

Decision No. 84213

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)

Dietsch, Gates, Morris & Merrell, by
Brownell Merrell, Jr., Attorney at Law, for
Pacific Southwest Airlines, applicant.
Brobeck, Phleger & Harrison, by Robert N. Lowry,
Attorney at Law, for United Air Lines, Inc.,
protestant.
Parlen L. McKenna, Attorney at Law, for Hughes
Air Corp., dba Hughes Airwest, interested party.
James T. Quinn, Attorney at Law, for the Commission
staff.

FINAL 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
was filed on February 4, 1975 by United Air Lines, Inc.
(United).

Interim Decision No. 84139 dated February 20, 1975 granted
authority to publish the promotional fares set forth in the margin,
except that such fares are not applicable between San Francisco
and Los Angeles, 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.^{1/} The Commission concluded that the application should be set for hearing as to the balance of the request.

On February 25, 1975 United filed a petition for a supplementary order directing PSA to keep such records and make such surveys as may be necessary to determine the effect, if any, of the authorized promotional fares on travel patterns between the points, and during the times, such fares are applicable. United's

1/ The promotional fares authorized are for a ninety-day period, and 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.

petition requests that such supplemental order include a requirement that PSA determine, by valid sampling or other techniques, the effect of the reduced fares on the following types of traffic:

New traffic: that traffic which would not have been handled at all but for the promotional fares;

Diverted traffic: that traffic which would have moved at normal fares at times other than when the promotional fares were in effect; and

Diluted traffic: that traffic which would have moved at normal fares at the times when the promotional fares were in effect.

PSA and United were advised that United's request, as set forth above, would be considered at the scheduled hearing.

Public hearing was held before President Sturgeon, Commissioner Symons, and Examiner Mallory at San Francisco on March 7, 1975 and the application was submitted.

Evidence was presented by PSA and United. Other parties participated through examination of the witnesses.

The senior vice president of finance for PSA presented oral and documentary evidence in support of the application. Exhibit 1 is designed to show that PSA's current monthly passenger traffic is at a level lower than for comparable periods in 1972, 1973, and 1974. That exhibit indicates that the decline in passenger traffic began in June 1974 and has continued declining through February 1975. In October, November, and December 1974, the monthly system traffic totals are less than for the corresponding months of 1972 and 1973; and the monthly system traffic totals for January and February 1975 are less than for the corresponding months in 1972, 1973, and 1974. PSA's Exhibit 2 shows that the current average number of passengers carried per day has declined, particularly on weekends.

PSA's witness testified that its Los Angeles International Airport (LAX) - San Francisco International Airport (SFO) is the largest traffic pair on its system. The witness stated that the largest decline in traffic was on its short-haul route segments such as San Diego-Los Angeles and Sacramento-San Francisco; the next in order is the Los Angeles-San Jose route segment, and following that is its Los Angeles-San Francisco route segment.

The witness stated that the typical weekend traveler is a discretionary traveler, such as vacationers, students, and military persons on leave. The purpose of the 90-day promotional fares is to stimulate traffic by the discretionary traveler in PSA's lowest traffic periods. According to the witness, PSA's largest discretionary travel markets are San Francisco-Los Angeles and San Jose-Los Angeles. The extensive advertising of the promotional fares has reached all parts of the metropolitan Los Angeles and San Francisco markets of which LAX-SFO is merely a part. The witness indicated that omission of the San Francisco-Los Angeles route segment would prevent PSA from realizing the maximum potential of the promotional fares.

PSA also presented evidence in support of a \$2.00 charge for handling lost tickets. That proposal was not opposed.

Testimony and documentary evidence on behalf of United was presented by its manager of regulatory proceedings. The witness stated that United is a proponent of discount fares and a leader in filing such fares with the Federal Civil Aeronautics Board (CAB). United is aware that traffic is down on all routes (including its California routes) and recently inaugurated so-called Bicentennial Fares, which are lower than its regular fares, to stimulate traffic on its interstate routes. The witness indicated that United expects that all promotional fares should meet the so-called profit impact test, under which the total revenues from the promotional fares

exceeds the revenues under existing fares, plus the incremental costs of the added traffic generated by the promotional fares. United opposed PSA's application because it does not believe that the traffic which will be generated by PSA's promotional fares can meet the profit impact test.

United also opposed the application because United finds that it does not have large excess capacity on its SFO-LAX route segment sufficient to accommodate enough additional low-fare passengers to meet the revenue impact test. To demonstrate this point, the witness presented its Exhibit 3, which shows load factor for Fridays (midnight to noon), Saturdays (all day), and Sundays (midnight to noon) for three separate four-week periods ending October 5, 1974, January 11, 1975, and February 8, 1975. The exhibit shows United achieved on-board load factors in excess of 60 percent on 75.9 percent of its weekend flights during the period ending October 5, 1974; 85.4 percent in the period ended January 11, 1975; and 58.1 percent in the period ended February 8, 1975. The record shows that United's on-board passengers on its SFO-LAX route segment consist of approximately 50 percent intrastate passengers and 50 percent interstate passengers.

United also believes that the fares proposed by PSA do not contain sufficient restraints or restrictions to limit the application of the fares solely to use by discretionary travelers. The witness pointed out that different restrictions are applicable to interstate promotional air fares than apply to PSA's promotional fares.

United's witness testified that it would be required for competitive purposes to meet any promotional fares authorized to PSA. Therefore, United has requested the Commission to grant short-notice authority to publish fares similar to those authorized in Interim Decision No. 84139. ✓

United's petition requests that PSA file and serve on United an analysis of the effect of the reduced fares following termination of the 90-day experimental period for which such fares are authorized. United's witness explained that no California air carrier or the Commission staff has undertaken comprehensive study of the elasticity of demand for air service on California routes under different fare levels. The reporting requirement requested herein is needed to determine whether the promotional fares have attracted new traffic and whether regular fare passengers were diverted to promotional fare service.

Findings

1. PSA proposed to establish (a) reduced air fares applicable for a 90-day period, and (b) a \$2.00 charge for handling refunds on lost tickets.

2. PSA has shown that its air passenger traffic has declined in recent periods by substantial amounts.

3. The promotional fares sought herein are directed to the so-called discretionary traveler, such as vacationers, students, and military personnel on leave.

4. Interim Decision No. 84139 dated February 20, 1975 authorized PSA to establish the sought 90-day promotional fares in all markets except SFO-LAX.

5. PSA's largest market for discretionary travel is SFO-LAX.

6. It is necessary to include SFO-LAX in the promotional fare plan in order to reach PSA's largest potential market for such fares and to maximize the benefits of its advertising campaign with respect to such fares.

7. Insufficient data exists to determine at this time the effect of the promotional fares and whether sufficient traffic will be generated thereunder to improve net revenues.

8. PSA should be required to submit reports showing the effect of the promotional fares, as requested by United, immediately following the close of the 90-day experimental period for which such fares are authorized.

9. The establishment of the proposed reduced fares on an experimental basis between all points served by PSA will be reasonable.

10. The charge of \$2.00 proposed for the handling of refunds on lost tickets will be reasonable and the increase resulting therefrom is justified.

Conclusions

1. The reduced experimental promotional air fares sought in Application No. 55474 should be authorized to apply between all points served by PSA including SFO-LAX.

2. PSA should be authorized to publish the promotional fares between SFO-LAX to expire at the same time as the fares established pursuant to Decision No. 84139. This order will be made effective on the date hereof to permit the fares to be established as soon as possible.

3. PSA should be authorized to establish the proposed charge for handling refunds on lost tickets.

4. PSA should be required to file a report showing the effect of the promotional fares authorized herein.

FINAL ORDER

IT IS ORDERED that:

1. Pacific Southwest Airlines is authorized to establish the experimental ninety-day promotional fares described in Application No. 55474 between all points served by it. Such fares for service between Los Angeles (LAX) and San Francisco (SFO) shall be published to expire concurrently with the expiration of the promotional fares established pursuant to Interim Decision No. 84139.

2. Pacific Southwest Airlines is authorized to establish a \$2.00 service charge on lost tickets requiring a credit or cash refund, as proposed in Application No. 55474.

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

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

5. Within thirty days after the expiration of the fares authorized in Ordering Paragraph 1, Pacific Southwest Airlines shall file with the Commission and serve on United Air Lines, Inc., a report, developed by the use of valid sampling techniques and questionnaires of passengers using promotional fares, showing the effect of the reduced fares on the following types of traffic: ✓

New Traffic: that traffic which would not have been handled at all but for promotional fares;

Diverted Traffic: that traffic which would have moved at normal fares at times other than when the promotional fares were in effect; and

Diluted traffic: that traffic which would have moved at normal fares at the times when the promotional fares were in effect.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 18th
day of MARCH, 1975.

*I abstain
Leonard Ror*

Verna L. Lingen

President
William J. Lyons Jr.

William J. Lyons Jr.

Commissioners