations resulted in a loss of $20,788,000 for the year 1969, and a loss of $5,584,000 for the first six months of 1970. It urges that losses of such magnitude make it imperative that the proposed fare adjustment sought herein be granted. The fares sought herein will increase Air West's intrastate revenues by approximately 24 percent.

The consultant developed in his separations studies that Air West's California operating revenues are 18.5 percent of system operations, and that various categories of California operating expenses range from 14.92 percent to 24.54 percent of related system expenses. California intrastate net operating revenues were determined to be 60.3 percent of the total for California operations. Based on the foregoing, the witness developed estimated 1970 results of operations for its California services as follows:

2/ For example, Air West does not seek an increase above the level of fares maintained by United Air Lines between competing points, such as Fresno/San Francisco and Monterey/Los Angeles.

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TABLE 1

AIR WEST

Estimated Results of
California Operations
For Year 1970
(-000)

	Present Fares	Proposed Fares
Passenger Revenues	$ 13,500	$ 16,247
Other Revenues	958	958
Total	14,458	17,205
Operating Expenses	17,837	17,837
Operating Profit (Loss	(3,379)	(632)
Federal Subsidy	1,858	1,858
Operating Profit (Loss) (After Subsidy)	(1,521)	1,226
Intra California Profit (Loss)	(917)	739
Operating Ratio (With Subsidy)	109.3%	93.6%

The consultant also presented data to show that Air West's local fares are below industry average total cost per passenger for distances of 350 miles or less, while fares for longer distances exceed such costs. According to the witness, the distances operated in California are 600 miles or less. The witness also compared the cost/fare relationship of Air West's top 20 California markets. Such markets, in 1969, generated 81.9 percent of Air West's California passengers and 85.5 percent of its California passenger miles. The comparison showed that the fares proposed herein for all of such markets fall below the estimated industry average total cost per passenger (which includes provision for income tax and a 10.5 percent return on investment).

In support of the request to cancel round-trip excursion fares, the witness testified that such fares initially were established by a predecessor company to stimulate travel in the markets to which such fares apply.[3/] Assertedly, the fares have been in effect for a sufficient period to achieve that purpose. The witness testified that excursion fares fall below 1970 airline industry cost levels and, therefore, such fares create an economic burden on other traffic. The following table depicts the asserted economic loss occasioned by the maintenance of intra-California excursion fares at levels below industry costs:

Table 2

AIR WEST

Asserted Economic Loss Occasioned By Intra-California Excursion Fares (Based on 1970 Industry Cost Levels)

	1969 Excursion Fare Passengers	Economic Loss Per Passenger	Economic Loss Total
Crescent City - San Francisco	915	$ 9.74	$ 8,912
Eureka - San Francisco	26,642	10.18	271,216
Lake Tahoe - San Francisco	2,578	10.68	27,533
Los Angeles - Palm Springs	4,992	10.16	50,719
Los Angeles - Santa Maria	4,207	12.30	51,746
San Francisco - Santa Maria	2,616	9.79	25,611
San Francisco - Stockton	1,173	10.14	11,894
Total	43,123		$447,631

3/ Pacific Airlines which, together with Bonanza Air Lines and West Coast Airlines, were merged to form Air West.

Air West proposed that its remaining round-trip excursion fares be canceled. In lieu thereof the proposed standard fares and discount fares proposed herein would apply.

Staff Evidence

A financial examiner from the Commission's Division of Finance and Accounts presented in evidence an exhibit containing the results of his study of applicant's operations. The study included a review of the application and supporting exhibits and a limited examination of applicant's accounting records for the fiscal year ended August 31, 1970, and subsequent data. As a result of this staff review, two material errors called to applicant's attention were corrected in the last amendment to Application No. 51723. The staff explored the methods used in applicant's separation studies and, while not wholly agreeing with such methods, found such methods acceptable for the purposes of this proceeding.

The following table is the estimate of the staff witness of Air West's 1970 system operating results, reflecting actual revenues and expenses through October, and estimates of applicant's witness for November and December.

Table 3

Commission Staff Estimates of
1970 System Operating Results
Of Air West (Present Fares)
(+ 000)

Passenger Revenues	$69,995
Other Revenues	5,736
Total	$75,731
Subsidy	8,659
Total	$84,390
Operating Expenses	$87,710
Net Operating Revenue (Loss)	$(3,320)

The staff witness also adjusted the data set forth in Table 1 to reflect more current actual operating results and to make an adjustment in one of the allocation factors. The data, as adjusted by the staff, are set forth in the following table:

Table 4

AIR WEST

1970 California Operating Results
As Estimated by Staff
(+ 000)

	Present Fares	Proposed Fares
Operating Revenues		
Passenger	$12,886	$15,515
Other	1,056	1,056
Subsidy	1,870	1,870
Total	$15,812	$18,441
Operating Expenses	$17,566	$17,566
Net Operating Revenues (Loss)	$(1,754)	$ 875
California Intrastate Profit (Loss)	$(1,058)	$ 528
Operating Ratio *	111.0%	95.3%

* Calculated

The staff study also contains system income statements for the calendar years 1968 and 1969 and the fiscal year ended October 31, 1970. Air West had operating losses (after subsidy) for these periods as follows:

Year 1968 - $8,513,581
Year 1969 - $15,221,777
Year 1970 - $5,969,743

The staff witness concluded that the increases sought herein would not produce earnings in excess of those authorized to other intrastate airlines, including Pacific Southwest Airlines, and recommended that the proposed fares be authorized.

Protestants' Presentations

A witness appearing for Humboldt County testified in opposition to fare increases from and to Eureka/Arcata Airport, particularly between said point and San Francisco.4/ The witness explained that Humboldt County is almost entirely reliant upon air travel for public transportation, because of poor roads and inadequate ground service. Humboldt County has a population of about 100,000. Eureka-San Francisco is Air West's second largest California market, producing 70,111 on-line passengers and 16,827,000 passenger-miles for Air West in 1969. Humboldt County is an economically depressed area. Students, businessmen, and local residents using air service cannot afford fare increases as great as proposed herein. The effect of the fare increase may be to substantially reduce the amount of air travel from and to Eureka/Arcata Airport.

Counsel for Humboldt County argued that in several other California markets of a size comparable to the Eureka/San Francisco market, Air West had held down its fares because of competition with other airlines.5/ He argued that increases sought were not uniform,

4/ Between Eureka/Arcata and San Francisco, the present one-way jet fare is $20.00 and the round-trip excursion fare is $37.00. Applicant seeks to establish a one-way Standard ("S") fare of $28.70, an increase over the present one-way fare of 43.5 percent.

5/

Rank		Present Fare	Proposed Fare	% Increase
1	Los Angeles/Monterey	$22.00(a)	$26.85(c)	22.0
2	Eureka/San Francisco	20.00(a)	28.70	43.5
3	San Francisco/Santa Barbara	22.00(a)	25.00(c)	13.6
4	Fresno/Los Angeles	18.00(a)	22.22(c)	23.4
5	Redding/San Francisco	21.00(b)	23.15	10.2
6	Los Angeles/Santa Maria	16.00(b)	20.37	27.3
7	Fresno/San Francisco	15.00(a)	19.44(c)	29.6
8	Sacramento/San Francisco	12.00(b)	14.81(c)	23.4
9	El Centro/Los Angeles	20.00(b)	23.15	15.8
10	Chico/San Francisco	19.00(b)	21.30	12.1
11	Los Angeles/Palm Springs	15.00(b)	15.74(d)	4.9

(a) All-jet service.
(b) Prop-jet service.
(c) Served by United Airlines, Inc.
(d) Served by Western Airlines, Inc.

and that the greatest increase in any of Air West's principal California markets is sought in the Eureka/San Francisco market.

A witness appearing for the City of Santa Barbara presented evidence comparing fares by surface common carriers and costs for private automobile travel with present and proposed Air West fares from and to Santa Barbara. It is the contention of the City of Santa Barbara that further increases in Air West fares, particularly between Santa Barbara and Los Angeles will cause diversion to surface means of transportation, thus causing greater ecological problems such as smog from automobile exhausts. The witness urged that the proposed increase will substantially reduce Air West's portion of the competitive market with United Airlines, Inc. between Santa Barbara and Los Angeles, in which United maintains a "Y" jet coach fare of $11.00, and Air West proposes to increase its $11.00 fare to the "S" fare of $16.67. The witness pointed out Santa Barbara/Los Angeles is Air West's 17th largest California market, generating 15,723 passengers in 1969. San Francisco/Santa Barbara was Air West's third largest California market in 1969, generating 34,318 passengers. Air West proposes to increase its present fare of $22.00 to $25.00; United maintains a fare of $22.00 in this market.

Discussion

The record is clear, and no party disputes, that Air West is currently operating its California services at a loss. The record also shows that the 20 percent increase in California intrastate revenues will not produce excessive earnings for Air West's California intrastate operations. The question presented by protestants is whether fares proposed for individual markets will be reasonable in light of considerations other than Air West's obvious need for additional revenues.

Air West's witness testified that proposed fares were kept at a level below that resulting from the application of its standard fare formula in 15 California markets in which it competes with United Airlines, Inc. The witness indicated that the fare levels proposed in such markets were not those currently maintained by United on an intrastate basis but are on levels which United was authorized to establish on interstate traffic in recent CAB decisions. Said interstate jet coach fares are higher than United's present intrastate jet coach fares.6/ Thus, while Air West seeks to maintain certain fares below the level resulting from the "S" fare formula, such fares are not low enough to compete directly with United's fares in the same markets.

Santa Barbara's argument that Air West's increases at Santa Barbara will drive most of its patronage to United or to ground transportation is not tenable. It is to be expected that some diversion to United will occur.7/ But diversion at Santa Barbara probably will not be sufficient to cause a significant shift to ground transportation. Golden West Airlines (Golden West) provides service between Los Angeles and Santa Barbara with four flights daily (except Saturday and Sunday) at a fare of $15.00, plus tax. Golden Pacific Airlines (GPA), another local airline paralleling Air West on many routes in Northern California, now maintain fares above Air West's current fares.

6/ United was authorized to increase its intrastate jet commuter air fares ("J" fares) by Decision No. 77990, dated December 1, 1970, in Application No. 52153. United has not yet sought to increase its intrastate jet coach ("Y") fares.

7/ To the extent that Air West incurs any diversion its revenue estimates under proposed fare levels are overstated, as such estimates give no effect to diversion.

Humboldt County has a small population, and is remote and relatively isolated from the balance of the State. Said county relies heavily upon air transportation as indicated in the passenger growth of Eureka/Arcata Airport in recent years, in face of a decline in population in that county in the same period. The fare increases proposed by Air West are substantial. The cancellation of the excursion fare will raise the equivalent one-way fare from $18.50 to $28.70 between Eureka and San Francisco.[8/] More than one-third of the passengers on this route use the excursion fare. The increases sought in the Eureka/San Francisco fares are the greatest of any on Air West's major California routes. It appears that a fare of $26.00 will not be excessive for Eureka/San Francisco service of Air West.

Findings and Conclusion

1. Air West is a regional air carrier, certificated by the CAB to provide local service between points in several states, including California. As a regional air carrier, Air West is eligible for, and has received, subsidy for its operations as provided annually by the Congress of the United States, through the CAB.

2. System operations of Air West (after subsidy payments) have resulted in losses in recent years, as indicated in the preceding opinion.

3. Air West's California intrastate passenger operations for the year ended December 30, 1970 will result in substantial losses under present fares (Tables 1 and 4). Air West is in urgent need of additional revenues from its California routes.

8/ An increase of 55 percent.

4. Air West seeks to establish increased fares on the formulae authorized by the CAB for regional air carriers throughout the country. Fares based on such formulae will increase California passenger revenues by about 20 percent.

5. Estimates developed by Air West and by the Commission staff show that California intrastate operations under proposed fares will produce an estimated operating ratio not more favorable than 93.6 percent for the 1970 test year (Tables 1 and 4). Earnings on this level are not excessive for local airline operations within California. The Eureka/San Francisco fare of $26.00 authorized herein will slightly depress such earnings.

6. The round-trip excursion fares sought to be canceled, originally established by Air West's predecessor company, have served their purpose as promotional fares. Said round-trip excursion fares are lower than full costs of providing service and, thus, are a burden on other fares, and should be canceled.

7. As an exception to the general level of fares, establishment of a full one-way fare of $26.00 between Eureka/Arcata and San Francisco will result in a reasonable fare, in consideration of the dependence of Humboldt County on the air service of Air West, the depressed economy of that region and the magnitude of the increases in fares resulting from applicant's proposal herein.

8. Increases in fares resulting from applicant's proposal in the amendment to Application No. 51723 filed October 22, 1970, as modified by Finding 7, above, with respect to the full one-way fare between Eureka/Arcata and San Francisco, are justified.

The Commission concludes that the applications should be granted to the extent provided by the above findings.

A. 51654, A. 51723 hjh

ORDER

IT IS ORDERED that:

1. Hughes Air Corp., a corporation, doing business as Air West, is authorized to establish the increased air fares, including promotional fares, and to cancel excursion fares, as requested in Applications Nos. 51654 and 51723, except that the increased one-way full fare authorized to be established between Eureka/Arcata and San Francisco is $26.00.

2. 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 of this order on not less than five days' notice to the Commission and the public.

3. 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 13th day of JANUARY, 1971.

Chairman

Commissioners

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.