

Decision No. 84139**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC SOUTHWEST
AIRLINES for authority to amend
its local passenger tariff No. 1
to provide for a promotional fare
reduction and service charge on
lost tickets requiring either a
credit or cash refund.

Application No. 55474
(Filed January 31, 1975)

INTERIM OPINION

Pacific Southwest Airlines (PSA) seeks authority to amend its Local Passenger Tariff No. 1 to provide a promotional fare reduction and to establish a \$2.00 service charge on lost tickets requiring either a credit or cash refund.

A protest to the granting of the promotional fares sought herein was filed on February 4, 1975 by United Air Lines, Inc. (United).

The promotional fares sought herein are for a ninety day period, and would apply as follows:

(a) Experimental Tour Fare

Twenty-five percent discount on all PSA routes in connection with a published tour approved by PSA.

Restriction: Not valid on Fridays and Sundays after 12 noon and certain holidays.

(b) Weekend Family Plan

Husband and wife and children 25 percent discount off regular fares on any PSA segment.

Restriction: Valid only on Fridays and Sundays until 12 noon and all day Saturday and excepted holidays.

(c) Weekend Commuter Book

Sale of ten tickets on all routes 25 percent discount.

Restriction: Valid only on Fridays and Sundays until 12 noon and all day Saturdays and excepted holidays.

(d) Saturday Round-Trip Excursion Fare

Thirty-five percent discount for same day round-trip travel on Saturdays on any segment.

The application contains the following allegations in support of an immediate ex parte order authorizing the establishment of the promotional fares:

Previously, PSA has offered to the public only limited promotional fares. This policy was premised on the assumption that fare administration costs generally outweighed additional revenues to PSA and any additional convenience to its passengers. This became particularly true as load factors in the various corridor markets began to expand in 1972 and 1973. PSA, however, incurred substantial reductions in passenger totals in 1974. This is attributable to both a declining economy and increasing fuel costs and resulting higher fares. PSA has determined that the most significant dropoff has been among discretionary travelers (passengers that travel for recreation or other non-business purposes). PSA believes that the lowering of fares on an experimental basis on certain flights used principally by discretionary travelers will attract such passengers to its services. Implementation of promotional fares promises also to increase PSA's load factors on those non-peak flights which have recently experienced extremely low load factors.

PSA asserts that adoption of the proposed promotional fare reductions will not divert passengers from competing carriers in the corridor markets; one of the competing carriers, Air California, in fact, already offers a wide range of promotional fares. The application states that the proposed fares are only intended to be offered at non-peak period times where there is little competition for prospective passengers. The holidays of Lincoln's birthday, Washington's birthday, and Easter are, for example, specifically excluded from the fare proposal. PSA asserts that the proposed fares will be in effect only during those days of the week and hours of the day that it has experienced de minimus load factors, such as on Saturdays and Sundays and midday flights..

PSA alleges that because of the limited application intended for the proposed promotional fare reductions, any diversion will be insignificant; and that a more precise evaluation can be made of increased traffic generated as well as diversionary impact after the experimental period has expired. PSA urgently requests its application be granted immediately on an ex parte basis so as to enable it to confront the pressing problem of revenue drainage on its non-peak hour flights.

United opposes the establishment of the proposed promotional fares. United's protest states, in part, as follows: As the Commission is aware from the fare increase applications which it has acted upon during 1974, United and PSA are highly competitive in major California air travel markets, particularly in the Los Angeles-San Francisco corridor, and that with respect to such markets, PSA is the fare-making carrier. Accordingly, any changes in PSA's fares, particularly those involving reductions, tend to be reflected in United's fares, without regard to their revenue effect on United's operations. In its Decision No. 83814,

the Commission noted that United expected to experience an operating loss from its total operations within California during 1974 of \$4,476,071 at the fares proposed in its Eighth Amendment to its Application No. 54549, assuming such fares had been in effect for the full year. United's protest reflects its concern that the proposed reduced fares, which would tend for competitive reasons to be reflected in United's intrastate fares, would only serve to impair United's revenues without adding to its earnings. For example, in the major Los Angeles-San Francisco corridor, United provides 15 flights in each direction. Southbound service is at hourly intervals from 7:00 a.m. to 2:00 p.m., daily, together with one departure at 12:25 a.m. which operates every day but Sunday. Northbound service is at hourly intervals from 3:00 a.m. to 8:00 p.m., daily, with additional departures at 7:30 p.m. and 10:00 p.m., which operate every day but Saturday. In this portion of United's operations, its current load factors are in excess of 70 percent. While interstate traffic may provide some of this patronage, such traffic is at fare levels generally higher than those applicable to intrastate traffic between the same points. Therefore, if United should be compelled by competitive necessity to match PSA's reduced fares, the only foreseeable result would be a decline in its California intrastate revenues without any significant reduction in related operating expenses.

United protests the reduced fares on the grounds that (1) PSA has failed to demonstrate by reliable data that the periods during which the proposed reduced fares would be in effect are in fact low-traffic periods to which the reduced fares would attract new discretionary traffic; (2) the failure of PSA to establish that the proposed reduced fares would not defeat their ostensible

objective by diverting traffic from a full-fare basis to the discount basis proposed by PSA; (3) the probability that reduced fares based upon low-load factors would tend to spread to other route segments with low-load factors without regard to the day or time that they are experienced; and (4) the adverse effect on United's fares without accompanying revenue benefits.

United requests that the Commission deny PSA's request for ex parte handling of the application insofar as it seeks authority to establish the reduced fares proposed, and requests that the matter be set for hearing.

Discussion

The proposed reduced fares are scheduled to be applicable for a ninety-day period to commence as soon as possible. In order to test the effect of such fares they should be applicable before the summer travel peak begins.

It appears that United's protest is directed primarily to reductions on the heavily traveled and highly competitive route between San Francisco (SFO) and Los Angeles (LAX), which is United's principal California intrastate market.

The authorization of the promotional fares on an ex parte basis in markets other than SFO-LAX would give consideration to United's protest, yet would permit the promotional fares to expire before the beginning of the peak summer travel season, thus permitting PSA to determine whether such promotional fares will provide the expected stimulation of discretionary travel in low traffic periods.

Findings and Conclusions

In the circumstances, the Commission finds that the establishment of the proposed ninety-day promotional fares on an ex parte basis (except between SFO and LAX) will not substantially

affect the revenues of competing air carriers, and that immediate establishment of said fares is necessary in order to permit determination of their effect on travel patterns before the summer travel season begins.

The Commission concludes that interim authority should be granted as set forth in the following order, and that the application should be set for hearing as to the balance of the request contained therein.

INTERIM ORDER

IT IS ORDERED that:

1. Pacific Southwest Airlines is authorized to establish the experimental ninety-day promotional fares described in Application No. 55474, except that such fares shall not be applicable between San Francisco (SFO) and Los Angeles (LAX), and except that the proposed Saturday Round-Trip Excursion fares shall be 130 percent of the otherwise applicable one-way fare between the same points.

2. Tariff publications authorized to be made as a result of this order shall be filed not earlier than the effective date of this order and may be made effective not earlier than two days after the effective date of this order or not less than two days' notice to the Commission and to the public.

3. The authority granted herein shall expire unless exercised within thirty days after the date hereof.

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

Dated at San Francisco, California, this 20th
day of FEBRUARY, 1975.

Vernon L. Sturgeon
President
William Lyons
Edward Ross
Commissioners