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Decision No. 82907

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

) Application No. 54534
(Filed December 24, 1973;
amended January 9, 1974,
January 24, 1974,
February 15, 1974, and
April 17, 1974)

FOURTH INTERIM OPINION

By the fourth amendment to Application No. 54534 filed April 17, 1974, Western Air Lines, Inc. (Western) seeks further interim authority to increase its intrastate passenger fares on May 1, 1974. Specifically, Western requests an ex parte order for expedited authority on an interim basis to increase each of its first class, coach, and commuter passenger fares in intra-California markets so as to match fare increases sought by Pacific Southwest Airlines, Inc. (PSA) and Air California in competitive markets. In noncompetitive markets, Western proposes to increase its fares by the lowest dollar amount of the increases proposed by PSA.

In Decisions Nos. 82352, 82389, and 82450 dated January 15, January 22 and February 5, 1974, respectively, the Commission authorized Western to increase each of its published California intrastate passenger fares on an interim basis in order to match similar interim increases authorized by the Commission to PSA, Air California, and other airlines operating within California. The increases were issued to offset unprecedented increases in aviation fuel. Interim fare increases were also authorized in Decision No. 82389 to Golden West Airlines, Inc. (GWA) and Swift Aire Lines, Inc. (Swift). The increases authorized to all airlines other than PSA

were 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/}

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 PSA, Hughes Air West, United Air Lines, Inc., Air California, Swift, GWA, Western, and the Commission staff. The evidence shows that costs per gallon for aviation fuel vary for each respondent passenger air carrier. The specific relief sought by each carrier reflects the fuel prices incurred by it.

It appearing that the largest increase in fuel prices would be borne by PSA, that carrier was granted further interim authority to increase its air fares effective May 1, 1974, pursuant to Decision No. 82752 dated April 16, 1974 in Application No. 54387.

^{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.

The record in Case No. 9646 and the proceedings consolidated therewith indicate that Western will not bear increases in fuel costs of the same magnitude as PSA. In prior decisions involving general fare requests of PSA, Air California, and Western, the Commission found that PSA and Air California were the fare setting (low-cost) carriers in the markets in which Western competes with said carriers.^{2/} Such prior decisions recognized that Western's intra-California passenger operations were not profitable, but authorized Western to increase its jet commuter fares to an extent no greater than its principal competitors on the basis that no air carrier providing jet commuter service in the California air corridor could maintain higher fares than its competitors without severe loss of traffic to the carriers maintaining lower air fares.

The fourth amendment to Western's application states that in recognition of the Commission's prior findings that PSA and Air California are the fare-setting carriers in their principal California intrastate markets, the increases sought by Western correspond to the higher fares requested by PSA and Air California to cover their added fuel costs. Western's proposed increases in noncompetitive markets are based on the premise that increases found lawful for competitive routes should be authorized for noncompetitive routes with similar trip lengths and, therefore, with comparable costs. The proposed increases in intra-California passenger fares are set forth in Appendix A (Fourth Revision) attached to the fourth amendment to the application.

^{2/} See Air California Application No. 54546 (Third Amendment, April 11, 1974) and PSA Application No. 54387 (Third Amendment, February 11, 1974, as revised by Exhibit 16 in Case No. 9646).

Appendix C (Fourth Revision) attached to the fourth amendment to Western's application shows that the proposed fare increases would produce added revenues for Western of \$2,057,441. The application states that the revenue from the proposed increased fares will not meaningfully reduce Western's losses within California; if the passenger fares proposed herein by Western had been in effect during calendar 1973, Western's pre-tax loss on its intra-California operations for this period would have been reduced to only \$8,324,000. [Appendix B (Fourth Revision).]

Findings

1. Western provides air passenger service between points within the United States (including California), Canada, and Mexico. Within California Western serves San Francisco, Oakland, San Jose, Sacramento, Los Angeles, Ontario, Palm Springs, and San Diego. Western maintains first class, coach, and commuter air fares between the California points served by it.
2. The largest portion of Western's intra-California air passenger revenues are derived from its commuter air fares. Commuter air fares heretofore authorized to be maintained by Western are not higher than the corresponding fares maintained by its principal competitors, PSA, Air California, and United.
3. In separate decisions, PSA and Air California have been authorized further interim increases effective May 1, 1974 to offset increased costs of aviation fuel. Although Western will not incur increased fuel costs of the same magnitude as PSA and Air California, it seeks increased air fares to the levels authorized to PSA and Air California in order to maintain the historical parity of air fares in markets in which Western competes with PSA and Air California.

4. Historically Western's intra-California passenger operations have been conducted at a loss. The most current financial data available shows that Western's intra-California operations in year 1973 produced total revenues of \$28,294,000, total operating expenses of \$38,766,000, and an operating loss of \$10,472,000.

5. If the fare increase sought in the fourth amendment to Application No. 54534 is granted, Western will receive an annual revenue increase of \$2,057,441. Said revenue increase, if in effect during 1973, would have reduced Western's operating loss from its intra-California operations, but would not have eliminated that deficit. Western's intra-California operations will not be profitable if the full amount of the sought fare increase is granted.

6. In view of the foregoing, the increases resulting from the establishment by Western of (a) commuter air fares no greater than the fares maintained by PSA and Air California between competing points and (b) air fares in noncompetitive markets no greater than 12.3 percent will be reasonable and are justified.

Conclusion

The further interim relief requested in the fourth amendment to Application No. 54534 should be granted to the extent provided in the order which follows.

FOURTH INTERIM ORDER

IT IS ORDERED that:

1. Western Air Lines, Inc. is authorized to establish the interim fares set forth in Appendix A hereto.
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 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 29th
day of MAY, 1974.

Thomas L. Steyer
President
William J. Symons, Jr.
[Signature]
[Signature]
Commissioners

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

APPENDIX A

WESTERN AIR LINES, INC.

Authorized First Class, Coach, and Commuter Fares
(Excluding tax and security charges)

| | <u>Base Fares</u> (Excluding any interim fuel offset increases) | | <u>Authorized Fares</u> | |
|-------------------------|---|------------------------------|-------------------------|-----------------------------------|
| | <u>First Class</u> | <u>Commuter^{1/}</u> | <u>First Class</u> | <u>Commuter^{1/}</u> |
| Los Angeles-Oakland | \$24.07 | \$16.20 | \$26.62 ^{3/} | \$18.06 ^{5/} |
| -Ontario | - | 12.04 | - | 13.52 ^{4/} |
| -Palm Springs | 24.07 | 16.67 | 26.62 ^{3/} | 18.72 ^{4/} |
| -Sacramento | 33.00 | 17.59 ^{2/} | 37.06 ^{4/} | 19.68 ^{5/} |
| -San Diego | 15.00 | 10.19 ^{2/} | 16.85 ^{4/} | 11.44 ^{2/} ^{4/} |
| -San Francisco | 24.07 | 16.20 | 26.62 ^{3/} | 18.06 ^{5/} |
| -San Jose | 24.07 | 16.20 | 26.62 ^{3/} | 18.06 ^{5/} |
| Oakland-Ontario | 35.00 | 17.59 | 37.55 ^{3/} | 20.11 ^{3/} |
| -Palm Springs | 38.00 | 26.05 | 39.28 ^{3/} | 27.32 ^{6/} |
| -San Diego | 39.00 | 23.61 ^{2/} | 42.48 ^{3/} | 25.23 ^{5/} |
| -San Jose | 15.74 | 11.11 ^{2/} | 17.68 ^{4/} | 12.48 ^{2/} ^{4/} |
| Ontario-Palm Springs | - | 12.96 | - | 14.55 ^{4/} |
| -Sacramento | - | 20.37 | - | 22.69 ^{5/} |
| -San Diego (direct) | - | 11.11 | - | 12.48 ^{4/} |
| -San Diego (via LAX) | - | 13.00 | - | 14.60 ^{4/} |
| -San Francisco | 35.00 | 17.59 | 37.55 ^{3/} | 19.68 ^{5/} |
| Palm Springs-Sacramento | - | 28.00 | - | 28.70 ^{7/} |
| -San Diego | - | 15.74 | - | 17.68 ^{4/} |
| -San Francisco | 38.00 | 26.05 | 39.28 ^{3/} | 27.32 ^{6/} |
| Sacramento-San Diego | 41.00 | 24.07 | 44.48 ^{3/} | 25.70 ^{5/} |
| San Diego-San Francisco | 39.00 | 23.61 | 42.48 ^{3/} | 25.23 ^{5/} |
| -San Jose | - | 23.61 | - | 25.23 ^{5/} |
| San Francisco-San Jose | 15.74 | 11.11 ^{2/} | 17.68 ^{4/} | 12.48 ^{2/} ^{4/} |

^{1/} Except as noted.^{2/} Coach service.^{3/} Amount requested in Fourth Amendment, Appendix A, Appl. 54534.^{4/} Base fare increased by 12.3 percent.^{5/} Same fare authorized PSA.^{6/} Same fare authorized Air California.^{7/} Same as present fare which exceeds fare authorized Air California.