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Decision No. 82280

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Southwest Airlines for an ex parte order or expedited authority to increase its intrastate fares.)	Application No. 54387 (Filed October 16, 1973; amended November 20, 1973)

INTERIM OPINION

Pacific Southwest Airlines (PSA) is a passenger air carrier operating wholly within California. PSA seeks an ex parte increase in revenues of 1.42 percent to offset recent increases in aviation fuel. Present and proposed fares are set forth in Appendix A.

The application states that Decision No. 81793 dated August 21, 1973 in Application No. 53525 authorized PSA to increase its fares. Since the date of that decision PSA has experienced unprecedented increases in the cost of aviation fuel. This increased expense to PSA amounts to $1,572,000 on an annual basis based on an annual fuel allocation of 98,238,000 gallons. Said fuel allocation is based on 96 percent of the total actual consumption of fuel by PSA in 1972. The projected increase in revenue based on 1973 levels of traffic (excluding Fresno and Stockton passengers) amounts to $1,474,000. (Amended Exhibit G.) Applicant alleges that the fare increases sought will fall short of offsetting the increased fuel costs to the extent of $98,000 annually.

The unanticipated fuel cost increases referred to above were not forecast or taken into consideration in the results of airlinds operations adopted in Decision No. 81793 (supra). While this Commission has heretofore granted offset adjustments to utility companies for fuel cost increases, to trucking firms for labor cost increases, and to water companies for purchased water cost increases and pump charge increases, it has not heretofore granted an offset to an air transportation company.

However, the unprecedented conditions today in respect to fuel of all kinds require action over and above consideration of fuel cost increases in the course of the hearing of applications for general fare increases. In this respect we note that the U.S. Civil Aeronautics Board on November 20, 1973 granted a fuel cost adjustment, without hearings, to all domestic trunk line and regional carriers of an across-the-board 5 percent increase in passenger fares. The CAB observed that:

> "In the short run we see little if any likelihood that the general fare increase we are herein permitting to become effective will result in excessive profits for the industry . . . . Moreover, the increase in load factor which is to be expected as a result of the fuel shortage will come not from traffic growth but from curtailed utilization of existing aircraft capacity. Some cost savings will result, but the carriers will continue to incur the major expense of the grounded equipment--depreciation--not to mention current costs of ground and maintenance facilities, etc. It would appear highly unlikely that a proportionate decrease in labor force will be feasible, although some cutbacks have been announded [sic]."

Indeed the only element in the air transportation picture which at this time appears certain, is that fuel costs will continue to increase substantially during the near future.

In applicant's last fare case this Commission found that fare which would yield an operating ratio (after taxes) of 88.47 percent would be fair and reasonable. From our analysis of the data considered by us in that last fare case and which showed an average monthly usage of 8,465,611 gallons of jet fuel during the month during the period January 1, 1972 to November 30, 1972 and an average cost to applicant of 13.04 cents per gallon together with evidence submitted showing a current average cost to applicant of 14.54 cents per gallon for such fuel - an increase of 11.5 percent taken in conjunction with the figures considered in the last fare case which showed fuel cost to amount to approximately 16 percent of applicant's operating expenses, we conclude that applicant should have relief at this time in order to achieve or approach the operating ratio (after taxes) of 88.47 percent which we last found reasonable. It is apparent that PSA will not achieve the operating ratio of 88.47 percent estimated in Decision No. 81793 because the annual revenue from the proposed fare increase fails to cover increased annual fuel expenses by $98,000.

For the reasons stated above we find that an emergency exists which warrants the granting of interim relief to applicant and that, pending hearing, the sought fare increases are justified.

INTERIM ORDER

IT IS ORDERED that:

1. Pacific Southwest Airlines is authorized to establish the increased

fares proposed in Exhibit A to Application No. 54387.

2. Tariff publications authorized to be made as a result of the order herein shall be filed on or after the effective date of this order and may be made effective on five days' notice to the Commission and to the public.

3. The authority granted herein will 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 18th day of DECEMBER, 1973.

[redacted]

I abstain:

[illegible], Commissioner

Vernon L. Sturgeon

President

William Symons Jr.

[illegible]

Commissioners

Commissioner J. P. Vukasin, Jr., being necessarily absent, did not participate in the disposition of this proceeding.