

ORIGINAL

Decision No. 82917

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of HUGHES AIR CORP.,
d/b/a HUGHES AIRWEST, for authority
to increase intrastate passenger
fares.

Application No. 54599
(Filed January 28, 1974;
amended April 1, 1974)

SECOND INTERIM OPINION

Hughes Air Corp., d/b/a Hughes Airwest (Airwest), is a common carrier by air of passengers and property between points located in various states of the United States, including California, Canada, and Mexico. In California, Airwest operates in intrastate as well as interstate commerce providing local service between various California cities, as well as between these cities and points in other states.

In this application Airwest seeks authority to increase its intrastate passenger fares on an ex parte basis to offset increased costs of aviation fuel. Interim Decision No. 82451 dated February 5, 1974 authorized Airwest to increase its intrastate air fares by adding 70 cents per passenger (exclusive of security and armed guard surcharges and transportation tax) to the increased fares (exclusive of security and armed guard surcharges and transportation tax) authorized in Decision No. 82396 issued January 29, 1974 in Application No. 53766. The interim increases parallel those authorized to

Pacific Southwest Airlinss (PSA) in Decision No. 82389 dated January 22, 1974 in Application No. 54387.^{1/}

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.^{2/} 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, Airwest, 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.

Exhibit 4 in Case No. 9646 was sponsored by a witness appearing for Airwest. That exhibit showed that Airwest's system increase in operating expenses resulting from higher fuel costs is estimated to be in excess of \$5,700,000 in 1974. These increased costs, had they been incurred in 1973, would have exceeded earnings by \$1,000,000. For this reason Airwest urged that immediate consideration be given to increase its air fares to offset higher fuel costs.

Airwest's estimate of the effect of fuel cost increases incurred by it for the calendar year 1974 is set forth in Table 1, below (Exhibit 4, supra, Table RW 2):

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- ^{1/} That decision also authorized increased air fares to Air California, Inc., Golden West Airlines, Inc., Western Air Lines, Inc., and Swift-Aire Lines, Inc.
- ^{2/} 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.

TABLE 1
HUGHES AIRWEST
COMPUTATION OF FUEL SURCHARGE REQUIRED
(SYSTEM)

12 Month Ended June 30, 1973 - Fuel Used	76,784,541 gallons
Fuel Cost	\$11,485,046
Cost per Gallon	14.9575¢
Increased Fuel Cost Per Gallon Calendar Year 1974 Over 12 Months Ended June 30, 1973	7.1674¢
Percent Increased Cost Per Gallon	47.92%
Fuel Allocation - Calendar Year 1974	79,501,000 gallons
Increased Fuel Cost - Calendar Year 1974	\$5,698,181
Forecast Passenger Revenue Before Fuel Surcharge - Calendar Year 1974	\$118,341,000
Percent Fuel Surcharge Required (1)	4.95%

(1) Includes recovery of \$170,945 to be paid on travel agent commissions (3% of system revenue).

The interim increase of 70 cents per passenger authorized by Decision No. 82451, supra, is estimated to produce an increase of approximately 3.4 percent in annual revenues, based on the number of intrastate passengers carried in California in 1973. The first amendment to Application No. 54599 filed April 1, 1974 seeks the establishment of a surcharge increase in fares of 4.95 percent to apply in lieu of the interim increase of 70 cents per passenger.

Airwest states that the surcharge method of increase is more satisfactory to it than a flat increase per passenger because Airwest believes the surcharge method is more responsive to identifiable fluctuations in fuel costs and will ultimately permit a more timely flow-through of any changes. The proposed method of establishing the requested surcharge increase is set forth in Airwest's Exhibit 22 in Case No. 9646.

Airwest urges that the proposed surcharge increase is reasonable in recognition of its showing at the hearing and particularly in the light of its historical pattern of operating losses from

California intrastate operations. Airwest points out that by Order 74-3-96 the Civil Aeronautics Board granted seven trunk and four local service carriers authority to increase their fares up to 6 percent to cover the increased costs in aviation fuel.

On April 16, 1974, the county of Humboldt filed a pleading alleging that Airwest offers the only scheduled jet service to northern coastal counties in California and that financial impact of increased air fares upon residents of those counties should be given full and fair consideration by this Commission, inasmuch as successive fare increases granted to Airwest have imposed undue economic hardship on the citizens of Humboldt County. The County requests that public hearings in Eureka be held in Application No. 54599, and that the Commission issue an order instituting investigation on its own motion to determine the effect of the proposed fare increases on passenger traffic to and from Eureka. The Commission has considered the foregoing and concludes that the requests of Humboldt County should be denied because hearings have been held in Case No. 9646 and because the effect of the fuel cost increases are universally applicable to all airlines using jet aviation fuel and to all points served by such airlines.

Findings

1. Airwest is a common carrier by air of passengers and property between points located in various states of the United States, including California, Canada, and Mexico. In California, Airwest operates in intrastate as well as interstate commerce providing local service between various California cities, as well as between these cities and points in other states.

2. Airwest was authorized by Decision No. 82451 to increase its intrastate air fares by 70 cents per passenger on an interim basis. That increase is estimated to produce an annual revenue increase of 3.4 percent (\$223,910) based on the number of California intrastate

passengers carried by Airwest in 1973. That increase was designed to compensate Airwest for unprecedented increases in aircraft fuel incurred on or before the date of the original application herein.

3. By its first amendment to Application No. 54599 filed April 1, 1974, Airwest seeks a further increase in fares by substituting a 4.95 percent surcharge to its intrastate fares in lieu of the interim increase of 70 cents authorized by Decision No. 82451. Applicant estimates that it carried 319,871 passengers in its California intrastate services in the calendar year 1973. The proposed 4.95 percent surcharge per passenger increase would have produced additional revenue for that period of \$395,200.00, a 4.2 percent increase in revenue, after 12 percent dilution for discount fares traffic and 3.2 percent experienced travel agent commission to total sales.

4. Airwest experienced a systemwide average aviation fuel cost per gallon in 1973 as follows:

<u>1973</u>	
1st Qtr.	\$.1487
2nd Qtr.	.1491
3rd Qtr.	.1572
4th Qtr.	.1645

Airwest estimates it will incur the following system aviation fuel costs per gallon in 1974:

1974 Estimated

Jan.	\$.1848	
Feb.	.1848	
Mar.	.1848	
Apr.	.1848	
May	.2198	(Projected 3.5¢ per gal. increase)
Jun.	.2198	
Jul.	.2198	
Aug.	.2198	
Sep.	.2548	(Projected 3.5¢ per gal. increase)
Oct.	.2548	
Nov.	.2548	
Dec.	.2548	

5. Based on the average system fuel costs per gallon set forth in the foregoing finding, Airwest estimates that a 4.95 percent average increase in system revenues will be required to offset the fuel cost increases expected to be incurred in 1974, as shown in Table 1 in the preceding opinion.

6. The estimates of fuel cost appearing in Table reasonably represent the increases to be incurred by Airwest and are adopted for the purposes of this proceeding.

7. Airwest's last general increase in its California intrastate fares was authorized by Decision No. 82396 dated January 29, 1974 in Application No. 53766. The fares found reasonable therein for application within California do not reflect the increased fuel costs measured in Table 1 in the preceding opinion. That decision found that without considering its federal subsidy Airwest conducted systemwide and California intrastate operations at a loss in 1971 and 1972, and would continue to conduct intrastate operations at a loss under the fares authorized therein.

8. Interim surcharge increases of 4.95 percent in the fares authorized by Decision No. 82396, to apply in lieu of the interim increase of 70 cents per passenger authorized by Decision No. 82451 in this proceeding, will be reasonable and are justified.

Conclusions

1. Further interim increases in fares proposed in the first amendment to Application No. 54599 should be authorized.

2. The requests of the county of Humboldt contained in its pleading filed April 16, 1974 should be denied.

SECOND INTERIM ORDER

IT IS ORDERED that:

1. Hughes Air Corp., d/b/a Hughes Airwest, is authorized to establish increased air fares by applying a surcharge of 4.95 percent (exclusive of security and armed guard surcharges and transportation tax) to the fares (exclusive of security and armed guard surcharges

and transportation tax) established pursuant to Decision No. 82396 issued January 29, 1974 in Application No. 53766. Concurrent with the establishment of the authorized 4.95 percent surcharge the interim increase of 70 cents per passenger authorized by Decision No. 82451 in this proceeding shall be cancelled.

2. In establishing the fares authorized in the foregoing ordering paragraph the method of publishing the increased fares set forth in Exhibit 22 in Case No. 9646 may be used.

3. 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.

4. The authority granted herein will expire unless exercised within ninety days after the effective date of this order.

5. The requests contained in the pleading filed April 16, 1974 in this proceeding by the county of Humboldt are denied.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 29th
day of MAY, 1974.

Vernon L. Sturgeon
President
William J. Brown, Jr.

[Signature]
[Signature]
Commissioners

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