

Decision No. 84767

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Southwest Airlines for an ex parte order or expedited authority to increase its passenger air fares.

Application No. 55160
(Third Amendment filed
July 8, 1975)

SECOND INTERIM OPINION

Decision No. 84544 dated June 17, 1975 in this proceeding authorized Pacific Southwest Airlines (PSA) to increase its passenger air fares by 6.5 percent on an interim basis. In the second amendment to this application, PSA had requested a fare increase of 16.45 percent.

In the third amendment filed July 8, 1975, PSA seeks an ex parte order authorizing a further fare increase of 1.92 percent designed to offset recent increases in fuel prices aggregating 2.4572 cents per gallon over the fuel prices underlying the economic data adopted as reasonable in Decision No. 84544. The sought fuel offset increase is designed to produce additional annual revenues of \$2,441,000. The specific fares proposed in the third amendment to the application are set forth in Appendix A hereto.

The third amendment to the application contains the following information in support of the requested interim relief:

Since the time of the hearing of said application, PSA has experienced substantial increases in the cost of aviation fuel. This increase in flying operations expense amounts to almost \$2,400,000 on an annual basis. Such unanticipated fuel cost increases were not forecast or taken into account by the Commission in the results of airline operations adopted in Decision No. 84544. The Commission stated in Decision No. 84544:

"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...its operations will cease to be profitable in the test year."

It is further alleged that since the hearing of PSA's general fare application, PSA has suffered substantial economic adversity because of reduced passenger levels and higher fuel prices. PSA's passenger traffic for the year ended May 31, 1975 (exclusive of Lake Tahoe service) totals 6,243,000 which is over 100,000 passengers less than the total projected by Decision No. 84544. for the year ended December 31, 1975. This traffic deficiency equates to about a \$2,000,000 loss in revenue. Fuel prices have continued to escalate with PSA's major supplier raising prices on April 1, 1975 and on July 1, 1975 in the amount of 1-1/2 cents and 1-1/4 cents per gallon respectively. PSA has already absorbed over \$300,000 of such increased expenses and continues to experience unrecovered costs on a daily basis. The above-described cost increases from PSA's major supplier were occasioned by an escalation in the posted prices of crude oil to the fuel suppliers which, in accordance with existing contracts between PSA and its suppliers, resulted in an increase in charges by the suppliers to PSA. The increased fuel prices imposed on PSA implicitly are sanctioned by Federal Energy Administration (FEA) regulations which permit petroleum suppliers to pass on all increased costs to customers whose fuel contracts have expired. PSA's fuel contract with its major supplier, Shell Oil Company, expired on September 30, 1974.

In portraying the effect of the fuel increase and solely for the purpose of this third amendment to the application, PSA has based its analysis on the findings and conclusions of Decision No. 84544 including the "Adopted Results of Airline Operations" appearing in Table 11 of that decision. The effect of the fuel increases on PSA's results of operations as adopted by the Commission in that decision is set forth in the following table. The increase in passenger air fares requested herein assertedly will result in a rate of return to PSA identical to that found reasonable by the Commission in Decision No. 84544, with an operating ratio of 93.8 percent.

TABLE 1

PACIFIC SOUTHWEST AIRLINES

Adopted Results of Airline Operations
Adjusted for Increased Cost of Fuel
Year Ending December 31, 1975 - Pro Forma
(000 omitted)

	PUC Adopted Results (Current Fares)(a)	Increased Cost Due to Fuel Price Increase	PUC Adopted Results With Fuel Cost Increases	Effect of Proposed Fare Increase	PUC Adopted Results With Fare and Fuel Cost Increase
<u>Statistics</u>					
Passengers	6,350		6,350		6,350
Flight hours	61,606		61,606		61,606
<u>Revenue</u>					
Passengers	\$126,937		\$126,937	\$2,441 (b)	\$129,378
Beverage (net)	724		724		724
Freight	1,984		1,984		1,984
Baggage, mail & misc.	1,106		1,106		1,106
Contract training	3,029		3,029		3,029
Total revenue	133,780		133,780	2,441	136,221
<u>Expense</u>					
Leased aircraft	4,128		4,128		4,128
Flying operations	45,736	\$2,377 (b)	48,113		48,113
Direct maintenance	12,024		12,024		12,024
Maintenance burden	4,993		4,993		4,993
Passenger service	7,384		7,384		7,384
Aircraft servicing	7,036		7,036		7,036
Traffic servicing	13,059		13,059		13,059
Servicing admin.	833		833		833
Reservations & sales	9,727		9,727	64 (d)	9,791
Advertising & publicity	2,219		2,219		2,219
General & administrative	6,580		6,580		6,580
Depreciation	10,739		10,739		10,739
Total expense	124,458	2,377	126,835	64	126,899
Income before taxes	9,322	(2,377)	6,945	2,377	9,322
Income taxes	942	(732) (c)	209	732 (c)	942
Net income	8,380	(2,644)	6,736	1,644	8,380
Rate base	83,320		83,320		83,320
Operating ratio	93.7%		95.0%		93.8%
Rate of return	10.1%		8.1%		10.1%
System load factor	58.8%		58.8%		58.8%

(Red Figure)

- (a) PUC Decision No. 84544, Table 11, page 31.
 (b) Exhibit C to Third Amendment to Application No. 55160.
 (c) Effective rate 30.84%.
 (d) Commissions and service charge @ 2.61% of passenger revenue - used in Decision No. 84544.

PSA requests that the fares shown in Appendix A be made effective on two days' notice. PSA states that the relief requested is urgently needed to maintain the level of service now enjoyed by the California air traveler as well as to maintain the financial viability of the carrier providing such service. The third amendment to Application No. 55160 was served in accordance with Commission rules, and notice of the filing appeared in the Commission's Daily Calendar. There are no protests.

Findings

1. PSA is a passenger air carrier providing service between points wholly within California.
2. In this application PSA seeks a permanent fare increase which will produce an annual increase in revenues of \$19,956,000 or 16.45 percent.
3. Decision No. 84544 issued June 17, 1975, authorized PSA to increase its fares by 6.5 percent on an interim basis. The results of airline operations adopted as reasonable in Table 11 of that decision indicated that the authorized increase would produce a rate of return of 10.1 percent and an operating ratio (after taxes) of 93.7 percent for a test year ending December 31, 1975.
4. PSA has recently incurred increases in the price of fuel from its major supplier (Shell Oil Company). The weighted average cost per gallon for all fuel used by PSA is 2.3402 cents greater than the cost per gallon reflected in the adopted operating results in Table 11 of Decision No. 84544. The increased cost including California sales tax of 5 percent is 2.4572 cents per gallon.
5. Based on the data used in Decision No. 84544, the resultant annual increase in operating expenses is \$2,377,000. A fare increase

of \$2,441,000 is needed to offset the increased fuel costs, when allowance is made for sales commissions of 2.61 percent on the higher fares. A fare increase of 1.92 percent is required to produce an annual revenue increase of \$2,441,000.

6. The proposed fuel offset increase is designed to produce only sufficient increased revenues to directly offset the increased fuel costs currently experienced by PSA. As shown in Table 1 herein the estimated rate of return and operating ratio for a 1975 test year will be not more favorable than that found reasonable in Findings 11 and 12 of Decision No. 84544.

7. The proposed increased fares set forth in Appendix A are justified.

Conclusion

The Commission concludes that further interim fare relief should be granted as provided in the order which follows.

SECOND INTERIM ORDER

IT IS ORDERED that:

1. Pacific Southwest Airlines is authorized to establish the proposed 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 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 ninety days after the date hereof.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 5th
day of AUGUST, 1975.

William G. Simpson President
Thurmond L. Stinson
Roy
Paul Baker Commissioners

Commissioner D. W. Holmes, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
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PACIFIC SOUTHWEST AIRLINES

Schedule of Fares, Current and Proposed

<u>Routes Between Points (Either Direction)</u>	<u>Present Authorized Fare</u>		<u>Proposed Interim Fare*</u>		<u>Proposed Interim Increase Excluding Tax</u>
	<u>Excluding Tax</u>	<u>Including Tax</u>	<u>Excluding Tax</u>	<u>Including Tax</u>	
San Diego Los Angeles, Burbank, Ontario, Long Beach	\$10.60	\$11.45	\$10.79	\$11.65	\$.19
San Francisco Sacramento, Stockton	10.60	11.45	10.79	11.65	.19
Fresno Stockton	10.60	11.45	10.79	11.65	.19
Oakland Sacramento	10.60	11.45	10.79	11.65	.19
Fresno San Francisco	13.56	14.65	13.84	14.95	.28
Los Angeles Fresno	17.31	18.70	17.64	19.05	.33
Los Angeles/Burbank San Francisco, Oakland San Jose	20.46	22.10	20.83	22.50	.37
Los Angeles Stockton	20.46	22.10	20.83	22.50	.37
Long Beach San Francisco, Oakland San Jose	22.50	24.30	22.92	24.75	.42
Ontario San Francisco	22.50	24.30	22.92	24.75	.42
Los Angeles Sacramento	22.50	24.30	22.92	24.75	.42
Burbank/Ontario/Long Beach Sacramento	25.37	27.40	25.88	27.95	.51
San Diego Fresno	25.37	27.40	25.88	27.95	.51

Note: Children fares at 50% of regular fare.

* Proposed interim fares increased 1.92% over
present fare (rounded to the nearest \$.05).

(Continued)

APPENDIX A
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	<u>Excluding Tax</u>	<u>Including Tax</u>	<u>Excluding Tax</u>	<u>Including Tax</u>	
San Diego San Francisco, Oakland San Jose, Stockton	\$28.61	\$30.90	\$29.17	\$31.50	\$.56
San Diego Sacramento	29.12	31.45	29.68	32.05	.56
San Jose Oakland	6.67	7.20	6.81	7.35	.14
<u>Special Fares - Midnight Flyer Flights Only</u>					
San Diego Los Angeles	8.15	8.80	8.29	8.95	.14
San Francisco Sacramento	8.15	8.80	8.29	8.95	.14
Los Angeles San Francisco	14.81	16.00	15.09	16.30	.28
Los Angeles Sacramento	18.06	19.50	18.38	19.85	.32
San Diego San Francisco Sacramento	20.46	22.10	20.83	22.50	.37

Note: Children fares at 50% of regular fare.

* Proposed interim fares increased 1.92% over
present fare (rounded to the nearest \$.05).