

Decision No. 80628**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Air California
for an Ex Parte Order to
Increase its Intrastate
Air Freight Rates.)

Application No. 53589
(Filed September 18, 1972)

O P I N I O N

Air California, Inc. is a passenger air carrier engaged in the transportation of passengers and property between the airports of San Francisco, San Jose, Oakland, Sacramento, Orange County, Ontario, Palm Springs, Burbank, and San Diego.

In this application Air California seeks an ex parte order authorizing it to increase its air freight rates between all points served by it. Appendix A hereto contains a comparison of proposed air freight rates with existing rates.

In support of this request, the application alleges as follows: Air California presently carries air freight on board its scheduled service in California. Air California's general commodity rate between Orange County and the Bay Area has remained at the present level for the past five years. The general commodity rates in all other markets have remained the same since the inception of service in each market. Therefore, general commodity rates for Air California's total system are still at 1967 price levels although labor costs and operating costs have increased over 30 percent and

over 70 percent, respectively, in the past five years. Recently, Pacific Southwest Airlines was granted an increase in its air freight rates pursuant to Decision No. 80322, dated August 1, 1972 in Application No. 52970.

Air California has been an innovator of service at satellite markets that were previously unserved. Air freight has increased from 139,920 pounds in 1967 to 2,063,900 pounds in 1971. The rate of growth of air freight tonnage has exceeded 70 percent per year in the last two years. With this substantial growth in air freight, Air California has experienced increased costs such as new air freight terminals and storage areas, specialized personnel for handling air freight, training and documentation, and equipment to haul air freight from storage areas to the aircraft.

It is estimated that the sought rates will increase Air California's revenues from its air freight traffic by 17.07 percent and will produce an annual increase in revenues of \$41,360. The application contains an estimated income statement for the year 1973 at present and proposed air freight rates. Said data are summarized in the following table:

TABLE 1

AIR CALIFORNIA STATEMENT OF INCOME COMPARISON
OF PRESENT AND PROPOSED RATES

	1973	
	<u>Present Rates</u>	<u>Proposed Rates</u>
<u>Income:</u>		
Total Passenger Transportation	<u>\$21,810,000</u>	<u>\$21,810,000</u>
Air Freight	242,300	283,660
Liquor	297,500	297,500
Other	<u>277,200</u>	<u>277,200</u>
Total	817,000	858,360
Total Operating Income	\$22,627,000	\$22,668,360
% Increase		0.18%
<u>Operating Expenses:</u>		
Direct Expense	\$11,569,400	\$11,569,400
Indirect Expense	<u>10,860,800</u>	<u>10,860,800</u>
Total	<u>22,430,200</u>	<u>22,430,200</u>
Operating Income	<u>196,800</u>	<u>238,160</u>
Non-operating Expense	<u>450,800</u>	<u>450,800</u>
Net Income (Loss)	<u><u>\$(254,000)</u></u>	<u><u>\$(212,640)</u></u>

The application also contains a statement of the results of operations for the year ended December 31, 1971 and for the seven-month period ended July 31, 1972. Air California sustained an operating loss of \$514,785 for the year 1971 and an operating profit of \$233,496 for the first seven months of 1972.

The application states the rates requested will help improve Air California's financial posture. For the first six months of 1972, Air California posted an operating profit, but incurred a net loss for the period after interest and amortization. Based on this, applicant urges that the sought increase will not cause Air California's operating ratio and rate of return to be excessive.

The application shows that Air California's proposed air freight rates will be equal to or less than the rates charged by its competition. The application alleges that the proposed rates of Air California are fair and reasonable in each and every market that Air California serves when compared to the rates offered by the competition.

The application shows that it was served in accordance with Commission rules. In addition, notice of the filing of the application appeared on the Commission's Daily Calendar. There are no protests.

The Commission finds as follows:

1. Applicant seeks to increase its air freight rates by an average of 17.07 percent, or \$41,360 annually. Said increased revenue from air freight rates will increase its total operating revenues by 0.18 percent.
2. The sought air freight rates are the same as or lower than similar rates maintained by competing airlines in the same markets.
3. Applicant incurred a net operating loss in 1971 and a net income of \$233,496 in the first seven months of 1972.
4. Applicant estimates that it will incur a net operating income for the year 1973 of \$196,800 under present fares and rates, and \$238,160 at present fares and proposed air freight rates,

resulting in operating ratios of 99.13 and 98.95 percent, respectively. Applicant's earnings will not be excessive under the proposed air freight rates.

5. The proposed increased air freight rates are justified.

6. The increase authorized herein is consistent with Rule 23.1, effective August 2, 1972, of the Commission's Rules of Procedure:

- a. The increase is cost-justified and does not reflect future inflationary expectations;
- b. The increase is the minimum required to assure continued, adequate and safe service and to provide for necessary expansion to meet future requirements;
- c. The increase will be less than that necessary to achieve the minimum rate of return needed to attract capital at reasonable cost and not to impair the credit of the applicant;
- d. The increase does not reflect labor costs in excess of those allowed by policies of the Federal Price Commission; and
- e. The increase takes into account expected and obtainable productivity gains.

The Commission concludes that the application should be granted. A public hearing is not necessary.

O R D E R

IT IS ORDERED that:

1. Air California, Inc. is authorized to establish the increased air freight rates proposed in Application No. 53589.

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 hereof on not less than five days' notice to the Commission and to the public.

3. 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 twenty days after the date hereof.

Dated at Los Angeles, California, this 17th day
of OCTOBER, 1972.

Vernon L. Stenger
President
William J. Lyons
W. W. Wren
John W. Wren
Lois W. Wren
Commissioners

APPENDIX A

AIR CALIFORNIA, INC.
COMPARISON OF PRESENT AND PROPOSED
GENERAL COMMODITY RATES

Market	Existing Rate		Proposed Rate	
	Cents per Pound	Dollars per 100 Pounds	Cents per Pound	Dollars per 100 Pounds
San Diego-Santa Ana	8	\$5.50	9	\$6.00
-San Jose	8	5.50	9	6.00
-San Francisco	8	5.50	9	6.00
-Oakland	8	5.50	9	6.00
-Sacramento	8	5.50	9	6.00
Santa Ana-Palm Springs	8	5.50	9	6.00
-Ontario	8	5.50	9	6.00
-San Francisco	8	5.50	9	6.00
-San Jose	8	5.50	9	6.00
-Oakland	8	5.50	9	6.00
-Sacramento	8	5.50	9	6.00
Palm Springs-San Francisco	8	5.50	9	6.00
-San Jose	8	5.50	9	6.00
-Oakland	8	5.50	9	6.00
-Ontario	8	5.50	9	6.00
-Sacramento	8	5.50	9	6.00
Ontario-San Jose	8	5.50	9	6.00
-Oakland	8	5.50	9	6.00
-Sacramento	8	5.50	9	6.00
San Jose-Sacramento	8	5.50	9	6.00
-Oakland	6	4.00	9	6.00
-San Francisco	6	4.00	9	6.00
San Francisco-Oakland	6	4.00	9	6.00