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Decision No. 89685 NOV 28 1978

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SWIFT AIRE LINES,)
 INC. for authority to increase)
 Intra-State Passenger Fares)

ORIGINAL
 Application No. 56251
 (Filed July 24, 1978)

O P I N I O N

Swift Aire Lines, Inc., (Swift) seeks authority to increase its passenger air fares. Swift is an intrastate passenger carrier serving intermediate points between Los Angeles, San Francisco and Sacramento.

Swift seeks authority to increase its intrastate passenger fares by an amount that would increase its revenue by approximately \$485,000 above the existing fares authorized in Decision No. 88786, dated May 2, 1978.

In support of its application, the carrier states as follows:

1. Salaries have increased due to FAR 121 regulations. Salary and labor increases from 1976 to 1977 include \$119,000 for pilots and co-pilots, \$51,000 for flight attendants, \$172,000 for traffic agents, \$137,000 for maintenance, and \$24,000 for reservationists.
2. Fuel costs increased \$210,000 from 1976 to 1977 and have continued to increase through 1978.
3. Landing fees increased \$36,000 in 1977.
4. The Nord Airworthiness Reserve increased \$262,000 as a result of the higher Nord aircraft overhaul cost compared to the Heron aircraft. The average Heron engine overhaul cost on May 30, 1978 was \$7,500 compared to \$66,000 for the Nord engines. Approximately \$6,500 is incurred on each Nord engine overhaul for freight and custom charges from and to France. The cost of overhaul parts will increase approximately 15% during 1978. In addition, these costs are affected by the foreign exchange rate of the U. S. dollar vs. the French franc. The French franc has increased approximately 15% vs. the U. S. dollar between March 1977 and October 1978.

In Decision No. 89149, dated July 25, 1978 in Applications Nos. 58001 and 57912, the Commission 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. The order stated that the authority granted to PSA includes

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the right to alter or modify its fares on 10 days' notice to the Commission. PSA has full latitude to experiment in different markets, at different times of the day, different days of the week, or different seasons of the year. Also, PSA may inaugurate whatever capacity, reservations, or ticketing controls it deems appropriate. Similar authority was granted to Air California and to other air carriers.

We believe that Swift and any other air carriers should have the same opportunity as PSA, Air California and the other air carriers to establish experimental air fares within the zone of reasonableness described above. We will grant such authority to Swift subject to the same conditions established for PSA and other air carriers. We are going to authorize Swift to raise its rates between any pair of points within a zone of reasonableness--up to 15 percent above present fare levels and down 35 percent below the fares currently in effect. This authority will include the right to alter or modify any possible off-peak fare program. Swift 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, with whatever capacity, reservations, or ticketing controls Swift deems appropriate, provided that Swift files tariffs reflecting any changes no later than 10 days in advance of the change.

The authorization contained herein will terminate one year after the effective date of this decision or upon further order of the Commission.

These decisions demonstrate our willingness to continually re-examine and re-evaluate our policies and programs. The Commission recognizes that in those industries which are not natural monopolies, in the classic economic sense, there can be a wide latitude in the degree of regulation required so that industries' practices are in conformance with the public interest.

We believe that whenever free market forces can govern an industry in the public interest, they should be allowed to do so with as little government intrusion as necessary. We feel that regulation should encourage innovation and, therefore, an industry should be given as much flexibility and latitude to respond to changing conditions as is reasonable.

At the same time, we recognize our statutory and constitutional duty to protect the public. We will not abdicate this duty. We realize that market theory does not always conform to reality, and we will regulate so-called competitive industries to prevent objectionable results that can arise whenever any of the underlying assumptions of a perfectly competitive model are missing. Historically, unreasonable rates, discrimination, destructive competition, and inefficient excess capacity are examples of problems that call for regulatory attention. We recognize that in an imperfect environment regulated competition, rather than free market forces, can often reduce the total cost to society of providing a service by encouraging a more efficient use of an industry's resources.

This decision, whereby we allow Swift to adjust its rates, within certain stated limits, to reach a reasonable operating ratio without the burden of lengthy regulatory delays is consistent with our views above.

F I N D I N G S

1. Applicant seeks to increase its intrastate passenger fares to offset the increased operating costs.
2. The application shows that the proposed increases will produce an additional annual gross revenue of approximately \$485,000.
3. The increases in the passenger fares proposed herein are justified.
4. Notice of the filing of the application appeared on the Commission's Daily Calendar.
5. No protest has been filed with the Commission regarding this application.
6. Decision No. 89149 authorized PSA on an interim basis to establish increased air fares and discount 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 10 days' notice to the Commission and to the public.
7. In order to give Swift the opportunity to be competitive as soon as possible, the order should be made effective on the date hereof.

We conclude that the applicant should be granted relief similar to that granted to PSA, and other air carriers, respectively. A public hearing is not necessary.

O R D E R

IT IS ORDERED that:

1. Swift Aire Lines, Inc., 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 a period of one year from the date of this order or until further order of the Commission.
2. 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 105-Series.

The effective date of this order is the date hereof.

Dated at San Francisco, California,
this 28th day of NOVEMBER, 1978.

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

Robert Bateman
President
William J. ...

Richard D. ...
Paul J. ...
Commissioners