

Decision No. 89692

NOV 28 1978

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of EUREKA AERO )  
 INDUSTRIES, INCORPORATED )  
 for an Ex-Parte Order to )  
 Increase its Intrastate )  
 Passenger Fares )

Application No. 58444  
 (Filed October 30, 1978)

O P I N I O N

Eureka Aero Industries, Incorporated (Eureka) seeks authority to increase its intrastate passenger air fares. Eureka operates between Eureka, Redding, Chico, Sacramento, Santa Rosa, Oakland and San Francisco.

Eureka seeks authority to increase its intrastate passenger fares by an amount that would increase its revenue by approximately \$570,000 above the existing fares authorized in Decision No. 87107, dated March 13, 1977.

In support of its application the carrier states as follows:

1. Fuel costs have increased 46% from \$0.62 per gallon in February 1977 to \$0.90 in October of 1978.
2. Pilot salaries have increased 4% from \$911.21 in June of 1978 to \$947.23 in October of 1978.
3. Telephone costs for its 10-button extensions (8 in number) have increased 30% and costs for its 20-button extensions (4 in number) have increased 45%. It has also had to add three extra reservation people at a cost of \$3.50 per hour, 40 hours per week, to handle the increased volume of reservation inquiries.
4. Cessna propellers have increased 13% in cost from \$883.02 in February of 1977 to \$1,001 in October of 1978.
5. Cessna engines (TS10-520E) have increased 17% in cost from \$6,935 in February of 1977 to \$8,090 in October of 1978.
6. State Worker's Compensation costs have increased 230% for flight crews from \$.69 per \$100 in February of 1977 to \$2.28 per \$100 in August of 1978 and 14% for clerical from \$.36 to \$.41 per \$100.
7. Passenger liability insurance costs have increased 13% on a per seat basis from \$150 per seat in June of 1978 to \$170 in

July of 1978 and 15% on a per aircraft basis from \$100 in June of 1978 to \$115 in July of 1978.

8. Aetna group health insurance has increased 48% in cost from \$22.32 per person in February of 1977 to \$33.05 per person in October of 1978.

9. Landing fees in Sacramento have increased 40% from \$2.50 in February of 1977 to \$3.50 per landing in September of 1978. Its current schedule calls for 76 operations per week in Sacramento.

10. Terminal counter rent in Sacramento has increased 57% from \$100 per month in February of 1977 to \$157.17 in September of 1978. Beginning November 1, 1978, Eureka Aero will be incurring costs of \$10 per operation at San Francisco Airport where it has 27 operations per week scheduled.

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 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 Eureka and any other air carrier 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 Eureka subject to the same conditions established for PSA and other air carriers. We are going to authorize Eureka 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. Eureka 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 Eureka deems appropriate, provided that Eureka files tariffs reflecting any changes no later than 10 days in advance of the change.

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

These decisions demonstrate our willingness to continually reexamine and reevaluate 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 Eureka 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. Eureka's passenger fares have not been increased since April 1, 1977.
3. The application shows that the proposed increase will produce an additional annual gross revenue of approximately \$570,000.
4. The increases in the passenger fares proposed herein are justified.
5. Notice of the filing of the application appeared on the Commission's Daily Calendar.
6. No protest has been filed with the Commission regarding this application.
7. 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.
8. In order to give Eureka 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. Eureka Aero Industries, Incorporated 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

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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 28<sup>th</sup> 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. Lyons  
Robert D. Gwalt  
Clair T. Deitch  
Commissioners