

Decision No. 84660

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of HUGHES AIR CORP.  
d/b/a HUGHES AIRWEST for authority  
to increase certain intrastate  
passenger fares.

Application No. 55698  
(Filed May 23, 1975;  
amended June 25, 1975)

INTERIM OPINION

Hughes Air Corp., doing business as Hughes Airwest (Airwest), is a common carrier by air of passengers and property between points located in various states of the United States, including California, Canada, and Mexico. In California, Airwest operates in intrastate as well as interstate commerce providing local service between various California cities, as well as between these cities and points in other states.

Airwest seeks authority to make certain changes in its intrastate passenger air fares, on an ex parte basis, as set forth below:

HUGHES AIRWEST'S  
PROPOSED STANDARD CLASS AND COMMUTER FARES  
(Excluding Tax)

Proposed Increased Fares

<u>Between/And</u>	<u>Present Fare</u> <sup>1/</sup>	<u>Proposed Fare</u>	<u>Amount of Proposed Fare Increase</u>
Bakersfield -Los Angeles	\$13.94	\$14.26	\$ 0.32
Los Angeles -Monterey	23.55	25.32	1.77
-Ontario	13.10	14.02	0.92
-Palm Springs	18.92	19.21	0.29
-San Francisco	17.46 <sup>2/</sup>	20.46 <sup>2/</sup>	3.00
-San Francisco	23.55 <sup>2/</sup>	25.32 <sup>2/</sup>	1.77
-Santa Barbara	12.81	13.38	0.57
San Francisco-Santa Barbara	23.55	25.32	1.77

Proposed New or Reduced Fares

<u>Between/And</u>	<u>Present Standard Class Fare</u> <sup>1/</sup>	<u>Proposed Commuter Fare</u>	<u>Amount of Proposed Change</u>
Bakersfield -San Francisco	\$32.53	\$25.93	\$(6.60)
-Santa Barbara	19.90	19.90	-
Los Angeles -Stockton	35.44	25.32	(10.12)
Monterey -San Francisco	16.98	16.98	-
San Francisco-Santa Ana	-	25.93	-
-Stockton	16.98	16.98	-
Santa Maria -Stockton	28.64	25.32	(3.32)

( ) = Reduction

<sup>1/</sup> Includes a 46 cent security cost component authorized by Decision No. 83939.

<sup>2/</sup> Lower fare via direct service; higher fare via one or more intermediate cities.

The application states that the fares sought herein parallel those authorized to Pacific Southwest Airlines (PSA), United Air Lines (United), Western Air Lines (Western), and Trans World Airlines (TWA) in recent decisions issued by the Commission. Decision No. 84544 issued June 17, 1975 in Application No. 55160 authorized PSA to increase its commuter air fares on an interim basis by 6.5 percent. Decision No. 84597 in Application No. 55604 and Decision No. 84598 in Application No. 55615 issued June 24, 1975, authorized Western and United, respectively, to raise certain of their intrastate fares by 6.5 percent on an interim basis to parallel the fares granted to PSA. The appendix to this order compares the fares sought to be established by Airwest with fares authorized to be maintained by PSA, Western, and United. As may be seen from the appendix the sought increased fares are the same or less than the competitive fares of other airlines. The sought reduced fares are not as low as the fares of other airlines, but reduce the disparity between Airwest's fares and the related fares of its principal competitors.

The application states that to comply with the long- and short-haul provisions of Section 461.5 of the Public Utilities Code, the second level commuter fare between Los Angeles and San Francisco is proposed to be adjusted to the Santa Barbara-San Francisco level. Additionally, the proposed new commuter fares between Stockton, on the one hand, and Santa Maria/Los Angeles on the other hand, are proposed to be established at the adjusted Los Angeles-San Francisco second level commuter fare, but lower than the existing standard-class fares. Extension of the commuter service between San Francisco, on the one hand, and Bakersfield (via Santa Barbara) and Santa Ana (via Los Angeles), on the other hand, will provide the new lower fares as set out above.

The application contains the following summary of earnings for Airwest's California intrastate operations:

TABLE 1  
Airwest's Summary of Earnings  
Intra-California Operations

	<u>12 Months Ended</u> <u>March 31, 1975</u> <sup>1/</sup>
<u>Operating Revenues</u>	
Passenger	\$20,183,681
Freight	583,421
Other Transport Revenues	<u>551,895</u>
Total Transport Revenues	21,318,997
Transport Related Revenues - Net	310,304
Subsidy	<u>2,541,752</u>
Total Operating Revenues	24,171,053
Total Operating Expenses	<u>28,967,962</u>
Net Operating Profit (Loss)	(4,796,909)
Interest Expense	<u>849,494</u>
Pretax Profit (Loss)	(5,646,403)
Income Taxes @ 48%	<u>(2,710,273)</u>
Net Profit (Loss)	(2,936,130)
Return	(2,086,636)
Investment	9,546,663
Return on Investment	(21.86)%

(Negative figure)

<sup>1/</sup> Source: C.A.B. Local Service Airlines  
 Subsidy Need Study - 12 Months Ended  
 March 31, 1975.

Exhibit C to the application (as amended) shows that the net change resulting from the fare proposals is an annual revenue increase of \$126,039. The application states that such revenue increase will not materially reduce Airwest's intrastate operating deficit.

#### Findings

1. Airwest seeks authority in Application No. 55698 to revise certain of its intrastate standard and commuter air fares, some of which result in increases, and some in reductions.

2. The sought fare increases are designed to parallel increased air fares authorized to PSA, Western, and United in Decisions Nos. 84544, 84597, and 84598, respectively. Said increases were authorized on an interim basis.

3. The sought reduced fares lower the difference between fares maintained by Airwest and the commuter or coach air fares maintained by other airlines.

4. The financial data submitted with Application No. 55698 show that Airwest's intra-California operations were conducted at a substantial loss in the 12-month period ended March 31, 1975, and if the proposed increases in fares are authorized, that loss would be reduced, but not eliminated.

5. The Commission historically has considered PSA to be the low-cost (ratemaking) carrier in the California corridor and, in the past, has authorized other passenger air carriers to raise their commuter air fares to the levels authorized to PSA between competitive points, and also has authorized proportionate increases in fares for other classes of service.

6. An interim increase in Airwest's air fares to the same levels authorized to PSA, Western, and United will be reasonable and the resulting increases are justified. Such action is consistent with past decisions of the Commission involving fares of Airwest and PSA.

7. The proposed reduced or newly established commuter air fares will be reasonable.

8. A public hearing is not necessary.

#### Conclusion

The Commission concludes that Airwest should be granted authority to revise its fares to the extent found reasonable above. The authority should be interim in nature because the corresponding fares of competing airlines are interim fares; and because the Commission's Transportation Division staff has indicated that it

intends to prepare an economic study of Airwest's California intra-state operations for introduction in this proceeding, which study will be completed on or about September 15, 1975.

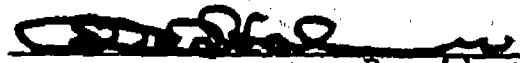
INTERIM ORDER

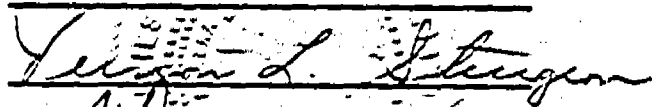
IT IS ORDERED that:

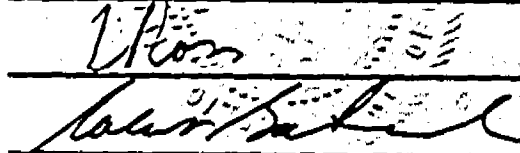
1. Hughes Air Corp., doing business as Hughes Airwest, is authorized to establish the revised air passenger fares proposed in Application No. 55698, as amended.
2. Tariff publications authorized to be made as a result of this order may be made effective not earlier than five days after the effective date of this order on not less than five days' notice to the Commission and to the public.
3. 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 8th  
day of JULY, 1975.

  
President

  
William L. Sturgeon

  
Commissioners

Commissioner William Symons, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A  
HUGHES AIRWEST  
Fares Excluding Tax

Between		Present Fare	Proposed Fare	Remarks	PSA D84544	UAL D84598	UAL D83814, 83918, 83939	WAL D84597	Air California D84138
Bakersfield-LAX		\$13.94	\$14.26		\$	\$	\$14.26	\$	\$
LAX	-Monterey	23.55	25.32				25.32		
	-Ontario	13.10	14.02					14.95	
	-Palm Springs	18.92	19.21					20.46	
	-SFO	17.46 <sup>1/</sup>	20.46 <sup>1/</sup>		20.46	20.46		20.46	
	-SFO	23.55 <sup>2/</sup>	25.32 <sup>2/</sup>						
	-Santa Barbara	12.81	13.38				13.38		
SFO	-Santa Barbara	23.55	25.32				25.32		
Bakersfield-SFO		32.53	25.93	Reduction			17.64		
	-Santa Barbara	19.90	19.90	No Change			12.27		
LAX	-Stockton	35.44	25.32	Reduction	20.46	20.46			
Monterey	-SFO	16.98	16.98	No Change			12.27		
SFO	-Santa Ana	-	25.93						24.31
	-Stockton	16.98	16.98	No Change	10.60	10.60			
Santa Maria-Stockton		28.64	25.32	Reduction					

1/ Direct service.

2/ Via one or more intermediate cities.