

Decision No. 83000

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
HOLIDAY AIRLINES CORPORATION, a
California corporation for Interim
Authority to Increase Its Intrastate
Passenger Fares.

Application No. 54630
(Filed February 5, 1974)

O P I N I O N

Holiday Airlines Corporation (Holiday) is a passenger air carrier operating wholly within the State of California, serving the airports of South Lake Tahoe, Oakland, San Jose, Hollywood-Burbank, Los Angeles, and San Diego. Service between these points is provided with two Lockheed Electra prop-jet aircraft.

Holiday seeks an immediate ex parte order authorizing it to increase its passenger fares to produce an annual increase in passenger revenues of 10.6 percent on an interim basis pending full hearing. Attached to the application are:

1. Balance sheets as of September 30, 1973 and December 31, 1973 (Appendix I).
2. Income statements for the 12 months ended September 30, 1973 and December 31, 1973 (Appendix K).
3. Present and Proposed fares (Appendices A-C).
4. Revenue increase due to the proposed fares (Appendix H).
5. Description of property and equipment (Appendix J).
6. Summary of earnings (Appendix D).

In support of its request for an expedited fare increase, Holiday alleges as follows:

Until last year, Holiday had not earned an annual profit. As a result of improved cost controls and higher traffic levels, Holiday finally was able to post its first annual profit (a modest \$27,153) for the 12 months ended September 30, 1973 (Appendix K).

Since that time, however, Holiday has been faced with broad increases in costs, particularly fuel and labor costs. The result has been that Holiday's profits have now turned to losses, with a loss of \$280,896 recorded for the calendar year 1973.

In Appendix F, Holiday has set out the unit costs for calendar year 1973 and compares them with unit costs anticipated for a test year ending June 30, 1975. Appendix G develops the anticipated flight hours for the test year and Appendix E indicates the forecast of passengers together with the passenger revenues developed from both present fares and proposed fares. The income statement for the test year indicates that the application of present fares would result in an operating loss of \$111,568 and a net loss of \$114,708 on total revenues of \$3,172,023 (Appendix D). Under the proposed fares, Holiday's 1975 test year operation would develop a net profit of \$141,488, or an operating ratio of 95.8 percent.

Holiday's proposed fare levels include the interim surcharge of 46 cents per passenger for armed guard and security services, which Holiday requests be made permanent. Holiday submits that its proposed fares are reasonable and in the public interest. The proposed fares in Lake Tahoe markets are from approximately 10 percent to 30 percent less than the corresponding current Reno fares. In the California commuter markets, Holiday's proposed fares match the current fares of the principal carriers (PSA, United, and Air California).

The application further states that because of the severity of the current inflationary pressures, particularly spiraling fuel costs, Holiday requests that the passenger fares proposed herein be granted on an expedited basis. The application alleges that Holiday's operations are now being conducted at a loss and additional revenue is critically needed. Rather than pursue separate applications for passenger surcharges (security services, fuel), Holiday prefers to incorporate all such cost considerations in this application and it

has constructed its proposed fares to be fully compensatory. Holiday asserts such an approach reduces internal administrative costs and direct costs in passenger ticketing and eliminates much public confusion.

The Commission's Transportation Division staff has prepared an engineering economic study, in report form, dated May 15, 1974. Such report is made a part of the record herein as Exhibit 1. The Commission's Finance and Accounts Division has prepared a study of its audit and review of applicant's accounting records in a report dated May 31, 1974. That report is made a part of the record as Exhibit 2. Based on their reports, the Transportation Division and Finance and Accounts Division recommend that the application be granted ex parte, if there are no protests. Exhibit 2 also recommends that certain adjustments to Holiday's accounting records be made, and that applicant's proposed adjustments to its accounting records to comply with the staff recommendations be submitted for review prior to their entry into the accounts. Applicant should be directed to furnish such proposed entries for review on or before December 31, 1974.

The application was served in accordance with Commission rules and notice of the filing of the application appeared on the Commission's Daily Calendar. No protest or request for public hearing has been received.

The following table sets forth the staff's estimate of Holiday's operating results for a historical year and for a test year ending June 30, 1973 as set forth in Exhibit 1.

TABLE 1

Estimated Results of Operation, Year Ending June 30, 1975

Item	:Historical :		
	:Year Ended :	Rate Year Ending 6/30/75	
	: 12/31/73 :	Present Fares	Proposed Fares
<u>Statistics</u>			
Passengers	68,921	87,400	87,400
Flight Hours	2,591	3,300	3,300
<u>Revenue</u>			
Scheduled Passengers	\$1,615,000	\$2,118,000	\$2,344,000
Charter/Contract	538,000	997,000	997,000
Beverage	31,000	59,000	59,000
Freight	20,000	26,000	26,000
Miscellaneous	13,000	25,000	25,000
Total Revenue	\$2,217,000	\$3,225,000	\$3,451,000
<u>Expenses</u>			
Flying Operations	\$ 711,000	\$1,066,000	\$1,066,000
Direct Maintenance	603,000(a)	754,000(b)	754,000(b)
Indirect Maintenance	84,000	155,000	155,000
Passenger Service	74,000	108,000	108,000
Station Operations	299,000	414,000	414,000
Reservations and Sales	141,000	238,000	242,000
General and Administration	259,000	327,000	327,000
Depreciation and Amortization	154,000	154,000	154,000
Total Operating Expenses	\$2,325,000	\$3,216,000	\$3,220,000
Operating Income (Loss)	\$ (108,000)	\$ 9,000	\$ 231,000
Operating Tax (c)	-	\$ 1,000	\$ 21,000
Net Income (Loss)	\$ (108,000)	\$ 8,000	\$ 210,000
Rate Base	\$1,287,000	\$1,056,000	\$1,056,000
Rate of Return	-	0.8%	19.9%
Operating Ratio	104.9%	99.8%	93.9%

(a) Does not include \$182,767 single expenditure for aircraft wing repair.

(b) Includes \$37,000 to amortize \$182,767 in 5 years.

(c) No Federal income tax will be paid because of loss carry-over provisions.

Findings

1. Holiday operates as a passenger air carrier and is authorized to serve the airports of Hollywood-Burbank, Los Angeles International, San Jose Municipal, Oakland International, and Lake Tahoe, and between San Diego International, Los Angeles International, and Lake Tahoe.

2. In Application No. 54630 filed February 5, 1974, Holiday requests authority to increase its passenger fares. The proposed fares include the compensation of all expenses associated with the airport security and armed guard services, and also reflect the increases in fuel costs up to the level of April 1974.

3. Holiday's last passenger fare increase was granted in Decision No. 79298.

4. Holiday estimates that its operations for a test year ending June 30, 1975 under present fares would result in an operating loss of \$111,568. Test year operations under proposed fares are estimated by Holiday to produce a net profit of \$141,488, or an operating ratio of 95.8 percent.

5. The Commission staff's estimates, as shown in Table 1 in the preceding opinion, indicate that Holiday would experience a net income (after taxes) of \$8,000 under present fares, and \$210,000 under proposed fares. Operations under proposed fares in the test year are estimated to produce an operating ratio (after taxes) of 93.9 percent and a rate of return of 19.9 percent.

6. Holiday is in need of an immediate improvement in its net earnings in order to continue to provide adequate and efficient service to the public.

7. An operating ratio (after taxes) of 93.9 percent will not produce excessive earnings for Holiday in the test year used herein. The rate base of applicant is small; thus, the rate of return is not a suitable measure for fare adjustments.

8. The fare increases sought in Application No. 54630 are justified.

Conclusions

1. A public hearing is not necessary.
2. The application should be granted.

The test-year projections of Holiday and the Commission staff reflect revenues and expenses which include provision for security and armed guard services. Decision No. 81697 in Application No. 54062 and Decision No. 82190 in Application No. 54247 authorized Holiday to establish surcharge increases for armed guard and security screening services, pending further action of the Commission. The fares authorized herein include this particular airline's individual costs for such expenses, and such surcharges should therefore be cancelled concurrently with the establishment of the increased fares authorized herein. ✓ ✓ ✓

The applications of several other airlines were consolidated for hearing with Applications Nos. 54062 and 54247 of Holiday with respect to appropriate charges for armed guard and security screening services. To the extent that this decision resolves such issues for Holiday, the Commission will entertain a motion to dismiss Holiday from the consolidated proceedings.

O R D E R

IT IS ORDERED that:

1. Holiday Airlines Corporation (Holiday) is authorized to establish the increased one-way and commuter air fares proposed in Application No. 54630 as shown in Appendix A hereof. Holiday is also authorized to establish the proposed increased round-trip, excursion fares, tour basing round-trip fares, stop-over charge and multiple-ride discount fares set forth in Appendixes B and C to Application No. 54630. Concurrently with the establishment of the increased fares authorized herein, Holiday shall cancel the interim surcharges for armed guard and security screening services authorized by Decisions Nos. 81697 and 82190.

2. Tariff filings authorized to be made as a result of the order herein may be made on or after the effective date of this order on five 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.

4. Holiday is directed to furnish to the Commission on or before December 31, 1974 recommendations with respect to adjustments in accounting records (a) to remove from equipment accounts and to state separately as a deferred charge, or (b) to charge to Airworthiness Reserve, excess overhaul costs previously capitalized in a total amount of \$223,561.

The effective date of this order shall be ten days after the date hereof.

Dated at San Francisco, California, this 18th day of JUNE, 1974.

William L. Stearns
President
William J. Symons
William J. Symons
James H. [unclear]
James H. [unclear]
Commissioners

APPENDIX A
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PRESENT AND PROPOSED BASIC FARES

Federal Excise Tax Included (8%)

	<u>Present One-way Fares</u>			<u>Proposed One-way Fares</u>		
	<u>Peak 1/</u>	<u>Offpeak 2/</u>	<u>Commuter</u>	<u>Peak 1/</u>	<u>Offpeak 2/</u>	<u>Commuter</u>
Lake Tahoe - Hollywood/Burbank	\$33.50	\$28.50		\$37.50	\$32.50	
- Los Angeles	33.50	28.50		37.50	32.50	
- Oakland	19.50	16.50		22.50	19.50	
- San Diego	41.00	35.00		45.00	39.00	
- San Jose	19.50	16.50		21.50	19.50	
Los Angeles - Hollywood/Burbank			\$ 8.00			\$ 9.00
- Oakland			16.50			18.75
- San Diego			8.00			9.00
- San Jose			16.50			18.75
Oakland - Hollywood/Burbank			16.50			18.75
San Jose - Hollywood/Burbank			16.50			18.75

1/ Friday through Sunday
2/ Monday through Thursday

APPENDIX A
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PRESENT AND PROPOSED BASIC FARES

Federal Excise Tax Excluded

	<u>Present One-way Fares</u>			<u>Proposed One-way Fares</u>		
	<u>Peak 1/</u>	<u>Offpeak 2/</u>	<u>Commuter</u>	<u>Peak 1/</u>	<u>Offpeak 2/</u>	<u>Commuter</u>
Lake Tahoe - Hollywood/Burbank	\$31.02	\$26.39		\$34.72	\$30.09	
- Los Angeles	31.02	26.39		34.72	30.09	
- Oakland	18.06	15.28		20.83	18.06	
- San Diego	37.96	32.41		41.67	36.11	
- San Jose	18.06	15.28		20.83	18.06	
Los Angeles - Hollywood/Burbank			\$ 7.41			\$ 8.33
- Oakland			15.28			17.36
- San Diego			7.41			8.33
- San Jose			15.28			17.36
Oakland - Hollywood/Burbank			15.28			17.36
San Jose - Hollywood/Burbank			15.28			17.36

1/ Friday through Sunday
2/ Monday through Thursday