

ORIGINAL

Decision No. 89161 JUL 25 1978

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Air California )  
to Increase its Intrastate )  
Passenger Fares. )

Application No. 58126  
(Filed June 9, 1978;  
amended June 15, 1978)

INTERIM OPINION

On June 9, 1978 Air California filed its application to increase its intrastate passenger fares by approximately 21.7 percent or \$17,600,000. On June 15, 1978 Air California filed an amendment to its application requesting authority to place its fare increase into effect by means of a peak/off-peak fare schedule. On July 13, 1978 Air California filed a motion to increase fares on an interim basis. Air California provides service within California between San Francisco, Orange County, San Diego, Monterey, San Jose, Oakland, Sacramento, Fresno, Ontario, Palm Springs, and Lake Tahoe.

Air California seeks to increase its fares by an overall 7.1 percent on an interim basis by increasing fares during peak travel hours from 8.8 percent to 11.1 percent, and by decreasing fares during off-peak travel hours from 10.9 percent to 19.4 percent. The complete interim fare schedule is set forth in Appendix A of this opinion. The overall rate increase is approximately \$4,500,000. In the alternative, Air California seeks authority to increase certain of its fares by up to 15 percent above current levels, or decrease certain of its fares by up to 35 percent below current levels.

According to the profit and loss statement attached to its motion, Air California estimates net losses before taxes in its operations for the calendar year of 1978 of \$226,000 based on existing fares. Had the proposed fares been in effect during that period the

carrier estimates a net income before taxes of \$4,253,000 for an operating ratio of 94.1 percent before taxes. Air California's most recently authorized operating ratio was set by the Commission at 92.23 percent before taxes in Decision No. 88673 dated April 4, 1978 in Application No. 57840.

Air California bases its request for increased fares, in addition to the projected loss for 1978 under present fares, on the fact that Pacific Southwest Airlines (PSA) is seeking an interim increase in fares of approximately 7.4 percent and, in addition, authorization to increase fares by 15 percent above current levels and to decrease fares by 35 percent below current levels. The Commission has historically found PSA and Air California to be the low-cost ratemaking carriers in California and has authorized other passenger air carriers to raise their commuter air fares to the same levels authorized for PSA and Air California between competitive points. (Application of Continental Air Lines, Decision No. 88901 dated May 31, 1978 in Application No. 58026).

In Decision No. 89149 dated today in Applications Nos. 58001 and 57912, we authorized PSA to increase its fares 15 percent above current levels and decrease its off-peak fares 35 percent below current levels. We stated in that decision that PSA should be provided with the latitude to experiment with fare programs that will benefit not only the airline but also the traveling public. We granted authority to PSA to raise or lower its fares within a zone of reasonableness having as its upper limits 15 percent above present fares and as its lower limits 35 percent below current fares. Our order stated that the authority granted to PSA includes the right to alter or modify off-peak fares. PSA will have full latitude to experiment in different markets, at different times of the day, different days of the week, or different seasons of the year. PSA may inaugurate whatever capacity, reservations, or ticketing controls it deems appropriate. ✓

Air California is the only major wholly intrastate airline other than PSA that operates between major California air terminals with full jet equipment. We believe that Air California should have the same opportunity as PSA to establish experimental air fares within the zone of reasonableness described above. We will grant such interim authority to Air California subject to the same conditions established in the PSA decision issued today.

The authorization contained herein will terminate one year after the effective date of this decision or upon further order of the Commission. During the interim period, Air California will review the status of its discount fare programs with the Commission staff at intervals of not more than 90 days except that Air California at the time of the hearings to be scheduled in Application No. 58126 shall furnish testimony as to the programs that are in effect, and the results thereof. The Commission will closely monitor Air California as to its earnings level and fare-setting activity within the limits we have authorized and will not hesitate to modify this interim decision should it appear that the flexibility granted is operating to the detriment of Air California's customers.

#### Findings

1. Air California seeks to establish revised air fares as illustrated in Appendix A. Such fares are estimated to result in an overall passenger revenue increase of 7.1 percent. If the fares proposed in Appendix A had been in effect during the whole of 1978, Air California estimates that such fares would produce a net income before income taxes of \$4,253,000, resulting in an operating ratio of 94.1 percent. A pre-tax operating ratio of 92.23 percent was authorized in Air California's last general fare increase proceeding (Decision No. 88673 dated April 4, 1978 in Application No. 57840). The fares sought in Appendix A result in a less favorable operating ratio than last authorized to Air California.

2. PSA sought and was granted today in Applications Nos. 58001 and 57912 authority to establish air passenger fares within a zone of reasonableness represented by an increase of 15 percent above and a decrease of 35 percent below present fare levels.

3. As indicated in prior Commission decisions, we have considered both PSA and Air California to be the fare-setting carriers between principal airports within California. Air California should have the same opportunity as PSA to establish experimental air fares within the zone of reasonableness described above. Consequently, Air California should be granted interim relief in Application No. 58126 similar to that granted today to PSA in Applications Nos. 58001 and 57912.

4. Based on the data supplied in Application No. 58126, the increases in rates authorized herein are justified and such rates will be reasonable.

5. In order to give the public the benefit of these experimental rates as soon as possible, the order should be made effective on the date hereof.

#### Conclusion

We conclude that experimental rates should be authorized as provided in the order which follows.

#### INTERIM ORDER

IT IS ORDERED that Air California is authorized to establish increased air fares and discount air fare programs not to exceed 15 percent by way of increase over present fares and not to exceed 35

percent by way of discount under present fares, on not less than ten days' notice to the Commission and to the public and for the period of one year from the date of this order or until further order of the Commission.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 25th  
day of JULY, 1978.

Robert Bateman  
President  
William S. Brown  
Vernon L. Stinson  
Charles D. Howell  
Clare J. DeBrick  
Commissioners

PROPOSED FARES  
FOR INTERIM INCREASE  
1978

	Present Fare w/o Tax	Peak Fare w/o Tax	Off-Peak Fare w/o Tax	Peak Fare w/Tax 1)	Off-Peak Fare w/Tax 1)	Peak Increase Over Current Rates	Off-Peak Decrease From Current Rates
SNA-SFO/SJC/OAK	\$28.75	\$31.48	\$25.00	\$34.00	\$27.00	9.5%	13.0%
ONT-SJC/OAK	27.55	30.56	24.07	33.00	26.00	10.9%	12.7%
SMF-SNA	29.86	32.87	26.39	35.50	28.50	10.0%	11.7%
SMF-ONT	28.47	31.48	25.00	34.00	27.00	10.5%	12.2%
SAN-SJC/OAK	32.18	35.65	28.24	38.50	30.50	10.7%	12.3%
PSP-SFO/SJC/OAK	33.33	37.04	29.17	40.00	31.50	11.1%	12.5%
SAN-SNA/ONT	13.19	14.35	11.57	15.50	12.50	8.8%	19.4%
PSP-SNA/ONT	13.89	15.28	12.04	16.50	13.00	10.0%	13.4%
SJC-SMF	13.19	14.35	11.57	15.50	12.50	8.8%	12.3%
PSP-SMF	34.03	37.50	30.09	40.50	32.50	10.2%	11.6%
SAN-SMF	33.15	36.57	29.17	39.50	31.50	10.3%	12.0%
TVL-SFO/SJC/OAK	19.72	21.75	17.59	23.50	19.00	10.3%	10.9%
TVL-SNA	35.00	38.43	30.55	41.50	33.00	9.8%	12.8%
TVL-SAN	38.24	42.13	33.80	45.50	36.50	10.2%	11.7%
FAT-SNA/ONT	23.15	25.46	20.37	27.50	22.00	10.0%	12.0%
FAT-SJC/OAK	18.52	20.37	16.20	22.00	17.50	10.0%	12.6%
FAT-TVL	23.15	25.46	20.37	27.50	22.00	10.0%	12.0%
MRY-SNA	28.75	31.48	25.00	34.00	27.00	9.5%	13.0%
MRY-ONT	27.55	30.56	24.07	33.00	26.00	10.9%	12.7%
MRY-SAN	32.18	35.65	28.24	38.50	30.50	10.7%	12.3%
MRY-SMF	19.72	21.75	17.59	23.50	19.00	10.3%	10.9%
MRY-SFO	13.19	14.35	11.57	15.50	12.50	8.8%	12.3%

1) Adjusted for rounding