

WHW/FS

Decision No. 89843 JAN 4 1979**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of HUGHES AIR CORP.,)
 dba HUGHES AIRWEST, for authority)
 to increase its intrastate passen-)
 ger fares or, in the alternative,)
 for an order dismissing the appli-)
 cation.)

Application No. 58531
 (Filed December 18, 1978)

INTERIM OPINION

Hughes Air Corp., dba Hughes Airwest (Airwest) seeks authority to increase its intrastate passenger air fares by varying amounts ranging between 1.4 percent and 133 percent for an increase in annual gross revenues from intrastate traffic of \$3,057,309 computed on the basis of Civil Aeronautics Board's adopted formula for interstate air passenger fares.

Airwest serves Los Angeles, San Francisco, San Diego, Oakland and many intermediate points on the coast between Crescent City and Santa Barbara and in the valley between Redding and Bakersfield.

Airwest present interstate fare levels were authorized by Decision No. 88291, dated December 20, 1977. They were identified at that time as Standard "S" Class fares and later identified as Commuter "K" Class in amended tariffs filed to become effective June 1, 1978. Present Business Coach Class "C" fares were authorized by Decision No. 89444, issued September 19, 1978.

In support of its application, Airwest alleges its results of operation for the 12 months ended March 31, 1978 resulted in a loss of \$3,426,000 from California operations.

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

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granted to PSA includes the right to alter or modify its fares on ten 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 Airwest 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 Airwest subject to the same conditions established for PSA and other air carriers. We are going to authorize Airwest 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. Airwest 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 Airwest deems appropriate, provided that Airwest files tariffs reflecting any changes no later than ten 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 Airwest 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 the intrastate passenger air fares.
2. Airwest's passenger air fares have not been increased since January 15, 1978, authorized by Decision No. 88291, dated December 20, 1977.
3. The application shows that the proposed increase would produce an additional gross revenue of approximately \$3,057,309.

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4. Increases in the passenger air fares proposed herein are justified.

5. Notice of the filing of the application appeared on the Commission's Daily Calendar.

6. The County of Humboldt has filed a letter of protest dated December 19, 1978 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 ten days' notice to the Commission and to the public.

8. In order to give Airwest the opportunity to be competitive as soon as possible, the order should be made effective on the date hereof.

C O N C L U S I O N

We conclude that the applicant should be granted interim relief similar to that granted to PSA and other air carriers, respectively. All other aspects of this application will be handled in further proceedings before the Commission.

I N T E R I M O R D E R

IT IS ORDERED that:

1. Hughes Air Corp., dba Hughes Airwest 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.

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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 4th day of JANUARY, 1979.

Robert Bateman
PRESIDENT
Robert A. Lovell
Clare J. DeSantis

COMMISSIONERS