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ORIGINAL

Decision No. 81733

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC SOUTHWEST AIRLINES for an ex parte order on expedited authority to increase its intrastate fares.	Application No. 53525 (Filed August 14, 1972)

Dietsch, Gates, Morris & Merrell, by Brownell Merrell, Jr., and Mark T. Gates, Jr., Attorneys at Law, for Pacific Southwest Airlines, applicant.
Carl M. Anderson and H. A. Wright, for Western Airlines; and Frederick R. Davis, for Air California; interested parties.
William D. Figg-Hoblyn and Scott Carter, Attorneys at Law, Kenneth L. Haskins, and Raymond D. Yick, for the Commission staff.

OPINION

Pacific Southwest Airlines (PSA) seeks authority to increase revenues from its intrastate air passenger fares by 4.9 percent, resulting in an estimated annual increase in gross revenues of $4,606,000.

Public hearings were held before Commissioner Moran and/or Examiner Mallory on September 11 and October 30, 1972, January 30 and 31, February 1, 2, 8, 9, 13, and 14, and March 8 and 9, 1973. The matter was submitted on April 9, 1973 upon receipt of concurrent briefs filed by PSA and the Commission staff.

Background

PSA was authorized to increase its intrastate air freight rates by Decision No. 80322 dated August 1, 1972 in Application No. 52970. That decision also denied a sought 5.5 percent increase in intrastate air passenger fares. Decision No. 80322 found, among other things, that the granting of the requested increase in air freight rates and denial of the sought increased passenger fares would produce the following rate of return and operating ratio for the test year ending June 30, 1973, based on the operating results found reasonable therein for PSA's airline operations:

Operating Revenues	$ 94,339,000
Operating Expenses	81,723,000
Income Before Taxes	12,616,000
Income Taxes	-
Net Income	12,616,000
Rate Base	106,093,000
Operating Ratio	86.6%
Rate of Return	11.89%

Decision No. 80322 also found that a rate of return of 11.89 percent would be reasonable; but that the estimated rate of return of 15.5 percent and operating ratio of 83.4 percent, which would have resulted if the sought passenger fare increases were granted, would produce excessive earnings and, therefore, would be unreasonable.

PSA's air passenger fares were last adjusted pursuant to Decision No. 77991 dated December 1, 1970 in Application No. 52016 (unreported). That decision stated that the rate of return of 8.8 percent and corresponding operating ratio of 87.2 percent estimated to result from the fares authorized therein would not provide excessive earnings for PSA's airline operations for a 1971 test year.

Current Application

In this application, PSA adopted the June 30, 1973 test year operating results set forth in the findings and conclusions in Decision No. 80322 (supra), including the traffic estimates, estimated hours of aircraft utilization, the method of calculating rate base, the treatment of income taxes on a flow-through method, and the treatment of maintenance reserves. The application, as filed, sought only to reflect changes in operating costs based on PSA's experience in 1972 and adjustments to revenues and aircraft utilization to reflect new routes, current yields, and the effect of the skyjacking of PSA's aircraft in July 1972.

The application sought an ex parte order granting the relief sought. The Commission staff opposed the granting of the application without hearing and advised the Commission that it intended to present evidence in opposition to a fare increase. The matter initially was heard on September 11, 1972. At that time the Commission staff alleged that it was unable to obtain specific information from PSA's books and records which it deemed essential to the determination of the issues in the proceeding. PSA was directed to furnish certain documents for review by the Commission staff and to cooperate with the staff in connection with the review of all its records. The Commission staff was directed to expedite its studies and to furnish copies of its exhibits to be introduced in this proceeding to PSA and parties of record before January 22, 1973.[1/]

PSA, by its Petition for Interim Relief filed September 15, 1972, sought an ex parte order granting the relief sought in the application, pending completion of the hearings herein. The Commission did not act affirmatively on this petition; thus interim relief was denied.

At the public hearings commencing January 30, 1973, PSA and the Commission's Transportation Division staff presented studies reflecting estimated operating results for a future test year. The studies presented by witnesses for PSA and the Commission staff differ in several material respects.

According to the staff study, estimated results of operations for the year ending December 31, 1973 show that PSA's operating ratio and rate of return at present fares (after income taxes) are 85.9 percent and 14.2 percent, respectively, and that at proposed fares operating ratio and rate of return are 82.1 percent and 18.9 percent, respectively. It is the staff position that PSA is earning an

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1/ The Commission staff studies prepared by the Transportation Division (Exhibit 10) were furnished in accordance with the directive of the presiding Commissioner. The exhibits introduced by the Finance and Accounts Division were not given advance distribution.

adequate return under its present fares and therefore the staff recommends the application be denied.[2/]

According to rebuttal evidence introduced by PSA, the projection by the Commission's Transportation Division witnesses for the calendar year 1973 contains errors exceeding $7,000,000 in total, and if the staff projections are adjusted in the manner recommended by PSA, the sought increase is justified.

Estimated Operating Results

PSA presented estimated results of operation for a test year ending June 30, 1973. Said operating results were developed by adjusting the data adopted in Decision No. 80322 for changes in numbers of passengers and in expenses, and to give effect to the 1972 skyjacking of PSA aircraft.

The Commission staff presented estimated operating results for PSA's airline operations for a test year ending December 31, 1973. PSA presented rebuttal testimony and exhibits which adjusted the staff estimates for the changes PSA believes are necessary to reflect current operating conditions.

Inasmuch as the staff exhibits and PSA's rebuttal exhibits afford a direct comparison of estimated operating results for a comparable period which is later than the period used in PSA's original exhibits, these data will be used to resolve the differences in the presentations of PSA and the staff.

The following table summarizes the estimated operating results for PSA's airline operations for the test year ending December 31, 1973. As explained in Decision No. 80322, PSA performs other than airline services and has several subsidiaries which perform other than airline operations. In order to arrive at the estimated operating results set forth below, certain allocations of operating revenues, expenses, and rate base were necessary.

2/ The staff brief makes several references to Decision No. 81080 in Application No. 53442, which authorized the merger of PSA and Air California. Counsel agreed at the hearing that the effect of the merger on PSA operating results would not be an issue in this proceeding. Subsequent to the close of the hearing PSA and Air California announced that the merger would not be consummated.

TABLE 1

(Commission Staff - Exhibit 10)

Pacific Southwest Airlines
Estimated Results of Operations
Year Ending December 31, 1973
(Airline Operations Only)

	Present Fares (000)	Proposed Fares (000)
Statistics		
Passengers	6,526	6,526
Flight Hours	60.9	60.9
Revenue		
Passenger	$94,714	$ 99,293
Beverage (Net)	953	953
Freight	1,852	1,852
Baggage and Miscellaneous	861	861
Total Revenue	$98,380	$102,959
Expense		
Leased Aircraft	$ 1,435	$ 1,435
Flying Operations	23,812	23,812
Direct and Indirect Maintenance	13,398	13,398
Passenger Service	7,309	7,309
Airport Terminal Operations	13,705	13,705
Reservations and Ticket Sales	6,330	6,330
Sales and Advertising	2,937	2,937
General and Administration	6,336	6,336
Depreciation	9,270	9,270
Total Expenses	$84,532	$ 84,532
Income before Taxes	$13,848	$ 18,427
Income Taxes	-	-
Net Income	$13,848	$ 18,427
Rate Base	$97,573	$ 97,573
Operating Ratio	85.9%	82.1%
Rate of Return	14.2%	18.9%

The data in Table 1 as adjusted by PSA is set forth in the following table:

TABLE 2

(PSA - Exhibit 28)

Pacific Southwest Airlines
Estimated Results of Operations
Year Ending December 31, 1973
(Airline Operations Only)

	Present Fares (000)	Proposed Fares (000)
Statistics		
Passengers	6,344	6,344
Flight Hours	62.8	62.8
Revenue		
Passenger	$92,362	$ 96,882
Beverage (Net)	926	926
Freight	1,852	1,852
Baggage and Miscellaneous	861	861
Total Revenue	$96,001	$100,521
Expenses		
Leased Aircraft	$ 1,435	$ 1,435
Flying Operations	26,188	26,188
Direct and Indirect Maintenance	15,440	15,440
Passenger Service	7,233	7,233
Airport Terminal Operations	14,212	14,212
Reservations and Ticket Sales	6,407	6,506
Sales and Advertising	2,855	2,855
General and Administration	7,071	7,071
Depreciation	11,194	11,194
Total Expenses	$92,035	$ 92,134
Income before Taxes	$ 3,966	$ 8,387
Income Taxes	-	666
Net Income	$ 3,966	$ 7,721
Rate Base	$97,573	$ 97,573
Operating Ratio	95.9%	92.3%
Rate of Return	4.7%	7.9%

As may be observed from a comparison of Tables 1 and 2, the estimates of the staff and PSA differ with respect to projections of numbers of passengers and flight hours, passenger and beverage revenues, all categories of operating expenses except for leased aircraft, and income taxes.

The following attempts to resolve the differences between the estimates developed by the staff and PSA.

Number of Passengers

The staff's projection of 6,525,500 passengers to be carried by PSA for the year ending December 31, 1973 was made by analyzing each of the origin and destination airport pairs served by PSA. The results of this projection indicate an annual growth rate for PSA of 8 percent. The methods employed by the staff in developing its analyses of passenger trends were explained in detail.

PSA estimated that it would carry 6,344,000 passengers in the 1973 test year, or 181,000 passengers less than estimated by the staff. The estimates of PSA were developed by an expert employed for that purpose, who explained in detail the methods used by him to develop passenger trends.

The statistical methods used by both witnesses were substantially the same. Subjective tests applied to the data produced the major differences in the estimates, such as the impact on SFO-LAX traffic from increased competition from United Air Lines in this market, the effect of skyjackings in 1972 and the security measures imposed thereafter, and potential growth in the recently inaugurated Fresno and Stockton routes.

We have carefully analyzed the evidence and argument presented by PSA and the staff in this area and adopt the following data as those which will reasonably reflect the passenger traffic of PSA in the test year. The estimated number of passengers adopted herein is 7.2 percent greater than the number of passengers carried in 1972.

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TABLE 3

Pacific Southwest Airlines
Estimated Origin and Destination Passengers
By Airport Pairs
Year Ending December 31, 1973

Airports	Actual Year Ending November 30, 1972	Estimated Year Ending December 31, 1973 Staff (Exhibit 10)	PSA (Exhibit 28)	Adopted
SAN-BUR	199,997	220,500	223,000	223,000
SAN-LAX	679,469	742,000	757,000	757,000
SAN-OAK	157,874	165,000	163,000	164,000
SAN-ONT	24,528	30,000	28,500	29,000
SAN-SMF	69,201	94,500	87,000	90,500
SAN-SFO	334,809	345,000	363,000	360,000
SAN-SJC	106,040	107,500	103,500	107,500
LAX-OAK	662,369	681,000	659,000	670,000
LAX-SMF	387,388	424,000	360,000	400,000
LAX-SFO	1,102,881	1,120,000	1,085,000	1,120,000
LAX-SJC	661,406	676,000	683,000	680,000
BUR-OAK	228,266	230,500	229,000	230,000
BUR-SMF	68,352	99,500	96,000	97,500
BUR-SFO	454,582	468,500	464,000	467,500
BUR-SJC	277,869	306,500	295,000	300,000
ONT-SMF	13,301	15,000	14,100	15,000
ONT-SFO	181,119	196,000	190,500	195,000
SFO-SMF	124,641	140,000	123,000	125,000
LGB-SAN	10,985	14,000	14,300	14,000
LGB-SFO	149,661	164,000	150,000	150,000
LGB-SMF	22,355	23,500	24,000	23,500
OAK-SMF	2,520#	3,500	3,240	3,500
LAX-FAT	31,832*	94,000	91,800	94,000
LAX-SCK	21,244*	63,000	57,300	63,000
FAT-SCK	2,490*	7,000	6,400	7,000
FAT-SFO	23,258*	69,000	62,400	69,000
SCK-SFO	4,345*	13,000	11,300	13,000
SAN-FAT	3,359*	10,000	NS	10,000
SAN-SCK	924*	3,000	NS	3,000
Total	6,007,065	6,525,500	6,344,340	6,481,000

NOTES: # Service began February 1972.
* Service began July 10, 1972; staff estimate of annual passengers = 259,000.
NS Not shown.

Flight Hours

The Commission staff estimated that PSA would operate 60,900 flight hours in the 1973 test year. This estimate includes 60,200 hours for scheduled flight operations (including charter and testing) and 700 hours for training of flight crews. The staff estimate of flight hours for training purposes is based on the average hours expended for that purpose in the years 1968 through 1972. The estimate for scheduled flight hours reflects a 30 percent relationship between increased flight hours and increased passengers in the test year. This relationship assertedly is based on the most recent experience of PSA. The staff tested the foregoing estimate against the 25 percent relationship used by it in the most recent proceeding and found that relationship to be too low. Another method used as a check by the staff was described by the staff witness as the functional method which produced a slightly greater number of flight hours than the assumed 30 percent relationship.

PSA believes the staff estimate should be corrected to show 62,800 flight hours annually. PSA had an average load factor of 56 percent in the year ended November 30, 1972, and an average length of trip per passenger of 308 miles. PSA contended that the staff projection results in an unrealistic increase in load factor to 59 percent, based on the number of passengers estimated by the staff. The PSA witness testified that when the system load factor approaches 60 percent, all flights at peak travel times are operating completely full, and passengers are being turned away. It was the testimony of this witness that a system load factor well below 60 percent is required to maintain maximum growth and not to turn away passengers at peak periods.

We have adopted a lower figure (in Table 6) than the staff's estimate of the number of passengers to be transported in the test year. Using 6,481,000 passengers and an average trip length of 306.5 miles from the staff study, the estimated annual revenue passenger miles are 1,986,426,000. The staff estimate of flight hours produces 3,394,056,696 seat miles (PSA Exhibit 28). The resulting load factor is 58.5 percent.

We adopt as reasonable for the purposes of this proceeding a system load factor of 58 percent. This load factor produces 3,424,873,276 seat miles, and increases the staff's estimate of flight hours by 0.91 percent to 61,500. This result also is consistent with the estimating methods used by the staff. We find that an estimate of 61,500 total flight hours will be reasonable for this proceeding.

Revenues

Passenger revenues developed by the staff are based upon its projections of passenger traffic for each city-pair market, as set forth in Table 3. The staff used a dilution in passenger revenue of 2.9 percent to give effect to discount fares. The same method is used by PSA. PSA's estimate of passenger revenues reflects its lower estimate of the number of passengers it expects to transport in the test year. We find that passenger revenues for the purposes of this proceeding should be based on the adopted levels of traffic between city-pairs set forth in Table 3, adjusted by a dilution factor of 2.9 percent. This produces test year passenger revenues of $97,557,327 under present fares and $102,095,237 under proposed fares.

The staff estimated that the net profit from beverage service aboard aircraft would be $0.146 per passenger in the test year. This estimate was based on the beverage sales experienced for the eleven months ended November 30, 1972. Total net revenue for beverage service was determined by multiplying the total estimated passengers for the 1973 test year by the estimated profit per passenger. PSA used the same profit per passenger as the staff, but developed net beverage revenues based on its lower estimate of passengers. We find that net beverage revenues based on the adopted total number of passengers as set forth in Table 3, times the net profit per passenger of $0.146 will be reasonable for the test-year estimate. This produces net beverage revenues of $946,226.

The Commission staff and PSA agree that the test-year estimates for freight revenue should be $1,852,000 and for baggage and miscellaneous revenue should be $861,000. These estimates are reasonable.

Security Expenses

During the course of the hearings, plans for airline antihijacking measures were announced by the Federal Government, but such plans had not been finalized. As a consequence, the staff did not include any additional expense in its test-year estimate for additional security measures. After the close of the hearings, the several airlines that conduct California intrastate operations with jet aircraft applied to this Commission and were granted authority to establish, on an interim basis, an increase of $0.34 in the amount collected from each passenger transported within California to cover security costs.[3] Applications have also been filed to assess a charge of $0.25 per passenger for armed guards required by Federal regulations. Inasmuch as security and armed guard expenses are the subjects of other proceedings, such expenses and the increased revenues necessary to offset such expenses will not be considered herein.

Operating Expenses - Flying Operations

Flying operations include the expenses for (a) flight crew salaries and incidental expenses, (b) training salaries, (c) fuel and fuel service, (d) simulator rental, (e) aircraft registration taxes, (f) insurance, and (g) space rent and utilities.

3/ Decision No. 81390 dated May 15, 1973 in Application No. 53967, et al. The airlines are United Air Lines Inc., Pacific Southwest Airlines, Western Airlines, Inc., Air California, and Hughes Airwest.

PSA uses the same aircraft and some of the same personnel in connection with its nonutility service of providing training for personnel of other airlines. Based on its analyses of data for the eleven-month period ended November 30, 1972, the staff made allocations of the various subcategories of flying operations expenses to scheduled operations and to contract training expenses.

The staff used engine cycles per hour as a measure to arrive at a suitable allocation of fuel and fuel service expenses. The staff analyzed 1,912 Flight Log Forms for the month of August 1971, which contain cycles and flight hours for both scheduled flights and training flights. This analysis developed data for calculating a relationship of 1.55 cycles per flight hour for scheduled service and 4.64 cycles per flight hour for training flights. Inasmuch as this relationship shows that approximately three times as many cycles per hour are required for training as for scheduled operations, allocation of fuel expenses was based on three times the actual hours operated in training services. PSA's witness testified that the staff's analysis was inaccurate because fuel consumption is not related to engine cycles. The witness supported this testimony with a letter from PSA's chief pilot. The witness indicated that the letter could not be read without interpretation inasmuch as it appeared a phrase had been omitted. The evidence presented by PSA on the issue of fuel consumption is inconclusive; therefore, we find the staff's method of allocating fuel expenses appears reasonable.

The staff allocated those expenses relating to training hours on the basis of 15.3 percent for PSA training hours and 84.7 for contract training hours. This ratio was used by the staff in allocating the expense for simulator rental. PSA urged that the actual use of the simulator for contract training was less than half of that assumed by the staff. PSA's witness testified that in 1972 the actual use of the simulator for training PSA personnel was 37.2 percent of the total time. Based on this usage, PSA's witness testified that the staff estimate should be adjusted upward by $61,000. This adjustment appears reasonable, and will be adopted.

The staff estimated flight crew salaries based on known wage costs. At the time of the hearing, PSA was negotiating a new contract with the union representing PSA pilots. The witness for PSA testified that PSA had made a firm offer to its pilots' union, which included an increase of 5.5 percent in wages and 0.7 percent in fringe benefits, assertedly the maximum permissible increase under Phase II of the federal price stabilization program. PSA argued that the eventual settlement will incorporate terms no less favorable than those offered by management. Based on this, PSA urged that the staff study omitted $548,000 in wage costs which will be experienced in the test year. The contract negotiations have been completed. The contract incorporates the offer referred to in PSA's testimony at the hearing. The settlement is retroactive to January 1, 1972. Phases III and IV of the federal price stabilization program have replaced Phase II. Phase IV retained the 5.5 percent guideline on maximum wage increases. The agreement reached by PSA and the pilots' union is within the current guideline. Therefore, we find that flight crew salaries should be adjusted upward by $548,000 to reflect 1973 levels of pilots' wages.

In its application, PSA alleged that expenses adopted in Decision No. 80322 failed to include known wage increases for various classes of personnel resulting from the longevity provisions of wage contracts with unions representing such personnel. The Commission staff adopted for its estimate of 1973 expenses the percentage increases in wages resulting from such longevity provisions as set forth in the exhibits attached to the application. At the hearing PSA's witness testified that the calculation of these percentages were understated in the application, and adjusted them to approximately double the figures originally set forth. PSA contends that the corrections for longevity increases set forth in the staff report should be further adjusted by a total $379,000 per year. ($183,000 for flight crews, $131,000 for passenger service employees, and $65,000 for airport terminal employees.) The Commission staff disputed the new data presented at the hearing by PSA's witness and urged that the original figures submitted by PSA were correct. The wage contracts with stewardesses, for example, provide yearly percentagewise increases in salaries for a period of ten years. Such increases vary from year to year, but average about 5 percent over the ten-year period. The staff analyzed the number of stewardesses in each annual group and estimated that the average longevity increase would be approximately the 3.5 percent originally estimated by PSA. PSA, in its rebuttal, testified that its study covered a six-month period. It assumed that the average percentage increase arrived at in its six-month longevity study should be annualized by doubling that percentage. This method is not statistically correct if the data analyzed is representative for a longer period. The same percentage should apply to any longer period as applies to the period analyzed. Therefore, we find that the methods used by the Commission staff to analyze the effect of longevity provisions of PSA's wage contracts are appropriate, and adopt the staff levels of expenses for longevity factors.

To summarize the above, the expenses for Flying Operations set forth in the staff report should be adjusted by increasing said expenses by $548,000 to reflect increased pilots' wages and $61,000 for use of the simulator. Other adjustments proposed by PSA have not been justified. To the staff estimate of total expenses of $391 per flight hour (Exhibit 10, p. D-4) should be added $9 per hour for increased pilots' wages and $1 per hour for simulator usage, resulting in a total cost per flight hour of $401 for the test year.

Direct and Indirect Maintenance Expenses

The staff estimated that Direct and Indirect Maintenance expenses in the test year would be $220 per flight hour. This estimate was based on the unit cost of $215 per hour for the eleven-month period ended November 30, 1972, plus an increase of $5 per hour to reflect a contractual wage increase for mechanics that took effect on October 15, 1972.

The staff used the same percentages for allocating maintenance expenses for PSA flight service versus contract training hours as was used for flying operations expenses.

Maintenance expense for engines is performed by a wholly owned subsidiary, Pacific Southwest Airmotive (Airmotive). Airmotive performs engine maintenance service for other airlines as well as for PSA. The labor charge billed to PSA's airline operations for engine maintenance service in 1971 was based on $10.50 per hour. In January 1972, this labor charge was increased to $15.83, and in April 1972, the labor charge billed to PSA was increased to $19.00 per hour. The Commission staff considered that a labor charge of $10.50 per hour approximates the real costs involved and reduced the amount of $3,608,124 as recorded on PSA's accounts for engine maintenance to $2,917,434. The staff did not determine the actual labor costs of PSA during 1972, but relied upon 1971 costs.

Replacement parts used by Airmotive in maintaining engines are billed on the basis of Pratt and Whitney catalog prices for new parts, less the salvage value of old parts. The staff adjusted the recorded amounts for replacement engine parts by increasing such amounts by 5 percent for an increase in catalog prices effective July 31, 1972.

PSA presented rebuttal evidence which showed that Airmotive experienced an actual cost per hour of $14.15. The witness testified that the difference between $14.15 per hour and $19.00 per hour assessed to PSA is profit, wiich assertedly amounts to 4.1 percent of sales after taxes. The witness also asserted that PSA is being charged less for the same work performed than PSA's largest customer. PSA argued that public policy does not require that a subsidiary be deprived of a reasonable profit on work it performs for its principal. PSA contends also that its practice of having parts charged and credited at catalog is reasonable. It urged that the staff's adjustments with respect to Airmotive's charges to PSA totaling $792,000 are improper.

It has been the consistent policy of this Commission that transactions between a public utility and its subsidiaries should be carefully scrutinized to determine that the charges of the subsidiary are not excessive. The accounting and billing practices of Airmotive are clouded with uncertainty and we are not convinced that existing methods employed in billing Airmotive's charges to PSA produce reasonable results. In view of this uncertainty, we must resolve all doubts in favor of the ratepayers and against the utility. Therefore, we find that it will be reasonable to use a charge of $14.15 per hour as the basis for determining labor charges of Airmotive for engine repair and overhaul performed by it for PSA.

PSA asserts that the Transportation Division witness failed to give full-year effect in his cost estimate to the work rule changes and fringe benefits that became effective July 1, 1972 when PSA maintenance personnel became unionized. PSA asserts that effect is given to these added costs only from July 1 through November 30, 1972, and that annualizing these costs would increase test-year expenses by $487,000 (or $8 per hour). This was not disputed in the staff brief. Therefore, we find this increase in estimated operating expenses is appropriate.

Applicant and the staff do not agree as to the proper method of allocating engine maintenance costs between airline operations and contract training operations. The staff witness made such allocations on the basis of engine cycles, inasmuch as engine overhauls assertedly are scheduled on this basis. PSA disputed this assumption. It believes that allocations made on the basis of engine cycles overallocates costs to PSA's outside training services, and that the appropriate method is on a flight-hour basis. Using such basis, the staff's test-year maintenance expenses would be increased by $183,000. PSA's witness testified that the FAA requirement to perform maintenance or inspection service based on cycle-limited parts rather than on flight hours is offset, when the aircraft is used for training purposes, because of less wear and tear on noncycle-limited parts, as a result of the lower payloads, lower power levels, and lower altitudes maintained on training flights. The PSA witness testified that he had inquired of PSA's Chief Inspector as to his opinion, and that the Chief Inspector felt that there is no justification for a maintenance differential per flight hour between training flights and regular passenger service. The Chief Inspector based this opinion on the results of using one aircraft assigned to full-time training operations of Braniff Airlines personnel in 1966. This opinion testimony was not supported with any additional data. We conclude that, inasmuch as maintenance and inspection of PSA's aircraft engines are scheduled on the basis of cycle-limited parts rather than on the basis of flight hours, the method used by the staff is appropriate for this proceeding.

In summary, the staff estimates of direct and indirect maintenance expenses should be adjusted to reflect a labor charge of $14.15 per hour for Airmotive ($193,110 or $3.14 per flight hour) and to reflect the annualizing of the effect on expenses of the unionization of maintenance employees ($487,000 or $8.00 per flight hour). The resulting direct and indirect maintenance expenses for the test year is $231 per flight hour.

Airport Terminal Operations

Airport terminal operation expenses are estimated by PSA and the staff on a per passenger basis. The staff estimate is $2.10 per passenger.

Airport terminal operations includes the operations of PSA reservation system. PSA's witness testified that during the year 1972, it had increased the number of employees for its terminal operations, and that the new employees had been added primarily in the last half of the year. PSA contends that because the staff used average unit costs for the year ending November 1972, and because such unit costs reflect only the average payroll during that period, the full-year effect of the added employees are not reflected in the staff's test-year estimate. PSA estimates that $783,000 (12 cents per passenger) should be added to test-year expenses.

The record shows the following: On January 1, 1972 PSA had 620 people employed on terminal operations, and in December 1972, PSA had 735 people employed, or a 16 percent increase in employment. PSA's witness testified that 70 persons were employed after June 1972; therefore, it was his conclusion that using actual expenses for the 12-month period ended November 30, 1972 failed to give adequate consideration to the higher level of employment for a full year.

The staff brief argues that the staff test-year terminal expenses are $1,000,000 greater than 1972 terminal expenses, because of the 483,000 additional passengers estimated to be carried in 1973; therefore the staff's estimate includes ample allowance for the additional employees.

The staff's argument fails to consider that the percentage-wise growth in employees is substantially higher than the rate of growth of passengers (16 percent vs. 8 percent). Using the rationale advanced by the staff, expenses should be increased by the difference in such growth rates to give proper effect to the greater number of employees in airport terminal operations in 1973 vs. 1972. Adequate provisions will be made for added employment by increasing annual expense by six cents per passenger; thus increasing the staff's estimate to $2.16 per passenger for Airport Terminal Operations.

Reservation and Ticket Sales Expenses

The Commission staff projected reservation and ticket sales expenses based on a unit cost of 97 cents per passenger.

The record shows that at the time of hearing PSA was undergoing an expansion of its reservations department at its main office in San Diego, to be completed in March 1973. The staff witness estimated that the expansion will require approximately 50 additional personnel at $8,500 per year per employee, which would produce an estimated additional cost in the rate year of $318,750. The staff estimated that additional telephone lines for this expansion will cost approximately $34,300 per month, which would amount to $343,000 for 10 months in the rate year. The total amounts to $661,750 or 10 cents per passenger.

PSA urged that the foregoing staff estimate does not give full effect to the increase in employees resulting from expansion of its reservations department. PSA's witness testified that the 1972 increase in reservation employees occurred in the last half of the year, while the staff estimate reflects the average number of employees for the first eleven months of 1972. The witness estimated that at the end of its expansion program PSA's reservation department would employ 290 people, while at the end of November 1972, employment was 245 persons. The witness also pointed out that employment had increased from 214 persons at the end of June 1972 to 245 persons at the end of November 1972. PSA's witness stated that there would be an average of 30 persons more employed in the reservations department at the end of the expansion program than are reflected in the staff exhibit. PSA urged that expenses be increased by $783,000 per year (or 12 cents per passenger) to reflect the added personnel.

It is apparent that the 50 additional personnel estimated by the staff falls short of the total additional personnel to be employed in reservations services in the test year. It appears that the addition of 25 more persons at an annual cost of $8,500 per person will adequately reflect the employment level in PSA's reservation department at the end of its expansion program. This amounts to $212,500 or 3 cents per passenger. The unit cost of $1.00 per passenger for reservations and ticket sales expenses will be reasonable for the test year.

Sales and Advertising Expenses

This expense was estimated by the staff based on a unit cost of 45 cents per passenger. This estimate was not disputed by PSA.

General and Administrative Expenses

The Transportation Division staff witness estimated general and administrative expenses at $6,336,000 for the rate year. This is based on the amount of $6,670,000 reported by PSA for the 1971-1972 fiscal year adjusted for additions of $506,000 and deletions as follows:

Deletions	Basis for Revision
$390,000	Advised by the Finance and Accounts Division that this amount in 1971-1972 fiscal year has no explanation, and should be excluded.
$150,000	Adjustment to executive compensation.
$300,000	Estimated property tax savings for aircraft sold in 1972.

PSA objected to the deletions set forth above. The first deletion of $390,000 was made on the basis that the expenses were non-airline in nature. PSA stated that the rationale for this deletion was not fully explained on the record, nor was any showing made of the impropriety of the deleted expenses. The staff brief argued that after review of the staff work papers, applicant's witness had nothing to offer in explanation for their inclusion in airline expenses. In other words, the staff and PSA each urge that the other has the burden of proof. We conclude that in the circumstances such as herein, where there is substantial doubt as to whether the recorded expense is attributable to utility operations, that doubt must be resolved in favor of the ratepayer and the expense should be deleted.

PSA's witness testified that the second deletion representing a reduction of $150,000 in officers' salaries was incorrect, because that amount represents deferred compensation to officers from prior years that was paid in 1972, but recorded as an expense in prior years. PSA's witness testified that $150,000 deletion was not recorded as an expense in 1972; therefore, no deletion from 1972 expenses should be made. PSA's contention in this respect appears to be correct and the deletion should be reinstated.

PSA also contended that the reduction in property taxes to reflect the tax savings for aircraft sold in 1972 was overstated by $80,000, because the staff failed to use the current property tax rates. This also appears to be correct and $80,000 of the amount deleted should be reinstated.

Based on the foregoing, the reasonable administrative and general expenses for the test year are $6,566,000.

Depreciation Expense

In the last decision involving PSA fares (Decision No. 80322) depreciation expense of all fan-jet aircraft and related engines was developed to December 31, 1972 and was based upon a 12-year service life and a 10 percent salvage value. These factors produce a depreciation rate of 7-1/2 percent per year.[4/]

For the rate year ending December 31, 1973, the staff estimates are based on a 12-year service life and 16 percent salvage value, which results in a depreciation rate of 7.0 percent per year. The staff witness testified that an analysis of PSA's past sales of jet aircraft and the alleged resulting excessive gains from such sales caused the staff to renew consideration of depreciation practices concerning jet aircraft.

Further studies were made by the staff, particularly of material available in the Civil Aeronautics Board's Domestic Passenger Fare Investigation, Phase I of Docket No. 21866, "Treatment of Flight Equipment Depreciation and Residual Values for Rate Purposes". The staff witness introduced a comparison of depreciation treatment for turbo-fan jet equipment of some of the respondent carriers in the CAB proceeding as a basis for using a lower annual depreciation rate for jet aircraft. That comparison showed that the annual rate of depreciation adopted by CAB (in Regulation PS-45, April 9, 1971) for turbofan jet equipment was a 14-year service life with a 2 percent residual value, resulting in an annual depreciation rate of 7.0 percent. This comparison also shows that PSA's major competitor in California, United Air Lines, recommended to the CAB that it adopt a service life of 14 years and a residual value of $100,000, which produces an annual depreciation rate of 7.0 percent.

4/ PSA actually bases its depreciation of aircraft on an 8-year life, with a remaining (or salvage) value of 40 percent.

An additional reason advanced by the staff to support lengthening the service life of PSA's aircraft is that Boeing 727 and 737 aircraft of the type operated by PSA will continue to be manufactured for several years thus eliminating obsolescence as a factor. The staff witness testified that depreciating the current book value of the aircraft over the remaining life of that equipment (as estimated by the staff) would be reasonable on the assumption that PSA had earned a maximum rate of return during all the years over which depreciation had been taken in the past; thus, no penalty would accrue to PSA for the higher depreciation taken in prior years.

The following table sets forth the staff's calculation of depreciation expense for the 1973 test year:

TABLE 4

Pacific Southwest Airlines
Estimated Rate Base and Depreciation Expense
Year Ending December 31, 1973
(Figures in Thousands)
(From Exhibit 10, except as shown)

Item	Average Depreciation Cost for 1973	Depreciation Expense Year Ending 12/31/73
Airframes (Includes 16 727-214, 1 727-114, 9 737-214)	$ 77,092	$7,438
Engines	14,501	1,488
Other Items (Exhibit 18)	9,165	783
Subtotal	$100,758	$9,709
Adjustment for Effect from Past Sale of Aircraft (Exhibit 23)		$ (439)
Estimated Depreciation Expense		$9,270

(Red Figure)

In arriving at test year depreciation expense for airframes in the foregoing table, the staff witness amortized the amount left for depreciation for each aircraft over number of years remaining to reach a full 12-year life. This method results in a test year depreciation rate on various aircraft ranging from 6.3 to 6.9 percent. The test year depreciation expense so determined was reduced by $439,000 representing the amortization of gains from sales of aircraft in prior years (Exhibit 23).

PSA strongly opposed the concept of lengthening the depreciable lives of airframes and engines and the use of remaining life depreciation on such equipment. It urged that the staff test year estimate of depreciation for airframes be increased by $726,000. In support of this PSA's witness presented evidence to show that when past depreciation on airframes is restated to reflect gains and losses from the sale of jet aircraft and deletion of depreciation expense in the year sold, the effective historical annual rate of depreciation is 7.1 percent. The witness stated that such figures approximated the 7.0 percent annual depreciation rate recommended by the staff.

The PSA argued that the CAB instruction in Regulation PS-45 with respect to annual depreciation rates are applied to the aircraft over its entire life, and is not used for determination of remaining-life depreciation. PSA also argued that the staff had erroneously selected a 12-year life for PSA's aircraft in face of the testimony of PSA's witness that the airline intended to operate the aircraft over a period of eight years, and despite the testimony of the staff witness that the depreciable life of an aircraft should be based on the period during which the entity owning the aircraft intends to use it.

It is clear that while the staff proposal concerning depreciation of aircraft assertedly is bottomed on the CAB regulation referred to above, other considerations were given more weight. The change in the annual depreciation rate from 7-1/2 percent to 7 percent recommended by the staff results from an increase in the residual or salvage value from 10 to 16 percent. It does not result from lengthening the life of the aircraft to 14 years, as set forth in the regulation adopted by the CAB. Apparently the retention of a 12-year life is in recognition of the fact that PSA has never kept any aircraft as long as 12 years. The increase in salvage value recommended by the staff appears to stem from the prices received by PSA on recent sales of aircraft which exceed the recorded depreciated values of the aircraft at time of sale.

The record shows that soon after the close of the test year used herein, PSA will acquire two L-1011 aircraft and has options to obtain more. The larger capacity of the L-1011 has an advantage over existing aircraft operated by PSA where the number of daily take-offs and landings at any airport is limited. SFO and LAX, PSA's largest markets, are operating near optimum capacity and cannot accommodate increased numbers of daily takeoffs and landings. If PSA is to enjoy the increase in passengers projected herein it must either increase the number of flights operated between SFO and LAX or substitute aircraft seating greater numbers of passengers.

The staff witness testified that the depreciable life of an aircraft should be based on the period during which the entity owning the aircraft intends to use it. Decision No. 80372 determined that a 12-year service life with a 10 percent salvage value was reasonable for PSA's operations. The CAB has adopted a 14-year service life with a 2 percent salvage value for rate-making purposes. The record herein indicates that the 14-year service life adopted by the CAB is inappropriate in face of the fact that PSA will soon supplement its fleet with larger L-1011 aircraft; and that a 2 percent salvage value adopted by the CAB is unrealistic in face of current sales prices for the two types of aircraft operated by PSA. On the other hand, the evidence adduced by PSA concerning its current accounting practices indicates that the effective historical annual rate of depreciation is 7.1 percent. This confirms the annual depreciation rate of 7.0 percent recommended by the staff. The record supports the use of an annual depreciation rate of 7.0 percent for airframes and engines in the test year.

Remaining-life depreciation is consistently used by the Commission in connection with regulation of electric, gas, and telephone utilities. These types of utilities have plant which remains in service for relatively long periods of time, such as 30 years or more. These utilities also are monopolistic in that they face little or no competition from other companies furnishing the same services. Therefore, the factor of obsolescence of equipment is seldom present for the more monopolistic utilities.

Airlines, on the other hand, are subject to varying degrees of competition between the points they serve. Such airline competition takes many forms. An important competitive factor is the type of aircraft operated, as was revealed when prop-jet aircraft replaced propeller aircraft throughout the airline industry, and, in turn, were replaced by full jet aircraft. The latest type of aircraft to be introduced are the wide-body jets, such as the L-1011, DC-10, and Boeing 747. United now operates 747 aircraft on a limited basis between SFO and LAX. It is apparent that competition, as well as other factors, requires acquisition of wide-body aircraft by PSA, which will supplement or replace existing 727 and 737 aircraft. It is clear that the concept of remaining-life depreciation is inappropriate to airline operations.

In Table 4, the depreciation expense for the rate year is adjusted downward by $439,000 to give effect to amortization of gains from past sales of aircraft. The staff would give effect to this same factor on current aircraft by increasing the salvage value from 10 to 16 percent. In the event the rate-year depreciation expense is adjusted to reflect the higher salvage values on current aircraft, then the adjustment to remaining-life depreciation would compound the effect of using higher salvage values and amortizing past gains from sale of aircraft.

We find that on aircraft frames and engines the proposed service life of 12 years and proposed residual or salvage value of 16 percent (resulting in an annual depreciation rate of 7 percent) is reasonable for determination of test-year depreciation expense; that if depreciation is computed on this basis, the adjustment of $439,000 for the effect of past sales of aircraft should be retained; and that the record does not support the application of remaining-life depreciation to assets such as aircraft frames and engines which have a high obsolescence factor.

On items other than airframes and engines,5/ the staff witness developed depreciation expense for the 1973 test year by using the difference between the depreciation reserve balance as of June 30, 1971 and the balance as of June 30, 1972 in the amount of $783,263. PSA disputes the staff's method of calculating depreciation of the fixed asset category entitled "other items". The method advocated by PSA is appropriate for this proceeding as it represents

5/ As defined in Staff Exhibit 18, "other items" include electronic equipment, Q.E.C. units, and major capitalized spares for B-727 and B-737 aircraft and ramp equipment; surface vehicles; office equipment; leasehold improvements and other miscellaneous equipment.

depreciation accrued in prior years, and which will accrue in the test year. The figures set forth in PSA's Exhibit 29 should be adjusted to eliminate depreciation on assets not used in PSA's scheduled airline operations in the amount of $36,000. The depreciation amount so adjusted is $1,946,000 for the test year.

The following sets forth the data in Table 4 adjusted to reflect calculation of depreciation expense in the test year based on the methods found reasonable above. The table also shows the adjusted development of rate base in the test year.

TABLE 5

Pacific Southwest Airlines
Estimated Rate Base and Depreciation Expense
Year Ending December 31, 1973
(Figures in Thousands)
(Adjusted)

Item	Average Depreciation Cost For 1973	Depreciation Expense Year Ending 12/31/72	Estimated Rate Base 1973
Airframes (Includes 16 727-214, 1 727-114, 9 737-214)	$ 76,973	$ 7,676	
Engines	14,465	1,559	
Other Items	9,165	1,946	
Subtotal	$100,603	$11,181	
Rate Base			$100,603
Inventory			1,374
Adjustment for Effect from Past Sale of Aircraft		$ (439)	$ (4,559)
Estimated Depreciation Expense		$10,742	
Estimated Rate Base, 1973			$ 97,418

(Red Figure)

Income Taxes

In recent years PSA has incurred no state or federal income tax liability because of the use of accelerated tax depreciation and the availability of investment tax credit.

The Transportation Division staff witness, on the advice of the Finance and Accounts Division, projected that PSA would incur no income tax liability in the 1973 test-year.

PSA presented evidence to show that under the revenues and expenses developed by it based on an adjustment of the staff figures, it would incur an income tax liability in the test year.

The adjusted revenues and expenses adopted as reasonable herein include provision for income taxes using the data set forth in Schedule 2, paragraph A, of Exhibit 28.

Adopted Operating Results

The preceding portion of the opinion sets forth the rationale for the development of the test-year operating revenues and expenses adopted as reasonable herein (except Passenger Service Expenses, which are based on the staff's estimate of $1.12 per passenger). The following table summarizes the estimated operating revenues, operating expenses, income taxes, net income, and rate base adopted herein as reasonable for the purpose of this proceeding.

TABLE 6

Pacific Southwest Airlines
Adopted Results of Airlines Operations
Year Ending December 31, 1973

	Present Fares (000)	Proposed Fares (000)
Statistics		
Passengers	6,481	6,481
Flight Hours	61.5	61.5
Revenues		
Passenger (Incl. Charter)	$94,051	$ 98,589
Beverage (Net)	946	946
Freight	1,852	1,852
Baggage and Miscellaneous	861	861
Total Revenue	$97,710	$102,248
Expenses		
Leased Aircraft	$ 1,435	$ 1,435
Flying Operations	24,662	24,662
Direct and Indirect Maintenance	14,207	14,207
Passenger Service	7,259	7,259
Airport Terminal Operations	13,999	13,999
Reservations and Ticket Sales	6,481	6,481
Sales and Advertising	2,916	2,916
General and Administration	6,566	6,566
Depreciation	10,742	10,742
Total Expense	$88,267	$ 88,267
Income Before Income Taxes	$ 9,443	$ 13,981
Income Taxes	$ 817	$ 2,192
Net Income	$ 8,626	$ 11,789
Rate Base	$97,418	$ 97,418
Operating Ratio	91.17%	88.47%
Rate of Return	8.85%	12.10%

Rate of Return

The last decision involving PSA's fares (Decision No. 80322) found that a rate of return of 15.5 percent would be excessive for PSA airline operations, and found a rate of return of 11.89 percent was reasonable for the test year used in that proceeding. Since that time we have authorized higher rates of return for other utilities in recognition of the changing economic factors affecting rates of return for utility operations. There was no specific staff recommendation concerning rate of return. In our view, PSA should be permitted to earn the maximum reasonable rate of return for the reason that it conducts the most efficient operations in its field, and, as a consequence, is the rate-making carrier in the California corridor. PSA's fares established in this proceeding become the effective maximum fares that can be charged between the same points by competing air carriers. None of the competing air carriers have earnings from airline operations as favorable as PSA's earnings.

In light of the foregoing we find that a maximum rate of return of 12.1 percent will be reasonable for PSA's airline operations in the 1973 test year.

Table 6 shows that operations in test year under present fares will result in an estimated rate of return of 8.85 percent and an operating ratio of 91.17 percent. On the basis of our finding above, an increase in fares should be granted in order to raise the level of earnings to permit PSA to earn the maximum return. The estimated rate of return of 12.10 percent and operating ratio of 88.47 percent under proposed fares would not produce excessive earnings. Therefore, the sought fare increase of 4.9 percent is justified.

Memorandum Financial Report

A principal financial examiner from the Commission's Finance and Accounts Division placed in evidence his report concerning the financial examination made by staff members under his supervision. Based on this report several conclusions and recommendations were made concerning the manner in which PSA should revise its record keeping in the interest of more accurate and comprehensive financial reporting.

We have carefully reviewed the foregoing staff recommendations. It is our conclusion that we should adopt the staff recommendation that applicant should keep its books and records in accordance with the CAB Uniform System of Accounts For Air Carriers. As pointed out in the staff report all other major airlines providing intrastate service voluntarily, or in compliance with CAB regulations, maintain their books of account in accordance with the CAB regulations. The use of such accounting methods would provide uniformity between all major intrastate carriers and would simplify the analyses of PSA's records made periodically by the staff.

It appears that consideration of other recommendations concerning PSA's methods of record keeping should be deferred, pending the establishment of CAB accounting methods by PSA, and after a further financial examination by our staff after the CAB accounting methods have been established for a reasonable period.

Additional Findings

1. PSA is a passenger air carrier operating wholly within the State of California. By the application herein it seeks to increase its passenger fares as set forth in Appendix A.

2. The estimates of the numbers of flying hours and aircraft, and the estimates of revenues and expenses based thereon, as set forth in the preceding opinion and summarized in Table 6, give adequate effect to the type of service and load factors of equipment necessary to continue the levels of services required to attract additional passengers and to maintain adequate and efficient service in the year ending December, 1973.

3. The estimates of revenues, expenses, rate base, rate of return, and operating ratio set forth in Table 6 in the preceding opinion reasonably represent PSA's results of operations under present and proposed fares for the year ending December 30, 1973, and are adopted for the purposes of this proceeding.

4. A rate of return of 12.1 percent on depreciated rate base and an operating ratio (after taxes) of approximately 88.4 percent will be reasonable for the test year used herein and will not produce excessive earnings.

5. The granting of the fare increases sought in the application herein will result in a rate of return of 12.10 percent, an operating ratio (after taxes) of 88.47 percent, and a return on common equity of 15.5 percent for the 1973 test year used herein. Said fare increases are justified and will result in reasonable and nondiscriminatory passenger air fares for the services to which they apply.

6. The following findings are pursuant to Rule 23.1 of the Commission's Rules of Procedure.

(a) The increases authorized herein are cost justified and do not reflect future inflationary expectations.

(b) The increase is the minimum required to assure continued, adequate, and safe service, and to provide for expansion to meet future requirements.

(c) The increase will achieve the minimum rate of return needed to attract capital at a reasonable cost and not impair the credit of the public utility.

(d) The increases do not reflect labor costs in excess of those allowed by policies of the Federal Cost of Living Council.

(e) The increases take into account expected and obtainable productivity gains.

Additional Conclusions

1. Increases in air fares found justified should be granted. Said fares are those set forth in Appendix A.

2. PSA should be directed to keep its books of account and financial records in accordance with the CAB Uniform System of Accounts for Air Carriers. The change over to that system should take place at the beginning of PSA's accounting period which follows the effective date of this order.

O R D E R

IT IS ORDERED that:

1. Pacific Southwest Airlines, a corporation, is authorized to establish the increased air fares set forth in Column (4) of Appendix A attached hereto. 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.

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

3. Pacific Southwest Airlines is directed to revise its accounting system to conform to the Uniform System of Accounts for Air Carriers promulgated by the Civil Aeronautics Board. Said change shall be made effective beginning with the next accounting period following the effective date of this order.

4. Except to the extent granted in Ordering Paragraph 1 hereof, Application No. 53525 is denied.

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

Dated at San Francisco, California, this 21st day of AUGUST, 1973.

Vernon L. Sturgeon
President

William Symons Jr.

Commissioners

Commissioner D. W. Holmes, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

Pacific Southwest Airlines
Development of Passenger Revenues
For Test Year Based on Adopted
Number of Passengers (Table 3)

(1)	(2)	(3)	(4)	(5)	(6)
Airport	Adopted Passenger Projection	Present Fares (No Tax)	Proposed Fares (No Tax)	(2)x(3) Revenue Present Fares	(2)x(4) Revenue Proposed Fares
SAN-BUR	223,000	$ 7.41	$ 7.41	$ 1,652,430	$ 1,652,430
SAN-LAX	757,000	7.41	7.41	5,609,370	5,609,370
SAN-OAK	164,000	22.68	23.61	3,719,520	3,872,040
SAN-ONT	29,000	7.41	7.41	214,890	214,890
SAN-SMF	90,500	23.14	24.07	2,094,170	2,178,335
SAN-SFO	360,000	22.68	23.61	8,164,800	8,499,600
SAN-SJC	107,500	22.68	23.61	2,438,100	2,538,075
LAX-OAK	670,000	15.28	16.20	10,237,600	10,854,000
LAX-SMF	400,000	16.67	17.59	6,668,000	7,036,000
LAX-SFO	1,120,000	15.28	16.20	17,113,600	18,144,000
LAX-SJC	680,000	15.28	16.20	10,390,400	11,016,000
BUR-OAK	230,000	15.28	16.20	3,514,400	3,726,000
BUR-SMF	97,500	19.44	20.37	1,895,400	1,986,075
BUR-SFO	467,500	15.28	16.20	7,143,400	7,573,500
BUR-SJC	300,000	15.28	16.20	4,584,000	4,860,000
ONT-SMF	15,000	19.44	20.37	291,600	305,550
ONT-SFO	195,000	16.67	17.59	3,250,650	3,430,050
SFO-SMF	125,000	7.41	7.41	926,250	926,250
LGB-SAN	14,000	7.41	7.41	103,740	103,740
LGB-SFO	150,000	16.67	17.59	2,500,500	2,638,500
LGB-SMF	23,500	19.44	20.37	456,840	478,695
OAK-SMF	3,500	7.41	7.41	25,935	25,935
LAX-FAT	94,000	14.81	14.81	1,392,140	1,392,140
LAX-SCK	63,000	18.52	18.52	1,166,760	1,166,760
FAT-SCK	7,000	7.41	7.41	51,870	51,870
FAT-SFO	68,000	10.19	10.19	703,110	703,110
SCK-SFO	13,000	7.41	7.41	96,330	96,330
SAN-FAT	10,000	22.22	22.22	222,200	222,200
SAN-SCK	3,000	25.93	25.93	77,790	77,790
Total Revenue (unadjusted)				96,705,795	101,379,235
2.9% Estimated Revenue Reduction for Discount Fares				2,804,468	2,939,998
Subtotal				93,901,327	98,439,237
Estimated Charter Revenue				150,000	150,000
Total				$94,051,327	$ 98,589,237

COMMISSIONER J. P. VUKASIN, JR., Concurring in Part and Dissenting in Part.

While the evidence in this proceeding does in fact support some rate relief, the treatment of prospective taxes based on income in the foregoing decision is not supported by the evidence.

The above decision is based on an assumption of income taxes for the test year of $2,192,000.00 (Table 6, page 30, mimeo opinion), despite the fact that the decision states that "In recent years, PSA has incurred no State or Federal income tax liability because of the use of accelerated tax depreciation and the availability of investment tax credit". The record also indicates that soon after the close of the test year (year ended December 31, 1973) PSA will acquire two L-1011 aircrafts, and has options to obtain more. If past performance is any indication, PSA will accomplish the necessary timing by management prerogative to utilize the substantial accelerated depreciation and investment tax credit accommodated by the acquisition of the L-1011 aircraft to offset any tax liability from airline operations in the immediate future.

For this specific reason, I conclude there is every reason to believe that PSA will not incur any tax liability in the foreseeable future, and any evidence to the contrary is at least suspect.

For this reason stated above, and based on the historical record that no tax liability being incurred by the airline operations of PSA in the immediate past, I cannot accept the decision's conclusion that an amount in excess of $2 million of income taxes will be paid by PSA for the test year herein. $2 million represents roughly 50 percent of the proposed increase in revenues represented by this decision. Therefore, I can only conclude that the authorized increase is approximately twice the amount supported by the evidence, and, therefore, is excessive.

J. P. Vukasin, Jr.
Commissioner

San Francisco, California
August 21, 1973