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ORIGINAL

Decision No. 81922

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of UNITED AIR LINES, INC.,)
for authority to increase certain
intrastate passenger fares.

Application No. 54288
(Filed September 4, 1973)

OPINION AND ORDER

United Air Lines, Inc. (United) is a common carrier by air of passengers and property between points in the United States (including California), and British Columbia and Ontario, Canada. In California, United provides intrastate operations between various cities, using DC-8 and DC-10, and Boeing 727, 737, and 747 aircraft.^{1/}

In this application United seeks ex parte authority to increase its intrastate jet commuter passenger fares to correspond to the fares authorized between competitive points to Pacific Southwest Airlines (PSA) in Decision No. 81739 dated August 31, 1973 in Application No. 53525.^{2/} As no commuter service is being provided by United between Sacramento, on the one hand, and Los Angeles and San Diego, on the other hand, United seeks to cancel its jet commuter air fares between these points.

^{1/} The cities are Sacramento, San Francisco, Stockton, Modesto, Merced, Visalia, Bakersfield, Fresno, Salinas-Monterey, Santa Barbara, Los Angeles, and San Diego.

^{2/} Present and proposed fares are set forth in Appendix A attached hereto.

The application states that United's jet commuter air fares were last increased pursuant to Decision No. 77990 dated December 1, 1970 and Decision No. 78205 dated January 19, 1971 in Application No. 52153. The increased jet commuter air fares authorized to United in those decisions were on the same level as the fares authorized to be maintained by PSA and Western Air Lines, Inc.^{3/} Assertedly, the commuter fare increase authorized to PSA and now sought by United and Western, is the first authorized since December 1970.

The application states that the Commission has previously found that competition between United, PSA, and Western will not permit any one of them to maintain commuter air fares substantially different from its competitors, and that historically PSA is the rate-making (low-cost) carrier in the California corridor. The application states that United believes that the public interest would be served by maintaining uniformity of fares among air carriers offering similar commuter services in the California corridor, and that such uniformity of fares would maintain historical fare relationships among the major carriers providing intrastate air passenger service within California.

The application alleges that by reason of the short distances involved and the effect of PSA's fares on United's fares, United's services within California as a whole have been conducted at an operating loss. The application states that during the twelve months ended June 30, 1972 the operating loss from United's four largest intrastate jet commuter and coach service route segments was \$5,055,000. Attached to the application (as Exhibit C) is a summary of earnings from interstate and intrastate operations for those route segments for the year ended June 30, 1972.^{4/} The data set forth in

^{3/} Pursuant to Decision No. 75899 in Application No. 50847 (PSA) and Decision No. 78206 in Application No. 52361 (Western).

^{4/} Exhibit C to the application also shows the methods by which expenses were allocated to such services, and bases for the use of such methods. The allocation procedures largely reflect methods approved by the federal Civil Aeronautics Board.

Exhibit C to the application is summarized in the following table.

TABLE 1

United Air Lines, Inc.
Summary of Earnings by Class of Service
12 Months Ended 6/30/72
Los Angeles-San Francisco
(\$000)

	<u>Total</u>	<u>Intrastate Passenger</u>	
		<u>1st Class</u>	<u>Commuter</u>
<u>Revenue at Present Fares:</u>			
Combination Aircraft	\$14,732	\$ 724	\$ 6,622
Liquor Service Revenue-Net	192	-	124
All-Cargo Aircraft	1,124	-	-
Total	\$16,048	\$ 724	\$ 6,746
<u>Operating Expenses:</u>			
Capacity-Combination Aircraft	\$12,193	\$ 1,502	\$ 6,053
Capacity-All-Cargo Aircraft	1,553	-	-
Traffic-Combination Aircraft	7,618	390	4,147
Traffic-All-Cargo Aircraft	696	-	-
Total	\$22,060	\$ 1,892	\$10,200
Earnings (Loss) at Present Fares	(6,012)	(1,168)	(3,454)
		<u>Interstate Passenger</u>	
	<u>Cargo</u>	<u>1st Class</u>	<u>Commuter</u>
<u>Revenue at Present Fares:</u>			
Combination Aircraft	\$ 792	\$ 809	\$ 5,785
Liquor Service Revenue-Net	-	-	68
All-Cargo Aircraft	1,124	-	-
Total	\$ 1,916	\$ 809	\$ 5,853
<u>Operating Expenses:</u>			
Capacity-Combination Aircraft	\$ 257	\$ 1,069	\$ 3,312
Capacity-All-Cargo Aircraft	1,553	-	-
Traffic-Combination Aircraft	535	277	2,269
Traffic-All-Cargo Aircraft	696	-	-
Total	\$ 3,041	\$ 1,346	\$ 5,581
Earnings (Loss) at Present Fares	(1,125)	(537)	272

The application shows that on the basis of estimated traffic during the twelve months ended December 31, 1973, application of the proposed fares to its Los Angeles-San Francisco route would have resulted in a revenue increase of \$434,655. The application states that inasmuch as United does not provide nonstop service between Sacramento and Los Angeles/San Diego or between Oakland and Los Angeles/San Diego, the only route on which the proposed increased fares will have any significance is the San Francisco-Los Angeles segment. The application asserts that on the basis of estimates of traffic and expense for the year 1973 and application of the proposed fares to its San Francisco-Los Angeles route, United will experience an operating loss in 1973 from its operations over that route (interstate and intrastate) of \$6,241,000. This forecast, as set forth in Exhibit F to the application is summarized in the following table:

TABLE 2
United Air Lines, Inc.
Forecast of Earnings for United's
San Francisco-Los Angeles Segment
For 1973 at Present and Proposed Fares

	SFO/LAX-1973	
	At Proposed Fares (000)	At Present Fares (000)
<u>Operating Revenue</u>		
Passenger-Intrastate	\$ 8,806	\$ 8,371
Passenger-Interstate	7,144	7,144
Cargo	2,060	2,060
Total Operating Revenue	\$18,010	\$17,575
<u>Operating Expenses</u>		
Flying Operations	\$ 5,650	\$ 5,650
Maintenance	3,370	3,370
Depreciation & Amortization	2,811	2,811
Passenger Service	1,761	1,761
Aircraft & Traffic Servicing	6,744	6,744
Sales & Reservations	2,402	2,402
Advertising & Publicity	327	327
General & Administrative	1,186	1,186
Total Operating Expense	\$24,251	\$24,251
Earnings (Loss) from Operations	\$(6,241)	\$(6,676)

The application also contains (in Exhibit G) a table showing that United had a rate of return of 7.74 percent on its systemwide operations for the year ended June 30, 1973.

The Commission's Transportation Division staff has reviewed the application and recommends that the requested authority be granted by ex parte order but that the order not include Oakland fares as no commuter service is being provided to Oakland. Notice of the filing of the application appeared on the Commission's Daily Calendar and the application was served in accordance with Commission rules. There are no protests or requests for hearing.

Findings and Conclusion

1. United Air Lines seeks authority in Application No. 54288 to increase its jet commuter air fares between California points directly competitive with Pacific Southwest Airlines and for which PSA was authorized to increase its fares pursuant to Decision No. 81739 dated August 21, 1973 in Application No. 53525. United also seeks to cancel its jet commuter air fares between Sacramento and Los Angeles/San Diego, where no jet commuter service is provided by United.

2. The financial data submitted with the application shows that (a) United's jet commuter service between San Francisco and Los Angeles is the only intrastate service of United which will produce increased revenues from the sought fare increase, (b) United's intrastate service was operated at a loss in the twelve months ended June 30, 1972, and (c) under United's estimate for the year 1973, its San Francisco-Los Angeles jet commuter service would be operated at a loss under the fares sought herein.

3. The Commission historically has considered PSA to be the low-cost (rate-making) carrier in the California corridor, and in the past, has authorized other passenger air carriers to raise their commuter air fares to the levels authorized to PSA between directly competitive points.

4. Increases in United's commuter air fares to the levels authorized to PSA in Decision No. 81793 between directly competitive points, and cancellation of jet commuter air fares where such type of service is not provided, will be reasonable and the resulting increases are justified. Such action will be consistent with past decisions of the Commission involving fares of United and PSA.

5. A public hearing is not necessary.

The Commission concludes that the application should be granted without hearing.

IT IS ORDERED that:

1. United Air Lines, Inc. is authorized to increase its jet commuter air fares between the points and to the extent shown in Appendix A, attached hereto, and to cancel jet commuter air fares between Sacramento, on the one hand, and Los Angeles and San Diego, on the other hand; and fares between Oakland and other California cities.

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' notice to the Commission and to the public.

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

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

San Francisco
Dated at _____, California, this 25th
day of SEPTEMBER, 1973.

Vernon L. Stegman
President

William J. Quinn

Commissioners

L. J. ...
Commissioner

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APPENDIX A

UNITED'S PRESENT AND PROPOSED
INTRASTATE FARES

	JET COMMUTER					
	Present			Proposed		
	<u>Fare</u>	<u>Tax</u>	<u>Total</u>	<u>Fare</u>	<u>Tax</u>	<u>Total</u>
<u>Between:</u>						
Los Angeles -						
San Diego	\$ 7.41	\$.59	\$ 8.00	\$ 7.41	\$.59	\$ 8.00
San Francisco	\$15.28	\$1.22	\$16.50	\$16.20	\$1.30	\$17.50
San Diego -						
San Francisco	\$22.68	\$1.82	\$24.50	\$23.61	\$1.89	\$25.50

(Exclusive of security charges and taxes therein.)

