

ORIGINALDecision No. 82752

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,
January 4, 1974, and
February 13, 1974)

(Appearances are shown in Appendix A)

THIRD INTERIM OPINION

Pacific Southwest Airlines (PSA) seeks immediate authority to increase its air fares to compensate for the continuing increases in its cost of aviation fuel.

Decision No. 82280 dated December 18, 1973 authorized PSA to increase its fares by 23 cents per passenger on an interim basis pending hearing. Decision No. 82389 dated January 22, 1974 authorized PSA to further increase its fares by varying additional amounts per passenger. That decision also granted interim fare increases to Air California, Inc. (Air Cal), Golden West Airlines, Inc. (GWA), Western Air Lines, Inc. (Western), and Swift Air Lines, Inc. (Swift) in amounts not in excess of that granted to PSA. The several applications of California passenger air carriers seeking higher fares to offset increases in fuel costs were consolidated for hearing with Case No. 9646.^{1/}

1/ The Order Instituting Investigation in Case No. 9646 dated January 3, 1974 was entered for the purpose of inquiring into the following matters:

1. The magnitude of aviation fuel cost increases which the airlines are currently facing.
2. Cost savings occasioned by changes in airlines' operational patterns resulting from the national fuel oil crisis.
3. Methods of adjusting air common carrier rates to offset aviation fuel cost.

Public hearing in the consolidated proceedings was held before Examiner Mallory at San Francisco on February 19, 20, 21, and 22 and April 3, 4, and 6, 1974. The matters were submitted on the latter date. Evidence in the consolidated proceeding was presented by witnesses appearing for PSA, Hughes Air West, United Air Lines, Inc., Air Cal, Swift, GWA, Western, and the Commission staff. The evidence shows that various costs per gallon for aviation fuel are incurred by respondent passenger air carriers. The specific relief sought by each carrier reflects the fuel prices incurred by it. It appears that the largest increase in fuel prices will be borne by PSA.

The record in the consolidated proceeding shows that PSA has incurred on March 1, and April 1, 1974 and will incur on May 1, 1974 substantial increases in its fuel costs for which no interim fare relief has been granted, and that the additional fuel cost increases are of such magnitude as to seriously affect PSA's ability to offer an adequate and safe service to the public unless additional fare increases are authorized.

PSA's evidence offered in support of its request for further fare increases is based on a "pass-through" method, which considered only the increased cost and lower availability of aviation fuel in determining the amount of additional revenue required. The Commission staff recommended that the Commission adopt an "offset" method in determining PSA's additional revenue requirements. Such method gives consideration to changes in scheduling, reduced personnel and other factors, in addition to those considered in PSA's showing. The method of presentation of PSA and the Commission staff both demonstrate that PSA is in urgent need of a substantial increase in fares if the airline is to avoid serious erosion of its financial assets; the studies merely differ as to the amount of increase which is justified.

The record shows that on May 1, 1974 Shell Oil Company, PSA's major supplier, will raise the cost of aviation fuel supplied to PSA by 10 cents per gallon. The staff and PSA estimates show that PSA's net operating expenses will be increased in excess of \$10.4 million annually as a result of the further fuel cost increases effective through May 1, 1974, requiring that operating revenues be increased by at least 10.6 percent. Because of the urgent need for additional revenues made apparent in the evidence presented by PSA and the staff, further interim relief should be authorized, pending resolution of all of the issues raised in Case No. 9646 and in Application No. 54387.

As heretofore indicated, the estimates of the staff show the need for a lesser increase in fare levels than those of PSA. It is assumed solely for the purpose of this interim order that the premises underlying adjustments to operating expenses made by the staff are correct. The record shows that the staff failed to provide in its estimated expenses for the fuel cost increase of \$0.01584 per gallon effective April 1, 1974, the additional one percent California sales tax on fuel purchases effective April 1, 1974, and travel agency commissions on the amount of additional passenger revenues. The following table depicts the estimate of annual revenues required to offset increase fuel costs and fuel availability as set forth in the staff's Exhibit 21, adjusted to give effect to the aforementioned omissions:

TABLE 1

Development of Estimated Cost
To Offset Pacific Southwest Airlines
Fuel Cost Increases Through May 1, 1974

Statistics

Passenger revenue based on D. 81793, A. 53525 (6,481,000 passengers)	\$98,589,000
Adjusted flight hours	56,800
Gallons of fuel for airline operations	88,040,000

Fuel Cost Adjustments

Increased cost per gallon	\$ 0.1779968
Additional increase in fuel expense	\$15,671,008
Additional sales taxes	157,000
Additional travel agency commissions	<u>122,000</u>
Total fuel cost adjustments	\$15,950,000

Expense Adjustments

Flying operations due to flight hour reduction	\$ 1,885,000
Direct and indirect maintenance due to flight hour reduction	1,086,000
Airport terminal operations due to layoff of 78 station employees	<u>811,000</u>
Total expense adjustments	\$ 3,782,000

Net Additional Expense Increase to be Offset
By Revenue Increase

\$12,168,000

Percent of passenger fare increase	12.3%
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Findings

1. PSA operates as a passenger air carrier between points in California.
2. PSA's fares were last adjusted on a permanent basis by Decision No. 81793 dated August 21, 1973. That decision contains adopted results of airline operations for a 1973 test year under approved fares, as follows:

TABLE 2

Pacific Southwest Airlines
 Adopted Results of Airlines Operations
Year Ending December 31, 1973
 (+000)

Statistics

Passengers	6,481
Flight Hours	61.5

Revenues

Passenger (Incl. Charter)	\$ 98,589
Beverage (Net)	946
Freight	1,852
Baggage and Miscellaneous	861
Total Revenue	<u>\$102,248</u>

Expenses

Leased Aircraft	\$ 1,435
Flying Operations	24,662
Direct and Indirect Maintenance	14,207
Passenger Service	7,259
Airport Terminal Operations	13,999
Reservations and Ticket Sales	6,481
Sales and Advertising	2,916
General and Administration	6,566
Depreciation	10,742
Total Expense	<u>\$ 88,267</u>

Income Before Income Taxes	\$ 13,981
Income Taxes	\$ 2,192
Net Income	\$ 11,789
Rate Base	\$ 97,418
Operating Ratio	88.47%
Rate of Return	12.10%

3. Interim fare increases have been granted to PSA (applicable in addition to the fares authorized by Decision No. 81793) to cover increased costs of operations resulting from fuel cost increases (Decisions Nos. 82280 and 82389 in this application) and for passenger security screening and armed guard services required by federal regulations (Decision No. 81390 dated May 15, 1973 in Application No. 53984 and Decision No. 82190 dated December 4, 1973 in Application No. 54273).

4. The interim fare increases authorized to PSA by Decisions Nos. 82280 and 82389 were designed to cover the increased costs to PSA of aviation fuel placed in effect prior to March 1, 1974. Substantial additional increases in aviation fuel have or will be placed in effect by PSA's principal supplier of fuel on March 1, April 1, and May 1, 1974. The largest single increase in such cost (10 cents per gallon) will occur May 1, 1974.

5. Evidence was presented by PSA and the Commission staff to show the cumulative impact on PSA's airline operating results of the known fuel cost increases experienced (or to be experienced) by PSA and the lower availability of fuel resulting from federal allocation procedures. The data presented by each show that fuel costs comprised a substantial element of PSA's total operating expenses; that the fuel costs involved in the application (as amended) are of such magnitude as to cause an impairment of PSA's ability to provide adequate and sufficient service at a reasonable profit unless immediate provision for increased revenues to offset such increased fuel costs is made.

6. The data presented by PSA and the Commission staff were developed on different premises, and portray different operating results. The data presented by the Commission staff indicate a lesser fare increase will be required by PSA to recover increased fuel costs than the data presented by PSA. There are material differences between the methods employed by PSA and the staff, and

the resulting estimates of additional revenues required to recover fuel cost increases also are different. Such differences cannot be resolved by the Commission in a final order issued prior to the May 1, 1974 date on which the most substantial change in PSA's fuel costs will occur.

7. The evidence adduced by both the Commission staff and PSA indicates that there is an urgent need for additional revenues to recover the cumulative fuel cost increases through May 1, 1974. An interim increase based on the most conservative estimate in the record (those of the Commission staff) should be issued to take effect on May 1, 1974 (or as soon thereafter as possible) in order to avoid impairment of PSA's ability to provide adequate and sufficient air passenger service to the public.

8. The estimates of the revenue increase necessary to recover the net increases in PSA's operating costs resulting from the recent escalation in aviation fuel prices and restrictions on the availability of fuel as set forth in Table 1 of the preceding opinion are reasonable for the purposes of this interim decision. That table shows that the revenues from passenger operations adopted as reasonable in Decision No. 81793, supra, should be increased by 12.3 percent to provide sufficient additional revenues to recover the estimated net additional operating expenses resulting from fuel cost increases and restricted operations resulting from limitations on fuel availability.

9. On an interim basis, a 12.3 percent increase in PSA's passenger air fares established pursuant to Decision No. 81793 (exclusive of passenger screening and armed guard surcharges) will be reasonable and is justified. (Specific fares are set forth in Appendix B hereto.)

Conclusions

1. PSA should be authorized to establish the increased air fares set forth in Appendix B. Such authorized fares are inclusive of the 12 cent per passenger and 34 cent per passenger interim surcharges for armed guard and passenger screening required by federal regulations. The fares set forth in Appendix B (after computation of federal transportation tax) may be rounded to the nearest quarter-dollar to simplify the determination of selling fares.

2. The fares authorized herein should be permitted to be established on two days' notice to the Commission and the public.

3. The findings and conclusions set forth in this opinion are without prejudice to the findings and conclusions which may be reached in a final order in this proceeding.

THIRD INTERIM ORDER

IT IS ORDERED that:

1. Pacific Southwest Airlines, Inc. is authorized to establish the interim fares set forth in Appendix B hereto. The specific fares set forth in said Appendix B (after computation of federal transportation tax) may be rounded to the nearest quarter-dollar.

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 May 1, 1974 on not less than two days' notice to the Commission and to the public.

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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 16th
day of APRIL, 1974.

William J. Sturgeon President
Vernon L. Sturgeon
John J. Sturgeon
John J. Sturgeon Commissioners

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

LIST OF APPEARANCES

In Case No. 9646 and in Applications Nos.
54387, 54534, 54546, 54549, 54555, 54575, and 54599

Respondents and Applicants: Brownell Merrell, Jr., Attorney at Law, for Pacific Southwest Airlines; Carl M. Anderson, for Western Air Lines, Inc.; Edward J. Pulaski, Attorney at Law, and Frederick Davis, for Air California, Inc.; Brobeck, Phleger & Harrison, by James S. Baum, Gordon E. Davis, and Robert N. Lowry, Attorneys at Law, for United Air Lines, Inc.; Henry Voss, for Golden West Airlines, Inc.; Charles G. Wiswell and Stephen C. Larson, for Swift Aire Lines, Inc.; Parlen L. McKenna, Attorney at Law, for Hughes Air Corp., dba Hughes Airwest; and G. W. Shiles and Beauvais, Roberts & Associates, by Philip D. Roberts, for Holiday Airlines.

Interested Party: T. J. Hays and Herbert W. Hughes, for California Trucking Association.

Commission Staff: Peter Arth, Jr., Attorney at Law.

APPENDIX B

PACIFIC SOUTHWEST AIRLINES SCHEDULE OF AUTHORIZED FARES REFLECTING FUEL INCREASES EFFECTIVE MAY 1, 1974

Airport-Pairs		Base Fare Eff. Aug. 21, 1973 Per D. 81793	Authorized Increase Of 12.3%	Authorized Fare	Armed Guard and Screening Surcharges	Total Fare W/o Tax	Total Fare With Tax
<u>Regular Fares</u>							
San Diego	- Los Angeles						
	- Burbank						
	- Ontario						
LA/Burbank	- Long Beach	\$ 7.41	\$0.91	\$ 8.32	\$0.46	\$ 8.78	\$ 9.48
	- San Francisco						
	- Oakland						
	- San Jose	16.20	1.99	18.19	0.46	18.65	20.14
Burbank/Ontario/							
Long Beach	- Sacramento	20.37	2.51	22.88	0.46	23.34	25.21
San Diego	- Sacramento	24.07	2.96	27.03	0.46	27.49	29.69
Ontario/							
Long Beach	- San Francisco	17.59	2.16	19.75	0.46	20.21	21.83
Los Angeles	- Sacramento	17.59	2.16	19.75	0.46	20.21	21.83
San Diego	- San Francisco						
	- Oakland						
	- San Jose	23.61	2.90	26.51	0.46	26.97	29.13
San Francisco	- Sacramento						
	- Stockton	7.41	0.91	8.32	0.46	8.78	9.48
Fresno	- Stockton	7.41	0.91	8.32	0.46	8.78	9.48
Los Angeles	- Fresno	14.81	1.82	16.63	0.46	17.09	18.46
Los Angeles	- Stockton	18.52	2.28	20.80	0.46	21.26	22.96
Fresno	- San Francisco	10.19	1.25	11.44	0.46	11.90	12.85
San Diego	- Fresno	22.22	2.73	24.95	0.46	25.41	27.44
San Diego	- Stockton	25.93	3.19	29.12	0.46	29.58	31.95
Oakland	- Sacramento	7.41	0.91	8.32	0.46	8.78	9.48
<u>Midnite Flyers</u>							
San Diego	- Los Angeles	6.48	0.80	7.28	0.46	7.74	8.36
San Diego	- Sacramento	15.74	1.94	17.68	0.46	18.14	19.59
Los Angeles	- San Francisco	11.11	1.37	12.48	0.46	12.94	13.98
Los Angeles	- Sacramento	13.89	1.71	15.60	0.46	16.06	17.34
San Francisco	- Sacramento	6.48	0.80	7.28	0.46	7.74	8.36

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