

Decision No. 84147

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's
own motion into methods of adjust-
ing air common carrier rates to
offset aviation fuel cost increases.

Case No. 9646
(Filed January 3, 1974;
amended January 15, 1974)

Brownell Merrell, Jr. and Charles L. Firestein,
Attorneys at Law, for Pacific Southwest
Airlines; Carl M. Anderson, for Western Air
Lines, Inc.; Edward J. Pulaski, Attorney at
Law, and Graham & Jones, by David J. Marchant,
Attorney at Law, and Frederick Davis, for
Air California, Inc.; Brobeck, Phleger &
Harrison, by James S. Baum, Gorden E. Davis,
and Robert N. Lowry, Attorneys at Law, for
United Air Lines, Inc.; Henry Voss, for
Golden West Airlines, Inc.; Charles G.
Wiswell and Stephen C. Larson, for Swift
Aire Lines, Inc.; Parlen L. McKenna,
Attorney at Law, for Hughes Air Corp., dba
Hughes Airwest; and G. W. Shiles and Beauvais,
Roberts & Associates, by Philip D. Roberts,
for Holiday Airlines; respondents.
T. J. Hays and Herbert W. Hughes, for California
Trucking Association, interested party.
Peter Arth, Jr., Attorney at Law, for the
Commission staff.

O P I N I O N

Case No. 9646 was opened 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 airline
operational patterns resulting from the national
fuel oil crisis.

3. Methods of adjusting air common carrier rates to offset aviation fuel cost.

Since the issues to be considered in Case No. 9646 were similar to those raised in rate increase applications filed by the California airlines, those applications and Case No. 9646 were consolidated for hearing.^{1/} Hearings in the consolidated proceedings were held at various times. Several interim orders were issued in the application proceedings, all of which are now final. Case No. 9646 was submitted April 5, 1974.

The only issue remaining in Case No. 9646 concerns several proposals of respondents and the Commission staff with respect to the establishment of an airline fuel increase offset procedure. Following submission of Case No. 9646 and the several applications to increase rates, the Commission staff, at the direction of the presiding examiner, prepared late-filed Exhibit 30, which sets forth a revised simplified formula arrived at after consultation with respondents, the comments of respondents with respect to that formula, and a staff recommendation. The revised simplified formula in Exhibit 30 is set forth in Appendix A.

In Exhibit 30, the Commission staff opposed the adoption of a fuel increase formula for the following reasons:

<u>1/ Application No.</u>	<u>Applicant</u>
54387	Pacific Southwest Airlines
54534	Western Air Lines, Inc.
54546	Air California, Inc.
54549	United Air Lines, Inc.
54555	Golden West Airlines, Inc.
54575	Swift Aire Lines, Inc.
54599	Hughes Air Corp., dba Hughes Airwest

1. Presently the earnings of carriers indicate no urgency for economic relief through a fuel cost offset formula.
2. The adoption of the fuel formula will not allow the Commission an opportunity to consider the carrier's rate of return. This is contrary to the Commission's general ratemaking policy.
3. The revised Federal Energy Office's mandatory petroleum allocation regulation effective June 1, 1974 indicates elimination of limited fuel supply for the respondents in Case No. 9646.
4. Revised formula does not reflect all of the changes in cost efficiency and productivity resulting from changed operational patterns instituted because of the national fuel oil crisis.

Copies of the staff's late-filed Exhibit 30 were distributed to respondents under a transmittal letter of September 30, 1974. Requests were received from several respondents to reopen the proceeding so that further inquiry could be made with respect to the material contained in Exhibit 30. By Decision No. 83668 issued October 29, 1974, Case No. 9646 was reopened. Further hearing was held before Examiner Mallory at San Francisco on January 23, 1975. No additional evidence was adduced at the hearing. United Air Lines, Inc. was authorized to file late-filed Exhibit 31 containing more current financial data than that appearing in Exhibit 30, for information purposes only.

Counsel for Pacific Southwest Airlines, Air California, Inc., Swift Aire Lines, Inc., and Hughes Airwest stated that those respondents no longer desire that the Commission establish an airline fuel cost increase formula. The airlines indicated their belief that the period of rapidly escalating fuel prices had passed. In addition, adequate fuel supplies are currently available.

Therefore, there no longer exist the circumstances which caused the Commission to enter its order instituting investigation.

The airlines indicated, however, that if the announced plan for a federal tax on imported oil is instituted at a level indicated by President Ford, the magnitude of the fuel cost increase resulting therefrom will be so great that it cannot be absorbed by the airlines if their California operations are to continue at reasonable profit levels. In the event of a federal tax imposition on foreign oil, the airlines will file new applications to further increase their California air fares. The airlines request that the Commission expedite the handling of such applications so that the rate increase will become effective concurrently with the date of the fuel cost increase.

In the circumstances, the Commission finds that the circumstances which existed with respect to the availability and cost of aviation fuel at the time Case No. 9646 was entered no longer exist; and there is no current need for an airline fuel cost increase offset formula.

The Commission concludes that the investigation in Case No. 9646 should be discontinued and that the proceeding should be terminated.

O R D E R

IT IS ORDERED that the investigation in Case No. 9646 is discontinued and that proceeding is terminated.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 4th day of MARCH, 1975.

James L. Johnson
President
William Johnson, Jr.
Donald
Leonard Ross
Commissioners

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Late-Filed Exhibit 30

Airline Fuel Cost Increase Offset Formula

A. The Revised Simplified Formula, Modified to Reflect Some of the Comments Received

Conclusions reached at the May 23, 1974 meeting between Commission Transportation Division Staff (the Staff) and participants 1/ in Case No. 9646 are as follows:

1. Formula

The formula to adjust passenger fares to offset future fuel cost revisions of air transportation companies will be:

$$\text{Fare Revision Per Passenger} = \frac{\text{Fuel Cost Revision}}{\text{Projected Passengers}}$$

2. Fare Revision Per Passenger

Fare revisions equal to or less than \$0.50 per passenger shall be applied as such across the board. Revisions greater than \$0.50 per passenger should normally be applied as a percentage to all fares based on the percent change to the average fare. Revisions greater than \$0.50 per passenger may also be applied by other methods proposed by the carrier and accepted by the staff. In the latter case, the carrier should submit a proposed fare table with supporting documents to prove the validity of the chosen method and that the additional revenue will not exceed the additional fuel cost.

3. Fuel Cost Revision

The fuel cost revision is the product of the company's estimated gallons of fuel consumption for a future 12-month period times the actual increase or decrease per gallon in the cost of fuel. The fuel consumption estimate shall be for the same 12-month period as the projected operations of flight hours 2/ and/or seat miles submitted to the staff for the passenger estimate.

1/ Representatives from PSA, UAL, Air California, Golden West, Swift, and Airwest were present.

2/ Block hours may be substituted for flight hours for projected operations.

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The estimated fuel consumption shall cover only airline operations and should be supported by historical data reported quarterly from 1971 forward indicating gallons of fuel consumed.

The revision in the cost of fuel per gallon shall be cumulative and include all prior revisions (increases or decreases) used in the formula. The accumulation shall begin with the final decision in Case No. 9646 (or last general fare authorization for the companies not a party to Case No. 9646) and terminate with the next general fare increase authorization.

4. Projected Passengers

The projected passengers to be used in the formula are for a future 12-month period as determined by the staff as related to the fuel data submitted by the carrier. They will be based on the company's projected operations based on flight hours and/or seat miles and on the traffic statistics reported to the Commission as follows:

- a. The projected passengers for air carriers certificated by the Commission will be based on the origin and destination traffic between airport pairs as reported to the Commission on Form 1525.
- b. The projected passengers for air carriers certificated by the Civil Aeronautics Board will be based on on-board traffic between airport pairs as reported to the Commission on Form 1503.

The projected passenger estimate will be issued quarterly by the staff for those companies that have provided estimates of projected operations. Present 1603 and/or 1525 reports for some companies may require augmentation in order to provide complete information from 1971 forward.

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5. Implementation

Upon receipt of an Advice Letter from the company of a definite fuel cost revision, the staff shall use the formula to determine the appropriate fare level. The company shall notify the staff of decreases as well as increases in the price of fuel. The inputs to the formula will be based on the most recent projections.

Within twenty days of receipt of the Advice Letter, the staff will submit a resolution to the Commission recommending authorization of a new fare level based on the formula.

Major disagreements in passenger projections, fare levels, or other related matters shall be resolved through formal procedures.