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Decision No. 79298

ORIGINAL

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)

Edward R. Beauvais and George W. Shiles, for applicant.
Richard H. Brozosky and Milton J. DeBarr, for the Commission staff.

FINAL OPINION

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

By Decision No. 77736, dated September 22, 1970, Holiday was granted an ex parte interim fare increase for a period of six months, pending further review following public hearing. After such hearing, the interim fares were extended to expire December 31, 1971, pursuant to Decision No. 78331, dated February 22, 1971. Said decision found that on January 8, 1971, Holiday had temporarily reduced service to weekend operations; that full-week service would be reinstated on or about June 1, 1971; that a review of Holiday's operations with a view to the establishment of permanent fares should be based on normal (full-week) operations and should reflect operations over Holiday's annual peak traffic period of June through August; and that the interim fares should be continued in effect until further review of Holiday's fare structure is completed.[1/]

The further review contemplated by Decision No. 78331 was undertaken by petitioner and the Commission staff and reports containing additional data were presented at the hearing before Examiner Mallory at San Francisco on October 18, 1971, and the matter was submitted.

Holiday's report in Exhibit 22 shows the following: In addition to the fares described in Appendix A to Decision No. 78331, Holiday also has introduced Family Plan and round trip excursion fares which became effective June 15, 1971. Under the Family Plan fares, the first family member pays the full regular fare and the second family member pays three-fourths of the regular fare. Children 12 through 21 pay one-half of the regular fare while children 2 through 11 pay one-third of the regular fare. These fares are valid from 12:00 noon on Mondays through 12:00 noon on Thursdays and all day Saturdays. Round trip excursion fares are filed in all four Lake Tahoe markets presently served by Holiday, as follows:[2/]

Lake Tahoe - Los Angeles/Burbank	$46.25
Lake Tahoe - Oakland/San Jose	$26.81

1/ Full-week service was reinstated on May 28, 1971.

2/ Source: Local Passenger and Freight Tariff No. 11. The round trip fare is only valid <u>to</u> Lake Tahoe on Sundays and Mondays and <u>from</u> Lake Tahoe on Thursdays and Fridays.

Holiday asserts that the combination of the interim fare structure and the above new fares has helped smooth its traffic peaking. For example, during June, July and August of 1970, 52 percent of Holiday's passengers traveled the peak days, Fridays, Saturdays and Sundays. In 1971 during these months, 53 percent of Holiday's passengers traveled the offpeak days of Mondays through Thursdays.

Assertedly the new fares now being charged by Holiday, and additional cost controls and increased management efficiency have helped reverse the trend of mounting monthly losses, as shown below:

TABLE 1
HOLIDAY AIRLINES, INC.

Period	Net Profit (Loss) Total	Net Profit (Loss) Monthly
Year Ended 10-31-67	$(172,579)	$(14,381)
Year Ended 10-31-68	(566,561)	(47,213)
Year Ended 10-31-69	(1,532,900)	(127,742)
11 Mos. E. 9-30-70	(1,168,991)	(106,272)
Year Ended 8-31-71	(621,616)	(77,702)
8 Mos. E. 8-31-71	(64,330)	(8,041)

Holiday's report states that beginning with 1971, Holiday has actually generated a cash profit, as shown below:

TABLE 2
HOLIDAY AIRLINES, INC.

	Eight Months Ended 8-31-71
Operating Revenues	$870,440
Operating Expenses (Less Depreciation)	874,017
Operating Profit (Loss)	(3,577)
Nonoperating Income (Expense)	(1,931)
Extraordinary Items	60,000
Net Profit	$ 54,492

Holiday's exhibit contains the following income statement:

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TABLE 3
HOLIDAY AIRLINES, INC.
INCOME STATEMENT
FOR THE TWELVE MONTHS ENDED AUGUST 31, 1971
FOR THE EIGHT MONTHS ENDED AUGUST 31, 1971
AND FOR THE THREE MONTHS OF JUNE, JULY, AND AUGUST 1971[(a)]

	Twelve Months Ended 8-31-71	Eight Months Ended 8-31-71	Three Months of June, July & August 1971
Operating Revenues			
Ticketed Sales	$1,261,916	$ 730,245	$ 496,462
Charter Revenue	154,551	121,826	57,815
Other	80,881	18,369	11,560
Total Operating Revenues	1,497,348	870,440	565,837
Operating Expense			
Flying Operations	557,216	288,314	168,268
Maintenance	537,242	166,997	97,579
Depreciation	193,224	118,822	44,556
Selling, General and Administrative Expenses	890,917	418,706	176,153
Total Operating Expenses	2,178,599	992,839	486,556
Operating Profit (Loss)	(681,251)	(122,399)	79,281
Non-Operating Income or (Expense)			
Net non-operating income or (expense)	(365)	(1,931)	(776)
Profit (loss) before Extraordinary Items	(681,616)	(124,330)	78,505
Extraordinary Items			
Reversal of Note Receivable Previously Written Off	60,000	60,000	60,000
Net Profit (Loss)	$ (621,616)	$ (64,330)	$ 138,505
Operating Ratio	145.5%	114.0%	85.9%

(a) Interim fares (Decision No. 77736) were effective October 5, 1970. Holiday reduced scheduled services on October 7 and again December 1 in 1970. Commencing January 8, 1971, Holiday operated scheduled services on weekends only. Effective May 28, 1971, Holiday returned to a full seven day schedule.

The report of the Commission's Transportation Division is set forth in Exhibit 24. Said report contains revenue projections as shown in Table 4, below. The report states that the staff's revenue projections for the future rate year of 1972 are based on daily operations being provided to Lake Tahoe. It is estimated that for 1972 there will be 108,000 passengers carried under pre-interim fares and 87,000 passengers, or about 20 percent less, carried at the interim fares. These estimates reflect a recovery by the carrier under pre-interim fares to about the same traffic level experienced in 1970 when daily service was provided. In addition, the estimates give effect to the impact of developing traffic from the Los Angeles area since Los Angeles International Airport was added to the system in June 1970. The 20 percent difference in passengers between the two estimates is based upon an analysis of traffic before and after the interim increase and reflects the staff's estimate that substantial diminution resulted from the October 1970 fare increase.

Based on analysis of the data set forth in Exhibit 24, the Commission's Transportation and Finance and Accounts Divisions recommend that the interim fares be made permanent.

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TABLE 4
HOLIDAY AIRLINES, INC.

ESTIMATED RESULTS OF OPERATION

Item	Company Records 11 Months Ended 8/31/71	Staff Estimate For Year Ended 12/31/72 Pre-interim Fares	Interim Fares
Statistics			
Passengers	48,402	108,000	87,000
Flight Hours	1,666	2,570	2,570
Revenue			
Passenger Transportation	$1,100,061	$1,988,000	$2,072,000
Freight, Baggage, etc.	14,368	16,000	16,000
Liq. Sales	16,850	38,000	30,000
Subtotal	1,131,279	2,042,000	2,118,000
Other Revenue Service			
Charter	154,551	168,000	168,000
American Division Contract	16,250	-	-
Subtotal	170,801	168,000	168,000
Total Revenue	1,302,080	2,210,000	2,286,000
Expenses			
Flying Operations	$ 477,450	$ 797,000	$ 754,000
Maintenance	362,864	560,000	560,000
Passenger Service	52,011	93,000	85,000
Aircraft & Traffic Service	227,723	296,000	278,000
Reservation Sales & Promotion	142,645	318,000	278,000
Admin. & General	288,418	292,000	256,000
Depreciation	169,708 (a)	186,000	186,000
Total Expenses	$1,720,819	$2,542,000	$2,411,000
Profit	$ (418,739)	$ (332,000)	$ (125,000)
Operating Ratio	132.2%	115.0%	105.5%

(Red Figure)

(a) Adjusted to reflect staff estimate of equipment life and salvage.

Based on the evidence adduced herein, the Commission finds:

1. Holiday was granted an interim increase in fares, pending further review, because of its urgent need for additional revenues (Decision No. 77736).

2. Holiday's operations under interim fares were not profitable, although Holiday's profitability has improved in recent periods (Tables 2 and 3).

3. The estimates of the Commission staff show that Holiday will lose $332,000 at pre-interim fares and will lose $125,000 at interim fares for the 1972 rate year (Table 4).

4. Operating ratio in the 1972 rate year is estimated by the staff at about 115.0 percent under pre-interim fares and 105.5 percent under interim fares (Table 4).

5. Holiday requires the increased revenues resulting from the interim fares for the future (Finding 4).

6. The increases resulting from the establishment of the interim fares as permanent fares are justified.

The Commission concludes that the interim fares authorized by Decisions Nos. 77736 and 78331 should be made permanent.

FINAL ORDER

IT IS ORDERED that:

1. Holiday Airlines, Inc. is authorized to establish as permanent fares the increased passenger air fares established as interim fares pursuant to Decisions Nos. 77736 and 78331, as set out in Appendix A to Decision No. 78331. 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 9th day of NOVEMBER, 1971.

Chairman

William Symons Jr.

Vernon L. Sturgeon

Commissioners