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Decision No. 82106

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of IMPERIAL COMMUTER AIRLINES, INC., for authority to increase its intrastate passenger air fares.	Application No. 53789 (Filed January 16, 1973)

James K. Vedder and L. Eisenger, for applicant.
James Quinn, Attorney at Law, and Edward Crawford, for the Commission staff.

OPINION

This application was heard and submitted August 23, 1973 before Commissioner Moran and Examiner Thompson at San Diego. Copies of the application were served and notice of hearing was posted and published in accordance with the Commission's procedural rules. There are no protests.

Imperial Commuter Airlines, Inc. is a passenger air carrier with operations between San Diego and El Centro. It here seeks authority to increase its fare from $12.96 to $13.89 (not including tax). The Commission staff opposed the granting of the proposed fare increase.1/

Applicant commenced operations on or about September 1, 1968. Its officers and directors, who organized applicant, are businessmen in the Imperial Valley, and most of the capital stock of the corporation is held by individuals and corporations in that area. James K. Vedder is president of applicant and is also president of Visco Flying Service, a corporation engaged primarily in crop dusting, which owns forty percent of applicant's capital stock.

Applicant operates between San Diego and El Centro every day except Saturdays, Sundays, and holidays, weather permitting. It schedules 12 flights (six round trips) for Tuesdays, Wednesdays, and Thursdays, 10 flights on Fridays, and eight flights on Mondays, for a

1/ Applicant's tariff on file with the Commission indicates $10.00 as the one-way fare (not including tax).

total of 54 flights per week. That scheduling has been effective, more or less, since September 1970. Applicant has only one aircraft, a leased Beechcraft B-80 Queen Airliner furnished by I P L Leasing, a limited parnership of applicant's president and three stockholders. The aircraft's configuration provides nine passenger seats and seats for the pilot and co-pilot. Applicant normally operates under V.F.R. conditions requiring only the use of a pilot so that under ordinary circumstances the co-pilot seat is used for passengers.[2/]

Applicant maintains its records and books of account on a fiscal period basis for 12 months ending July 31. Operating date for the past three fiscal periods is set forth below

Imperial Commuter Airlines, Inc.

	Fiscal Years Ended July 31		
	1971	1972	1973
Flights	2,696	2,704	2,590
Number of Passengers	12,537	14,251	12,435
Passenger Load Factor (1)	46.5%	52.7%	48.0%
Pounds of Freight	132,000	174,100	N.A. (2)
Flight Hours	1,711.8	1,794.1	1,698.4
Passenger Revenues	$159,582	$181,402	$164,181
Freight Revenues	$ 18,457	$ 24,383	$ 26,898

(1) Assuming 10 passenger seats available per flight.
(2) For six months ended January 31, 1973 there were 94,800 pounds.

Applicant's passenger traffic has remained fairly steady at slightly over 1,000 monthly passengers since it commenced service except during a four month period, December 1971 through March 1972, when Hughes Airwest interrupted its operations between Los Angeles and El Centro because of a strike. The effect of the Airwest strike upon applicant's operations is reflected in the statistics for the

2/ Applicant was recently fined $2,000 for not having a co-pilot aboard when landing under visibility conditions less than those required for V.F.R. operations.

fiscal period ended July 31, 1972. Applicant's passenger traffic is concentrated among a few of its daily flights, its flight leaving San Diego at 9:20 a.m. is a particularly heavily traveled flight because of PSA arrivals at San Diego from Los Angeles, Sacramento, and San Francisco between 8:30 a.m. and 9:00 a.m.

Applicant's freight traffic has been increasing. About one-third of its freight has origin or destination at Calexico. Applicant picks up and delivers freight at Calexico by truck and moves it through its El Centro terminal for air transportation.

Both applicant and the Commission staff presented exhibits showing the results of operations for various fiscal periods. The figures in those exhibits, standing alone and without description and explanation of their sources, do not portray the actual operations conducted by this carrier or its financial requirements. Attached in Appendix A is a summary of a profit and loss statement for the fiscal year ended July 31, 1973 presented by applicant in Exhibit 3. In Exhibit 3 the expenses are itemized as to category. In Appendix A certain items of revenues and expense are totaled for presentation purposes.

The first item of expense shown is crew wages totaling $12,950. Applicant pays its pilots $10.00 per round trip (two flights) from El Centro to San Diego. There are six licensed pilots that fly applicant's aircraft. All of them are gainfully employed in businesses other than piloting applicant's aircraft. For example, the pilot that takes the early morning round trip from El Centro owns an automobile parts store. After he completes piloting the first round trip he opens up his store. A driver of a bread truck takes the evening round trip. The president of applicant acts as back-up pilot and pilots a round trip when one of the other pilots cannot make a flight because of other business committments or illness. During the fiscal year ended July 31, 1971 the president piloted 380 round trips and drew flight pay of $3,800, during the fiscal year ended July 31, 1972 he flew 410 round trips and drew flight pay of $4,100, and during the six months ended January 31, 1973 he piloted 66 round trips for $660 flight pay. All of the pilots must maintain their commercial airline pilot licenses which requires them to be checked out by the F.A.A. every six months. They are not reimbursed by applicant for time and expense in maintaining their licenses.

Aircraft maintenance is the largest single item of expense. Regular maintenance is performed for applicant by Visco Flying Service (the business of applicant's president) for which service Visco charges applicant $8.00 per hour for labor, invoice prices for large parts or parts peculiar to the Queen Airliner aircraft, and cost plus 15 percent for parts and items stocked by Visco for its crop dusting planes. The maintenance is performed on weekends by Visco's chief maintenance man (who also is one of applicant's pilots) for which Visco pays him $7.50 per hour. One of the large items for maintenance expense is for the X ray of a wing assemblage every 250 hours. Last year three Queen Airliner aircraft crashed in various places in the world because of wing failure. The X ray is a safety precaution.

The expense item of $32,400 represents the amount payable to I P L Leasing during the fiscal period for the lease of the Queen Airliner. In 1968 applicant was in need of an aircraft. Its president found the Queen Airliner, then in executive configuration, and joined with three other stockholders in a limited partnership to co-sign a note with a bank in order to obtain favorable financing for the acquisition of the aircraft (one of applicant's directors is a retired vice president and director of a bank). The invoice price of the aircraft was $151,000. After acquiring the aircraft certain modifications had to be made in order to have it comply with Section 121 of F.A.A. regulations for commercial aircraft. The limited partnership, under the name of I P L Leasing, entered into a lease with applicant to provide the Queen Airliner for a total cash rent of $216,000 payable at a rate of $3,000 per month.

The original six year term of the lease was to expire February 15, 1974. On February 9, 1973 the lease was modified to extend the term to February 15, 1975 and to change the monthly rental rate from $3,000 to $2,400 effective March 15, 1973 with a final payment on February 15, 1975 of $2,800. Applicant has not made all of its payments to I P L Leasing when they were due. The partners have not taken any money from I P L Leasing.3/

The next item of expense shown is $1,893 for other aircraft rent. The record does not show what this other aircraft was or what it was used for; however, it was shown that during the fiscal period the Queen Airliner was grounded at least one time for a week.

The amount of $27,834 for terminal expense includes $21,981 for salaries and wages paid to counter girls at El Centro and San Diego and a portion of the wages of an employee at El Centro who fuels the plane, handles cargo, trucks freight between El Centro and Calexico, and performs other tasks at the El Centro terminal. The balance of the expense is mainly for terminal rent, utilities, and telephone.

The amount of $6,480 for general salaries is the compensation paid to Mr. L. Eisenger, a businessman in El Centro who has retired from most of his former activities. He is not a stockholder, officer, or director of applicant. He has no official title. The president described his duties as taking care of the books and things in general. Originally Mr. Eisenger only was going to watch over applicant's books. He has been spending 35 to 40 hours per week in connection with applicant's business. Except when the gas boy works overtime Mr. Eisenger is the highest paid person in applicant's organization. It is to be noted that he and the president appeared for applicant in this proceeding.

Applicant accepts national credit cards of passengers in the purchase of tickets. The amount of $1,180 was the cost to applicant during the fiscal period for the acceptance of credit cards in ticketing.

3/ It is Commission policy to substitute ownership cost for lease cost when there is an affiliate relationship. Applicant's president is a lessor of the aircraft. We will not invoke this policy in this proceeding as it does not have a substantial effect on the final result.

With respect to the $1,933 for other items of expense less than $1,000, none of that expense includes any compensation for general office expense or compensation paid to any officer or employee of applicant. Applicant's president has made a number of trips on matters involving applicant, however, none of the expense involved has been charged to applicant.

Except for the $10 per round trips flight pay received by the president hereinbefore referred to, no officer or stockholder has received any compensation or reimbursement of expense for any activity in connection with the operation of applicant. Maintenance has been performed by Visco at less than cost. Except for the counter girls at the terminals and the employee at El Centro who fuels the plane all persons connected with applicant have donated services in whole or in part. The president testified that those persons, and himself, are concerned more with maintaining an airline service between Imperial Valley and San Diego than they are with taking money out of the airline, and that all of them have income independent of the airline.

Under the circumstances, for the purpose of determining a reasonable fare level for this carrier, actual operating results or even projected results based upon the entries in applicant's books of account do not provide a fair measure of the justification for a fare increase. Just as the Commission should consider imprudent investments by public utilities and excessive compensation paid to officers and affiliates of public utilities in the fixing of rates, the Commission should consider the circumstances when the reverse is true. Adjustment of expenses to reflect only reasonable expenses for rate-making purposes is not a one-way street.

Even if we were to consider adjustments to reflect reasonable expense levels, the adjusted results of operations would not be indicative of future operations by this carrier. It has been demonstrated that in the very near future applicant will have to replace the Queen Airliner with another aircraft. The Queen Airliner has over 10,000 flight hours. As already mentioned, safety precautions necessitate the X ray of the wing structure every 250 hours. There is only one machine in southern California capable of doing this X ray work and it is difficult to arrange for suitable times for the work to be done without interference with applicant's schedules. Applicant's president is of the opinion that increasing enforcement by the F.A.A. of rules regarding V.F.R. flight operations, as exemplified by the $2,000 penalty mentioned hereinabove, will necessitate the use of co-pilots if applicant is to maintain its schedules. This will not only increase its expenses but will reduce the number of passenger seats on the aircraft. Keeping in mind that applicant's passenger traffic is not spread equally among its flights and that on certain popular flights passengers are turned away, this would curtail applicant's passenger load factor significantly. Applicant's president believes that efficient operations over its route will require an aircraft capable of seating its peak traffic demands, which the Queen Airliner is not. He testified that he has attempted to find such an aircraft already certificated under Section 121 of F.A.A. regulations which would accomodate applicant's needs. He has also negotiated with another airline to determine whether they could arrange for joint use of a larger aircraft. He has not yet successfully solved this problem.

It is apparent that applicant is in need of additional revenues. It is doubtful whether those additional revenues can be generated from an increase in traffic. The passengers that utilize applicant's airline ordinarily are businessmen. Imperial Valley is a valuable agricultural area. It is desert land which supports agriculture by reason of water from the Colorado River under treaty. The valley is California's first large-scale land reclamation project. A rapid growth in commercial activities cannot reasonably be anticipated. El Centro is the county seat of Imperial County. Its population in 1960 was 16,811 and in 1970 was 19,272.

With a larger aircraft applicant could expect an increase in passengers only on those few flights that are now sold out. That would be an increase of no more than 200 passengers per month. It is readily apparent that the needed additional revenues can accrue only from an increase in fares.

A forecast of results from future operations under the proposed fares would merely be a conjecture in this case because of the radical changes necessary in the future operations of applicant. One test of the reasonableness of fares is comparisons of rates of other carriers for similar services.

The trunk-line carriers licensed by the Civil Aeronautics Board that provide service between California points generally operate between major cities. Pacific Southwest Airlines and Air California are California intrastate passenger air carriers but they too serve the major California cities and metropolitan areas. Their rates (for example, between Los Angeles and San Francisco) do not provide a basis for a comparison with the rates of commuter airlines. Hughes Airwest is certificated by the C.A.B. as a local service carrier entitled to federal subsidy. It operates between major cities and the smaller cities (for example, between Los Angeles and El Centro). Its fare structure follows the C.A.B. formula for the determination of fares for standard class service.4/

4/ C.A.B. standard class fare formula for distances not over 500 miles: Apply a rate of 6.2 cents per mile to the distance, to this product add $9 as a fixed terminal charge, this sum represents the base core fare. Add 18 percent of the core fare to obtain the base standard fare, apply authorized fare increases of 6 percent (1969), 3 percent (1971), and 2.7 percent (1972), to this amount add 8 percent for federal transportation tax, round off the end product to the nearest dollar to determine the amount the passenger pays for a ticket, then divide that amount by 108 percent to determine the tariff fare not including tax. For the distance of 94 miles the formula is as follows:

94 x 6.2 + 9.00 x 1.18 x 1.06 x 1.03 x 1.027 x 1.08 rounded to nearest dollar and divided by 1.08 and round to the nearest cent.

Under that formula the fare between San Diego and El Centro, a distance of 94 miles, would be $19.44. Swift Aire Lines is a passenger air carrier operating between various points in California (for example, between San Luis Obispo and San Francisco). It generally follows the C.A.B. formula for standard class fares in its rate structure. Airwest serves the smaller cities with DC-9 and F-27 aircraft and Swift operates 17 passenger DH-114 aircraft. The aircraft utilized by Airwest and Swift are not comparable with applicant's plane.

There are a number of commuter airlines engaged in passenger air carrier operations in California, some of which charge fares higher than the C.A.B. standard fares and some of which charge lower fares. Their pricing policies appear to be to charge that fare which will generate traffic to provide the greatest possible revenues per flight. Valley Airlines, Inc. provides passenger air service between a number of points in northern California. Its tariff fare for passage between Oakland and Monterey, a distance of 88 miles, is $12.96, and between Bakersfield and Fresno, a distance of 100 miles, is $14.35, which fares are lower than the C.A.B. standard class fares between the points. Valley operates 9-passenger Beechcraft Tradewinds which are similar in size to the aircraft operated by applicant. Stol Air, Inc. conducts passenger air carrier operations between San Francisco and Santa Rosa with a Britten-Norman BN-2A Islander aircraft that has nine passenger seats. Its fare of $15.50 for the distance of 55 miles between San Francisco and Santa Rosa is slightly less than the C.A.B. standard fare of $16.66 for 55 miles and greater than the C.A.B. core fare of $13.89 for coach service for that distance. From an operational standpoint, circumstances and conditions surrounding applicant's service appear to be more similar to those of Stol than to those of Valley. Stol has a one aircraft operation whereas Valley serves a number of points requiring the operation of three to four aircraft. Stol has very little competition from other air carriers whereas Valley encounters indirect competition from operations conducted by PSA and United Air Lines. For example, United operates between Monterey and San Francisco and between San Francisco and Fresno. Valley operates between Oakland and Monterey and Fresno. PSA operates between San Francisco and Fresno. Because of the indirect competition via San Francisco, Valley must maintain fares at Oakland at a level that would make it economically worthwhile for the passenger in the East Bay to use its services out of Oakland in preference to crossing the bay to utilize the services of the major airlines out of San Francisco.

Applicant proposes a fare of $13.89 between El Centro and San Diego, a distance of 94 miles. The standard fare under the C.A.B. formula for that distance is $19.44 and the core fare for coach service is $16.67. The proposed fare is not excessive in comparison with the fares of other passenger air carriers operating under similar circumstances and conditions. If applicant continues service with 10-passenger aircraft it may be reasonably anticipated that it will have 12,500 annual passengers for a total passenger revenue of $173,625 at its proposed fare. It is estimated that total revenues would not be in excess of $210,000. That amount would not be significantly in excess of reasonable expenses necessary to provide the service.

The Commission staff presented a report of the operations of applicant and on the basis thereof opposed the granting of the fare increase. Testimony taken following the receipt of that report in evidence disclosed that applicant had not made the staff aware of the singular circumstances described above regarding applicant's operations.

We find that:

1. Applicant is a passenger air carrier between San Diego and El Centro and conducts operations with one Beechcraft B-80 Queen Airliner having nine passenger seats and seating for a pilot and co-pilot. It seeks authority to increase fares from $12.96 to $13.89.

2. During the fiscal year ended July 31, 1973 applicant operated 2,590 flights on which it transported a total of 12,435 passengers and earned revenues from the transportation of passengers, freight, and other activities totaling $194,585, which total revenues are not in excess of reasonable expenses necessary to provide the service.

3. In the immediate future applicant will have to acquire an aircraft to replace the B-80 Queen Airliner and, if it is to maintain schedules, it will be required to use the services of a co-pilot on some flights which it has not done heretofore. This circumstance militates against any definitive estimate of results of future operations under the proposed fares.

4. It is reasonably certain that the earnings of applicant from any future operations conducted between El Centro and San Diego at the proposed fares will not be excessive.

5. The proposed fare is reasonable in comparison with the fares of other passenger air carriers performing service under similar circumstances and conditions.

6. The increases in rates and charges authorized by this decision are justified and are reasonable; and the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

We conclude that the application should be granted.

O R D E R

IT IS ORDERED that:

1. Imperial Commuter Airlines, Inc., a corporation, is authorized to establish the increased fares proposed in Application No. 53789. Tariff publications authorized to be made as a result of this order shall be filed not earlier than the effective date of this order and may be made effective not earlier than five days after the effective date hereof on not less than five days' notice to the Commission and to the public.

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

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 13th day of NOVEMBER, 1973.

Vernon L. Sturgeon
President

William Symons Jr.

J.P. Vukasin Jr.

Commissioners

A. 53789 lmm

APPENDIX A

Imperial Commuter Airlines, Inc.
Summary of Profit and Loss Statement
For the Fiscal Year Ended July 31, 1973

Revenues		
Passenger	$164,181	
Freight (IPL-SAN)	15,769	
Freight (CLX-SAN)	11,129	
Freight Handling	2,553	
Other	953	
Total Revenues		$194,585
Expenses		
Crew Wages	$ 12,950	
Fuel & Oil	23,359	
Insurance	4,993	
Operating Taxes	2,137	
Aircraft Maintenance	62,742	
Queen Airliner Aircraft Rent	32,400	
Other Aircraft Rent	1,893	
Depreciation (Equipment on Aircraft)	99	
Freight Handling	4,013	
Landing Fees	4,716	
Passenger Transportation	230	
Supplies (for passengers)	486	
Total Direct Airline Expense		$150,018
Terminal Expense		27,834
Selling and Advertising Expense		541
General & Administrative - Salaries	$ 6,480	
Payroll Taxes	3,890	
Insurance	1,254	
F.A.A. Penalty	2,000	
Rent	1,200	
Credit Card Costs	1,180	
Other Items less than $1,000	1,933	
Total G&A		$ 17,937
Total Expense		$196,330
Operating Income (Loss)		$ (1,745)