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ORIGINAL

Decision No. 87378 May 24, 1977

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Southwest Airlines under the Shortened Procedure Tariff Docket to Increase Fares Between South Lake Tahoe Airport, on the one hand, and Hollywood Burbank Airport, Los Angeles International Airport and San Diego International Airport, on the other hand.	Application No. 56858 (Filed November 8, 1976)

Dietsch, Gates, Morris & Merrell, by Brownell Merrell, Jr., Attorney at Law, for Pacific Southwest Airlines, applicant.
William Jennings, Attorney at Law, Edward Cole, Milton J. DeBarr, and Fred K. Hendricks, for the Commission staff.

O P I N I O N

Pacific Southwest Airlines (PSA) operates as a passenger air carrier between points in California. In this application, filed in the Commission's Shortened Procedure Tariff Docket, PSA seeks to increase its air passenger fares for its Tahoe air service as follows:

	Fare Without Tax		Fare With Tax	
	Present	Proposed	Present	Proposed
BUR/TVL	$27.78	$33.33	$30.00	$36.00
LAX/TVL	27.78	33.33	30.00	36.00
SAN/TVL	31.85	37.96	34.40	41.00

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The proposed fares are estimated to produce additional annual revenues of $743,119, or an increase of 20 percent. The additional revenue from its Tahoe fares is estimated by PSA to increase its total annual revenues by 0.51 percent.

Because of the significant increase in fares to Lake Tahoe passengers, a protest to the granting of the application without hearing was filed by the Commission staff.[1] A duly noticed public hearing was held before Examiner Mallory at San Francisco on February 22 and 23, 1977 and the matter was submitted. Evidence was presented on behalf of PSA and the staff.

Background

PSA's Tahoe service is conducted pursuant to a temporary certificate, pending completion of route proceedings in which PSA, Air California, and Air Nevada seek authority to provide passenger air carrier service between TVL and major airports in California.[2] Air California and PSA have been granted temporary authority to operate over noncompeting routes with Lockheed Electra (L-188) propjet equipment, although PSA sought authority to provide Tahoe service with pure jet equipment. The final environmental impact report in the Tahoe route proceedings indicates that use of pure jet aircraft in providing air service at TVL will adversely affect the noise environment, but that the use of L-188 aircraft will not cause a harmful noise effect. It appears, therefore, that when final route approval is made by the Commission, the service may be

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1/ The Shortened Procedure Tariff Docket is for the purpose of expediting consideration of noncontroversial fare increases which will not increase the annual gross revenues of the applicant carrier by more than one percent. In the absence of protest, such applications are handled ex parte.

2/ Applications Nos. 54899, 55009, and 55157.

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restricted to the use of L-188 aircraft to avoid noise pollution at TVL. Upon the grant of temporary route authority both PSA and Air California acquired used L-188 aircraft to perform the service; new L-188 aircraft were not available because such aircraft are no longer in production.

The current fares for PSA's Tahoe service are those originally proposed in its route application, which contemplated the use of pure jet aircraft (Boeing 727-100's).

Evidence of Applicant

In Exhibit 1, PSA endeavored to show the financial results of its Tahoe operations for the year ended December 31, 1976. According to that exhibit, PSA transported 151,600 passengers and had 3,134 total flight hours with its L-188 equipment. The load factor for the year was 64.2 percent. The following table depicts PSA's development of fully allocated revenues and expenses for 1976:

TABLE 1

PACIFIC SOUTHWEST AIRLINES

Financial Results of Electra Tahoe Operations
Year Ended December 31, 1976
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Item	Three Months Ended 3/31/76	6/30/76	9/30/76	12/31/76	Total 1976
Revenues					
Passenger revenue	$ 747	$ 912	$1,382	$ 932	$ 3,973
Freight & other revenue	12	14	19	15	60
	759	926	1,401	947	4,033
Expenses					
Flying operations	396	387	450	390	1,623
Direct maintenance	300	294	342	296	1,232
Indirect maintenance	119	117	136	117	489
Ground maintenance	12	12	12	13	49
Passenger service	49	53	65	54	221
Aircraft servicing	52	53	55	59	219
Traffic servicing	153	158	171	171	653
Serv. administration	9	9	10	10	38
Reservations & sales	51	62	94	64	271
Advertising & Prom.	15	18	27	18	78
General & Admin.	95	96	112	98	401
Depreciation - flight equipment	44	43	50	43	180
Depreciation - other	12	13	15	13	53
	1,307	1,315	1,539	1,346	5,507
Fully allocated (loss) before capital costs	$ (548)	$ (389)	$ (138)	$ (399)	$(1,474)

Staff Evidence

Exhibit 2 contains the staff report and recommendations.

Exhibit 2 sets forth the following estimates of revenues and out-of-pocket expenses for a test year ended March 31, 1978. The test year expenses exclude provision for general and administrative expenses for the reason that the staff had difficulty in determining a proper basis for allocation of those expenses to the Tahoe operations.

TABLE 2

PACIFIC SOUTHWEST AIRLINES TAHOE FARE INCREASE

Staff's Estimated Results of Operations for Lake Tahoe Service
(Without General and Administrative Expense)
Rate Year Ending March 31, 1978

Item	Present Fares (Without Tax)	PSA Requested Fares (Without Tax)	Staff's Alternate Fares (Without Tax)
Statistics			
Passengers	205,000	205,000	205,000
Flight Hours	4,400	4,400	4,400
Load Factor	66%	66%	66%
Revenue			
Passenger Revenue	$5,564,000	$6,675,000	$6,167,000
Beverage Profit	26,500	26,500	26,500
Total Revenue	$5,590,500	$6,701,500	$6,193,500
Expenses			
Flying Operations	$2,357,000	$2,357,000	$2,357,000
Direct Maintenance	1,131,000	1,131,000	1,131,000
Indirect Maintenance	363,000	363,000	363,000
Passenger Service	256,000	256,000	256,000
Aircraft Servicing	596,000	596,000	596,000
Traffic Servicing	516,000	516,000	516,000
Servicing Administration	23,000	23,000	23,000
Reservations & Sales	363,000	395,000	380,000
Advertising & Publicity	108,000	129,000	120,000
Depreciation - Flight Equip.	165,000	165,000	165,000
Total Expenses	$5,878,000	$5,931,000	$5,907,000
Operating Income	$ 287,500	$ 770,500	$ 286,500
Operating Ratio w/o Taxes	105.1%	88.5%	95.4%

The staff proposed alternative fares for PSA's Tahoe service based on the cost-per mile comparisons set forth in the following table.

TABLE 3

Comparison of Present and Proposed Fares for Tahoe Service of Pacific Southwest Airlines' A.56858 and A.56973

Market	Distance (In Nautical Miles)	Present Fare	Cost per Mile (Cents)	Applicant's Requested Fare	Cost per Mile (Cents)	Staff's Alternate Fare	Cost per Mile (Cents)
Air California (A.56858)							
BUR-TVL	293	$27.78	9.48	$33.33	11.38	$30.79	10.51
LAX-TVL	308	27.78	9.02	33.33	10.82	30.79	10.00
SAN-TVL	395	31.85	8.06	37.96	9.61	35.65	9.03
PSA (A.56973)							
LAX-SFO	294	$23.61	8.03	$25.46	8.66		
BUR-SJC	257	23.61	9.19	25.46	9.91		
LGB-SJC	281	24.54	8.73	26.85	9.56		
SAN-SJC	362	29.17	8.06	31.71	8.76		

The staff's Exhibit 3 states as follows:

"Table 3 shows the fare cost per mile for PSA's Lake Tahoe service and other PSA markets. The staff's Los Angeles-Lake Tahoe (LAX-TVL) alternate fare has a ten cents per mile cost with only 9.8 mils increase over the present fare cost per mile. PSA's requested fare for the same market fare per mile cost is 10.82 cents representing an increase of 18 mils. By Application 56973, PSA requests only an increase of 6.3 mils in its Los Angeles-San Francisco (LAX-SFO) market."3/

3/ Application No. 56973 is a general fare increase proceeding in which it seeks additional revenue increases of 7.83 percent over that sought herein.

The following table sets forth the staff's comparisons of certain operating costs of L-188 (Electra) aircraft with Boeing 727-200 and 727-100 aircraft developed from data obtained from records of PSA.

TABLE 4

PACIFIC SOUTHWEST AIRLINES

COMPARISON OF CERTAIN OPERATING COSTS BY AIRPLANE TYPE

Item	Boeing 727-200	Boeing 727-100	Lockheed Electra L-188
Seating Capacity	158	128	97
Hourly Fuel Consumption	1,664	1,583	736
Hourly Costs			
Fuel	$586.39	$557.85	$259.37
Crew	125.48	125.48	108.07
Flight Attendant	55.96	41.97	27.98
Total	$767.83	$725.30	$395.42
Hourly Distance Adjustment Factor	1.0	1.0	1.2
Adjusted Cost	$767.83	$725.30	$474.50
Hourly Cost Per Seat	$4.860	$5.666	$4.892

The staff exhibit states as follows with respect to the above table:

> "Table [4] illustrates an operating cost comparison of PSA's present aircraft. The Hourly Cost Per Seat, using only fuel, flight crew and flight attendants' wages, is represented to be $4.860 for the Boeing 727-200, $5.666 for the Boeing 727-100 and $4.892 for the Electra. It can be seen that the Electra and the 727-200 have similar Hourly Costs Per Seat."

Based on its analyses of the above economic data, the staff reached the following conclusions:

1. It is estimated PSA will lose $287,500 on its Lake Tahoe operation by present fares in a rate year ending March 31, 1978.

2. PSA's requested fares for the Lake Tahoe service will produce $770,500 profit during the rate year.
3. The staff's alternate fares for PSA's Lake Tahoe operation will produce $286,500 profit for the rate year.
4. The Electra operating costs are similar to PSA's low cost aircraft, Boeing 727-200, operating costs.
5. The staff's fare per mile cost is more closely related to PSA's fare per mile cost for its other service, considering Application No. 56973.

<u>Rebuttal Evidence of PSA</u>

PSA introduced several exhibits in rebuttal to the staff's evidence and to the conclusions reached by the staff from such data.

Exhibit 3 compares the staff's test year projections in Exhibit 2 with historical operating revenues and expenses shown in PSA's Exhibit 1 adjusted to reflect increased operating expenses and increased revenues from the sought fares. The method employed by PSA in Exhibit 3 eliminates the effect on revenues and expenses of the additional passengers estimated for the test year by the staff. The following table summarizes the data set forth in Exhibit 3.

TABLE 5

PACIFIC SOUTHWEST AIRLINES

Tahoe Operations
Historical 1976 Results Adjusted to Level
Projected by Transportation
Division for Year Ended March 31, 1978
(With Fare Increase as Proposed)

Item	1976 Results 1	Adjustment 2	Adjusted Reflect 1976 to Y/E 3/31/78 1 + 2 = 3	% Change 2+1=4	Transportation Projection* 5
O&D passengers	151.6	53.4	205	+35.2%	205
Flight hours	3,134	1,268	4,400	+40.5	4,400
Load factor	64.2%	1.8%	66.0%	+2.8	66.0%
Revenue					
Passenger revenue	$ 3,973	$2,472	$ 6,445	+62.2	$6,675
Beverage profit					27
Freight & other rev.	60	21	81	+35.2	-
	4,033	2,493	6,526		6,702
Expenses					
Flying operations	1,623	657	2,280	40.5	2,357
Direct maintenance	1,232	499	1,731	40.5	1,131
Indirect maintenance	489	198	687	40.5	363
Ground maintenance	49	20	69	40.5	-
Passenger service	221	87	308	39.5	256
Aircraft servicing	219	87	306	40.5	596
Traffic servicing	653	160	813	24.5	516
Servicing administration	38	7	45	19.2	23
Reservations & sales	271	127	398	47.0	395
Advertising & promotion	78	27	105	35.2	129
General & Administrative	401	154	555	38.4	-
Depreciation-flgt. equip.	180	12	192	6.7	165
Depreciation-other	53	21	74	40.5	-
	5,507	2,056	7,563	37.3%	5,931
Operating income (loss)	(1,474)	437	(1,037)		771
Income taxes	-		-		406
Net income (loss)	(1,474)		(1,037)		365
Operating ratio	136.5%		115.9%		94.6%

* Adjusted to show federal and state income taxes.

PSA contends that because the staff did not make provisions for general and administrative expenses, for depreciation on other than flight equipment, or for ground maintenance, the staff did not correctly portray the profitability of PSA's Tahoe operations under fares proposed by PSA, or under alternate fares proposed by the staff.

In Exhibit 4, PSA compared the total direct operating costs for Electra L-188 aircraft with similar costs for Boeing 727-200 and 727-100 aircraft. Those data are set forth below.

TABLE 6

Pacific Southwest Airlines
Comparison of Direct
Operating Costs
727-200 and 727-100 vs L-188
1976

	Cost Per Flight Hour		
	727-200	727-100	L-188
Flying operations	$ 845	$ 787	$ 518
Direct maintenance	164	168	393
Indirect maintenance	65	66	156
Flight attendant	122	91	61
Aircraft rent	65	213	-
Depreciation-flight equipment	169	100	58
Total	$1,430	$1,425	$1,186
Hourly distance adjustment factor (per Transportation Division Exhibit 2)	-	-	1.2
Adjusted cost	$1,430	$1,425	$1,423
Hourly cost per seat (727-200-159, 727-100-128, L-188-96)	$8.99	$11.13	$14.82
L-188 cost over 727-100 or 727-200	64.8%	33.2%	-

PSA believes that the comparison in Table 6 is a more accurate portrayal of the differences in operating costs of L-188 versus 727-100 and 727-200 aircraft because the comparison is based on total direct costs, including maintenance costs. PSA contends that because L-188 aircraft are an older type of aircraft than 727 equipment, maintenance costs are higher than for newer jet aircraft, and that failure to include maintenance costs in the comparison distorts the results.

PSA also submitted a comparison of yields per mile of present and proposed Tahoe fares based on statute rather than nautical miles.

TABLE 7

PACIFIC SOUTHWEST AIRLINES

Proposed Tahoe Yields in Comparison To Jet Route

Segment, Carrier, Mileage	Current Fare w/o Tax	Yield Per Mile	Proposed Fare w/o Tax	Yield Per Mile
SFO/TVL, Air Calif. 153 miles	$17.59	11.50¢	$19.44	12.71¢
OAK/TVL, Air Calif. 139 miles	17.59	12.65	19.44	13.99
SJC/TVL, Air Calif. 149 miles	17.59	11.81	19.44	13.05
LAX/TVL, PSA 382 miles	27.78	7.27	33.33	8.73
BUR/TVL, PSA 369 miles	27.78	7.53	33.33	9.03
SAN/TVL, PSA 491 miles	31.85	6.49	37.96	7.73
SAN/LAX, PSA 109 miles	11.34	10.40	12.18	11.17
LAX/SFO, PSA 338 miles	23.61	6.99	25.74	7.62

Ratio short haul to long haul:

	Short-haul yield ÷ long-haul yield
LAX/SFO, SAN/LAX	1.48 current rate (10.404¢ ÷ 6.99¢)
LAX/SFO, SAN/LAX	1.47 proposed rate (11.17¢ ÷ 7.62¢)
LAX/TVL, SFO/TVL	1.46 proposed rate (12.71¢ ÷ 8.73¢)

PSA contends that Exhibit 7 shows that on a fare-per-mile basis, the proposed fares are reasonable.

Discussion

The Commission staff and PSA agree that present Tahoe fares are unprofitable and that some increase in such fares is required.

The staff's estimate of test year operating results does not show the total costs associated with the performance of the Tahoe service using L-188 equipment. The method employed by PSA in allocating general and administrative expenses appears to be reasonable for the purpose of this proceeding. General and administrative expense is calculated by PSA to be 8.24 percent of other expenses, less depreciation, in 1976. The same percentage is used in estimating test year general and administrative expense. If general and administrative expense and depreciation expense for other than aircraft equipment are added to the test year revenue and expense data developed by the staff in Table 2, the following would result:

TABLE 8

Test Year Revenue and Expense Data in Table 2 Adjusted to Include Administrative and General Expense and Depreciation Expense For Other Than Aircraft Equipment

	PSA's Requested Fares	Staff's Alternate Fares
Total Revenue	$6,701,500	$6,193,500
Expenses Shown in Table 2	$5,931,000	$5,907,000
General & Admin. Expenses	475,100	473,100
Depreciation - other	74,000	74,000
Total	$6,480,100	$6,454,100
Operating ratios (w/o taxes)	96.70%	104.26%

It can be seen from the above table that when all expenses associated with the operation of the Tahoe service are considered, the staff's proposed fares are not compensatory.

The Commission staff departs from cost of service considerations with respect to the fare levels proposed by it. Although the staff developed estimated test year operating results under fares proposed by it and by PSA, those data are not relied upon to support the staff's proposed fares. The staff's proposed fares are based on the cost-per-mile relationships shown in Table 3.

There is a dispute between PSA and the staff concerning the accuracy of the mileages underlying the fare comparisons in Tables 3 and 7. The Civil Aeronautics Board (CAB) publishes mileages between airports served by CAB certificated carriers. Inasmuch as there is no CAB certificated carrier operating between TVL and other California airports, CAB publishes no mileages. The mileages used in PSA's Table 7 are statute mileages computed by PSA flight personnel. The mileages underlying Table 3 are nautical miles developed from latitude and longitude coordinates by means of spherical geometry, in a computer program of another state agency. The accuracy of the fare comparisons depends, in part, on the accuracy of the underlying mileage data.

The determination of mileages by means of map coordinates as used by the staff is mathematically sound. It cannot be determined on this record what methods were used by PSA flight personnel to arrive at mileages between airports. Therefore, we adopt the staff mileages for the purposes of fare comparisons.

Apparently it is the contention of the staff that the Tahoe fares resulting from this proceeding should bear the same cents-per-mile differential to the increased Bay Area-Los Angeles fares proposed in PSA's pending general fare application as the present Tahoe fares bear to the existing Bay Area-Los Angeles fares.

The rationale behind the staff contention is that the increased Tahoe fares should make the same relative contribution to PSA's overall revenue needs as do the existing fares.

To support the contention that the proposed Tahoe fares should contribute to revenue needs to the same extent as present fares, the staff submitted data in Table 4 designed to show that the hourly cost per seat for L-188 aircraft is approximately the same as for 727-200 aircraft and is less than 727-100 aircraft. The record shows that if this Commission had permitted PSA to operate jet aircraft in Tahoe service, PSA would have used 727-100 equipment. Thus, the valid hourly operating cost comparisons are between L-188 and 727-100 aircraft.

The staff comparisons in Table 4 cover only selected cost components, omitting repair and maintenance cost expenses which are markedly different between the types of aircraft shown in the table. When all direct operating costs are shown, as Table 6, there is little similarity between the hourly costs per seat of $11.13 for 727-100 aircraft and $14.82 for L-188 equipment. There is even a greater differential between 727-200's ($8.89 per hour per seat) and L-188's ($14.82 per hour per seat).

The total direct hourly costs per seat clearly are substantially higher for L-188's than for 727-100's or 727-200's. Therefore, it does not follow that the relative revenue contribution of routes served by the different types of aircraft should be maintained. It is also clear that the present Tahoe fares were developed on the basis that jet equipment would be used which has lower operating costs on a per seat basis than L-188 aircraft.

It reasonably can be inferred, from the final EIR in the pending Tahoe route proceedings that any permanent authority granted to PSA or Air California may require the continued use of L-188 aircraft. This Commission should not penalize the carriers required to provide Tahoe service with less efficient L-188 aircraft by not permitting those carriers to establish fares which fully cover the higher operating costs of such aircraft.

We have carefully reviewed the economic data furnished by PSA and our staff. The revenue deficiency of the existing Tahoe fares results from the relatively higher operating costs of L-188 aircraft versus those of jet aircraft, in addition to the generally higher overall operating costs. It is recognized that in the period since the Tahoe fares were established and since PSA's jet fares were last increased, PSA has experienced increased operating costs in most categories which may be partially offset by increased traffic. Fare increases required to cover PSA's revenue requirements for its total airline operations will be determined in PSA's pending general fare increase proceeding. In the interim period, PSA should be permitted to increase its fares in the markets served by its L-188 aircraft, which fares are clearly deficient.

Findings

1. PSA operates as a passenger air carrier between points in California, including between Tahoe Valley Airport (TVL), on the one hand, and Hollywood-Burbank (BUR), Los Angeles International (LAX), and San Diego (SAN) Airports, on the other hand.

2. Service between TVL and BUR, LAX, and SAN is performed under a temporary certificate, pending final determination by the Commission of the Tahoe route applications of PSA, Air California, and Air Nevada. Air California also operates between TVL and Bay Area airports under a temporary certificate. The temporary certificates require the use of Lockheed-Electra (L-188) aircraft to avoid excessive noise pollution at TVL.

3. Both PSA and Air California acquired L-188 aircraft specifically to serve their Tahoe markets. PSA proposed to operate pure jet equipment (rather than L-188's) to serve Tahoe markets and it constructed its present fares on the contemplated use of jet equipment.

4. The Final EIR in the Tahoe route applications indicates that continued use of L-188's will be necessary to avoid excessive noise pollution at TVL. The permanent operating authorities to be issued in the Tahoe route applications may prohibit use of pure jet equipment of the type now operated by PSA and Air California and may require the use of L-188 aircraft.

5. The L-188 fares for Tahoe service established as a result of this proceeding should be compensatory and should not place a burden on other markets served with more efficient aircraft.

6. As demonstrated in Table 6, when all direct costs are considered L-188 aircraft are more costly to operate on an hourly cost-per-seat basis than either 727-200 or 727-100 equipment. The fare per mile should be greater in the Tahoe markets served with L-188 equipment than in other markets served with more efficient pure jet equipment.

7. Table 8 indicates that when all expenses are considered operations in a test year ended March 31, 1978 would be conducted at a loss (operating ratio 104.26 percent) under fares proposed by the staff, and would be conducted at a profit (operating ratio 96.70 percent) at fares proposed by applicant. The last general fare increase proceeding (D.85339) found that an operating ratio of 95.27 percent (after taxes) was reasonable for PSA's operations.

8. Proposed fares which result in an estimated operating ratio of 96.7 percent will not produce excessive earnings for PSA's L-188 Tahoe operations, and such fares will be reasonable.

9. The increased fares proposed herein by PSA are justified.

Conclusion

PSA should be authorized to establish the increased fares sought in Application No. 56858.

O R D E R

IT IS ORDERED that:

1. Pacific Southwest Airlines is authorized to establish the increased fares proposed in Application No. 56858. Tariff publications authorized to be made as a result of this order shall be filed not earlier than the effective date of this order and 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.

4. In addition to the required posting and filing of tariffs, applicant shall give notice to the public by posting in its terminals a printed explanation of its proposed fares. Such notice shall be posted not less than five days before the effective date of the fare changes and shall remain posted for a period of not less than thirty days.

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

Dated at Los Angeles, California, this 24th day of MAY, 1977.

William Symons Jr.
President

Vernon L. Sturgeon

Richard D. Gravelle

Commissioners

Commissioner Robert Batinovich, being necessarily absent, did not participate in the disposition of this proceeding.