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ORIGINAL

Decision No. 79918

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of AIRPORTRANSIT, a corporation, for authority to increase its fares as a passenger stage corporation.	Application No. 52651 (Filed May 27, 1971; amended January 10, 1972)

Ivan McWhinney and Arlo D. Poe, Attorneys at Law, for Airportransit, applicant.
Robert W. Russell, by Kenneth E. Cude, for Department of Public Utilities and Transportation, City of Los Angeles, interested party.
John E. Nolan, Attorney at Law, for Port of Oakland, interested party.
Scott K. Carter, Attorney at Law, and A. L. Gieleghem, for the Commission's staff.

INTERIM OPINION

Applicant, Airportransit, is engaged in the business of transporting persons and their baggage as a passenger stage corporation. It operates mainly between the Los Angeles and Ontario International Airports, on the one hand, and points within and about the Los Angeles Metropolitan Area, on the other hand. It also provides like service between the Oakland International Airport and the Cities of Oakland, Berkeley, Alameda, and San Francisco. Moreover, it provides some passenger stage service between the Van Nuys and Palmdale Airports and the Los Angeles area. In addition it is engaged in certain operations as a charter-party carrier of passengers.

By this application it seeks authority to increase its fares for its passenger stage services. Applicant alleges that its present fares have been in effect approximately 12 years; that its operating expenses have increased substantially meanwhile, and that increases in its fares are necessary to enable it to earn a reasonable profit from its operations and to provide the quality of service which its patrons require.

Public hearings on the application, as originally filed, were held before Examiner C. S. Abernathy on October 4, 5, 18 and 19, 1971 at Los Angeles and on October 15, 1971, at San Francisco. On October 19, 1971, the matter was taken under submission subject to reopening thereof for future hearing if requested by applicant.[1/]

By letter dated November 24, 1971, applicant informed the Commission that it desired further hearings. On January 10, 1972, applicant amended its application. By said amendment applicant seeks interim increases of 15 percent in its fares pending further hearings and decision on the application in chief.[2/] Public hearing on the amendment was held before Examiner C. S. Abernathy on January 17, 1972 and the interim request was submitted. In other respects the proceeding was continued to a date to be subsequently set.

1/ A purpose of the conditional submission was to afford applicant opportunity to review its proposals in relation to then recent enactments under the Federal wage and price control program and to take further action that might be deemed necessary as a consequence thereof.

2/ In general the sought interim increases of 15 percent are less than most of those which are proposed by the original application. The increases which are specified in the original application range from about 5 to 50 percent. The greatest increases would be effected in the fares which apply to most of applicant's traffic. About 85 percent of applicant's traffic would be subject to fare increases of about 40 percent or more.

Evidence was presented at the hearing on January 17, 1972, by applicant's executive vice-president and by an accountant of the Commission's staff.

The vice-president testified to the effect that the applicability of increased wage costs, which were a principal basis for the original application and which were considered during the October 1971 hearings, had not been ruled upon by the Federal Wage Control Commission; that meanwhile the company has been operating at a loss; that during 1971 its financial position has been deteriorating at an increasing rate, and that in the circumstances the company is in critical need of additional revenues through the medium of interim fare increases in order to maintain its services until other corrective measures can be taken.

According to financial data which the vice-president submitted, the company lost $104,072 from its combined passenger stage and charter operations during the year 1971. Its operating ratio for the year was 105.9 percent. The vice-president attributed the loss wholly to the passenger stage operations. He asserted that the charges for the charter services can be more closely tailored to said services than is possible in connection with the passenger stage services. Moreover, a considerable portion of the charter services is performed by leased equipment, a circumstance which permits the establishment of favorable revenue/cost relationships at the outset.[3/] Details which the vice-president submitted concerning the operating results of the passenger stage services are as follows:

Table No. 1

Revenues and Financial Operating Results, by Months, Passenger Stage Services Year 1971

	Revenues	Profit or (Loss)	Profit or (Loss) as Percent of Revenues
January	$ 107,958	$ 7,974	7.4
February	84,580	(15,434)	(18.2)
March	99,515	(10,243)	(10.3)
April	92,694	(2,865)	(3.1)
May	97,276	(7,521)	(7.7)
June	101,924	8,197	8.0
July	108,670	105	1.0
August	112,077	13,001	11.6
September	93,716	(6,269)	(6.7)
October	93,141	(10,768)	(11.6)
November	80,395	(22,496)	(28.0)
December	88,398	(57,753)	(65.3)
Total	$1,160,344	$(104,072)	(8.97)

3/ It should be noted that in attributing the loss to the passenger stage operations, the vice-president's position with respect to the charter party operations is, in effect, that applicant is merely realizing sufficient revenues from said operations to recover the costs of the services provided.

The Commission accountant submitted and explained the results of an analysis which he had made of applicant's operations to determine the relative profitableness or unprofitableness of each of the nine principal routes over which applicant's passenger stage services are conducted.[4/] In Table No. 2 below are shown figures which the accountant developed pertaining to the gross revenues earned from each route under present fares. Table No. 3 sets forth figures which he developed to show results of operations under present fares. Table No. 4 sets forth similar data under proposed fares, assuming that the proposed fares had been in effect and had been collected throughout the year ending with November 30, 1971.[5/]

4/ At the hearings which were held in October, 1971, on the original application it was determined that there were substantial differences in the financial results of applicant's operations over its several routes. It appears that the accountant's showing in this matter was intended to provide further information in such respects.

5/ In his development of the data which he presented to show the relative profitableness of the various routes, the accountant proceeded on three different assumptions: (1) that the charter operations are being conducted on a break-even basis; (2) that the margin of revenues over costs is the same for both the passenger stage and the charter operations and (3) that the revenues per mile are the same for both the passenger stage and the charter operations. The results under assumptions (1) and (3) are virtually the same. Under assumption (2) his costs are about 2 percent less than those under (1) and (3). The figures which are reproduced in Tables Nos. 3 and 4 above are those which were developed under assumption (1). They have been selected because the assumption thereunder most closely corresponds to that upon which applicant's data in Table No. 1 were developed.

Table No. 2

Gross Operating Revenues, by Route, under Present Fares
Year Ended with November 30, 1971

Route	Revenues	Percent of Total
Beverly Hills	$ 46,090	4.0
Hollywood	190,598	16.5
Los Angeles	511,434	44.4
Oakland	116,774	10.1
San Bernardino	129,733	11.3
San Fernando	84,572	7.3
Santa Monica	11,949	1.0
Ventura	19,068	1.7
Wilshire	42,362	3.7
Total	$1,152,580	100.0

Table No. 3

Financial Operating Results, by Route, under Present Fares
Year Ended with November 30, 1971

Route	Net Operating Revenues or (Loss)	Operating Ratio (Before Taxes)
Beverly Hills	$ (19,127)	141.5%
Hollywood	(33,292)	117.5%
Los Angeles	114,510	77.6%
Oakland	(25,062)	121.5%
San Bernardino	(58,158)	144.8%
San Fernando	(21,724)	125.7%
Santa Monica	(17,577)	247.1%
Ventura	(42,621)	323.5%
Wilshire	(21,201)	150.0%
Total	$(124,252)	110.8%

Table No. 4

Financial Operating Results, by Route, Under Proposed Fares, Based on Operations for Year Which Ended with November 30, 1971

Route	Net Operating Revenues or (Loss)	Operating Ratio (Before Taxes)
Beverly Hills	$ (12,214)	123.0%
Hollywood	(4,702)	102.1%
Los Angeles	191,225	67.5%
Oakland	(7,546)	105.6%
San Bernardino	(38,698)	125.9%
San Fernando	(9,038)	109.3%
Santa Monica	(15,785)	214.9%
Ventura	(39,761)	281.3%
Wilshire	(14,847)	130.5%
Total	$ 48,634	96.3%

As a result of his analysis of applicant's operations, the accountant recommended that any interim fare increases which may be authorized herein be limited to increases in fares over routes other than the Los Angeles route. As to the Los Angeles route the accountant pointed out that under the fares which are now being assessed applicant realized during the past year net operating revenues of $114,510 with an equivalent operating ratio of 77.6 percent.

The Commission's Transportation Division stated its position that the interim request was justified providing the applicant institute no less than twenty-minute frequency service on its Los Angeles Downtown operation throughout all more heavily traveled periods.

In other respects the granting of the sought interim fare increases was not opposed.

Discussion

As applied to applicant's operations for the year 1971 (as represented in Table No. 1, above) the 15 percent increase in fares which applicant is seeking would have produced additional revenues of $174,052. The increased fares would have produced $87,592 in additional revenues during the first six months of the year and $86,460 during the second six months' period.[6] Applicant's operating results under the increased fares would have been as follows:

Period	Profit	Operating Ratio
January through June, 1971	$67,700	88.4%
July through December, 1971	2,280	99.6%
Year 1971	$69,980	94.0%

The foregoing figures point up a matter which is abundantly clear in Table No. 1, namely, that during the latter part of 1971 the financial results of applicant's operations, as reported by applicant, took a definite turn for the worse. The extent of what occurred in this respect is shown by the following comparison:

Period	Revenue	Profit or (Loss)	Operating Ratio (Before Taxes)
January through June, 1971	$583,947	$(19,892)	103.4%
July through December, 1971	576,397	(84,180)	114.6%

The request which applicant herein makes for interim fare increase authority is prompted mainly by such turn of events. Applicant's position is unequivocal: It must have relief from its losses if it is to continue its services for the public.

6/ No provision is included in these additional revenue figures for any diminution in applicant's traffic as a consequence of passenger resistance to paying the increased fares.

In presenting its financial operating results for the year 1971, applicant did not undertake to submit also an analysis of said results which would disclose causative factors for the adverse changes in its operating circumstances. It relies upon the raw data as constituting sufficient justification for the sought fare increases. However, without such an analysis there is serious question concerning the propriety of utilizing said data for the purposes indicated.

First, it may be calculated from Table No. 1 that during the latter part of 1971, and during December, 1971, particularly, the operating expenses rose sharply in relation to revenues. The monthly reported revenues are compared with the calculated, corresponding expenses derived from applicant's Exhibit 23 in the following table:

Table No. 5

Comparison of Monthly Revenues and Expenses
Year 1971

Month	Revenues	Expenses
January	$107,958	$ 99,984
February	84,580	100,014
March	99,515	109,758
April	92,694	95,559
May	97,276	104,797
June	101,924	93,727
July	108,670	108,565
August	112,077	99,076
September	93,716	99,985
October	93,141	103,909
November	80,395	102,891
December	88,398	146,151

It will be noted that the reported operating expenses for December are about $36,000 -- about a third -- more than the greatest operating expenses for any other month of the year; that revenues for December are about $5,000 less than for either September or October, whereas December expenses are more than $42,000 higher than for September or October, and that on an increase of about $8,000 in December revenues over those in November, expenses increased more than $43,000.

In a proceeding to increase fares, the burden of establishing the propriety of expense data used to justify the sought increases rests upon the applicant. Abnormalities in the data particularly must be explained. In view of the magnitude of the relative expense increases in December (and also to a lesser extent in November) it must be concluded that applicant has not fully carried its burden, and that its showing of need for increases in its fares should be discounted.

Another circumstance to be taken into account is whether the level of services which is reflected by the expense data in question may be reasonably deemed as representative of the level of the services which would be subject to the increased fares sought. In this instance it appears that in December, 1971, and in January, 1972, applicant effected decreases in the level of its services. Some of the decreases in service apparently were responsive to seasonal changes in the volume of applicant's traffic. Other changes which were made, however, apparently go beyond normal seasonal variations and constitute changes in the basic service level. Applicant did not undertake to show what effect such other service reductions would have upon its revenue and expense showing. In this respect, also, said showing should be discounted.

A further matter to be considered is that which was pointed up by the showing of the Commission accountant, namely, the differences between the financial results of applicant's operations over its Los Angeles route, on the one hand, and over its other routes, on the other hand. It is evident that the Los Angeles route is making a substantial contribution to applicant's financial operating results whereas the reverse is true with respect to the other routes. The losses over two of the other routes -- Santa Monica and Ventura -- are particularly severe. The accountant's figures in Tables Nos. 2 and 3 show that the operations over these two routes during the year which ended with November 30, 1971, produced a total of $31,017 in gross revenues, or 2.7 percent of applicant's total passenger stage revenues for the year; however, the net operating results of the operations were losses totaling $60,198. Stated in another way, during the year through November 30, 1971, applicant spent $2.47 for every $1.00 of gross revenues earned from the Santa Monica route and $3.23 for every $1.00 of gross revenues earned from the Ventura route. The San Bernardino route is another of the routes which was operated at a severe loss. The loss over this route amounted to $58,158, or 44.8 percent of every dollar of gross revenues received.

It is well established that every segment of a carrier's services need not be self-sustaining. Hence, earnings from one route may be applied reasonably to offset losses from another route in order that a carrier's operations as a whole may be maintained. On the other hand, however, there are limits to what patrons of one route or segment of service should be expected to pay toward the support of another route or segment of service. Payments in excess of such limits may constitute unlawful discrimination.[7/] Moreover, the assessing of excessive fares over a profitable route in order to bolster operations over a losing route may be destructive to the profitable route by reason of a wholesale drying-up of the carrier's traffic as a result of said excessive fares. A further consideration is that the ability of a service to bear the charges that must be assessed for the service's maintenance is a test of the need of the public in general for said service. Where a service is unable to bear the charges that must be assessed for the maintenance thereof, the public need for the service may not be sufficient to justify its continued operation. It would be unreasonable to impose upon a service required by public convenience and necessity the burden of sustaining another service which is no longer required by public convenience and necessity.

On the record before us we are of the opinion that all of the foregoing considerations apply to a degree to the losses which applicant is incurring over some of its routes -- over the Santa Monica and Ventura routes especially. We are of the further opinion that for the immediate purposes of this proceeding, namely, interim increases in applicant's fares, said losses may not be reasonably accepted in full as basis for the sought increases. If applicant wishes to utilize the full amount of said losses as grounds for fare increases as may be

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7/ Compare Southern Pacific Golden Gate Ferries, Ltd., 41 C.R.C. 437 (1938). "Where there is no rate which a public utility could maintain on a portion of its system that would yield sufficient revenue to pay out-of-pocket costs, the continued maintenance of such service constitutes an undue burden upon the balance of the utility's system and thereby creates that discrimination forbidden by law."

considered in the further hearings to be held in this matter, it should be prepared to submit additional justification to establish the propriety of such use.

Notwithstanding our conclusions concerning the insufficiency of applicant's showing to justify the full amount of the interim fare increases which are sought, we are nevertheless persuaded that a substantial portion of said fare increases should be authorized. A balanced view of applicant's financial problems, we believe, is that they are attributable in part to economic circumstances and in part to circumstances which lie within applicant's managerial sphere for corrective action. It appears that both will be further considered at the subsequent hearings to be held on the main application. Meanwhile applicant should be permitted to increase its fares sufficiently to assure the continuity of its services in order to protect the public interest therein until whatever other courses that are determined to be appropriate as a result of the further hearings can be put into effect.

Regarding the specific fare increases to be authorized, we note from applicant's figures in Table No. 1 that on the basis of the operating results for the full calendar year 1971 an increase of $104,072 would be necessary to restore applicant's operations to a break-even point. However, this figure would become $168,360 if based on the operating results for the second half of 1971, annualized. On the other hand, the Commission accountant's figures for the year through November 30, 1971, which are set forth in Table No. 3, show that an increase of $124,252 in revenues would restore the operations to a break-even point. We note also from the accountant's figures in Table No. 4 that even with an increase of 15 percent in its fares applicant would continue to experience losses over all of its routes with the exception of the Los Angeles route. Interim fare increases of 15 percent as sought should be authorized for the routes other than the Los Angeles route. The accountant's figures show that such an increase would produce additional revenues of $96,171, an amount about $28,000 less than that representing the break-even point under the accountant's calculations and about $72,000 less than the break-even point reflected by the operating results which were reported by applicant for the second half of 1971. In the circumstances some increase in the fares over the Los Angeles route to bring applicant's revenues to a break-even point pending further consideration of the application in chief appears unavoidable.

Applicant's present fares over its Los Angeles route are $1.15 per adult one-way ride. On the basis of the number of passengers which the accountant reported were transported over the Los Angeles route during the year through November 30, 1971, it appears that an increase of the present fare to $1.25 per adult one-way ride would produce additional revenues of $44,550.

The indicated increase in annual revenues from a 15-percent increase in fares over all of applicant's routes except the Los Angeles route and from a 10-cent increase in fares over the Los Angeles route totals $140,721. However, this amount contains no provision for any diminution in traffic that would result from passenger resistance to such fare increases. We believe that after reasonable provision for diminution the additional revenues which applicant would realize from the aforesaid fare increases would be between $130,000 and $135,000. Thus in result it appears that such increases would do hardly more than enable applicant to continue its operations at the break-even level which is represented by the accountant's figures. For the purposes of this interim decision we adopt said figures as reasonable.

Findings:

We find that:

1. Applicant is incurring losses from its operations under present fares.

2. In order to make a full determination of what action or actions should be taken to overcome applicant's losses, further hearings in this matter are necessary.

3. Pending such further hearings and decision thereon, applicant should be authorized to effect interim increases in its fares in order that it may be afforded some relief from its losses.

4. Applicant requires an increase of about $124,000 in annual revenues in order to meet its costs of operation.

5. Increases of 10 cents per adult one-way ride over applicant's Los Angeles route (as more specifically referred to in the following order) and of 15 percent in fares over applicant's other routes would produce an increase of between $130,000 and $135,000 in applicant's annual revenues and would provide a margin of between $6,000 and $11,000 for income taxes and profit. The corresponding operating ratio, computed on the passenger stage revenues and expenses only, is between 99.7 percent and 99.4 percent, after provision for income taxes.

6. Interim fare increases of such amounts have been shown to be justified. Such increases are the minimum to assure continued and adequate service. They will not contribute to inflationary expectations. Therefore, they fall within the guidelines established pursuant to the Federal Government's economic stabilization program as specifically set forth in the certificate appended as Appendix A.

Conclusions:

1. We conclude that interim fare increases as specified in the following order should be authorized.

2. Because of applicant's need for relief from the losses which it is experiencing under present fares, we conclude that applicant should be authorized to establish the increased fares on less than thirty days' notice to the Commission and to the public; the order herein should be made effective five days after the date hereof.

INTERIM ORDER

IT IS ORDERED that:

1. Applicant, Airportransit, is authorized:

   a. To establish a fare of $1.25 per adult one-way ride between Los Angeles Territory Group 1 Points (as more specifically defined in applicant's Local Passenger Tariff Cal. P.U.C. No. 11) and Los Angeles International Airport, Los Angeles.

   b. To increase by 15 percent all other fares and charges which are set forth in said tariff, the amount to be rounded up or down to 0 or 5 whichever is nearest.

2. Amendments to applicant's tariff 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 to the public.

3. In addition to the required posting and filing of tariffs, applicant shall give notice to the public by posting in its buses and terminals an explanation of its fares. Such notice shall be posted not less than five days before the effective date of the fare changes, and shall remain posted for a period of not less than thirty days.

4. The authority herein granted shall expire unless exercised within ninety days after the effective date of this order.

5. The increased fares herein authorized are subject to reductions, further increases or other change as may be found warranted upon further consideration of this application.

6. Except as is otherwise provided herein applicant's request for authority to effect interim increases in its fares is denied.

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

Dated at San Francisco, California, this 4th day of APRIL, 1972.

Chairman

Commissioners

APPENDIX A

Certificate of the Public Utilities Commission of the State of California Re Increases in Fares for Passenger Stage Transportation Services Performed by Airportransit

Pursuant to provisions of Section 300.16 of the Economic Stabilization Act Amendments of 1971, the Public Utilities Commission of the State of California (Cal. P.U.C.) does hereby certify to the Federal Price Commission as follows:

1. That the increases in fares, which are ordered by the Cal. P.U.C. by the attached decision, range from 8.7 to 15 percent. In revenue effect they average about 12 percent.

2. That the dollar amount of increased annual revenues for Airportransit, which the increases in fares are expected to produce, is about $140,700.

3. That said fare increases are cost based and do not reflect future inflationary expectations.

4. That any margin of earnings which will be realized from said fare increases and which may constitute a return on capital will be minimal and insignificant.

5. That the fare increases are the minimum required to assure continued, adequate and safe service.

6. That sufficient evidence was taken at public hearings held before the Cal. P.U.C. in connection with said fare increases to support the certification herein made.