

Decision No. 83415

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Southwest Airlines for an ex parte order or expedited authority to increase its intrastate fares.) Application No. 54387 (Filed October 16, 1973; Amended November 20, 1973, January 4, 1974, February 13, 1974, May 10, 1974, June 17, 1974, July 16, 1974 and August 22, 1974.)
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 19, 1974, April 17, 1974, June 28, 1974 and August 2, 1974.)
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, April 11, 1974, May 28, 1974, June 10, 1974, July 8, 1974 and August 5, 1974.)
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, April 17, 1974, June 17, 1974, July 10, 1974 and August 1, 1974.)

SUPPLEMENTAL OPINION

Pacific Southwest Airlines (PSA), Western Airlines, Inc. (Western), Air California, Inc. (Air Cal) and United Airlines, Inc. (United) by the above applications seek expedited authority to increase passenger air fares in order to offset the increased cost of fuel. Various amendments have been filed to the applications requesting ex parte orders granting emergency interim relief to increase fares to offset additional increases in the price of fuel.

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Such orders ^{1/} have been granted to the above applicants authorizing interim fare increases except for the ex parte relief requested in PSA's June 17, July 16 and August 22, 1974 amendments; Air Cal's June 10, July 8 and August 5, 1974 amendments; United's July 10 and August 1, 1974 amendments; and Western's June 28 and August 2, 1974 amendments.

PSA

In its amendment filed August 22, 1974, PSA stated it has received notice from its major supplier that effective August 1, 1974, due to a change in mix of old versus new crude, PSA's price of fuel would decrease by \$.0036 per gallon. PSA stated it has also received notice from its major supplier of a \$.05 per gallon increase in the price of fuel effective September 1, 1974. According to PSA, the September 1 increase results in an annual increase in costs of \$4,641,000 and combined with previous fuel price changes, the cumulative annual effect of such changes totals a \$20,581,000 increase in cost.

^{1/} PSA was granted interim fare increases in Decisions Nos. 82280, 82389, 82752 and 82906 dated December 18, 1973, January 22, April 16 and May 29, 1974, respectively.

Air California was granted interim fare increases in Decisions Nos. 82353, 82389, 82847 and 82997 dated January 15, January 22, May 7 and June 18, 1974, respectively.

United was granted interim fare increases in Decisions Nos. 82354, 82413, 82908, 82978 and 83137 dated January 15, January 29, May 29, June 7 and July 16, 1974, respectively.

Western was granted interim fare increases in Decisions Nos. 82352, 82389, 82450 and 82907 dated January 15, January 22, February 5 and May 29, 1974, respectively.

Based on the interim fare increases authorized to date (Decision No. 82752 modified by Decision No. 82906 and fares instituted by PSA), PSA now requests \$8,716,000 of additional interim and/or permanent fare relief to cover added fuel costs effective through September 1, 1974. PSA claims this amount equals over 8% of total operating revenues in 1973 and over 750% of net income in 1973 and that the relief requested is urgently needed to maintain the level of service now enjoyed by the California air traveler as well as to maintain the financial viability of PSA to provide such service.

The previous interim fare increase authorized to PSA was based on estimates of the revenue increase necessary to recover the net increases in PSA's operating costs as set forth in Table 1 of Decision No. 82752.

The following table depicts the Commission staff's revision to the table in Decision No. 82752 to reflect the fuel cost increases through September 1, 1974.

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TABLE 1

Development of Estimated Cost
To Offset Pacific Southwest Airlines
Fuel Cost Increases Through September 1, 1974

Statistics

Passenger revenue based on D. 81793, A. 53525 (6,481,000 passengers)	\$98,589,000
Adjusted flight hours	56,800
Gallons of fuel for airline operations	88,040,000

Fuel Cost Adjustments

Increased cost per gallon (includes sales tax)	\$ 0.2106
Additional increase in fuel expense	\$18,541,000
Additional travel agency commissions	<u>501,000</u>
Total fuel cost adjustments	\$19,042,000

Expense Adjustments

Flying operations due to flight hour reduction	\$ 1,885,000
Direct and indirect maintenance due to flight hour reduction	<u>1,086,000</u>
Total expense adjustments	\$ 2,971,000

Net Additional Expense Increase to be Offset
By Revenue Increase

	\$16,071,000
Percent of passenger fare increase	16.3%
Percent of passenger fare increase to offset fuel cost increases granted by D.82752	12.3%
Additional percent of passenger fare increase	4.0%

Air Cal

In its amendment filed August 5, 1974, Air Cal stated it has again received notice from its fuel suppliers of fuel price increases and that since the interim fare increase decision, (Air Cal was granted a system rate increase on April 2, 1974, and one interim rate increase to offset the price of fuel in Decision No. 82997 dated June 18, 1974) the price of jet fuel from Air California's major supplier has gone from 25.592¢ per gallon to 29.342¢ per gallon and Air Cal has been notified that this will increase to 34.342¢ per gallon September 1, 1974. Air Cal's other major supplier has increased its price from 21.17¢ per gallon to 32.67¢ per gallon effective September 1, 1974. These two price increases represent increases of 34.2% and 54.3%, respectively.

These two instant fuel increases represent an annual increase of \$1,092,790 over and above Air Cal's amendment to Application No. 54546 filed July 8, 1974. Including all increases that have occurred since interim Decision No. 82997, Air California estimates that \$1,755,600 on an annual basis is now being borne by the carrier without relief. Air Cal claims this amount is equal to 60.7% of its 1973 profit. Without relief, Air Cal claims it would be required to make drastic modifications to its operations which could include the closing of marginal routes and that the public would suffer more from the reduction and possible elimination of service than it would from the granting of fare relief.

The following table depicts the Commission staff's estimate of annual revenues required by Air Cal to offset increased fuel costs through September 1, 1974 and the additional percent fare increase needed to supplement the previous interim rate increases:

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TABLE 2

Development of Estimated Cost
To Offset Air California
Fuel Cost Increases Through September 1, 1974

Statistics

Passenger revenue based on D.82687, A.53308 (1,396,000 passengers)	\$28,383,000
Flight hours (D.82687, A.53308)	17,900
Gallons of fuel for airline operations	19,690,000

Fuel Cost Adjustments

Increased cost per gallon (includes sales tax)	\$ 0.170766
Additional increase in fuel expense	\$ 3,362,000

Expense Adjustments

None. (Air California has not reduced flight hours.)

<u>Net Additional Expense Increase to be Offset by Revenue Increase</u>	\$ 3,362,000
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Percent of passenger fare increase	11.8%
Percent of passenger fare increase to offset fuel cost increases granted by D.82847 and D.82997	6.0%
Additional percent of passenger fare increase	5.8%

United

United in its amendments filed July 10 and August 1, 1974 seeks authority to increase its intrastate passenger fares to maintain parity with PSA, the fare-making carrier as to intrastate service within California. United also cites its historical pattern of operating losses from California intrastate operations and that the proposed increase would provide some offset to these operating losses. There is no showing by United in its amendments filed July 10 and August 1, 1974, of additional fuel increases incurred by United to warrant fare increases in its intrastate services.

Western

Western, in its amendments filed June 28 and August 2, 1974 requests an ex parte order for authority to increase its commuter and coach intrastate passenger fares so as to match fare increases sought by PSA and Air Cal in competitive markets. In non-competitive markets, Western proposes to increase its fares by the lowest dollar amount of the increases proposed by PSA. Western 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 fares requested by PSA and Air California to cover its added fuel costs. Also, Western states the proposed revenue increase will not meaningfully reduce Western's losses within California.

The record in Case No. 9646 and the proceedings consolidated therewith indicate that Western will not bear increases in fuel costs in the same magnitude as PSA and Air California. ^{2/}

^{2/} 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, an investigation into adjusting air common carrier rates to offset aviation fuel increases.

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.

Further Hearing

Because of the urgent need for additional revenues made apparent in the amendments filed by PSA, Air Cal, United and Western, further interim relief should be authorized, pending resolution of all of the issues raised in their applications. The Commission has set a hearing in the above amendments before Examiner Mallory for Wednesday, September 11, 1974 at 10:00 a.m. in the Commission Courtroom, State Building, 350 McAllister Street, San Francisco, California, at which time and place applicants and all interested parties may appear and be heard and at which time the Commission staff will present testimony regarding the Tables contained in this Opinion.

F I N D I N G S

1. PSA, Air Cal, United and Western provide air passenger service between points in California.
2. Interim fare increases have been granted to PSA and Air Cal to cover increased costs of operations resulting from aviation fuel cost increases.
3. PSA and Air Cal have incurred further fuel cost increases not covered by the fare increases granted by previous interim orders and there is a need for additional revenues to recover the cumulative fuel cost increase through September 1, 1974.
4. The Commission staff estimates of the revenue increase necessary to recover increases in PSA's and Air Cal's operating costs resulting from recent escalation in fuel prices as set forth in Table 1 and 2 of the preceding opinion are reasonable for the purposes of this interim decision. Table 1 shows that for PSA a net additional 4.0% increase is required to provide sufficient additional revenues to cover fuel cost increases. Table 2 shows that for Air California a net additional 5.8 % increase is required to provide sufficient additional revenues to cover fuel cost increases.

5. On an interim basis, a 4.0% increase in PSA's present passenger air fares on file with the Commission (exclusive of passenger screening and armed guard surcharges) will be reasonable and is justified provided that none of the increased fares exceed that which are requested in PSA's Application 54387 as amended August 22, 1974.

6. On an interim basis, a 5.8% increase in Air Cal's present passenger air fares on file with the Commission will be reasonable and is justified provided that none of the increased fares exceed that which are requested in Air Cal's Application 54546 as amended August 5, 1974.

7. Although United and Western will not incur increased fuel costs of the same magnitude as PSA and Air Cal, they seek 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 United and Western compete with PSA and Air Cal.

8. Historically United and Western intra-California passenger operations have been conducted at a loss and the fare increases sought in the August 1, 1974 amendment to United's Application No. 54549 and in the August 2, 1974 amendment to Western's Application No. 54534 would not eliminate their intra-California deficit.

9. In view of the foregoing, the increases resulting from the establishment by United and Western of air fares no greater than the fares maintained by PSA and Air Cal between competing points are justified provided such increased fares do not violate the long haul-short haul requirements of Section 21 of Article XII of the California Constitution.

10. The fares authorized herein (after computation of federal transportation tax) may be only rounded down to simplify the determination of selling fares.

11. The fares authorized herein should be permitted to be established on five days' notice to the Commission and the public.

12. The findings and conclusions set forth in this opinion are without prejudice to the findings and conclusions which may be reached in a final order in this proceeding.

SUPPLEMENTAL ORDER

IT IS ORDERED that:

1. Pacific Southwest Airlines is authorized to establish an interim increase in fares of 4% applied to its present passenger air fares on file with the Commission, (exclusive of passenger screening and armed guard surcharges) but not to exceed the fares sought in the seventh amendment to Application No. 54387 filed August 22, 1974.

2. Air California, Inc., is authorized to establish an interim increase in fares of 5.8% applied to its present passenger air fares on file with the Commission, but not to exceed the fares sought in the seventh amendment to Application No. 54546 filed August 5, 1974.

3. United Airlines, Inc., is authorized to establish interim passenger air fares equal to those fares authorized herein for Pacific Southwest Airlines for those airport pairs that are served by both carriers.

4. Western Airlines, Inc., is authorized to establish interim passenger air fares equal to those fares authorized herein for Pacific Southwest Airlines and/or Air California for those airport pairs that are served by Western Airlines and Pacific Southwest Airlines or Air California.

5. The fares made as a result of the order herein may be rounded down to facilitate an even fare after taxes.

6. The increased passenger air fares authorized as a result of the order herein shall not violate the long-short haul requirements of Section 21 of Article XII of the California Constitution.

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7. 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 five days' notice to the Commission and to the public.

8. 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 4th
day of SEPTEMBER, 1974.

Vernon L. Sturgeon
President
William Synovis, Jr.

[Signature]

Commissioners

[Signature]

[Signature], Commissioner

I abstain:

[Signature], Commissioner