

Decision No. 43922

**ORIGINAL** **TRANSMITTED**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matters of the Investigations )  
 into the reasonableness, lawfulness, )  
 and propriety of the rates, rules, )  
 regulations, and charges of California )  
 Central Airlines; Robin Charter, Inc.; )  
 Air America of California, Inc.; )  
 California Skycoach, Inc.; Kenneth G. )  
 Friedkin, an individual doing business )  
 as Pacific Southwest Airlines; Arrow )  
 Airways; O'Vester Cash and Clifton )  
 Miller doing business as C & M )  
 Enterprises; Channel Airways, Inc.; )  
 Western Air Lines of California, Inc.; )  
 Robin Skyways, Inc.; and California )  
 Pacific Airlines, Inc. )

Cases Nos. 4994,  
 5008, 5019, 5074,  
 5078, 5083, 5093,  
 5095, 5115, 5135,  
 and 5177.

Appearances

John W. Preston, Jr., for California Central  
 Airlines, and George C. Gute, for Western  
 Air Lines of California, Inc., respondents.

Douglas Brookman, for Pacific Greyhound Lines;  
J. M. Souby, Jr., for Santa Fe Transportation  
 Company and The Atchison, Topeka and Santa Fe  
 Railway Company; Joseph C. Gill, for Southern  
 Pacific Company; Hugh W. Darling, for Western  
 Air Lines; and E. W. Kerttu, for California  
 Moving and Storage Association, interested  
 parties.

O P I N I O N

These proceedings are investigations by the Commission on  
 its own motion into the reasonableness, lawfulness, and propriety of  
 the fares, rates, rules, and regulations of eleven airline carriers  
 offering common carrier service for the transportation of passengers  
 between various points within California. They were instituted  
 under authority vested in the Commission by Article XII of the  
 California State Constitution empowering the Commission, among other  
 things, "to establish rates or charges for the transportation of  
 passengers and freight by railroads and other transportation  
 companies." Respondent carriers are those named in the margin

below.<sup>1</sup> Each of them commenced operations under the fares involved herein or made offerings of service through tariff filings during 1949. These proceedings were initiated following the filing by respondents of one-way fares of \$9.95 or \$9.99 for transportation between the Los Angeles and San Francisco areas and fares of approximately proportionate volume for service between a number of other California points.<sup>2</sup> Generally speaking, respondents' fares are substantially lower than the fares maintained by other carriers providing airline common carrier service between California points and lower in some instances than the fares maintained by carriers by land.<sup>3</sup>

Public hearings in these proceedings were had before Commissioner Craemer and Examiner Freas on December 15, 1949, and

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<sup>1</sup> California Central Airlines; Robin Charter, Inc.; Air America of California, Inc.; California Skycoach, Inc.; Kenneth G. Friedkin, an individual doing business as Pacific Southwest Airlines; Arrow Airways; O'Vester Cash and Clifton Miller doing business as C & M Enterprises; Channel Airways, Inc.; Western Air Lines of California, Inc.; Robin Skyways, Inc.; and California Pacific Airlines, Inc.

<sup>2</sup> California Central Airlines sought dismissal of the proceeding pertaining to its operations on the ground that the legislature has not bestowed jurisdictional powers upon the Commission over companies such as it. Under the Constitutional provisions above quoted, the Commission's powers are sufficient for proceedings of this kind.

<sup>3</sup> The relationship of respondents' fares to those of other carriers is shown in the following comparison:

Applicable One-Way Fares Between Los Angeles and San Francisco.\*

By respondent carriers.....	\$ 9.95 or \$ 9.99
By other airlines.....	\$19.15 to \$21.05
By railroad -	
Including sleeping accommodations...	\$16.30 to \$26.48
By coach.....	\$ 6.20 to \$ 7.50
By motorbus.....	\$ 5.15 to \$ 5.65

\* Exclusive of Federal Transportation Tax.

February 10, 1950. The matters were submitted for decision.<sup>4</sup>

Evidence in these proceedings was submitted principally by a transportation engineer of the Commission's staff. The engineer introduced and explained exhibits covering studies he had made of respondents' operations. This witness reported that the service offered by respondents differs in certain respects from the airline transportation service which has been available heretofore to California passengers. Designating it as a "coach-class" service, he said that it is less costly to provide than is the more standard type of airline service. Investment per airplane and operating expenses are both less. In addition, he said that as compared to the standard airline service, the so-called coach-class service is somewhat less luxurious; older types of airplanes which operate at slower flying speeds are used; and seating in the airplanes is arranged so as to permit higher density loading.<sup>5</sup>

In his exhibits and testimony the engineer made an analysis of passenger traffic moving between Los Angeles and San Francisco, and presented figures to show the costs of providing coach-class

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<sup>4</sup> Hearings in the matter of the reasonableness of the fares, rates, rules, regulations, and charges of California Central Airlines were also had on March 16 and 23, 1949, and the matter was submitted for decision. Subsequently, it appeared that investigations should be had with respect to the reasonableness of the fares of other airline companies who had commenced operations similar to those of California Central Airlines. In order that the fares and service of the several companies might be considered in their relationships to one another, submission of the proceeding relating to California Central Airlines was set aside and further hearings in this matter were had on the dates indicated above. Evidence introduced at the further hearings generally supersedes that received earlier.

<sup>5</sup> For convenience, the engineer's term "coach-class" service will be used throughout this opinion to designate respondents' service and to distinguish it from that of other airline carriers. As of October 15, 1949, Western Air Lines, an interstate and intrastate airline common carrier published a fare of \$13.60 for transportation between Burbank and San Francisco and fares of related volume for transportation between certain other California points. These fares are designated as "coach" fares. How the "coach" service of Western Air Lines compares with that of respondents is not shown on this record.

airline service between the two points.<sup>6</sup> Also, he introduced various data relating specifically to respondents' operations. Information for his studies was obtained from the records of respondents, from other airline companies, from the Civil Aeronautics Board, and from rail and motorbus carriers operating between Los Angeles and San Francisco.

According to evidence submitted by the Commission witness, the coach-class airline service has attracted a substantial portion of the passenger traffic that moved between Los Angeles and San Francisco during the year that the service has been available.<sup>7</sup> During the month of January, 1949, when the service was inaugurated, 2,004 passengers utilized the new service. By the end of the year this volume had increased to approximately 20,000 per month. The engineer stated that the coach-class service now accounts for approximately 42 per cent of the airline traffic between Los Angeles and San Francisco. He was of the opinion, based upon surveys that had been made, that the new service has attracted a number of people who otherwise would either not have traveled or would have used private transportation facilities. He estimated that approximately 41 per cent of the coach-class passengers would be included in such category. He said that the remainder of the coach-class traffic represents diversions from other forms of public transportation, 34 per cent being diverted from other airline carriers, 20 per cent from rail carriers, and 5 per cent from motorbus carriers.

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<sup>6</sup> As used herein, "Los Angeles" is deemed to include the City of Burbank, a terminal of various airlines serving the Los Angeles area. "San Francisco" is deemed to include also the Oakland Metropolitan Area. In addition to presenting data applicable to operations between Los Angeles and San Francisco, the engineer submitted cost information relating to coach class airline service between Sacramento and San Francisco and between San Diego and Los Angeles.

<sup>7</sup> From its inception the airline coach service was limited almost wholly to that between Los Angeles and San Francisco. Service was instituted between San Francisco and Sacramento but was discontinued after a few months of operation.

The witness submitted the following data as showing the trend in passenger traffic between Los Angeles and San Francisco:

Passengers Carried by Rail, Bus, and Air Transportation  
Between Los Angeles and San Francisco.

Transportation Via	1947		1948		1949	
	No. of Passen- gers	Per Cent of Total	No. of Passen- gers	Per Cent of Total	No. of Passen- gers	Per Cent of Total
Rail	476,497	44.8	421,579	44.4	308,016	32.7
Bus	251,142	23.6	266,628	28.0	228,216	24.2
Air	335,238	31.6	262,788	27.6	406,635	43.1
Total	1,062,877	100.0	950,995	100.0	942,867	100.0

The exhibits of the engineer show that as of January 1, 1950, the rail, bus, and airline carriers were operating a total of 92 round-trip schedules daily between the Los Angeles and San Francisco areas. Of this number, 12 schedules were operated by coach-class carriers who are respondents herein; of the remainder 31 were operated by other airlines, 11 by rail carriers, and 38 by motorbus carriers. The witness said that during the five months since August 1, 1949, a net total of 20 round-trip schedules between the two areas were discontinued because of traffic shrinkage; one schedule was discontinued by a rail carrier, nine by motorbus carriers, and ten by airline carriers.

Testifying with respect to the cost figures set forth in his exhibits, the Commission engineer stated that an objective of his studies had been to test respondents' fares in the light of costs normally applicable to coach-class service. He said that much of the basic data for his cost figures had been derived from respondents' records; however, in arriving at his cost determinations, specified expense adjustments were included as appeared appropriate in his opinion to establish the expenses on a normal basis. After developing cost data relating directly to the service, the engineer expanded his figures to include an allowance for profit and then

calculated the load factors that would have to be attained under respondents' fares to return the costs of the service plus the indicated profit. These calculated load factor figures were then compared with the load factors experienced by respondents to measure the success of their operations.<sup>8</sup>

Taking as a group the respondent carriers who operated between Los Angeles and San Francisco during or throughout the first ten months of 1949, the engineer calculated that on the basis of the normal operating costs which he developed the carriers earned under their present fares a rate of return of 22.7 per cent after income taxes and experienced an operating ratio of 83.4 per cent.<sup>9</sup> Had these carriers all operated 95 per cent of their scheduled flights during the period, the rate of return would have been at least 17.8 per cent and the operating ratio 87.0 per cent or less. The engineer's figures indicate that on the basis of a performance factor of 95 per cent only California Central Airlines and Western Air Lines of California, Inc. were able to attain a rate of return in excess of ten per cent over the period. Of these two carriers

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In his calculations the engineer assumed that in a normal operation the carriers would operate at least 95 per cent of all scheduled flights. Where it appeared that the carriers had not maintained a performance factor of 95 per cent, he made compensating adjustments in the carriers' load factor data used in his comparisons. The engineer said that on the basis of statistics of the Civil Aeronautics Board, it appears that a performance factor of 95 per cent would be an average standard for service between Los Angeles and San Francisco.

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During the ten-month period only six of the eleven respondents herein undertook to provide service under their tariffs filed with the Commission. The carriers who so operated are: California Central Airlines; Pacific Southwest Airlines; Channel Airways, Inc.; Arrow Airways, Robin Charter, Inc.; and Western Air Lines of California, Inc. At the close of 1949 only California Central Airlines, Pacific Southwest Airlines, Arrow Airways, and Western Air Lines of California, Inc. were operating between Los Angeles and San Francisco and only California Central Airlines and Pacific Southwest Airlines were operating between Los Angeles and San Diego. No other service was being provided.

it appears that the operating results of Western Air Lines of California, Inc. have been the more favorable.<sup>10</sup>

No one other than the Commission engineer testified at the hearings on December 15, 1949, and on February 10, 1950. A representative of the Southern Pacific Company submitted information with respect to that company's passenger train service between Los Angeles and San Francisco. At the earlier hearings in Case No. 4994, which pertains to the fares, rates, rules, and regulations of California Central Airlines only, representatives of that company testified concerning its operations. Representatives of the Pacific Greyhound Lines and the Santa Fe Transportation Company, passenger stage corporations which provide bus service between Los Angeles and San Francisco, introduced exhibits setting forth the schedules operated by those companies between the two points. Similar information was submitted on behalf of the Southern Pacific Company. A representative of Western Air Lines submitted evidence relating to the federal safety regulations applicable to air carriers, and to operating costs of Western Air Lines.<sup>11</sup> He indicated that his company, at its level of operating costs at that time could not meet the fares of California Central Airlines.

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It appears that Western Air Lines of California, Inc. has not only been the most successful of the carriers providing airline coach service within California but that it has attained the dominant position in the field. Of the service that was offered between Los Angeles and San Francisco during October, 1949, this company provided over 50 per cent; California Central Airlines provided over 25 per cent, and the remainder was provided by Pacific Southwest Airlines and Arrow Airways, Inc.

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Western Air Lines leases, maintains, and operates the aircraft employed by Western Air Lines of California, respondent herein.

The record herein is convincing that for a normal airline coach-class service between Los Angeles and San Francisco the one-way fares of \$9.95 and \$9.99 are sufficient to return operating costs and to yield some profit. This conclusion is contingent upon the ability of the carriers to continue to maintain, on an average, adequate load factors as indicated by the studies of the Commission engineer.<sup>12</sup> Whether such load factors can be maintained in the future is a matter that cannot be predicted on this record. The evidence shows clearly that respondents are operating in a highly competitive field. It appears from the figures of the Commission engineer that the coach-class service being provided is sufficient or nearly sufficient for the demand therefor.<sup>13</sup> It seems unlikely that any substantial increase in the volume of coach-class service at the present fares would be accompanied by a commensurate increase in new passenger traffic. Nevertheless, a fifth airline carrier, California Pacific Airlines, Inc., a respondent herein, inaugurated coach-class service between Burbank and Oakland on January 21, 1950. Those of respondents who have not yet undertaken to provide service,

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No conclusions are reached with respect to the profitableness of the service provided by California Central Airlines and Pacific Southwest Airlines between Los Angeles and San Diego. Costs for this service were developed on the assumption that it is subsidiary to service between Los Angeles and San Francisco and does not require additional investment on the part of those companies. It was the engineer's conclusion that on this basis the service has been compensatory for Pacific Southwest Airlines.

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Adjusted to a performance basis of 95 per cent, the load factors of three of the four coach-class carriers who were in operation in October, 1949, were approximately 65 per cent; the load factor of the fourth carrier, Western Air Lines of California, Inc., was 84.3 per cent. During August, 1949, the adjusted load factors of the six carriers then operating ranged from 29.4 per cent to 91.2 per cent. Three of these carriers did not attain load factors in excess of 50 per cent.



or other airline carriers, are free to commence operations when they will. Present statutory provisions impose no restrictions upon the commencement of service by airline common carriers operating in intrastate service. Although the inauguration of additional airline coach-class service of substantial volume between Los Angeles and San Francisco would not be unlawful, the conclusion is inescapable that a probable consequence would be the impairment of existing services of both air and land carriers without offsetting profit for the additional airline carriers.

Upon this record it is concluded, and the Commission so finds, that the one-way fares of \$9.95 and \$9.99 being assessed for airline coach-class service between Los Angeles and San Francisco have been shown to be reasonable. No findings are made with respect to fares published for service between other points. Between many of the points no service has been provided and satisfactory factual data for measuring the reasonableness of the published fares are not available; the evidence pertaining to service between the other points is insufficient for such a determination. These proceedings will be discontinued, and in doing so the Commission takes full cognizance of the fact that the conditions which justify its conclusions herein are subject to change. Fares which under present conditions are reasonable may later become unreasonable.

It appears from the evidence received in these several proceedings that respondents have fares published in their tariffs applying to service which they are not undertaking to provide. The tariffs should conform to the scope of respondents' respective undertakings. Respondents are hereby placed on notice that they shall amend their tariffs to a proper basis forthwith.

O R D E R

The above-entitled matters having been duly instituted, investigations having been had, and the Commission being advised, IT IS HEREBY ORDERED that the above investigation proceedings be and they are discontinued.

Dated at San Francisco, California, this 14<sup>th</sup> day of March, 1950.

R. F. [Signature]  
Justin F. Cooney  
[Signature]  
Harold H. [Signature]  
[Signature]  
Commissioners