

**ORIGINAL**

Decision No. 82847

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of AIR CALIFORNIA,  
INC. for an ex parte order  
to increase intrastate passenger  
fares.

Application No. 54546  
(Filed December 31, 1973;  
amended January 8, 1974,  
February 19, 1974, and  
April 11, 1974)

THIRD INTERIM OPINION

Air California, Inc. (Air California) is a passenger air carrier serving the airports of Orange County, San Francisco, San Jose, Oakland, Sacramento, Ontario, Palm Springs, and San Diego. In the second and third amendments to this application filed February 19 and April 11, 1974, Air California seeks further revenue increases to offset additional increases in the cost of aviation fuel. A statement of present and proposed fares is set forth in Appendix A hereto.

Decision No. 82687 dated April 2, 1974 in this proceeding and in Applications Nos. 53308, 53987, and 54106 established permanent fare levels for Air California which included the two interim adjustments for increased fuel costs authorized by Decisions Nos. 82353 and 82389 in this proceeding. The latter decision also granted interim fare increases to Pacific Southwest Airlines (PSA), Golden West Airlines, Inc. (GWA), Western Air Lines, Inc. (Western), and Swift Aire Lines, Inc. (Swift). 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.<sup>1/</sup> 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 5, 1974. The matters were submitted on the latter date. Evidence in the consolidated proceeding was presented by witnesses appearing for Air California, PSA, Hughes Air West, United Air Lines, Inc., Swift, GWA, Western, and the Commission staff. The evidence shows that costs per gallon for aviation fuel vary between respondent passenger air carriers. The specific relief sought by each carrier reflects the fuel prices incurred by it.

The record in the consolidated proceedings shows that Air California has incurred additional increases in fuel costs amounting to 17.3 percent for which no provision is made in existing fare levels. The further increases are caused by an escalation in the posted prices of crude oil to applicant's fuel suppliers which, in accordance with existing contracts between applicant and its suppliers, resulted in an increase in charges by the suppliers to applicant. Examples of modification from suppliers of said price increases are attached as Appendix C to the third amendment to the application. The increases in aviation fuel prices are in compliance with the Cost of Living Council's Phase IV Regulations and will not be eliminated or decreased in the foreseeable future.

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<sup>1/</sup> 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.

The additional relief sought in the second and third amendments to this application is designed to recover only the newly imposed added costs of fuel effective March 1 and April 1, 1974. This proposed fare increase will add \$638,400 to Air California's annual gross revenue thereby covering the estimated additional annual out-of-pocket expense incurred in the amount of \$640,000. The sought fare increase amounts to approximately 2.3 percent of total 1973 revenue.

Exhibit D to the third amendment to Application No. 54546 shows the added cost of fuel resulting from the higher fuel prices occurring on March 1 and April 1, 1974, and develops the increased revenue required to offset such cost increases. Exhibit D is reproduced in Table 1 which follows.

TABLE 1

## AIR CALIFORNIA

Revenue Requested To Offset Increase In Fuel Cost  
1974

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Revenue passengers	1,400,000
Total fuel available (gallons)	21,430,713
Total at 95% of allocation (gallons)	20,359,177
Gallons burned per hour	1,100
Total flight hours	18,508

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Supplier	1974 Allocated Fuel	Airline Usage - 95% of Allocation	Third Price Increase (3-1-74) (per gallon)	Fourth Price Increase (4-1-74) (per gallon)	Total Cost Increase
Shell	17,473,200	16,599,540	1.752¢	1.58¢	\$553,760
Texaco	2,314,912	2,199,167	2.2¢	-	49,261
Chevron	1,608,000	1,527,600	-	-	-
Phillips	34,601	32,870	2.50	-	822
Total	21,430,713	20,359,177			\$603,843

Sales Tax at 6% 36,230

Total \$640,073

Revenue required per passenger  
to cover cost (net of transportation  
tax and 5% dilution)

48.1¢

Revenue from increase of 48¢

\$638,400

Revenue in excess (deficit) of  
fuel cost increase

\$(1,673)

### Findings

1. Air California is a passenger air carrier operating between points in California.
2. Air California was granted a permanent fare increase in Decision No. 82687 dated April 2, 1974 in Application No. 53308 and related proceedings. Included in the permanent fare level authorized in Decision No. 82687 was the interim fare increases authorized by Decisions Nos. 82353 and 82389 in this proceeding granted to offset increased fuel costs incurred by Air California on or before February 1, 1974.
3. Air California has incurred subsequent increased fuel costs on March 1, 1974 and April 1, 1974 for which no provision is made in Air California's permanent fare structure. Such increases raised Air California's fuel costs by 17.3 percent.
4. Table 1 sets forth applicant's estimate of the impact of the added fuel costs incurred on March 1 and April 1, 1974 and also shows the revenue increase necessary to recover such cost increases. Such estimates are reasonable for the purpose of this interim order.
5. As indicated in Table 1, an increase of 48.1 cents per passenger is required to offset the increased operating expenses resulting from the higher fuel costs which are the subject of this phase of Application No. 54546. A further interim fare increase of 48 cents per passenger over the fares authorized to be established in Decision No. 82687 is justified.

### Conclusions

1. Air California should be granted the interim fare increase found justified above. The specific fares authorized to be established are those set forth in Appendix A.
2. The increased interim fares should be authorized to become effective on two days' notice to the Commission and the public.

THIRD INTERIM ORDER

IT IS ORDERED that:

1. Air California, Inc. is authorized to establish as interim fares the proposed fares set forth in Appendix A hereto.

2. 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 two days after the effective date of this order on not less than two 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 is the date hereof.

Dated at Los Angeles, California, this 7<sup>th</sup>  
day of MAY, 1974.

William J. Snow President

[Signature]  
[Signature]  
Commissioners

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

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

## APPENDIX A

## AIR CALIFORNIA

Present and Proposed Fares

<u>Market</u>	<u>Present Fare</u> <sup>(1)</sup>		<u>Proposed Fare</u>		<u>Increase</u>	
	<u>Base</u>	<u>With Tax</u>	<u>Base</u>	<u>With Tax</u>	<u>Base</u>	<u>With Tax</u>
Oakland-Ontario	\$22.08	\$23.85	\$22.56	\$24.37	.48	.52
-Orange County	22.08	23.85	22.56	24.37	.48	.52
-Palm Springs	27.31	29.50	27.79	30.02	.48	.52
-San Diego	24.77	26.75	25.25	27.27	.48	.52
Ontario-Orange County	6.48	7.00	6.96	7.52	.48	.52
-Sacramento	22.45	24.25	22.93	24.77	.48	.52
-San Jose	22.08	23.85	22.56	24.37	.48	.52
Orange County-Palm Springs	10.19	11.00	10.67	11.52	.48	.52
-Sacramento	22.45	24.25	22.93	24.77	.48	.52
-San Diego	9.72	10.50	10.20	11.02	.48	.52
-San Francisco	22.08	23.85	22.56	24.37	.48	.52
-San Jose	22.08	23.85	22.56	24.37	.48	.52
Palm Springs-Sacramento	27.78	30.00	28.26	30.52	.48	.52
-San Francisco	27.31	29.50	27.79	30.02	.48	.52
-San Jose	27.31	29.50	27.79	30.02	.48	.52
Sacramento-San Diego	25.23	27.25	25.71	27.77	.48	.52
-San Jose	9.72	10.50	10.20	11.02	.48	.52
San Diego-San Jose	24.77	26.75	25.25	27.27	.48	.52

(1) Fare levels established pursuant to Decision No. 82687 dated April 2, 1974, which included interim increases authorized to cover higher fuel costs incurred February 1, 1974 or before.