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Decision No. 85340

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Air California for an Ex Parte Order to Increase its Intrastate Passenger Fares and Cargo Rates.	Application No. 55784 (Filed July 2, 1975)

Graham and James, by Boris Lakusta and David Marchant, Attorneys at Law, for applicant.
Brownell Merrill, for Pacific Southwest Airlines, interested party.
Elmer Sjostrom, Attorney at Law, Edward Cole and A. L. Gieleghem, for the Commission staff.

SECOND INTERIM OPINION

Air California, a passenger air carrier operating wholly within California, seeks authority to increase its air fares and freight rates.

Air California's last general fare increase was authorized by Decision No. 82687 dated April 2, 1974 in Application No. 54545. Since that time Air California has received fare increases to offset the increased cost of fuel. Air California assertedly has experienced other increased operating expenses, such as labor costs, repair and maintenance costs, and terminal rentals and landing fees for which it seeks increases in this proceeding.

Interim Decision No. 84821 dated August 26, 1975 granted the request in the second amendment to the application to increase air fares by 18 cents per passenger (before tax) and 20 cents per passenger (after tax) to offset increased fuel costs occurring prior to the date of the filing of that amendment on August 18, 1975.

The third amendment to the application filed November 19, 1975, seeks further interim fare increases to offset recent fuel price increases and labor cost increases. That amendment states that on August 11, August 16, October 1, and October 18, 1975 Air California received notices from its major fuel suppliers that the price of fuel would be increased. On June 1 and October 1, 1975 Air California signed agreements with bargaining units representing pilots and inflight attendants which raised labor costs for those employees. In the third amendment to the application Air California seeks a further interim increase of 47 cents per passenger (excluding tax) and 50 cents per passenger (including tax) to offset the above mentioned increased expenses. The total increased revenue is estimated to be $748,832 annually or 2.0 percent.

Public hearing was held before Examiner Mallory on November 24, and 25, 1975 at San Francisco. The Commission staff stated that it would require additional time to complete economic studies undertaken by it. At the conclusion of the hearing the matter was continued for further hearing to January 28, 1976 at San Francisco for the receipt of staff studies.

Air California offered evidence designed to show that it requires interim relief in advance of the receipt of the staff studies. Two financial examiners from the Commission's Finance and Accounts Division testified concerning that division's position with respect to the granting of the interim relief.

The following evidence was adduced by applicant: Air California seeks an interim increase in fare aggregating 8 percent. Approximately 5.3 percent of that amount is to offset increased costs of labor, landing fees, rentals, and related operating costs experienced since the last general increase in fares and which have been incurred by Air California prior to January 1, 1975. The balance of the sought increase is to offset the increased cost of fuel and labor occurring since August 1, 1975, as described in the third amendment to the application.

The detailed operating cost increases which were experienced in the period between the granting of Air California's last general fare increase and January 1, 1975 are set forth in Exhibit 1. That exhibit also contains comparisons of Air California's fares and those of Pacific Southwest Airlines (PSA) in the markets served by each airline, data concerning the efficiency of Air California, and load factor and traffic projections for the future.

Exhibit 1 states with respect to the need for interim relief: Air California has posted a nine-month profit for 1975 which has been due to constant cost control, curtailment of expansion, and limited increases in scheduled flights. Those economies cannot continue indefinitely. Air California's current breakeven load factor is 66 percent. If that load factor is continued into 1976 it will prevent Air California from providing the services required by the public in all the markets served by it. To operate at such a high load factor, reductions in monopoly market schedules must be made in order to achieve higher load factors than the average in order to carry the lower load-factor flights in competitive markets. This would result in an 80 percent load factor in Air California's main market between Orange County and Bay Area airports. A 5.3 percent increase in fares would reduce the average breakeven load factor from 68.3 percent to 65.0 percent for winter-time operations, and would guarantee a first quarter profit for 1976.

Exhibit 1 contains the following information with respect to the sought air freight rate increase: For the first nine months of 1975, air freight produced 1.45 percent of total revenue. The sought freight rate increase is estimated to be a 16.6 percent increase, which would have an impact of 0.2 percent on total revenues. Air carriers serving the same markets as Air California now maintain air freight rates at the same levels as proposed in the application. Granting the air freight rates proposed by Air California would make uniform the air freight rates in the California corridor.

In Exhibit 5, Air California showed the effect on operating expenses for the ten-month period ended October 31, 1975 of the increases in operating expenses (less fuel) experienced prior to January 1, 1975. Exhibit 6 shows the effect on operating expenses for same ten-month period of fuel and labor cost increases detailed in the third amendment to the application. Those data are combined in Exhibit 7. Exhibit 7 also shows the interim revenue increases sought to offset both categories of increased expenses, as set forth in the following table:

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. TABLE 1

AIR CALIFORNIA

Statement of Income for the 10-Month Period Ended October 31, 1975

	Actual	Exhibit 5	Exhibit 6
	(Dollars in Thousands)		
Revenues			
Passenger Transportation			
Commuter	$28,938	$30,493	$30,956
Charter	574	574	574
Freight	443	443	443
Liquor	179	179	179
Nontransport. & Other	662	662	662
Total Revenues	30,796	32,351	32,814
Operating Expenses			
Flying Operations	8,935	8,935	9,178
Direct Maintenance	2,345	2,345	2,345
Aircraft Lease Cost	3,532	3,532	3,532
Maintenance Burden	1,195	1,195	1,195
Passenger Services	1,942	1,942	2,090
Aircraft Services	1,635	1,635	1,692
Traffic Services	3,853	3,853	3,853
Sales & Promotion	3,610	3,665	3,681
General Administration	1,202	1,202	1,202
Depreciation & Amortization	392	392	392
Total Oper. Exps.	28,641	28,696	29,160
Operating Income	2,155	3,655	3,654
Nonoperating Exps. (interest)	77	77	77
Earnings Before Income Taxes	2,078	3,578	3,577
Income Taxes	909	1,612	1,612
Net Earnings	1,169	1,966	1,965
Oper. Ratio - Before Taxes	93.0%	88.7%	88.9%
- After Taxes	96.2%	94.0%	94.0%
Increase in Fares		5.7%	7.4%

As shown in the above table, Air California seeks an interim adjustment of 5.3 percent (Exhibit 5) to improvement in its operating ratio (after taxes) from 96.2 to 94.0 percent. The last column in Table 1 (Exhibit 6) shows the increased revenues necessary to offset the additional expense increases for fuel and labor which will occur in the future and which are not included in the operating expenses for the ten-month period ended October 31, 1975, and to improve its operating rates.

The Commission's Finance and Accounts Division testified that it has no objection to the granting of interim relief to the extent that it offsets known increases in a limited number of categories of operating expense.

<u>Discussion</u>

The record does not clearly show that interim relief is required to offset expenses which have occurred in the past and which are reflected in operating expenses for the ten-month period ended October 31, 1975 (Exhibit 5). Actual results of operation for that period show that Air California experienced an operating ratio (before taxes) of 93.0 percent and an operating ratio (after taxes) of 96.2 percent. While those operating ratios are not as favorable as those found reasonable in past decisions involving Air California, they indicate that operations through October 31, 1975 were profitable.

Exhibit 6 shows that a 7.4 percent increase would be necessary both to offset the known increases in fuel and labor which have occurred in recent months and to raise Air California's operating ratio (after taxes) to 94 percent. This compares to an increase of 2.0 percent necessary to merely offset those increases without an improvement in Air California's operating ratio.

Based on the record made to this point the full amount of the interim relief sought is not justified; only that portion which relates to recent fuel cost increases and to future labor cost increases is justified.

Findings

1. Air California seeks an interim increase of its air fares and air freight rates to provide revenues to cover increased operating costs.

2. That portion of the interim increase designed to offset recent increases in fuel costs and to offset increased labor costs resulting from recently negotiated wage contracts is justified, as more specifically described in the third amendment to the application herein.

3. The interim increase in fares necessary to offset the increased expenses described in the preceding finding is 47 cents per passenger (excluding tax) and 50 cents per passenger (including tax). Fare increases of that amount will produce an increase in annual revenue of $748,832, or an increase of 2.0 percent. Such fare increases will be reasonable and are justified, pending final decision in this application.

4. Increased air freight rates proposed in the application will be reasonable and are justified.

Conclusion

Interim relief should be authorized as set forth in the order which follows.

SECOND INTERIM ORDER

IT IS ORDERED that:

1. Air California is authorized to establish the increased air fares proposed in the third amendment to Application No. 55784 filed November 19, 1975 and also is authorized to establish the increased air freight rates proposed in the application.

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.

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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 13th day of JANUARY, 1976.

President

William Symons Jr.

Vernon L. Sturgeon

Robert Batinovich

Commissioners

Leonard Ross

Commissioner