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ORIGINAL

Decision No. 84544

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC SOUTHWEST AIRLINES for authority to increase its passenger air fares.	Application No. 55160 (Filed September 11, 1974; amended March 7 and 20, 1975)

Dietsch, Gates, Morris & Merrell, by Brownell Merrell, Jr., Attorney at Law, for Pacific Southwest Airlines, applicant.
Graham & James, by Boris H. Lakusta and David J. Marchant, Attorneys at Law, for Air California, interested party.
Elmer J. Sjostrom, Attorney at Law, and Milton J. DeBarr, for the Commission staff.

INTERIM OPINION

Pacific Southwest Airlines (PSA) seeks authority to increase its passenger air fares by $19,956,000 or 16.45 percent.

Public hearing was held before Commissioner Batinovich and/or Examiner Mallory at San Francisco on March 17, and April 1, and 2, 1975, and the matter was submitted.

PSA and the Commission staff presented oral and documentary evidence with respect to historical airline operating results and estimated operating results for a 1975 test year. There are several major differences in the estimated test year operating results and rate base presented by PSA and the staff. Based upon the estimates it believes are reasonable, the Commission staff proposed that fares be increased by 8.2 percent, resulting in an annual revenue increase of $9,774,000.

The proceeding was reopened and further hearing was held before Commissioner Batinovich and Examiner Mallory on April 24 and 25, 1975, and the matter was again submitted. The matters considered in the reopened proceeding included the following:

1. Whether non-airline expenses and investment are completely excluded from the test year operating results offered in support of the sought fare increase.

2. Whether the deterioration of PSA's cash flow in recent months resulted from use of PSA, Inc. funds to offset losses from operations of non-airline subsidiaries of PSA, Inc.

3. Whether increased test year operating expenses for higher wages overstate known contractual wage increases.

4. Acquisition and operation of L-1011 aircraft:

   (a) Whether it is possible to eliminate two existing L-1011 aircraft from PSA's fleet.

   (b) Whether PSA was successful in canceling acquisition of additional L-1011 aircraft.

   (c) The amount of excessive operating expenses, if any, resulting from the use of L-1011 aircraft.

   (d) Whether acquisition of L-1011 aircraft was prudent and, if not, whether excessive operating costs and investment should be borne by PSA stockholders rather than ratepayers.

Background

PSA was last granted a general passenger fare increase in Decision No. 81793 dated August 21, 1973 in Application No. 53525. The fares authorized in that decision were designed to produce for PSA's scheduled airline operations a rate of return of 12.10 percent and an operating ratio (after taxes) of 88.47 percent for the 1973 test year used therein. That rate of return was estimated to produce a return on common equity of 15.5 percent. In the 1973 test year the following Boeing aircraft were in operation:

16 - 727-214
1 - 727-114
9 - 737-214

As a result of the energy shortage and escalating prices for aircraft fuel, PSA and other California airlines were authorized in 1973 and 1974 to increase fares to offset higher fuel costs. The last fuel offset granted to PSA was an overall fare increase of 17.8 percent (Decision No. 83814 dated December 10, 1974 in Application No. 54387).

At the time of the last general fare increase proceeding PSA, in addition to its scheduled airline operations, had various subsidiaries which operated aircraft repair services, aircraft leasing services, aircraft training services, automobile rentals, hotels, and broadcasting services.

Pacific Southwest Airlines was reorganized on February 28, 1973 by the formation of a holding company called PSA, Inc. The subsidiaries of the holding company are Pacific Southwest Airlines (PSA), Jetair Leasing, Inc., Jetair Domestic Leasing, Inc., Airline Training Center, PSA Hotels, PSA Anti-Hijack Security Guard, Inc., PSA Broadcasting, Inc., Musicale Sound, Inc., and Dial-A-Car. Pacific Southwest Airmotive remains as a subsidiary of the airline.

The PSA fleet currently consists of 26 aircraft in common carrier service within the State of California. The fleet is comprised of one 727-114 which is leased from Lockheed Aircraft Corporation, twenty 727-214's which include one aircraft leased from Armco Boothe Corporation and two aircraft leased from National Aircraft Leasing Company, three 737-214's, and two Lockheed L-1011's which are leased from Security Pacific Leasing Corporation. The lease of two 727-214's from National Aircraft Leasing Company will expire in June 1975. Two 727-214's currently leased to All Nippon Airways through Jetair Leasing will enter the PSA fleet to replace the two leased aircraft upon termination of the lease with National.

PSA has contracts with Lockheed Aircraft Corporation to take delivery of three additional L-1011's, one each in June, August, and November 1975. PSA is negotiating with Lockheed to delay the November delivery until early 1976 and to cancel the purchase of the two other L-1011 aircraft.

For economy reasons, PSA grounded one L-1011 on March 15, 1975 and the other on April 1, 1975. L-1011 flights were replaced by 727 aircraft. Also as an economy move, eight seats were removed from 727-214 aircraft in order that one less flight attendant would be required under Federal Aviation Administration (FAA) staffing requirements. PSA also temporarily discontinued instant ticket service to reduce expenses. PSA stated that L-1011 flights will resume and the additional seats on 727-214's will be replaced and full flight attendant staffing will be made at the beginning of the summer peak demand period. The record shows that the L-1011 aircraft will again be placed in service on June 13, 1975.

Request for Interim Relief

PSA requests immediate fare relief through the issuance of an interim order in the amount of increase recommended by the Commission staff. PSA urges that it is currently in a precarious financial position and that it requires additional revenues to cope with declining amounts of available working cash and to prevent possible default on outstanding indebtedness.

PSA presented evidence to show that it is in urgent need of an immediate interim increase in revenues and that it has put into effect economies described above to improve its cash position and to reduce current operating expenses.

PSA's senior vice president-finance testified that PSA's results of operations for the year 1974 were as follows:

TABLE 1

PACIFIC SOUTHWEST AIRLINES

Actual Results of
Airlines Operations
Year Ended December 31, 1974
(Dollars in Thousands)

Revenues	$115,839
Expenses	$114,386
Income Taxes (Normalized)	$ 1,383
Net Income	$ 70
Operating Ratio	99.0%
Rate of Return	1.23%

The following depicts PSA cash flow as set forth in Appendix 10 of Exhibit 5-A:

TABLE 2

PACIFIC SOUTHWEST AIRLINES

Cash/Working Capital Position
(Exhibit 5-A)

	Cash	Working Capital	Defined Equity	Defined Debt
		(Dollars in Thousands)		
Balance 12/31/74	$ 9,500	$ 6,190	$73,727	$86,176
Depreciation - 1st Quarter	3,000	3,000	-	-
Loss - Pretax/net	(5,000)(1)	(4,600)	(2,350)	-
Lease Payments	(2,200)	-	-	-
Debt Payments	(2,000)	(2,000)	-	(2,000)
	$ 3,300	$ 2,590	$70,973	$84,176
Bank Loan	3,000	3,000	-	3,000
Balance 3/31/75	$ 6,300	$ 5,590 (2)	$70,973	$87,176

Ratio - Debt to Equity: 1.23 to 1 (3)

(1) Based on January results, February traffic.
(2) Required by Loan Agreement to avoid default - $5,400.
(3) Maximum allowable under Loan Agreement: 1.25 to 1.

Assertedly PSA had only sixteen and one-half days of working cash available at the end of January 1975, as shown in the following table.

TABLE 3

PACIFIC SOUTHWEST AIRLINES

Earnings and Cash Flow
(Exhibit 5-A, Appendix I1)

	Income (Loss) From Airline Operations (Before Interest or Taxes)	Cash	Working Capital
August 1974	$ 629,000	$19,584,000	$15,160,000
September 1974	(680,000)	16,393,000	11,078,000
October 1974	(1,284,000)	13,166,000	11,937,000
November 1974	(1,012,000)	13,178,000	9,947,000
December 1974	(788,000)	9,340,000	6,190,000
January 1975	(2,375,000)	5,746,000 (1)	5,888,000
February 1975 (estimate)	(excess of $2,000,000)		

(1) 16-1/2 days cash operating expenses.

The witness also testified that in addition to the temporary elimination of L-1011 flights and elimination of the fourth stewardess on 727-200 flights, PSA has also negotiated and obtained labor union agreement to cross-utilize its employees, thus stabilizing employment levels; and has reduced the number of flights scheduled in 1975. According to the witness, PSA has taken the above steps to maintain efficiency and reduce operating expenses. Further reductions in service levels assertedly would decrease PSA's value of service to the public and not materially increase net revenues.

The proceeding was reopened to determine, among other things, whether the deteriorating cash position of PSA resulted from use of airline working cash to offset losses of the parent company's affiliates, such as the hotel and broadcasting operations, and whether, or to what extent the operation of the large capacity L-1011 equipment contributed to PSA's financial problems.

Exhibit No. 12 was presented by the financial witness in the reopened proceeding to show: (a) that non-airline expenses and investments are excluded from test year operating results, (b) that losses from PSA, Inc. subsidiaries are and will be funded only from non-airline operations to the extent such funding is required, (c) that test year operating expenses do not overstate known contractual wage increases; and (d) the effect on operating expenses resulting from the acquisition and operation of L-1011 aircraft.

Exclusion of Non-Airline Expenses and Investment

Exhibit No. 12 shows the manner in which expenses common to PSA, Inc. and PSA are cross charged between the parent company and its affiliate. That exhibit shows that charges for administrative expenses for airline operations are estimates made by PSA. The Commission staff reviewed the PSA estimates and determined that the charges to PSA for the year ended July 31, 1974 were overstated by $145,000. PSA disagrees with the staff.

Exhibit No. 12 indicates that PSA has excluded from its rate base any assets which do not relate to regulated airline operations. Other than for its subsidiary Pacific Southwest Airmotive, PSA assertedly is precluded under its long-term loan agreements from making investments or advances in excess of an aggregate total of $2,000,000, and is precluded from making any advances for PSA Hotels, Inc.

Flight training operations conducted with the same aircraft used in scheduled airline service were excluded from the test year operating results of both PSA and the staff. If both revenues and expenses for such operations were included in test year operating results, based on PSA's most current estimate of the amount of flight training which will be conducted in the test year, the following revenues would be added:

TABLE 4

PACIFIC SOUTHWEST AIRLINES

Estimated Flight Hours, Revenues For Flight Training Services for 1975 Test Year

Type of Aircraft	Annual Flight Hours	Revenue Per Hour	Annual Revenue
727-200	1,370	$1,420	$1,945,400
737-200	1,050	1,032	1,083,600
Total	2,420		$3,029,000

PSA's witness explained that the same number of aircraft would be required for scheduled operations whether or not aircraft training services are performed. Therefore, it is difficult to estimate the incremental costs attributable to aircraft training operations. The witness suggested that revenues and expenses from aircraft training could be included in test year operating results, thus simplifying that development.

Deterioration of Cash Flow

Exhibit No. 12 contains the following information with respect to recent transactions between PSA and its parent, PSA, Inc.

TABLE 5

PACIFIC SOUTHWEST AIRLINES

Summary of Recent Transactions with PSA, Inc.
(+ 000)

Contribution to Capital of Airlines by PSA, Inc. in December 1974	A	$9,033
Payment to Airlines by PSA, Inc. in March 1975	B	450
Payments to PSA, Inc. by Airline in Excess of Cash From Operations	C	3,197
Net Benefit to Airlines (A + B - C)		$6,286

The $9 million contribution of capital by PSA, Inc. to PSA was in the form of two 727-214 aircraft and spare engines, which formerly were under lease by PSA, Inc.'s subsidiary Jetair Leasing, Inc. These aircraft replace two similar aircraft leased by PSA from National Aircraft Leasing Company, at a combined cost of $190,000 per month. Elimination of the lease payments assertedly help to reduce PSA's cash flow.

Included in payments in excess of cash from operations to PSA, Inc. by PSA in the above tabulation is $2,000,000 to repay short-term loans made in 1974 to acquire funds to repurchase PSA stock from the public. The purchase price of the stock acquired in that manner was $14 per share, substantially in excess of the current market price of $4.75 per share.

Also included in the payments in excess of cash from operations, is approximately $1,400,000 payment of interest or principal on debentures of PSA which were assumed by PSA, Inc.

Acquisition and Operation of L-1011 Aircraft

PSA's financial witness testified that it is not possible to eliminate the existing two L-1011 aircraft from its fleet. The witness stated that PSA has leased the two L-1011 aircraft for approximately 15-1/2 years with the leases expiring December 31, 1989. These leases are noncancellable except under the circumstances of the destruction of the aircraft. The leases are leveraged leases with the full benefit of investment credit flowing to the owner-investor. The effective interest rate under the lease is less than 4.6 percent which assertedly is a very favorable long-term financing rate. The witness testified that airline industry sources and PSA's own investigation indicate that currently there is not a market for L-1011 aircraft on a long-term lease or purchase agreement basis. For example, Eastern Airlines has unsuccessfully attempted to sell any or all of its L-1011 aircraft and TWA has grounded several of its L-1011's due to low traffic demand.

The witness also testified that PSA has not been successful in canceling acquisition of additional L-1011's. The witness indicated that negotiations are continuing with Lockheed for delay in delivery of aircraft No. 3 to the spring of 1976 and the cancellation of the order for aircraft Nos. 4 and 5. An early conclusion of these negotiations is not likely. Lockheed has proposed that PSA attempt to lease two of the aircraft to a foreign airline for a short term (such as two years) and then take the aircraft into PSA's fleet at that time. The witness stated that this proposal is now being studied and contacts are now being made with potential customers.

In response to the question concerning the amount of excessive operating expense, if any, resulting from the use of L-1011 aircraft, evidence was presented to show that the operating cost of the L-1011 is not excessive in relation to the available seats which are offered on each flight. The witness submitted the following breakdown of the cost per hour per available seat for various cost components shown in PSA's 1975 projection in its Exhibit No. 4-A:

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TABLE 6

PACIFIC SOUTHWEST AIRLINES

Cost Per Hour Per Available Seat
L-1011 Aircraft (297 seats) v 727-214 Aircraft (159 seats)

Category	Cost Per Hour	Cost Per Hour Per Available Seat
Flying Operations		
727-214	$ 734	$4.62
L-1011	1,351	4.55
Maintenance, Parts and Outside Repairs		
727-214	$ 161	$1.01
L-1011	313	1.05
Passenger Service - Flight Attendants		
727-214	$ 111	$ .70
L-1011	221	.74
Total		
727-214	$1,006	$6.33
L-1011	1,885	6.34

The witness commented as follows with respect to the question as to the amount of excessive operating expense, if any, resulting from the use of L-1011 aircraft:

As shown in Table 6 the L-1011 is equally as cost efficient as the Boeing 727-214. There is no question that the quality of service offered by the L-1011 is superior to the Boeing 727-214. There is greater leg room; the seats are wider; there are two aisles, greater head room, two abreast seating instead of three, a lower lounge, quieter operation, smoother takeoff, ride, and landing, new interiors, and more lounge seating areas. For the same cost per available seat, the passenger is receiving a substantially superior service. The economics of any aircraft is, of course, related to the passenger demand to cover the operating costs of the aircraft. Clearly it takes more passengers to cover the operating costs of the L-1011 than a Boeing 727-214. The out-of-pocket break-even passenger total in 1974 was approximately 110 passengers per flight for the L-1011 on the SFO-LAX route or a load factor of 37 percent. However, with a load factor above that level, revenue is being generated to cover the costs of operation which do not vary directly with each and every flight. In anticipation that the break-even load factor would be higher for the initial L-1011 service, PSA negotiated a utilization guarantee from Lockheed which would generate revenue if the aircraft were not fully used at first. Included in PSA's 1975 projection of operating results (Exhibit No. 4-A) is $459,000 of revenue from that utilization guarantee.

The witness offered the following testimony with respect to whether acquisition of L-1011 aircraft was prudent and, if not, whether excessive operating cost and investment should be borne by PSA stockholders rather than ratepayers.

PSA believes that its decision to acquire L-1011 aircraft was prudent. PSA in late 1972 reconfirmed its order for five L-1011 aircraft with an option to cancel three of the aircraft with proper notice. The option to cancel aircraft No. 3 lapsed in May 1973. In light of the very strong traffic demand in the spring of 1974 PSA confirmed the order of aircraft Nos. 4 and 5 and set delivery of the three aircraft for one each month in June, August, and November 1975. Subsequent action delayed delivery of aircraft No. 5 to June 1976. PSA has now given Lockheed notice that negotiations be undertaken for the cancellation of two aircraft and delay in delivery of the third aircraft. None of these aircraft, subject to negotiations, is included in PSA's test year projections.

PSA urges that based on the economic and competitive considerations prevailing when the decisions were made, the decision to order the aircraft was a prudent one. In support of that conclusion, the witness testified that traffic demand in late 1972 was improving and future prospects appeared good. Air traffic congestion was becoming more and more of a problem resulting in more stringent traffic control procedures by the FAA. Operational gate space at both LAX and SFO were at a premium with no early completion prospects for planned future expansion at either airport. United Air Lines, PSA's major competitor, had introduced 747 service to the LAX-SFO market as well as undertaking an aggressive marketing and scheduling program on the LAX-SFO segment. United's service resulted in exactly duplicative wing-tip-to-wing-tip service being offered in competition to PSA. The L-1011 aircraft was offered for sale by Lockheed at a competitive price and from the standpoint of flight operations was judged by PSA's operational and technical management to be superior to the DC-10 aircraft. The projected fully allocated break-even passenger level was 176 or a 59 percent load factor. Based on future traffic demand for 1974 and later, those passenger levels appeared to be readily achievable.

An economic consultant employed by PSA presented in Exhibit No. 13 traffic projections based on the historical growth pattern of PSA's traffic for the period from the mid-1960's through 1972, and compared those projections with the actual traffic handled by PSA in recent months. According to the witness, if traffic had continued to increase on the same scale as the period June 1971 through June 1972, the L-1011's would be required. However, actual 1975 traffic did not reach the levels based on the 1971-72 projections, and based on current usage, the level projected for 1975 will not be achieved until 1978. The witness testified that the normal manufacturing cycle for L-1011 aircraft is 27 months, and that such lead time was built into PSA's order. The witness stated that another consideration in the decision to order L-1011's was the fact that competing airlines were operating wide-bodied jets on some flights between SFO and LAX.

The witnesses testified that based on historical traffic patterns, use of wide-bodied jets by interstate airlines in the SFO-LAX market, and the lead time to the delivery of the L-1011 aircraft, PSA's decision to acquire L-1011 aircraft in 1971 was sound. However, the witnesses pointed out that no economic forecaster foresaw the energy problem resulting from the Arab oil boycott, the rapid acceleration in fuel prices which were passed on to the public in higher airfares, nor the downturn in the national economy. The result of those factors assertedly caused PSA's traffic to level off, thus making the use of L-1011 aircraft uneconomic in the winter-spring light traffic period.

Reconciliation of Test Year Operating Results

As heretofore indicated, PSA and the staff presented separate estimates of airline operating results for a 1975 test year. PSA challenges the staff estimates on several grounds.

The following sets forth the staff's estimated results of operations, rate base, and rate of return for PSA for the 1975 test year.

TABLE 7

COMMISSION STAFF

Pacific Southwest Airlines
Estimated Results of Operations
Year Ending December 31, 1975
(Table 1 of Exhibit 8)

Item	Present Fares	Proposed Fares (1)	Alternate Fares (2)
	(Amounts in Thousands)		
Statistics			
Passengers	6,350	6,350	6,350
Flight Hours	57.5	57.5	57.5
Revenue			
Passenger	$119,190	$138,176	$128,964
Beverage (Net)	724	724	724
Freight	1,984	1,984	1,984
Baggage, Mail, and Miscellaneous	1,373	1,373	1,373
Total Revenue	$123,271	$142,257	$133,045
Expenses			
Leased Aircraft	$ 5,522	$ 5,522	$ 5,522
Flying Operations	43,321	43,321	43,321
Direct Maintenance	10,586	10,586	10,586
Maintenance Burden	4,672	4,672	4,672
Passenger Service	7,311	7,311	7,311
Aircraft Servicing	6,630	6,630	6,630
Traffic Servicing	12,953	12,953	12,953
Servicing Administration	833	833	833
Reservations and Sales	9,525	10,020	9,780
Advertising and Publicity	2,219	2,219	2,219
General and Administrative	6,940	6,940	6,940
Depreciation	10,529	10,529	10,529
Total Expenses	$121,041	$121,536	$121,296
Income Before Taxes	$ 2,230	$ 20,721	$ 11,749
Income Taxes	-	$ 3,954	$ 1,187
Net Income	$ 2,230	$ 16,767	$ 10,562
Rate Base	$ 87,168	$ 87,168	$ 87,168
Operating Ratio	98.2%	88.2%	92.1%
Rate of Return	2.6%	19.2%	12.1%

(1) Based on exhibits submitted with application.
(2) Fares recommended by staff.

PSA, in its Exhibit 4-A, adopted the staff's estimate of passenger and flight hours for the test year for the development of its estimates of operating results for 1975. The following table sets forth the 1975 test year operating results, rate base, and rate of return developed by PSA under the fare structure proposed in the application:

TABLE 8

PACIFIC SOUTHWEST AIRLINES

Projected Operating Results - Airline Operations
Year Ended December 31, 1975
(Exhibit 4-A)

	Results Without Proposed Fare Increase	Results With Proposed Fare Increase
	(Amounts in Thousands)	
Flight Hours	57.5	57.5
Passengers	6,350	6,350
Revenue Passenger Miles	2,016,570	2,016,570
Available Seat Miles	3,431,468	3,431,468
Load Factor	58.8%	58.8%
Yield	5.922¢	6.897¢
Revenue		
Passenger	$ 118,986	$ 138,633
Beverage (Net)	724	724
Freight (Including Pending Increase)	2,052	2,052
Baggage, Mail, and Miscellaneous	1,575	1,575
Total Revenue	$ 123,337	$ 142,984
Expenses		
Aircraft Leases	$ 5,664	$ 5,664
Flying Operations	43,068	43,068
Direct and Indirect Maintenance	17,797	17,797
Passenger Service	8,235	8,235
Aircraft Servicing	7,295	7,295
Traffic Servicing	15,167	15,167
Reservations and Sales	9,873	10,392
Advertising and Publicity	2,220	2,220
General and Administrative	7,203	7,203
Depreciation	12,704	12,704
Interest - Net	3,145	3,145
Total Expenses	$ 132,371	$ 132,890
Income (Loss) Before Taxes	$ (9,034)	$ 10,094
Taxes (Credit) - 48%	(4,336)	4,845
Net Income (Loss)	$ (4,698)	$ 5,249
Return Element	$ (1,553)	$ 8,394
Rate Base	$ 102,530	$ 102,530
Rate of Return	(1.51%)	8.19%
Operating Ratio	101.26%	94.13%

The above table depicts the estimated test year operating results relied upon to support the full amount of increased rates sought in this proceeding.

There are several differences in the methods and assumptions upon which the staff and PSA have prepared their estimates of expenses and rate base as set forth in Tables 1 and 2. In addition to the differences in levels of expenses for various services and functions, federal income taxes are developed on different bases. The Commission staff has adopted the so-called flow-through basis, which reflects taxes as would be paid by PSA giving effect to investment tax credit on aircraft purchases and accelerated depreciation. PSA has adopted the so-called normalization method, which does not give effect to income deductions for tax purposes for investment tax credit and accelerated depreciation. The flow-through method has been used in prior PSA fare increase proceedings; the normalization method is used by the Civil Aeronautics Board (CAB) in setting fares for interstate airlines.

PSA also presented rebuttal Exhibit No. 10 which is designed to show the areas in staff estimates in which PSA believes underestimates or omissions were made. PSA attempted to show in that exhibit that corrections and adjustments should be made in expenses for leased aircraft, flying operations, direct maintenance, passenger service, aircraft servicing, reservations and sales, and depreciation. Some of the adjustments to the staff exhibit are predicated upon different methods of allocation of joint expenses, and others involved areas where the staff assertedly has not used the most current expenses. PSA also disputed the manner in which the staff treats gains from sales of aircraft in rate base. The following Table 9 summarizes the staff data in Table 7 as adjusted by PSA.

TABLE 9

PACIFIC SOUTHWEST AIRLINES

Revision of Staff Estimates Per Exhibit 10

	Staff Estimate At Proposed Fares (Table 1) (1)	Corrections & Additions In Expenses & Rate Base Recommended by PSA (Exhibit 10) (2)	Staff With Corrections In Col. (2) (3)	Normalization Of Income Taxes (4)	Staff Estimates As Revised Col. (3)+(4)
	(Dollars in Thousands)				
Total Revenue	$142,257		$142,257		$142,257
Expenses					
Leased Aircraft	$ 5,522	$ 145	$ 5,667		$ 5,667
Flying Operations	43,321	629	43,950		43,950
Direct Maintenance	10,586	2,404	12,990		12,990
Maintenance Burden	4,672	-	4,672		4,672
Passenger Service	7,311	1,063	8,374		8,374
Aircraft Servicing	6,630	107	6,737		6,737
Traffic Servicing	12,953	1,376	14,329		14,329
Servicing Administration	833	-	833		833
Reservations & Sales	10,020	64	10,084		10,084
Advertising & Publicity	2,219	-	2,219		2,219
General & Administrative	6,940	-	6,940		6,940
Depreciation	10,529	2,019	12,548		12,548
Total Expenses	$121,536	$7,807	$129,343		$129,343
Income Before Taxes	$ 20,721		$ 12,914		$ 12,914
Income Taxes	3,954		1,547	$ 4,652	6,199
Net Income	$ 16,767		$ 11,367	$(4,652)	$ 6,715
Rate Base	$ 87,168		$103,328	-	$103,328
Operating Ratio	88.2%		92.01%	-	95.28%
Rate of Return	19.2%		11.00%	-	6.50%

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Proposed Adjustments Based on a
Charge in Historical or Base-Year

PSA suggests revisions of staff estimates in various categories of expenses to reflect a more recent base period than that used by the staff. The use of the later base period assertedly would result in higher expenses than for the base period used in the staff study. The Commission staff has endeavored to reflect in their test year operating expenses the charges necessary to update base year expenses, and revisions proposed by PSA in these areas are not required to arrive at reasonable results. PSA's proposed revisions of the data in the staff studies based on use of a more recent historical or base period will not be adopted.

Outside Training Activities

The staff exhibit contains allocations of certain categories of operating expense designed to exclude costs associated with conduct of outside training activities with aircraft and personnel also used in airline services. PSA, in its Exhibit No. 10, urges that the staff adjustments be revised because of alleged misunderstandings of the personnel and operational requirements for such activities. The alternative to adjusting airline expenses to eliminate this activity is to retain the expenses for outside training and include revenues for that activity. The estimates of training hours and revenues for the test year for outside training are set forth in Table 4.

The inclusion of the revenues and operating expenses for outside training activities will eliminate the necessity to resolve issues relating to proper allocation of expenses for this activity and will simplify the determination of PSA's revenue needs in the test year. The test year operating expenses adopted herein reflect the revenues and expenses relating to contract training with the use of 727 and 737 aircraft; other minor training activities, i.e., training in the YS-11 aircraft are excluded. Flight hours are adjusted to reflect PSA's estimate of additional contract training hours in the test year and reduction of PSA's internal training. Unit costs used in the development of contract training expenses are based on the same methods delineated in the staff's Exhibit No. 8.

Flight Crew Wages

The staff and PSA have increased flight crew salaries in the test year by differing amounts because the wage contract for this class of employees was under negotiation at the time of the initial hearings. In the reopened proceeding, PSA indicated that a settlement had been reached with the pilots and presented evidence to show the effect of the wage and benefit changes effective in the test year for pilots and those estimated to result if a similar agreement is reached with flight attendants. Exhibit No. 12 shows that the settlement resulted in an increase of 13.66 percent over 1974 wages. Flight crew wages are reflected in Flying Operations and Passenger Service categories. Expenses in the staff exhibit should be adjusted to reflect actual wages to be paid in the test year to pilots; no adjustment should be made for flight attendants as the wage contract for that class of employee is still under negotiation.

Aircraft Lease Expense

PSA showed that the staff did not use the actual period involved with respect to lease of certain aircraft. Lease expense should be increased by $145,000, additional depreciation expense of $56,000 should be deleted, and rate base should be adjusted accordingly.

Maintenance

PSA urges that two adjustments be made to the staff's test year maintenance expenses. PSA's witness testified that recorded maintenance expenses in the historical period underlying the staff's test year projections included a credit to maintenance reserve with no related offsetting charges to expense for aircraft under lease in the historical period to All Nippon Airlines. Those aircraft are included in PSA's fleet in the test year. The credit should be eliminated from base year maintenance expense, as proposed by PSA. PSA also urges an adjustment to base year maintenance expenses to give retroactive effect to the current billing rate of $25.00 per hour for services performed by Pacific Southwest Airmotive for its parent. That adjustment also is appropriate.

The base year maintenance expenses determined in the above manner should then be adjusted in the manner described in the staff projections to provide for an 8.5 percent increase in labor expenses and a 7.35 percent increase in engine parts to arrive at test year expenses.

Passenger Service

The Commission staff has excluded from Passenger Service expense the wage costs for the fourth cabin attendants in 727-200 aircraft, inasmuch as PSA has been operating those aircraft with three cabin attendants for reasons of economy. PSA asserts that former staffing levels will be restored if a fare increase is granted, inasmuch as service has degenerated as a result of the reduction in service. This revision will not be adopted, because the Commission believes that economies of this nature should be continued, even if a fare increase is granted.

Aircraft Servicing

PSA showed that landing fees at Burbank were raised effective April 1, 1975 by 56.25 percent. Test year expenses should be raised by $79,000 to reflect that increase.

Traffic Servicing

PSA presented data indicating that the staff had not reflected current rental costs for terminal space at San Jose, Oakland, Los Angeles, and Burbank. The amount shown in the staff exhibit should be increased by $106,000 to reflect current rents.

Depreciation Expense and Rate Base

Exhibit 10 contains a listing of various assets assertedly omitted by the staff in its determination of depreciation expense and rate base. Inclusion of those assets would raise test year depreciation expense by $672,000 and would increase the average test year rate base by $5,231,000. The assets are spare engines and parts, electronic equipment, maintenance and test equipment, and leasehold improvements completed or in progress and substantially completed at the end of 1974.

The proposed adjustments to test year operating expenses and rate base should be made.

Income Taxes

PSA urges that income taxes be computed based on normalization of the effect of applying accelerated depreciation and investment tax credit (so-called CAB method). This Commission has consistently used the flow-through method of computing income tax for ratemaking purposes. No basis for change from that method has been presented which has not heretofore been considered by the Commission. The staff method of computing income tax on the so-called flow-through method is reasonable.

Adjustments to Test Year Operating
Results to Eliminate L-1011 Aircraft

We carefully reviewed the evidence adduced by PSA and the staff with respect to operations of L-1011 aircraft. We believe that the test year operating results which will be used as a basis for analyzing PSA's revenue requirements should be further adjusted at this time to exclude the operating costs associated with the use of L-1011 aircraft and that costs associated with the operation of 727-214 aircraft should be substituted therefor.

Our determination to exclude L-1011 operating costs at this time results from our desire to further evaluate the management performance in regard to all aspects concerning the L-1011 operation. We do not wish to prejudge the matter in this interim decision.

Test Year Operating Results at Present Fares

Adopted test year operating results at present fares are set forth in Table 10 below.

TABLE 10

PACIFIC SOUTHWEST AIRLINES

Estimated Results of Operations
Year Ended December 31, 1975
(Includes Contract Training Activity)

Line No.	Reference	Item	Column 1 Present Fares With L-1011 (000)	Column 2 Present Fares Without L-1011 (000)	Column 3 Present Fares Without L-1011 F.H. on a Plane-for-Plane Basis (000)
		Statistics			
1		Passengers	6,350	6,350	6,350
2		Flight Hours	59.160	61.606	59.160
		Revenue			
3		Passengers	$119,190	$119,190	$119,190
4		Beverage (Net)	724	724	724
5		Freight	1,984	1,984	1,984
6		Baggage, Mail & Misc.	1,373	1,106	1,106
7		Contract Training	3,029	3,029	3,029
8	L3 to L7	Total Revenue	$126,300	$126,033	$126,033
		Expense			
9		Leased Aircraft	$ 5,667	$ 4,128	$ 4,128
10		Flying Operations	45,675	45,736	43,874
11		Direct Maintenance	12,451	12,024	11,566
12		Maintenance Burden	4,795	4,993	4,795
13		Passenger Service	7,229	7,384	7,116
14		Aircraft Servicing	6,759	7,036	6,759
15		Traffic Servicing	13,059	13,059	13,059
16		Servicing Admin.	833	833	833
17		Reservation & Sales	9,525	9,525	9,525
18		Advt. & Publicity	2,219	2,219	2,219
19		General & Admin.	7,080	6,580	6,580
20		Depreciation	11,616	10,739	10,739
21	L9 to L20	Total Expense	$126,908	$124,256	$121,193
22	L8 Less L21	Income Before Taxes	[608]	1,777	4,840
23		Income Taxes	-	-	-
24	L22 Less L23	Net Income	$ [608]	$ 1,777	$ 4,840
25		Rate Base	$ 95,593	$ 83,320	$ 83,320
26	L21,23 ÷ L8	Operating Ratio	100.5%	98.6%	96.1%
27	L24 ÷ L25	Rate of Return	-	2.1%	5.8%
28		System Avg. Load Factor	58.8%	58.8%	61.4%

[Red Figure]

Column 1 of Table 10 shows the estimated test year operating results adopted as reasonable herein, including use of L-1011 aircraft.

In Column 2 of Table 10, the operating results in Column 1 are adjusted to eliminate operation of L-1011 aircraft in the test year assuming that the system load factor will remain the same (58.8 percent). In Column 2, depreciation expense and rate base are adjusted to eliminate L-1011 components owned by PSA; miscellaneous revenues are reduced to eliminate the L-1011 utilization guarantee from Lockheed ($267,000); lease expense is adjusted to eliminate two leased L-1011 aircraft and two 727-200 aircraft are substituted therefor; and flight hours are increased to maintain the same number of seat miles provided by use of L-1011 aircraft in the test year.

In Column 3, adjustments of Column 1 are made to substitute 727-214 aircraft for L-1011 aircraft without increasing total seat miles to the level available with L-1011 aircraft. The effect of substituting 727-214 for L-1011 aircraft on a plane-for-plane basis is to maintain the same annual flight hours as shown in Column 1, but to increase load factor to 61.4 percent. In prior proceedings, we assumed that PSA's optimum system load factor was 60.0 percent and that any increase in load factor above that amount would require the scheduling of additional flight hours to maintain the number of passengers estimated for the test year.

We conclude that the total number of passengers (6,350,000) estimated for the test year cannot be achieved by PSA unless it provides the same number of seat miles as estimated in Column 1; therefore, it is our view that Column 2 more accurately represents the test year operations of PSA without the use of L-1011 aircraft than Column 3. Test year operating results under present fares set forth in Column 2 of Table 10 are reasonable and are adopted for the purposes of this proceeding.

The adopted test year results of operations under present fares produce an operating ratio (after taxes) of 98.6 percent and a rate of return of 2.1 percent. It is apparent that PSA's common carrier airline service is operating only slightly above the break-even point, and that if PSA should face any further major economic adversity, such as a further decline in traffic, further fuel price increases, or a settlement of labor contracts in an amount greater than projected in Table 10, its operations will cease to be profitable in the test year.

As indicated above, PSA, Inc. has incurred substantial operating losses from its hotel and broadcasting operations which has caused the parent company to be in a very poor financial position. The purpose of this proceeding is to focus on PSA's common carrier airline operations to the exclusion of other operations conducted by PSA's parent corporation. No attempt is made herein to determine the financial status of PSA, Inc. in the test year used herein nor to make PSA, Inc. whole. Our sole consideration is to ensure that we fairly and reasonably measure the test year operating revenues, expenses, rate base, and earning requirements of PSA's common carrier airline services, and to provide reasonable and nondiscriminatory airline fares for that service in the future.

Relief to be Granted

In Decision No. 81793 dated August 21, 1973 in Application No. 53525, we stated:

> "In our view, PSA should be permitted to earn the maximum reasonable rate of return for the reason that it conducts the most efficient operations in its field, and, as a consequence, is the rate-making carrier in the California corridor." (Page 32.)

The record in this proceeding contains substantial data which show that PSA is not operating as efficiently as it has done so in the past. In the further proceedings to be held in this matter we intend to pursue our investigation as to whether PSA continues to be the "most efficient" operator in the California corridor.

The acquisition of the L-1011 aircraft has been discussed at length above. The financial effect of those transactions has been enormous. In addition to the operating consequences of the planes previously delivered, we note the $16 million in deposits on undelivered aircraft which may be lost entirely, depending on the outcome of PSA's ongoing negotiations with Lockheed.

We are alarmed by the long term implications of the apparent change in management philosophy underlying both the acquisition of the L-1011's and the corporate reorganization. We are told that one of the reasons for PSA's success has been its willingness to do things differently from other airlines, to innovate. The expansion into hotels and car rentals was apparently done because the interstate carriers were engaging in such businesses with the encouragement of the Civil Aeronautics Board. We are concerned that these decisions are evidence that PSA may become "just another airline", and, if so, it then must expect to endure the financial fortunes and misfortunes associated with the airline business generally.

We cannot escape the conclusion that the greater part of the airline's immediate financial problem is the product of the parent's management. We question the prudency of the decision, discussed above, to buy $8,000,000 of treasury stock. We believe that such decisions are the reason that, in each of the last two years, PSA has paid to its parent more in dividends than it has earned. We conclude that such transactions have had a detrimental effect on airline cash flow requirements.

All of these circumstances taken together raise some fundamental questions with regard to the appropriate regulatory scheme for intrastate airlines. We are concerned that the inefficiency of PSA results simply in higher fares. We intend to explore means by which one carrier's inefficiency can be offset by another, more efficient carrier. We believe that this and future fare increases should be granted with the understanding that the affected routes will be available to other carriers who are willing to fly at the previously effective fares. We believe that we must consider changes in the nature and extent of our regulation of routes and fares, and we intend to institute our own investigation into the subject of airline regulation.

In the meantime we are very much concerned with the continued well-being of PSA. We know that the next few months represent peak months for air transportation in California, and a possibility of utilizing the L-1011's. We believe that the totality of circumstances - the inefficiency combined with the immediate peak period - supports us in awarding an interim fare increase of 6.5 percent, lower than the recommendation of the staff. We propose to reevaluate PSA's position in several months, to determine whether further fare relief is in order. We expect by that time to have some resolution to the problem of the L-1011's, delivered and undelivered, as well as the results of some of the proprietary new marketing techniques alluded to by PSA's consultant.

Estimated Test Year Operating
Results at Authorized Fares

Table 11, below depicts our estimate of the entire test year operating results under the interim fare increase of 6.5 percent. Column A of that table is derived from Column 2 of Table 10. Column B of Table 11 represents the adjustments to Column A required by a revenue increase of 6.5 percent from passenger fares.

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TABLE 11

PACIFIC SOUTHWEST AIRLINES

Estimated Results of Operations
Year Ended December 31, 1975

Line No.	Reference	Item	Column A Present Fares (+ 000)	Column B Authorized Fares (+ 000)
		Statistics		
1		Passengers	6,350	6,350
2		Flight Hours	61.606	61.606
		Revenue		
3		Passenger	$119,190	$126,937
4		Beverage (Net)	724	724
5		Freight	1,984	1,984
6		Baggage, Mail & Misc.	1,106	1,106
7		Contract Training	3,029	3,029
8	L3 to L7	Total Revenue	$126,033	$133,780
		Expense		
9		Leased Aircraft	$ 4,128	$ 4,128
10		Flying Operations	45,736	45,736
11		Direct Maintenance	12,024	12,024
12		Maintenance Burden	4,993	4,993
13		Passenger Service	7,384	7,384
14		Aircraft Servicing	7,036	7,036
15		Traffic Servicing	13,059	13,059
16		Servicing Administration	833	833
17		Reservation & Sales	9,525	9,727
18		Advertising & Publicity	2,219	2,219
19		General & Administrative	6,580	6,580
20		Depreciation	10,739	10,739
21	L9 to L20	Total Expense	$124,256	$124,458
22	L8 Less L21	Income Before Taxes	1,777	9,322
23		Income Taxes	-	942
24	L22 Less L23	Net Income	$ 1,777	$ 8,380
25		Rate Base	$ 83,320	$ 83,320
26	L21, L23, L8	Operating Ratio	98.6%	93.7%
27	L24 + L25	Rate of Return	2.1%	10.1%
28		System Average Load Factor	58.8%	58.8%

Findings

1. PSA is a passenger air carrier providing service between points wholly within California.

2. PSA seeks a permanent fare increase which will produce an annual increase in revenues of $19,956,000 or 16.45 percent. It seeks an immediate interim increase in revenues in the amount recommended in the staff report (Table 7) of $9,774,000 or 8.2 percent.

3. PSA and the Commission staff presented estimated results of operations for a 1975 test year which were developed on different assumptions and methods.

4. The differences between the test year estimates of operating results presented by PSA and the staff have been fully discussed and resolved in the preceding opinion.

5. The 1975 test year operating results set forth in Table 10 reasonably represent PSA's operations at present fares under the differing operating conditions assumed therein.

6. Operation of L-1011 aircraft should be excluded from test year operating results pending further analysis in the subsequent phase of this proceeding.

7. The method set forth in Column 2 of Table 10 to eliminate the use of L-1011 aircraft from test year operating results will be reasonable, as it maintains the same annual average system load factor and number of available seat-miles as is estimated before exclusion of the L-1011 aircraft.

8. The estimate of test year operating results under present fares set forth in Column 2 of Table 10 is reasonable and is adopted for the purposes of this proceeding. As set forth herein, present fares would produce an operating ratio (after taxes) of 98.6 percent and a rate of return of 2.1 percent. That operating ratio and rate of return demonstrates the need for additional revenues in the 1975 test year.

9. The Commission staff in its Exhibit 8 recommends that PSA be granted a permanent fare increase which is designed to produce a rate of return of 12.10 percent, and an operating ratio (after taxes) of 92.1 percent. That rate of return is the same as that authorized in the last general fare increase proceeding (Decision No. 81793); the operating ratio is less favorable than that authorized in that decision.

10. Table 11 in the preceding opinion sets forth test year estimated revenues, expenses, income taxes, rate base, rate of return, and operating ratio resulting from a fare increase of 6.5 percent. The results of operations set forth in Table 11 are reasonable and are adopted for the purposes of this proceeding.

11. Table 11 indicates that a fare increase of 6.5 percent would result in an operating ratio (after taxes) of 93.7 percent, a rate of return of 10.1 percent, and a corresponding return on equity of 11.46 percent. The foregoing operating ratio and rate of return is in the zone of reasonableness for PSA's airline operations and will not provide excessive earnings.

12. The fares resulting from a 6.5 percent increase over present fares (as set forth in Appendix A hereto) are justified and will be reasonable for the future. The fare increase is $7,747,000.

Conclusions

PSA should be authorized to establish the fares found justified in the above findings on five days' notice to the Commission and the public. In view of the demonstrated urgent need for additional revenues, the effective date of this order should be the date of issuance. The proceeding should be kept open for receipt of additional evidence as indicated above.

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INTERIM ORDER

IT IS ORDERED that:

1. Pacific Southwest Airlines is authorized to establish the increased passenger air fares set forth in Appendix A attached hereto and made a part hereof.

2. The experimental ninety-day promotional fares authorized in Decisions Nos. 84139 and 84213 in Application No. 55474 shall be constructed on the basis of the increased fares authorized in Ordering Paragraph 1 of this decision.

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

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

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 17th day of JUNE, 1975.

Vernon L. Sturgeon
President

William Symons Jr.

[illegible]

Robert Batinovich
Commissioners

I dissent
(opinion attached)
Leonard Ross

I will file a concurring
& dissenting opinion
William Symons Jr.

I will file a concurring
and dissenting opinion
Vernon L. Sturgeon

I will file a concurring
and dissenting
opinion:
[illegible], Commissioner

APPENDIX A

PACIFIC SOUTHWEST AIRLINES

Schedule of Present and Authorized Fares

Route/Between Points (Either Direction)	Present Fare Excluding Tax	Present Fare Including Tax	Authorized Fare Excluding Tax	Authorized Fare Including Tax
San Diego Los Angeles, Burbank Ontario, Long Beach	$ 9.95	$10.75	$10.60	$11.45
San Francisco Sacramento, Stockton	9.95	10.75	10.60	11.45
Fresno Stockton	9.95	10.75	10.60	11.45
Oakland Sacramento	9.95	10.75	10.60	11.45
Fresno San Francisco	12.73	13.75	13.56	14.65
Los Angeles Fresno	16.25	17.55	17.31	18.70
Los Angeles/Burbank San Francisco, Oakland San Jose	19.21	20.75	20.46	22.10
Los Angeles Stockton	19.21	20.75	20.46	22.10
Long Beach San Francisco, Oakland San Jose	21.11	22.80	22.50	24.30
Ontario San Francisco	21.11	22.80	22.50	24.30
Los Angeles Sacramento	21.11	22.80	22.50	24.30
Burbank/Ontario/Long Beach Sacramento	23.84	25.75	25.37	27.40
San Diego Fresno	23.84	25.75	25.37	27.40
San Diego San Francisco, Oakland San Jose, Stockton	26.85	29.00	28.61	30.90
San Diego Sacramento	27.36	29.55	29.12	31.45
San Jose Oakland	6.25	6.75	6.67	7.20

APPENDIX A

PACIFIC SOUTHWEST AIRLINES

Schedule of Present and Authorized Fares

Route/Between Points (Either Direction)	Present Fare Excluding Tax	Present Fare Including Tax	Authorized Fare Excluding Tax	Authorized Fare Including Tax
Special Fares-Midnight Flyer Flights Only				
San Diego Los Angeles	$ 7.64	$ 8.25	$ 8.15	$ 8.80
San Francisco Sacramento	7.64	8.25	8.15	8.80
Los Angeles San Francisco	13.89	15.00	14.81	16.00
Los Angeles Sacramento	16.94	18.30	18.06	19.50
San Diego San Francisco Sacramento	19.21	20.75	20.46	22.10

NOTE: 1. Children's fares at 50% of regular fares.
2. Lake Tahoe fares are not included in this proceeding.

DISSENTING OPINION OF COMMISSIONER ROSS

For years, PSA performed brilliantly as a low-cost innovator in airline service. But recently PSA has made some very expensive mistakes. As a result, this Commission faces a painful dilemma. If we refuse a rate increase, PSA may face bankruptcy. If we hike rates, we may be asking customers to pay for management's mistakes.

The solution, in principle, is to set rates just high enough to allow a well-managed airline to prosper. But the PUC's current method of regulation provides no sure indication of what that rate would be. Since we restrict competition among the airlines we regulate, we lack the only real evidence of efficiency -- a market price. We don't really know whether the rate hike we grant today is necessary, or whether it is more than would result from open competition.

There is one sure way to find out. We can allow other airlines to fly PSA's routes if they will charge less than PSA's rates. PSA, of course, would have the same privilege. Competition, not bureaucracy, will decide who will remain in the business and how much they will charge.

PSA grew up in a competitive world, before the Legislature allowed the PUC to fix rates and exclude competitors. If it had not been for that early era of competition, California's air market would probably be dominated by the interstate carriers charging rates 50 percent above today's level. Our best course is to return to the policies which gave California the lowest prices and best service in the nation. A few principles, in my view, should guide us:

•<u>Neither the PUC nor the customer can be an airline's fairy godmother</u>. This Commission has no duty to raise rates just because an airline is in financial trouble. Airlines should be allowed to make money if they are run well and lose money if they are run poorly.

•Airlines are not inherently monopolies. Unlike some of the other businesses we regulate -- such as gas and electric utilities -- there is no reason why any one firm should have monopoly privileges. It would be socially wasteful to have two companies stringing electric lines from door to door. But there is nothing necessarily wasteful about having two or five airlines flying the same routes.

•We should be encouraging competition, not suppressing it. We have no more business excluding qualified airlines from competition than we would in restricting dry cleaners, or steel manufacturers, or hot dog stands.

To be sure, some airline routes may support only one carrier. But the best way to find that out is to see whether other airlines will compete at the going rate.

I would vote for this rate increase, simply on the basis of PSA's immediate need, if this Commission were committed to a thorough investigation of the need for freer competition. But without a change in Commission policy, this increase will be just another corporate welfare check.

I hope this is the last airline increase we ever have to grant simply on hunch 1-- without any evidence that the job cannot be done for less.

Leonard Ross
Leonard Ross
Commissioner

San Francisco, California
June 17, 1975

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D. W. HOLMES, COMMISSIONER, Concurring in Part and
Dissenting in Part:

I concur with the relief given in the order before us since it is necessary to keep Pacific Southwest Airlines a viable element to serve the California public.

I concur with the opinion of my fellow Commissioners, particularly as it refers to the utility's financial problems. Losses in the non-utility area have served to siphon capital and managerial resources away from the Airline. The decision of the holding company's management to purchase $8,000,000 of Treasury stock was a flagrant example of poor judgment, considering the Airline's need for capital and the extremely expensive money market that existed at that time.

I further concur with the inference that this Commission will not make whole a utility which it regulates because of burdens placed on it by improper management of the holding company which the Commission does not regulate.

Dissenting

I dissent to the words and the philosophy espoused in the opening paragraph on page 30 of this order. I do not believe that we should consider changes in the nature and extent of our regulation of routes and fares of intrastate airlines in California. The California air traveler flies the lowest cost miles of any air traveler in the world. This is in part because of our intrastate airlines and in part because of the system of regulation which the California Public Utilities Commission has evolved through the years.

The only weakness in our regulatory scheme is immediately brought to bear in this decision, and that is that we are not able to regulate the holding companies which so vitally affect their public utility subsidiaries.

D. W. HOLMES, Commissioner

Vernon L. Sturgeon joining in the concurrence and dissent

Dated at San Francisco, California,
June 17, 1975.

A. 55160 - D. 84544

COMMISSIONER WILLIAM SYMONS, JR., Concurring in Part and Dissenting in Part

I conclude from consideration of the evidence in the proceeding thus far, including the operating results adopted as reasonable for the test year, that the staff's recommendation of an 8.2 percent interim increase in fares is justified. As to the lesser amount of 6.5 percent granted in this interim order I would concur that the increase is necessary and justified, but do not concur in its sufficiency. High seasonal traffic even at these rates should allow PSA to operate through the summer months. However, rates should be designed on a yearly basis with profits during traffic peaks helping to balance the low periods. Setting inadequate rates for this summer could well lead to the company finding itself in anemic financial straights later this year and consequently in need of greater rate relief than presently is the case.

I dissent from the opinion wherein it implies any pre-judgment on the matter of L-1011 purchases. To judge management decisions by use of hindsight instead of examining the decisions in light of information which was known or should have been known by management at the time of decision, is Monday morning quarterbacking of the worst type and a destructive, unfair method of regulation for this Commission to follow.

I further dissent from the language contained in the Opinion on page 30, the first paragraph. It sets up a non-real "straw man" to knock down in suggesting we are restraining competition itching to get at PSA's routes. Our application procedure has been open to all who wish to file in competition to PSA for the same fares or less. No one has filed.

The language has an implication for other airlines in the state, however, when it implies that we are adopting a policy that any part of any route in the state is open to any air carrier who choses to file. Our statutory responsibility set forth in § 2739 of the Air Carriers Act is to promote an "... orderly, efficient, economical, and healthy intrastate passenger air network ...". We cannot use as the only consideration a system which favors the lowest fares between the major cities; other considerations, such as market assignment may be necessary to promote service to less traveled communities, thus promoting a more comprehensive network of service for Californians.

San Francisco, California
June 17, 1975

William Symons, Jr.
WILLIAM SYMONS, JR.
Commissioner