

AP\*

ORIGINAL

Decision No. 87207

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

Application No. 56907  
(Filed December 1, 1976;  
amended February 7, 1977)

O P I N I O N

Pacific Southwest Airlines (PSA) by its original Application No. 56907 requests an increase of 1.76 percent, and in the amended application an additional 1.15 percent on its passenger air fares to offset increased costs of jet fuel. The original application states that its average fuel costs have increased 2.43 cents per gallon since the Commission last granted PSA a fare increase in Decision No. 85339 dated January 13, 1976 in Application No. 55160. The fuel offset increase requested is estimated to produce additional annual revenues of \$2,474,000. The specific fares proposed in this application are set forth in Appendix A attached hereto.

The original application contains the following information in support of the requested relief:

1. By Decision No. 85339 dated January 13, 1976, the Commission, based upon its projections of PSA's revenues and expenses for the year ending December 31, 1976, concluded that the fare increase requested by the applicant was reasonable and authorized said fare increase.

2. The Commission staff projected the applicant's fuel cost at 32.4844 cents per gallon for the year 1976. Applicant's current fuel cost is 34.9167 cents per gallon. As shown on Exhibit D attached to the application, PSA's fuel cost would exceed the Commission staff's projections for the year 1976 by \$2,406,000 per year.

3. These fuel increases, over which PSA has no control, require that an immediate fare increase be granted to offset such increases.

In portraying the effect of the fuel increase and solely for the purpose of this application, PSA has based its analysis on the findings and conclusions of Decision No. 85339, including the adopted results of airline operations appearing in Table 4 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 Appendix B attached hereto. The increase in passenger air fares requested in the original application assertedly will result in a rate of return to PSA nearly identical to that found reasonable by the Commission in Decision No. 85339, i.e., 9.39 percent with an operating ratio of 95.27 percent.

PSA requests that the fares shown in Appendix A be made effective on 10 days' notice. PSA states that the relief requested is urgently needed to maintain its financial viability of this carrier. Application No. 56907 was served in accordance with Commission rules, and notice of the filing appeared in the Commission's Daily Calendar on December 3, 1976. There are no protests.

The 1.15 percent increase in fares requested in the first amendment to Application No. 56907 filed February 7, 1977 to offset the additional increase in the cost of fuel will be considered in PSA's general fare increase Application No. 56973 filed December 30, 1976 which is set for hearing June 7, 1977.

#### Findings

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

2. In the original application PSA seeks a permanent fare increase which will produce an annual increase in revenues of \$2,474,000, or 1.76 percent.

3. The amended application seeks an additional 1.15 percent increase in fares.

4. The 1.15 percent increase in fares requested in the amended application will be considered with the general fare increase Application No. 56973.

5. PSA has recently incurred increases in the price of fuel. The weighted average cost per gallon for all fuel used by PSA is 2.43 cents per gallon greater than the costs reflected in the adopted operating results in Table 4 of Decision No. 85339.

6. Based on the data used in Decision No. 85339, the resultant annual increase in fuel operating expenses is \$2,406,000. A fare increase of \$2,474,000 is needed to offset the increased fuel costs when allowance is made for sales commissions on the higher fares. A fare increase of 1.76 percent is required to produce an annual revenue increase of \$2,474,000.

7. The proposed fuel offset increase is designed to produce only enough revenues to directly offset the increased fuel costs currently experienced by PSA. As shown in Appendix B the estimated rate of return and operating ratio for a 1976 test year will be no more favorable than those found reasonable in Findings 3 and 4 of Decision No. 85339.

8. The proposed increased fares set forth in Appendix A of the original application are justified.

#### Conclusion

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

#### O R D E R

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.

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2. The 1.15 percent increase in fares requested in the first amendment to the application is denied.

3. Tariff publications authorized to be made as a result of this order may be made effective not earlier than ten days after the effective date of this order on not less than ten 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 shall be twenty days after the date hereof.

Dated at San Francisco, California, this 12<sup>th</sup> day of APRIL, 1977.

*See attached  
concur  
R.D.G.  
Commissioner*

\_\_\_\_\_  
President  
*William Synovis J.*  
*Yuan L. Sturgeon*

\_\_\_\_\_  
*Robert D. Stovall*  
Commissioners

*I dissent. effects  
are nothing more  
than underlying  
Robert Batyevich  
Leonard Ross  
Commissioners*

PACIFIC SOUTHWEST AIRLINES

Schedule of Fares, Current and Proposed\*

<u>Route/Between Points (Either Direction)</u>	<u>Present Fare</u>		<u>Proposed Fare**</u>		<u>Proposed 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	\$11.34	\$12.25	\$11.53	\$12.45	\$ .19
San Francisco Sacramento, Stockton	11.34	12.25	11.53	12.45	.19
Fresno Stockton	11.34	12.25	11.53	12.45	.19
Oakland Sacramento	11.34	12.25	11.53	12.45	.19
Fresno San Francisco	14.82	16.00	15.05	16.25	.23
Los Angeles Fresno	18.52	20.00	18.84	20.35	.32
Los Angeles/Burbank San Francisco, Oakland San Jose, Stockton	23.61	25.50	24.03	25.95	.42
Long Beach San Francisco, Oakland, San Jose	24.54	26.50	24.95	26.95	.41

\* Children fares at 50% of regular fare.

\*\* 1.76% rounded to the nearest \$.05 - see Exhibit D for increase calculation

(Continued)

PACIFIC SOUTHWEST AIRLINES

Schedule of Fares, Current and Proposed

<u>Route/Between Points (Either Direction)</u>	<u>Present Fare</u>		<u>Proposed Fare</u>		<u>Proposed Increase Excluding Tax</u>
	<u>Excluding Tax</u>	<u>Including Tax</u>	<u>Excluding Tax</u>	<u>Including Tax</u>	
Ontario San Francisco	\$24.54	\$26.50	\$24.95	\$26.95	\$ .41
Los Angeles/Burbank Sacramento	24.54	26.50	24.95	26.95	.41
Ontario/Long Beach Sacramento	25.46	27.50	25.88	27.95	.42
San Diego Fresno	28.24	30.50	28.75	31.05	.51
San Diego San Francisco, Oakland, Sacramento, Stockton	29.40	31.75	29.91	32.30	.51
San Diego San Jose	29.17	31.50	29.68	32.05	.51
San Jose Oakland	6.11	6.60	6.20	6.70	.09
Los Angeles Burbank	6.11	6.60	6.20	6.70	.09

(Continued)

PACIFIC SOUTHWEST AIRLINES

Schedule of Fares, Current and Proposed

<u>Route/Between Points (Either Direction)</u>	<u>Present Fare</u>		<u>Proposed Fare</u>		<u>Proposed Increase Excluding Tax</u>
	<u>Excluding Tax</u>	<u>Including Tax</u>	<u>Excluding Tax</u>	<u>Including Tax</u>	
Los Angeles/Burbank*** Lake Tahoe	\$27.78	\$30.00	\$27.78	\$30.00	\$ -
San Diego*** Lake Tahoe	31.85	34.40	31.85	34.40	-
<u>Special Fares-Midnight Flyer Flights Only</u>					
San Diego Los Angeles	9.07	9.80	9.21	9.95	.14
San Francisco Sacramento	9.07	9.80	9.21	9.95	.14
Los Angeles San Francisco	16.48	17.80	16.76	18.10	.28
Los Angeles Sacramento	20.09	21.70	20.46	22.10	.37
San Diego San Francisco, Sacramento	22.78	24.60	23.19	25.05	.41

\*\*\* Separate applications filed to cover increases in this market.

## APPENDIX B

## PACIFIC SOUTHWEST AIRLINES

Adopted Results in D.85339 Adjusted to Reflect  
 1.75%<sup>(b)</sup> Fare Increase Required to Offset  
 Added Fuel Cost Not Reflected in D.85339  
 Year Ended December 31, 1976  
 (000's Omitted Except Percentages)

	1976 Results With Fare Increase D.85339 <sup>(a)</sup>	Increased Fuel Costs Not Reflected D.85339 <sup>(b)</sup>	Adjusted Results With Reduced Revenue and Increased Cost 1 + 2 = 3	Fare Increase Required to Offset Revenue And Expense Changes 4	Adjusted Results w/Fare Increase To Offset Reduced Revenue and Increased Cost 3 + 4 = 5
<b>STATISTICS</b>					
Passengers	5,522		6,522		6,522
Flight Hours	61.3		61.3		61.3
<b>REVENUES</b>					
Passengers	\$140,412	\$	\$140,412	\$2,474	\$142,886
Beverage (Net)	805		805		805
Freight	1,748		1,748		1,748
Baggage, Mail, & Miscellaneous	312		312		312
Flight Training	1,681		1,681		1,681
Total Revenues	<u>144,958</u>		<u>144,958</u>	<u>2,474</u>	<u>147,432</u>
<b>EXPENSES</b>					
Leased Aircraft	2,902		2,902		2,902
Flying Operations	50,850	2,406	53,256		53,256
Direct Maintenance	12,608		12,608		12,608
Maintenance Burden	4,870		4,870		4,870
Passenger Service	7,539		7,539		7,539
Aircraft Servicing	8,999		8,999		8,999
Traffic Servicing	13,782		13,782		13,782
Servicing Administration	800		800		800
Reservations & Sales	7,829		9,829	6e(d)	9,897
Advertising & Publicity	2,808		2,808		2,808
General & Administration	9,262		9,262		9,262
Depreciation	10,723		10,723		10,723
Total Expenses	<u>134,972</u>	<u>2,406</u>	<u>137,378</u>	<u>68</u>	<u>137,446</u>
Income Before Taxes	9,986	(2,406)	7,580	2,406	9,986
Income Taxes	<u>3,136</u>	<u>(742)<sup>(c)</sup></u>	<u>2,394</u>	<u>742<sup>(c)</sup></u>	<u>3,136</u>
Income	6,850	(1,664)	5,186	1,664	6,850
Operating Ratio	95.27%		96.42%		95.38%
Rate of Return	9.39%		7.11%		9.39%
Rate Base	\$ 72,930		\$ 72,930		\$ 72,930

(Red Figure)

- (a) D.85339 - Table 4.  
 (b) See subsequent page of exhibit for calculation.  
 (c) Calculated at 30.84% tax rate (combined state & federal with I.T.C.).  
 (d) Commission and service charges calculated at 2.74% of passenger revenue.  
 (e) Fare increase required - 1.76% (\$2,474 ÷ \$140,412).




A. 56907  
D. **87207**

COMMISSIONER RICHARD D. GRAVELLE, Concurring

As a matter of future policy, I believe that increased fuel expense is not a proper subject for offset rate relief for airlines and that the added expense should be handled in general rate proceedings which can be heard on an expedited basis.

I sign this order only because applicant was in no way advised of such a policy at any time in the processing of this application. To the contrary, the recent past policy of this Commission has been to consider fuel as an offset expense item. The industry should be on notice from this date forward that such applications are in eminent danger of dismissal.

San Francisco, California  
April 12, 1977

  
Richard D. Gravelle  
Commissioner