

Decision No. 82908

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

Application No. 54549
(Filed January 2, 1974;
amended January 17, 1974,
January 18, 1974, and
April 17, 1974)

THIRD INTERIM OPINION

In this application United Air Lines, Inc. (United) seeks authority to increase its California intrastate fares to offset increased costs of aircraft fuel. Interim Decision No. 82354 dated January 15, 1974 authorized United to increase each of its published California intrastate air fares by 23 cents per passenger (exclusive of security and armed guard charges and transportation tax), which is the same increase per passenger authorized to Pacific Southwest Airlines (PSA) in Decision No. 82280 dated December 18, 1973 in Application No. 54387.

Second Interim Decision No. 82413 dated January 19, 1974 authorized United to increase all of its California intrastate fares by the same amounts per passenger as those authorized to PSA pursuant to Decision No. 82389 issued January 22, 1974 in Application No. 54387. That decision also authorized Air California, Inc., Golden West Airlines, Inc., Western Air Lines, Inc., and Swift-Aire Lines, Inc. to increase their intrastate air fares 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 Cal, 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. In the third amendment to Application No. 54549 filed April 17, 1974, United seeks to further increase its intrastate first class, coach, and jet commuter air fares as specifically set forth in Exhibit G attached to the third amendment to the application. In those markets where applicant competes directly with PSA, the proposed increased fares are the same as those requested by PSA on an interim basis by the third amendment to 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 United will not bear increases in fuel costs of the same magnitude as PSA. The further adjustments in intrastate fares sought by United are in excess of those necessary to offset increased costs of fuel incurred by United.

The application states that historically United has maintained intrastate fares at levels which were less than sufficient to cover its costs of service in order to maintain parity of fares with PSA, its principal competitor in United's California intrastate markets, in recognition of the fact that PSA is the fare-making carrier as to intrastate service within California.

United's proposed fares generally reflect additional increases of \$2.32 per passenger (exclusive of tax) above the levels authorized to it by interim Decision No. 82413. Such increases, if authorized, assertedly would maintain the parity of fares between applicant and PSA which the Commission has heretofore recognized to be desirable and would provide some offset to the operating losses which applicant assertedly is experiencing from its California intrastate services. United estimates that it carried 1,072,242 passengers in its California intrastate services in the 12 months ended December 31, 1973. The proposed increases in fares over those authorized by Decision No. 82413 would have produced additional revenue for that period of \$1,888,492. United alleges that this increase in annual operating revenue would not cause its intra-California operations to be conducted at a profit.

Prior decisions of this Commission involving the fare structure in the California air corridor have recognized that CAB trunk carriers operating in those markets (United and Western) have incurred operating losses, but have authorized United and Western to increase their jet commuter air fares to an extent no greater than PSA, on the basis that no 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. ✓

Findings

1. United provides air passenger service between points in the United States (including California). Within California United serves Bakersfield, Fresno, Los Angeles, Merced, Modesto, Oakland, Sacramento, San Diego, San Francisco, Santa Barbara, Stockton, and Visalia. United maintains first class, coach, and commuter air fares between the California points served by it.

2. The largest portion of United's intra-California air passenger revenues are derived from its commuter air fares. Commuter air fares heretofore authorized to be maintained by United are not higher than the corresponding fares maintained by PSA and Western.

3. In a separate decision, PSA has been authorized further interim increases to offset increased costs of aviation fuel. Although United will not incur increased costs of fuel in the same magnitude as PSA, it seeks increased air fares in the same amount as authorized to PSA in order to maintain the historical parity of air fares in the markets in which United competes with PSA.

4. Historically United's intra-California operations have been conducted at a loss. United estimates that the proposed fares sought in the third amendment to its application would have produced an increase in annual revenues of \$1,888,492 had such higher fares been in effect during the year 1973. Applicant avers that the annual losses from its intra-California operations would not be eliminated if the sought increased fares are granted.

5. In view of the foregoing, the increases resulting from the establishment of (a) jet commuter air fares and coach fares directly competitive with PSA on levels no higher than the increased air fares authorized to PSA and (b) other coach, first class, and standby air fares by 12.3 percent, but not to exceed the fares sought in the third amendment to Application No. 54549 filed April 17, 1974, will be reasonable and are justified.

Conclusion

The further interim relief requested in the third amendment to Application No. 54549 should be granted to the extent provided in the order which follows.

THIRD INTERIM ORDER

IT IS ORDERED that:

1. United Air Lines, Inc. is authorized (a) to establish the increased jet commuter and jet coach air fares set forth in Appendix A attached hereto and (b) to increase by 12.3 percent the following fares:

- (i) First class and jet coach fares (other than those in Appendix A) as set forth on 9th Revised Page 4 and 14th Revised Page 8 issued March 30, 1973 of Tariff No. UPF - CAL-3.
- (ii) Standby fares as set forth on 6th Revised Page 5 issued March 30, 1973 of Intrastate Local Tariff No. 2.
- (iii) The increased fares authorized in paragraphs (i) and (ii) shall not exceed the increases sought in the third amendment to Application No. 54549.

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 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 29th
day of MAY, 1974.

Verna L. Stangen
President

William Lysons

[Signature]

[Signature]
Commissioners

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

APPENDIX A

UNITED AIR LINES, INC.

California Intrastate Fares
(Excluding Tax and Security Charges)

	<u>Base Fares</u> (Excluding any interim fuel offset increases)	<u>Authorized Fares</u>
<u>Jet Commuter</u>		
Los Angeles - San Diego	\$ 7.41	\$ 9.27 <u>1/</u>
Los Angeles - San Francisco	16.20	18.06 <u>1/</u>
Oakland - San Francisco	6.00	6.74 <u>3/</u>
San Diego - San Francisco	23.61	25.23 <u>1/</u>
<u>Jet Coach</u>		
Fresno - Los Angeles	14.82	16.67 <u>1/</u>
Fresno - San Diego	22.22	25.70 <u>1/</u>
Fresno - San Francisco	10.19	11.81 <u>1/</u>
Fresno - Stockton	7.41	9.27 <u>2/</u>
Los Angeles - Stockton	18.52	20.38 <u>2/</u>
San Diego - Stockton	25.92	25.92 <u>4/</u>
San Francisco - Stockton	7.41	9.27 <u>2/</u>

- 1/ Same fare authorized PSA.
- 2/ Amount less security charge requested in Third Amendment, Exhibit G, A. 54549.
- 3/ Base fare increased by 12.3 percent.
- 4/ Same as present fare which exceeds fare authorized PSA.