NB

Decision No. 85369

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SWIFT AIRE LINES, INC., for authority to increase intrastate passenger fares.	Application No. 56082 (Filed November 21, 1975)

OPINION

Swift Aire Lines, Inc. (Swift) is an intrastate passenger air carrier serving intermediate points between Los Angeles, San Francisco, and Sacramento. By this application it seeks authority to increase fares approximately 4.7 percent in order to offset increased operating costs. Present fares were authorized by the Commission in Decision No. 84990 dated October 15, 1975.

Swift began operation as a scheduled passenger air carrier in March 1969. The application states that since the inauguration of service, the Commission has approved fare adjustments to reflect fare rounding to the nearest dollar after federal tax because of (1) the 1970 increase in the Federal Transportation Tax from five to eight percent; (2) increased cost of fuel during 1974 and 1975, and (3) the modification or elimination of certain discount or promotional fares. This application represents the first general fare increase sought by Swift.

The application states that for the nine-month period ending September 20, 1975, Swift carried 71,606 passengers at a system-wide load factor of 54.3 percent. Revenues for this period totaled $1,904,305.98 of which $1,820,069.47 was contributed by passengers and the balance from charter, freight, and miscellaneous income. Expenses for this nine-month period totaled $1,918,289.47 resulting in a year-to-date loss of $13,983.49.

The application states that fuel increases are just one part of the increased costs being absorbed by applicant and the industry and that since 1974, concurrent with increased fuel costs, nonpetroleum related costs have increased on even a more dramatic scale. Cited as examples are aircraft parts by as much as 38 percent, landing fees by as much as 25 percent, and terminal rent 73 percent.

It is alleged that the 4.7 percent increase is reasonable, not excessive, and would maintain Swift's fares generally at or below comparable fares in the industry and is considerably less than fare increases granted by the Civil Aeronautics Board to interstate carriers during Swift's lifetime.

Upon receipt of the application, the Commission's Finance and Accounts Division (F&A) was concerned with the impact Swift's interline agreements with interstate air carriers would have. Under these interline agreements, interstate passengers fly Swift free, or at a greatly reduced rate, when making connecting flights to many cities throughout the United States. Swift is reimbursed for its portion of the joint interline fares by the interstate airline based upon a straight-rate prorate percentage.

The magnitude of discounts either benefiting the passenger or producing less net revenue to the applicant from these interline agreements was studied by the F&A staff. The results are as follows:

Item	January 1, 1975 to December 31, 1975
Number of actual passengers by segments multiplied by full intrastate fares	$2,594,107.35
Dilution of revenue due to intrastate factors for military, children, and employee fares (using sampling procedure)	13,476.50
Total revenue that should have been received without joint fare agreements	2,580,630.85
Actual passenger revenue received	2,496,194.68
Dilution due to joint fares	84,436.17
Percentage of dilution to total fare that should have been received	3.27%

Thus the intrastate fares are diluted only 3.27 percent by the interline agreements.

In addition to the interlining study, the F&A staff reviewed Swift's accounting and statistical records and financial statements prepared by the certified public accounting firm of Arthur Anderson and Company covering the period January 1, 1974 through December 31, 1975. This study shows that operating revenue for calendar year 1975 exceeded operating revenue for 1974 by $188,033 or 7.8 percent. The operating expenses for the same period increased by $164,524 or a 6.9 percent increase. After eliminating expense items of the parent corporation, Swift Aire Lines, Inc., from the consolidated income statement, the operating ratio before income taxes was 98.5 percent in 1974 and 97.7 percent in 1975. Net income (unadjusted) improved from the $13,983 loss shown in the application for the nine months ending September 30, 1975 to a profit of $32,981 for the 12 months ending December 31, 1975. It was explained by applicant that the improvement in earnings in the fourth quarter was due to the United Air Lines strike and a reduction of Hughes Air West schedule at Santa Maria.

On a pro forma basis using historical results for the year 1975 and including the $113,000 sought increase, the F&A staff determined that an operating ratio of 93.7 percent before income taxes would be produced. Giving effect to a dilution factor of 3.2 percent for interlining and adding back to gross revenues for 1975, an operating ratio of 90.8 percent before income taxes would result. The F&A staff recommends the application be granted ex parte.

The application was protested by one customer and the Santa Maria Public Airport (Santa Maria).

The Santa Maria complaint is predicated on the difference between the revenues and loss position contained in the application and statements made by Swift's president appearing in the November 1975 issue of Air Transport World. That part of the article relied on by Santa Maria states:

> "Wiswell expects the operation will generate between $2.7 million and $3 million in revenue this year and that it will be profitable for the fourth consecutive year. He says he expected his airline to be profitable after three years, and it is."

This magazine article is based on hope, not fact. The Commission's Air Passenger Engineering Section reviewed Swift's operations based on company documents. The results are as follows:

Item	1974	9 Months Ended 9-30-75 Fares: Present	9 Months Ended 9-30-75 Fares: Proposed
Revenue	$2,421,522	$1,904,306	$1,989,849
Expenses	2,296,500	1,880,649	1,880,649
Income before taxes	125,022	23,657	109,200
Operating ratio before taxes	94.8%	98.8%	94.5%

It can be seen that Swift would make a $109,200 profit before income taxes based on proposed fares and past expenses for a nine-month period ending September 30, 1975. The staff states that the results were not adjusted for increased costs which would reduce the profit and increase the operating ratio. In addition, if the $1.9 million revenue for nine months is annualized for the year, the gross revenue would be $2.5 million, far less than stated by Mr. Wiswell in Air Transport World, but remarkably close to the $2.496 million determined by F&A. It would appear that Mr. Wiswell is attempting to give Swift the best possible image to obtain favorable publicity.

The customer protestant alleges that Swift's service is bad and uncomfortable, and while not requesting a hearing, protestant urges that because of poor service, no increase should be granted. In this instance, however, rates are so low that to reject the increase on the basis of a single service protest would continue operations at an inadequate earnings level such that we run a serious risk of aggravating rather than ameliorating any service problem.

Findings and Conclusions

1. Swift Aire seeks authority to increase passenger fares by approximately 4.7 percent to offset increased operating costs.

2. Swift has not had a general fare increase since passenger service was inaugurated in March 1969.

3. Fares were last adjusted October 15, 1975 to reflect increased fuel costs and modification or elimination of certain discount or promotional fares.

4. The financial data submitted with the application shows that Swift incurred a $13,983.48 loss for the first nine months of 1975.

5. With no diversion of traffic, the requested 4.7 percent increase would result in earnings of $71,943.71 for the first nine months of 1975.

6. Based on 1974 traffic, the requested 4.7 percent increase would raise annual revenue by $112,894.

7. The Commission's F&A was concerned with the impact of Swift's interline agreements with interstate air carriers.

8. The F&A study shows that the dilution of revenues attributable to interlining amounts to 3.27 percent of total revenue.

9. The F&A study, comparing 1974 and 1975 operations, shows an operating ratio before taxes of 98.5 and 97.7 percent, respectively.

10. On a pro forma basis, using historical results for the year 1975 and including the $113,000 sought, the proposed increase would produce an operating ratio of 93.7 percent before income taxes.

11. A protest based on a quotation by Swift's president contained in a magazine is not substantial enough to warrant a hearing.

12. Denial of the relief requested would not improve service.

13. The proposed fare increases will not provide excessive revenues. The increases have been shown to be justified and a public hearing is not necessary.

14. We conclude that applicant should be authorized to establish the proposed fare increases.

O R D E R

IT IS ORDERED that:

1. Swift Aire Lines, Inc. is authorized to establish the increased fares proposed in Application No. 56082. 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.

2. The authority shall expire unless exercised within ninety days after the effective date of this order.

3. The tariff filings made pursuant to this order shall comply with the regulations governing the construction and filing of tariffs set forth in the Commission's General Order No. 105-Series.

The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 15th day of JUNE, 1976.

I abstain!

, Commissioner

President

Commissioners

Commissioner Leonard Ross, being necessarily absent, did not participate in the disposition of this proceeding.

A.56082 NB

APPENDIX A

SWIFT AIRE LINES, INC.

Comparison of Present and Proposed Rates

BETWEEN	Present: Base	Present: With Tax	Proposed: Base	Proposed: With Tax	Increase: Base	Increase: With Tax
San Francisco/San Jose	$13.15	$14.20	$14.35	$15.50	$1.20	$1.30
/Paso Robles	26.11	28.20	27.31	29.50	1.20	1.30
/San Luis Obispo	28.89	31.20	30.09	32.50	1.20	1.30
/Santa Maria	29.82	32.20	31.02	33.50	1.20	1.30
San Jose/Paso Robles	24.26	26.20	25.46	27.50	1.20	1.30
/San Luis Obispo	27.04	29.20	28.24	30.50	1.20	1.30
/Santa Maria	28.89	31.20	30.09	32.50	1.20	1.30
Paso Robles/Los Angeles	28.89	31.20	30.09	32.50	1.20	1.30
San Luis Obispo/Sacramento	31.67	34.20	32.87	35.50	1.20	1.30
/Fresno	24.26	26.20	25.46	27.50	1.20	1.30
/Los Angeles	27.04	29.20	28.24	30.50	1.20	1.30
Sacramento/Fresno	24.26	26.20	25.46	27.50	1.20	1.30
/Visalia	27.04	29.20	28.24	30.50	1.20	1.30
/Bakersfield	33.52	36.20	34.72	37.50	1.20	1.30
/Santa Maria	33.52	36.20	34.72	37.50	1.20	1.30
Fresno/Visalia	13.15	14.20	14.35	15.50	1.20	1.30
/Bakersfield	19.63	21.20	20.83	22.50	1.20	1.30
/Los Angeles	28.55	30.83	29.17	31.50	.63	.68
Santa Maria/Los Angeles	22.41	24.20	23.61	25.50	1.20	1.30
/Fresno	27.04	29.20	28.24	30.50	1.20	1.30
Bakersfield/Los Angeles	20.56	22.20	21.76	23.50	1.20	1.30
/Visalia	15.93	17.20	17.13	18.50	1.20	1.30
/San Luis Obispo[1]	37.30	40.28	38.43	41.50	1.13	1.22
/Santa Maria[1]	32.60	35.21	33.80	36.50	1.20	1.30
Visalia/Los Angeles	24.45	26.41	25.46	37.50	1.01	1.09
/San Luis Obispo[1]	40.00	43.20	41.20	44.50	1.20	1.30
/Santa Maria[1]	37.30	40.28	38.43	41.50	1.13	1.22

1 Via Los Angeles.