

Decision No. 74114

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Southwest
Airlines for a Certificate of
Public Convenience and Necessity. }

Application No. 49512
(Filed July 3, 1967)

McInnis, Focht & Fitzgerald, by
John W. McInnis and Laurence
L. Pillsbury, for applicant.
Dominic P. Renda & Gordon Pearce,
by Gordon Pearce, for Western
Air Lines; and Cooper, White &
Cooper, by R. Barry Churton, for
Pacific Air Lines, protestants.
Roger B. Cable, for Cable Commuter
Airlines; and Kenneth C. Delaney,
for Los Angeles Chamber of Commerce,
interested parties.
Richard D. Gravelle, Counsel, Robert
W. Hannam, and Milton J. Debarr,
for the Commission staff.

O P I N I O N

Pacific Southwest Airlines (PSA) seeks authority to operate as an air carrier of passengers between Ontario International Airport (ONT) and San Francisco International Airport (SFO), and between ONT and Sacramento Municipal Airport (SAC) via SFO.

Western Air Lines (Western) protests the sought authority between ONT and SFO, which it serves; Pacific Air Lines (Pacific) protests the sought authority between SFO and SAC, which it serves.

Public hearings were held, after a prehearing conference on October 13, 1967, before Examiner Robert Barnett at Los Angeles on November 1, 2, 3, 9, and 10, 1967 and on December 18, 1967. The matter was submitted on the latter date subject to the filing of briefs, which have been received.

We will grant the sought authority between Ontario International Airport and San Francisco International Airport, and deny the sought authority to Sacramento. For convenience, this opinion will be divided into two segments: Ontario-San Francisco and Ontario-Sacramento via San Francisco.

Ontario International Airport, now operated by the Los Angeles Department of Airports, is located near the mid-point of the population centers of Riverside County, San Bernardino County, and eastern Los Angeles County (the Pomona Valley area). ONT is about 50 driving miles from LAX. It is about 380 air miles between ONT-SFO; about 350 air miles between LAX-SFO. The economy of Riverside County is broadly based on agriculture, mineral production, manufacturing, tourism, and military employment. San Bernardino County, directly north of Riverside County, has an economic base similar to that of Riverside County. The latest figures for manufactures in this area show that between 1958 and 1963 manufacturing values increased by 72 percent. Population and other economic figures will be set forth below. The Pomona Valley has been the site of a vast increase in manufactures in recent years, especially in the aero-space and electronic industries. More detailed statistics showing growth in employment,

income, manufactures, farming, and trade, are readily available in standard economic compilations.^{1/}

San Francisco needs no description.

The facilities at ONT are adequate to handle the present volume of traffic and any additional traffic that PSA's entry would bring. ONT has an excellent airfield, good runway structures, and clear approaches from the east and west. The City of Los Angeles will spend in excess of \$20,000,000 over the next ten years for capital improvements. Such improvements will include expansion of parking facilities, terminal buildings, better baggage handling capabilities, and additional runways. The Federal Aviation Agency has installed a modern control tower, navigational aids, and ground lights. When LAX has been fogged in ONT has been used as an alternate airport. At those times there have been as many as 65 aircraft on the ground at one time.

The Los Angeles-San Francisco market is presently flying more passengers than any other city-pair in the world. Origin-destination passengers increased 250 percent between 1957 and 1964, and increased 60 percent between 1964 and 1967.

PSA, the largest intrastate carrier in the nation, serves Los Angeles, San Francisco, Sacramento, San Diego, San Jose, Oakland, and Burbank. Its greatest growth dates from 1960 when it

^{1/} See data published by U. S. Department of Commerce, Bureau of the Census; State of California Department of Employment; State of California Department of Finance; Los Angeles County Regional Planning Division; Security First National Bank and Bank of America Research Departments; and various County planning departments.

introduced Lockheed Electra aircraft on its LAX-SFO route at a reduced fare of \$12.99. At that time, over the same route, Western and United Airlines were charging from \$18.10 to \$30.31 depending on service and type of aircraft. By mid-1962 PSA was carrying over 50% of the passengers in this market. At this point Western and United began to compete -- reducing fares and offering service comparable to PSA's; by the end of 1965 PSA's share of the market had dropped to 40 percent.

Today PSA has a fleet of six Lockheed Electra aircraft, eight Boeing 727-100 jet aircraft and one DC-9-30 jet aircraft. PSA has on order twelve jet aircraft in 1968. PSA's net income has increased from \$2 million in 1965 to over \$4.3 million in 1966.

System passengers and operating revenue: (000)

	<u>Passengers</u>	<u>Operating Revenue</u>
1960	621	\$ 8,130
1965	1,863	24,051
1966	2,713	38,139
1967	3,346	48,825

PSA has an application now pending before the Civil Aeronautics Board (CAB) to extend its routes to Seattle, Washington, via Portland, Oregon.

Western, a trunkline carrier, has been operating since 1928. Its present service extends as far north as Anchorage, Alaska, as far east as Minneapolis-St. Paul, and as far south as

Mexico City and Acapulco. In California it serves Los Angeles, San Francisco, Sacramento, Oakland, Ontario, Long Beach, Palm Springs, and San Diego. It estimates its 1968 total domestic system operating revenues at \$186,484,000.

Western operates 24 Boeing 720B jet aircraft, 12 Electra aircraft, and 4 DC-6B aircraft over its 13,000-mile route system. Western has on order in 1968 3 720B aircraft, 20 Boeing 737-200 aircraft, 10 Boeing 737 aircraft, and 5 Boeing 707-320C aircraft.

Western has route applications pending before the CAB which would extend its service to, among other places, Hawaii, Chicago, New York, Miami, and Atlanta.

System passengers and operating revenue: (000)

	<u>Passengers</u>	<u>Operating Revenue</u>
1960	1,722	\$ 69,077
1965	3,575	123,599
1966	4,402	156,190
1967 ^{2/}	5,108	192,482

Pacific, a local-service federally subsidized carrier, has been operating under a permanent certificate of public convenience and necessity since 1955 principally between San Diego,

^{2/}

1967 statistics give effect to the merger of Pacific Northern Airlines into Western.

Los Angeles, San Francisco, Sacramento, and San Jose, California, Medford and Portland, Oregon; and Las Vegas and Reno, Nevada. Pacific flies nonstop between San Jose and Los Angeles, and with intermediate stops between LAX-SFO.

Pacific has recently merged with West Coast Airlines and Bonanza Airlines. Prior to the merger Pacific operated 9 Fairchild F-27 aircraft, 7 Martin 404 aircraft, and 3 Boeing 727 jet aircraft. Pacific has on order approximately 10 jet aircraft.

Pacific has route applications pending before the CAB which would extend its service to, among other places, Hawaii, Seattle, Minneapolis, Denver, and Tucson, and nonstop between ONT-SFO. System passengers, operating revenue and federal subsidy: (000)

	<u>Passengers</u>	<u>Operating Revenue</u>	<u>Federal Subsidy</u>
1960	451	\$ 7,173	\$ 3,901
1965	695	10,990	3,695
1966	835	13,178	3,596
1967	(NA)	(NA)	(NA)

Public Witnesses

A representative of the Los Angeles Department of Airports (who took no position on the merits of the application) testified that: On November 1, 1967, the Los Angeles Department of Airports took over the operation of ONT and all employees of the City of Ontario assigned to the airport became employees of the City of Los Angeles. In 1967 a minimum of 17.3 million

passengers moved in and out of LAX, the forecast for 1975 is 57.5 million passengers. The planning needed to take care of this tremendous expansion calls for the creation of satellite airports,^{3/} of which ONT is the first. It is being improved constantly in order to induce greater use by air carriers, particularly those carriers now using LAX, so as to relieve present and future congestion at LAX.

The mayor of the City of Ontario testified in support of PSA's application. In addition to corroborating the statistical testimony of the representative of the Los Angeles Department of Airports, he emphasized the problem of the moving and parking of automobiles at airports and over the streets and highways leading to airports, which is commonly referred to as the "ground barrier". He said that people in the Greater Los Angeles Metropolitan area have only one major airport, LAX, to serve them. LAX is capable of receiving and dispatching additional aircraft, but the problem of ground movement is almost insurmountable. This condition exists with the aircraft that are flying today, and will become even more acute with the advent of the jumbo jets such as the Boeing 747. He advocated as one solution to this problem the satellite airport concept. A satellite airport is not fulfilling its function if it merely funnels passengers into an already

^{3/} A satellite airport is a supplemental airport, located in the economic market of a more important airport, near the area from which it will draw its support and which either diverts present traffic from the more important airport or absorbs growth traffic which, if the satellite airport were not available, would go to the more important airport.

overcrowded hub airport; it must be capable of dispatching and receiving airplanes to and from all points. In the witness's opinion, ONT has these capabilities, but they are relatively unused at the present time. The only time that ONT is used near its present capacity is when LAX has been closed by fog.

Two assemblymen and a state senator also testified in support of PSA's application. They especially emphasized the need for one-plane service to Sacramento. They pointed out that the State Legislature now meets every year and this requires a heavier demand for adequate, well-scheduled, air service between Sacramento and Southern California areas such as Ontario. They also called attention to the growth of business in the Ontario area and the need for such business to have adequate transportation facilities from Ontario to San Francisco and Sacramento.

In addition to the above witnesses, PSA presented resolutions of support from the Cities of Pomona, Riverside, Ontario, Fontana, and Upland, also resolutions of the Boards of Supervisors of the Counties of Riverside and San Bernardino, and resolutions of support from various civic groups in the area.

I - Ontario-San Francisco

PSA's Evidence

PSA proposes to commence its operations with four round trips daily, two Electra flights and two Boeing 727 jet

flights. After an initial three-month start-up period, PSA proposes to increase its schedule to five round trips Monday through Thursday, six round trips Friday and Sunday, and four round trips Saturday. PSA's initial schedule as compared with Western's present schedule:

Leave ONT for SFO

<u>PSA</u>	<u>Western</u>
7:15 a.m.	8:00 a.m.
10:00 a.m.	12:00 noon
12:45 p.m.	4:30 p.m.
4:00 p.m.	6:50 p.m.
	9:00 p.m.

Leave SFO for ONT

<u>PSA</u>	<u>Western</u>
7:40 a.m.	7:25 a.m.
10:00 a.m.	10:15 a.m.
12:30 p.m.	2:40 p.m.
4:40 p.m.	6:15 p.m.
	8:50 p.m.

Scheduled flight time for the Electra is 65 minutes; 45 minutes for the Boeing 727. PSA proposes to charge \$13.33 plus tax for the Electra flight and \$15.24 plus tax for the

Boeing flight. Western presently uses Electras on its ONT-SFO route with a scheduled flight time of 74 minutes at a fare of \$14.85 plus tax.

PSA's estimate of initial revenues, expenses, and break-even requirements for an average month are:

Potential revenue (all seats filled at maximum fare):

Passenger fares	\$383,000
Freight, beverage, misc.	<u>4,000</u>
	\$387,000

Operating Expenses:

Direct operating costs	\$119,000
Allocated operating expense	<u>73,000</u>
Amortization of start-up costs	<u>2,000</u>
Total operating expenses	\$194,000

Break-even traffic requirements:

	<u>Pass. Per Month</u>	<u>Pass. Per Year</u>	<u>Percent of Potential</u>
To cover direct operating exp.	8,300	99,600	30.7
To cover total operating exp.	13,500	162,000	50.1

An economist who testified on behalf of PSA estimated that true O&D (origin and destination) traffic^{4/} between ONT-SFO

^{4/} True O&D figures should include only those passengers starting their airline trip at point A and terminating at point B and vice versa. Passengers traveling between points A and B as a portion of a longer journey by air should not be counted in O&D statistics for A-B. A careful reader will note that the O&D statistics cited throughout this opinion are not always consistent. That is because not all airlines use similar standards to determine their O&D and because some statistics are based on actual traffic counts while others are based on the CAB Origin - Destination Survey (a 10 percent sample).

would be approximately 400,000 passengers if PSA were to inaugurate its proposed operation. He further expected this O&D traffic to grow at a rate of 12 to 15 percent compounded, over the next five years. He based his estimate on a variety of factors, of which the major ones are: The increase in population, employment, and income in the greater Los Angeles area (the Counties of Los Angeles, Ventura, Orange, San Bernardino, and Riverside); similar growth in the logical market area of ONT; time factors to drive to LAX from various outlying points; the experience of Air California in the Orange County-SFO market; the effect of Air California on PSA's LAX-SFO route; and the experience of Western in the ONT-SFO market.

A summary of his testimony and excerpts from his exhibits show:

A. Population, employment, and income factors:

POPULATION GROWTH BY COUNTY
1950 - 1980
(July 1)

<u>County</u>	<u>1950</u>	<u>1960</u>	<u>1967</u>	<u>Projected</u>	
				<u>1970</u>	<u>1980</u>
Los Angeles	4,151,687	6,038,771	7,050,000	7,630,800	9,241,500
Orange	216,224	703,925	1,268,900	1,473,800	2,144,000
Ventura	114,647	199,138	330,800	419,500	738,600
Riverside	170,046	306,191	440,000	506,200	722,000
San Bernardino	281,642	503,591	667,700	722,700	969,400
TOTAL	4,934,246	7,751,616	9,761,400	10,753,000	13,815,500

TOTAL CIVILIAN EMPLOYMENT
LOS ANGELES FIVE-COUNTY CONSOLIDATED AREA
1958 - 1980

<u>County</u>	<u>1958</u>	<u>1960</u>	<u>1967</u>	<u>1980</u>
Los Angeles	2,326,000	2,488,400	3,002,000	3,512,000
Orange	165,300	211,900	407,200	611,450
Ventura	67,700	72,800	99,500	141,270
San Bernardino	237,000	251,100	326,100	443,480
Riverside				
TOTAL	2,796,000	3,024,200	3,834,800	4,708,200

PERSONAL INCOME GROWTH
IN THE LOS ANGELES FIVE-COUNTY
CONSOLIDATED AREA

1950-1980

<u>Year</u>	<u>Total Personal Income</u>	<u>Income Per Capita</u>
1950	9,171,872,000	\$ 1,849
1960	21,842,000,000	2,795
1965	31,023,853,000	3,182
Projected:		
1970	38,700,000,000	3,618
1975	50,200,000,000	4,114
1980	62,800,000,000	4,560

In the witness's opinion population growth in the Los Angeles area has occurred in a concentric "spillover" pattern, moving outward and away from its historical urban-economic core, the City of Los Angeles.

His exhibit shows high density population distribution during 1940-1950 within a 15-mile radius of Civic Center, Los Angeles: Burbank, Glendale, Santa Monica, Whittier, Lakewood. Between 1950-1960 high density population distribution occurred in San Fernando, Santa Ana, and the Pomona Valley. By 1966 high density population distribution had reached San Bernardino and Riverside in the western, most populous, portions of the counties, near ONT.

The witness expects this spillover pattern of growth to continue, and he foresees the Pomona Valley and the San Bernardino-Riverside area as two of the sections which will absorb this growth. Population growth will be accompanied by expanding employment and income as industry will tend to locate near its labor supply.

B. Airport travel time-distance relationships -- ONT v. LAX:

The witness assumed that the automobile would provide the main form of ground transportation to and from major airports over the next several decades. He sponsored a 1959 study of driving times to LAX and to ONT from various locations. The witness assumed that the logical geographic market division between LAX and ONT would lie along those points where the driving time to the two airports was approximately equal. Based on 1959 traffic flow conditions the time-distance dividing line during peak commute hours ran through the middle of Altadena and Pasadena, east of the Pasadena Freeway and south to Sunset Beach in Orange County. The off-peak division was slightly east of the peak-hour line. At this line it was an approximate 50-minute drive to either airport. Based on this study the witness defined the potential market for ONT to include eastern Los Angeles County, all but a small westerly corner of Orange County, and all of San Bernardino and Riverside Counties.

C. The logical market area for ONT-SFO airline service in 1967:

In making this determination the witness assumed that the 1959 time-distance study had not shifted significantly as of 1967. Also, the witness recognized that airline passenger service to San Francisco is now provided from Orange County Airport and Long Beach Airport and, therefore, he eliminated portions of eastern Los Angeles County, and all of Orange County, from his logical market area.

In the witness's opinion the logical market area for ONT consists of:

	<u>1967 Estimated Population</u>
1. Eastern Los Angeles County including El Monte, Arcadia, La Puente, Covina, West Covina, Pomona, Claremont	804,451
2. Riverside County	444,000
3. San Bernardino County	<u>667,700</u>
	1,916,151

D. The experience of Air California in the Orange County-SFO Market:

The witness asserted that the experience of Air California in the Orange County-SFO market is directly comparable to PSA's proposed ONT-SFO route. Air California commenced operations in January 1967. The markets, he stated, are comparable in terms of growth of population, employment, and income; the airlines use similar equipment - Lockheed Electras; the terminal point, SFO, is the same. The witness estimated that Air California would

A. 49512 - BR/ MJO *

carry approximately 188,000 passengers in the first three quarters of 1967, and that Orange County's 1.3 million population had a potential of 350,000 Orange County-SFO passengers.^{5/} In the witness's opinion, prior to Air California's service the great majority of Orange County airline passengers traveling to SFO flew from LAX, and not from Long Beach or Ontario. Further, the witness compared PSA's LAX-SFO traffic for 1966, 954,304 passengers, with PSA's LAX-SFO traffic for the first three quarters of 1967, 760,000 passengers, and concluded that Air California had not caused PSA to lose passengers, and, in fact, PSA had gained passengers.^{6/}

E. The experience of Western in the ONT-SFO market:

This factor was considered by the witness to show the constant growth of the market. True, O&D statistics, ONT-SFO, supplied by Western show:

	<u>1965</u>	<u>1966</u>	<u>1967</u>
1st Quarter	17,190	25,440	34,082
2nd Quarter	18,790	27,720	44,621
3rd Quarter	23,470	25,790	47,965
4th Quarter	25,870	34,800	(NA)
Total	85,320	113,750	126,668 ^{7/}

^{5/} Air California's 1967 O&D Orange County-SFO as reported to this Commission was 252,793.

^{6/} PSA's 1967 O&D LAX-SFO as reported to this Commission was 871,256. We are not certain if this is a true O&D figure but it appears to be computed in the same manner as the 954,304 figure. 1966 traffic LAX-SFO reflects an abnormal increase for PSA due to an airline strike which shut down some of its competitors. Based on figures supplied to us by PSA, the assertion made by PSA's economist that 760,000 passengers traveled LAX-SFO during the first three quarters of 1967 is erroneous. Our records show approximately 660,000 passengers traveled this route during that time.

^{7/} At a later point in the hearing a witness for Western estimated that the 4th quarter of 1967 O&D would be 40,000 for a total of 166,668 O&D passengers for the year. In our opinion this estimate of 40,000 is low; the 4th quarter of 1965 and 1966 show an increase over the 3rd quarter of those years and there is no reason to believe that 1967 will be different. We will use an estimate of 50,300 in the 4th quarter of 1967 making a total of 177,000 for the year, in our projections.

In the witness's opinion Air California was carrying more passengers than Western, from a market smaller than Western's, which led him to conclude that Western is not meeting the potential demand of its logical market.

Based upon the above statistics, and the general proposition that competition which provided lower fares, improved equipment, and more frequent schedules would generate business, the witness estimated that the number of potential passengers available for all airlines on the ONT-SFO route was 400,000 per year, and that such potential would increase from 12 to 15 percent compounded for the next five years.

Western's Evidence

Western is the sole carrier now serving the ONT-SFO market. Western was first authorized to serve this market, with a mandatory stop at LAX, in 1949. When Western was granted nonstop authority ONT-SFO late in 1962 the number of passengers carried increased substantially and additional flights were added to meet the demand.

<u>Year</u>	<u>No. of Flights</u>	<u>O&D Passengers ONT-SFO</u> ^{8/}
1962	1	8,730
1963	2	48,170
1964	2	68,650
1965	4	87,940
1966	4	116,000
1967	5	177,000 (est.)

Western presently uses Electras on all ONT-SFO flights, but expects to replace them with jet aircraft when available.

^{8/}

1962-1966 figures from CAB Origin-Destination Survey for those years.

Western forecasts 255,667 passengers to be carried
ONT-SFO in 1968 if PSA's application is granted and expects PSA
to carry 116,201 of them. Its exhibits show:

FORECAST OF PASSENGER TRAFFIC
IN THE ONTARIO-SAN FRANCISCO NONSTOP MARKET
1968

	<u>Number of Passengers</u>
1965, Origin-Destination ^{1/}	87,940
Connecting Passengers ^{2/}	<u>4,000</u>
Total	91,940
1968:	
With normal market growth ^{3/}	202,268
With stimulation:	
Fare ^{4/}	23,059
Competition ^{5/}	<u>30,340</u>
1968 Total	255,667

Western's footnotes explaining the bases of its forecast:

- ^{1/} CAB Origin-Destination Survey, 1965, expanded.
- ^{2/} CAB Competition Study, 1965, expanded.
- ^{3/} @ Annual rate of 30%, compounded - this is growth rate experienced from 1964 through 1966 in ONT-SFO market.
- ^{4/} @ 11.4% due to fare reduction of 10.2% - based on fare elasticity of unity; that is, increase of traffic to offset reduction in revenue.
- ^{5/} @ 15% for first competitive service.

FORECAST OF PACIFIC SOUTHWEST AIRLINES PASSENGER TRAFFIC
IN THE ONTARIO-SAN FRANCISCO NONSTOP MARKET
1968

	<u>Number of Passengers</u>
Total Passengers Available	255,667
Passengers to be carried by Western: ^{9/}	
Not available to PSA-	23,266
Available to Western and PSA -	<u>232,401</u>
^{10/}	
Western's normal participation	<u>116,200</u>
Passengers Forecast to be carried by PSA-	<u><u>116,201</u></u>

Western concludes from these figures that PSA will have to carry over 88.6 percent of all passengers available to it in order to break even. If PSA carries no more than 50 percent of the available passengers, it will operate at a loss of over \$100,000 per month, and, during 1968, will divert 62,802 passengers from Western, at a loss to Western of \$864,000. ^{11/}

^{9/} Western computed its 255,667 figure by adding connecting passengers to its O&D figure. It now has to deduct these connecting passengers from the total passengers available. In our computation of potential passengers available in 1968, below, we have used just ONT-SFO O&D figures.

^{10/} Western assumes that PSA and Western will each carry 50 percent of the traffic that is available to both carriers.

^{11/} The statistics set forth in this paragraph may be found in, or are derived from, Exhibits Nos. 45, 46, 47, and 48. The exhibits are based on the assumption that the total ONT-SFO Market has 232,401 passengers and that PSA will require 205,800 of them to cover total operating expenses after PSA reaches its expansion stage.

Western introduced evidence to show that projecting Air California's experience in Orange County to determine potential passengers at ONT was unsound; that ONT could not draw upon the total areas of San Bernardino and Riverside Counties; and that a more meaningful study would be PSA's experience at Burbank, which shows that statistics on population, employment, and income, comparable to the ONT logical market area, do not portend an increase of passengers to the 400,000 mark.

A witness for Western, using the population and employment figures adduced by PSA, testified that the population growth of the San Bernardino-Riverside areas was 4.6 percent per year between 1960 and 1967; Orange County was 8.8 percent. Employment figures for San Bernardino-Riverside show an annual growth rate of 3.8 percent; Orange County shows 9.7 percent.

In addition, Western asserts that the vacation center that has grown at Disneyland, within the Orange County market area, is an important magnet for air travelers that has no parallel in the San Bernardino-Riverside-east Los Angeles County area. Also, Palm Springs, a resort area approximately 80 driving miles from ONT, is served by Western to LAX, to Las Vegas, and to SFO via ONT. No other airline renders one-plane service to SFO from Palm Springs. In 1966 Western served over 51,000 O&D passengers at Palm Springs, of which more than 35,000 traveled Palm Springs-SFO. Western operates two round trip flights daily between Palm Springs-ONT-SFO, to serve this market. This service from Palm Springs, in Riverside County, is significant, serves a logical market, and should not be included in the ONT market area.

The witness then compared the market area of the Lockheed Air Terminal at Burbank,^{12/} which includes Burbank, Glendale, North Hollywood, Hollywood, Van Nuys, San Fernando, Tujunga, and Pasadena, with ONT.

	<u>Population</u>	<u>Employment</u>
ONT Logical Market Area	1,916,000	560,000
Lockheed Air Terminal Logical Market Area	1,705,000	700,000

Per capita net effective buying income:

Cities of Burbank and Glendale	\$ 3,705
Orange County	2,884
Cities of Ontario, San Bernardino and Riverside	2,679

From these statistics the witness concluded that the employment and income in the Burbank area, which are higher than in the Ontario area, should produce, and have produced, significantly higher traffic volumes between Burbank and San Francisco (1966 PSA-245,000) than between Ontario and San Francisco (1966 Western-113,750). In the witness's opinion the 1968 traffic forecasts that Western made for ONT-SFO (255,667) are corroborated by the Burbank-SFO traffic actually carried by PSA.

Discussion ONT-SFO

Western vehemently attacks the forecast made by PSA's economist that the ONT logical market area will generate 400,000 passengers in 1968. Western bases its attack on the following grounds:

^{12/}

In 1966 PSA carried 245,000 passengers on its Burbank-SFO route, with approximately seven round trips daily. No other carrier serves this route.

1. A tabulation of raw economic data concerning employment, income, and population in the area surrounding ONT is not sufficient to base a prediction on the number of persons who might travel between Ontario and San Francisco. In addition to economic data there must be included in any survey the experience of other airlines in the market and, most importantly, the community of interest factors between the two areas under consideration. Community of interest meaning the economic, social, industrial, recreational, governmental, and other reasons why persons at one point need, or may need, air transportation service to any other point.

2. The use of Air California's experience in the Orange County-SFO market is not a valid basis for forecasting the ONT-SFO market because:

- (a) The percentage increases shown in population projections in the Orange County area are nearly four times that of the area which PSA claims will logically be served by ONT. Population projections of 1960 to 1970 show that population in the ONT area will increase by less than 30 percent whereas that of Orange County will increase by more than 100 percent. There is a similar disparity in percentage increases of income projections.

(b) PSA's economist failed to give weight to the Disneyland traffic that Air California carries; he felt that it was not material to his comparison that Disneyland was located within the Orange County market.

3. PSA's economist overlooked the effect of the Palm Springs traffic. By including Palm Springs in the logical market area of ONT, he disregarded the actual facts of air travel between Palm Springs and SFO. Western asserts that not only is the Palm Springs traffic significant, but that properly it cannot be considered within the logical market area of ONT and should be segmented out.

4. If any market is to be compared to ONT-SFO, it should be Burbank-SFO.

Western's argument that the use of raw economic data without the leaven of community of interest factors renders the economic data useless is not persuasive within the framework of this case. It is clear to us that the economist's 400,000-passenger prediction was not based solely on raw economic data, and that he was not claiming that such an estimate would be valid to any two points in the United States, such as ONT-Chicago, or ONT-New Orleans. We accept his concentric pattern, or "spillover", theory to describe the growth of the suburbs of Los Angeles. From this we find that the community of interest factors which made the LAX-SFO air corridor the most heavily traveled in the world

have followed the population growth of Metropolitan Los Angeles as such growth saturates the suburbs.^{13/}

The PSA economist related the experience of Air California on its Orange County-SFO route to the economic indicia of Orange County and used that relationship as a basis to predict air travel between ONT-SFO. Western claims the comparison is not apposite since Disneyland, a leading tourist attraction in Orange County, is so popular that air travel statistics to and from Orange County are grossly distorted when compared to ONT because the logical ONT market has no similar attraction. We do not doubt that Disneyland is a magnet for air travelers but we cannot overlook the fact that ONT also serves an area that has many tourist attractions (albeit not of the magnitude of Disneyland) such as Lake Arrowhead, Mount Baldy, Big Bear Lake, Victorville, and Apple Valley. Since congruity will rarely be found when comparing land areas we must make do with approximations. The Orange County area is sufficiently similar to the ONT area in population, economy, and community of interest as to make a comparison reasonable. The fact that Orange County has reached its present stage in development at a faster growth rate than the ONT area is entitled to little weight as far as present need for ONT-SFO air service is concerned.

13/

Compare Re Western Air Lines, Inc. (1964) 62 CPUC 553, 562, where we said "...that the San Francisco Bay Metropolitan area and the Los Angeles-Orange Counties metropolitan area constitutes an integrated air passenger market, and that regardless of the particular airport in each area from which operations are conducted, the competition between Western and P.S.A. is for all passengers in the respective areas."

We agree with Western that considerations of air traffic potential at ONT should include present airline experience in the ONT market; should include a comparison with the Burbank area and the Burbank-SFO traffic; and should exclude Palm Springs from the ONT logical market area when considering the relationship between ONT and SFO.

PSA's economist did consider Western's experience on the ONT-SFO route. When answering questions on direct examination based on Western's ONT-SFO traffic for 1965, 1966, and 1967 (9 months), he stated that such passenger statistics confirmed his conclusion that ONT could support an additional airline.^{14/}

To test the accuracy of PSA's estimate of potential traffic at ONT we have projected an average of Western's ONT-SFO O&D for the years 1965, 1966, and 1967 to obtain estimated 1968 traffic; then we have added appropriate adjustments for traffic stimulation as a result of competition with a fare reduction, using Western's criteria. The following table effectively excludes the Palm Springs market area when considering the relationship between ONT-SFO.

^{14/}

The statistics are set forth on sheet 16 above.

A. 49512 MJO *

<u>Year</u>	<u>ONT-SFO O&D (000)</u>	<u>% Increase over Prior Year</u>
1965	85.3	
1966	113.8	33.4
1967	177 (4th qtr. est.)	55.5
1968	257 (est.)	45 (average)
15% Stimulation from Competition	38.5	
11.4% Stimulation from Reduced Fare	<u>29.3</u>	
	324.8	
Each carrier share 50%	162.4	

We consider our projection more accurate than Western's because we have used only ONT-SFO O&D whereas Western included connecting passengers in its projection and then eliminated them,^{15/} and because we have used actual O&D for 1965, 1966, and the first three quarters of 1967 whereas Western used only 1965 figures projected. We also consider our projection more accurate than PSA's as ours is oriented more toward actual traffic experience than forecasts based on general economic data and broad comparisons. Not surprisingly, our projection falls somewhere between PSA's optimism and Western's pessimism.

We reasonably conclude from this table that PSA would recover its fully allocated costs for four round trip flights daily in 1968 and that Western would lose approximately 14,600 passengers from its 1967 high. Of course, in addition to the 162,400 true O&D passengers that Western can reasonably be expected to carry, there must be added those passengers not available to PSA: Palm Springs passengers, passengers going beyond SFO, and interline passengers.

^{15/} See Sheets 18 and 19.

A projection of PSA's Burbank O&D traffic shows: (000)

<u>Year</u>	<u>Burbank-SFO O&D</u>	<u>% Increase over prior year</u>
1965	220	
1966	245	11.4
1967	270	10.2
1968	300 (est.)	10.8

Western claims that a comparison of Burbank traffic with ONT traffic indicates that ONT has nowhere near the 400,000 passenger potential predicted by PSA. However, another view of these figures shows that, if Burbank and ONT are comparable as to population, economic growth, and income then the disparity in traffic volume (1967 Burbank-SFO (270,000) vs. 1967 ONT-SFO (177,000)) points to the conclusion that Western has not adequately developed the ONT-SFO market.

Furthermore, Lockheed Air Terminal at Burbank has one deficiency not found at ONT: inadequate facilities. The airport is in the middle of a highly industrialized and heavily populated area. Access roads are crowded, making it difficult to get to the airport at peak hours; parking facilities are limited; the terminal building is small; and there appears little room for expansion of parking, terminals, or landing space to accommodate large increases in traffic. These physical limitations of plant tend to retard air passenger growth.

There are other factors, in addition to estimates of potential traffic, that must be considered when determining if

a second carrier should be authorized over a single carrier route. One is what the benefits to the public will be from competition. In this case the benefits from PSA's entry should be obvious from the start. First, PSA will provide additional flights at peak hours in the morning and late afternoon. Second, PSA will lower the fare by about 10 percent. Third, PSA will introduce new and better equipment on the route. All of these service improvements will benefit the public immediately. Western's service is adequate in the sense that it can be described as being acceptable, but a barely satisfactory service rendered by one carrier is not a sufficient reason, standing alone, to deny entry of a second carrier.^{16/} The combination of PSA's service and Western's service will provide superior service between ONT-SFO. When such superior service can be made available, the public is entitled to it. The public, as much as Western, should share and profit from the growth of the market in the form of lower rates, better equipment, and more service.

Not only will passengers in the logical market area of ONT benefit from PSA's entry into the field but passengers using LAX to and from all points, plus persons living in the vicinity of LAX will also benefit. We have recently considered the traffic congestion problem at LAX in Re Golden West Airlines, Decision No. 73613 dated January 9, 1968 in Application No. 49532. PSA's entry into ONT will divert traffic from LAX and thereby help relieve automobile traffic congestion at LAX.

Western asserts that PSA's service will not be compensatory. This is not a compelling argument. First, PSA's break-even direct costs on its initial service require revenues of \$1,452,000 and 99,600 passengers yearly. Western's own projection shows that those

^{16/} Syracuse-New York case (1956) 24 CAB 789,790.

estimates will be met. Second, it assumes that PSA's management is improvident - that it is deliberately seeking to enter an area when it knows, or should know, it will lose money.

Western claims that PSA's entry will divert traffic from Western thereby causing financial loss. That traffic will be diverted to PSA cannot be doubted, but that this diversion will cause Western's revenues to go down to a point when a profitable operation becomes unprofitable, or to where its ability to serve has been impaired has not been shown. Western asserts that 62,802^{17/} passengers will be diverted at a loss of revenue of \$864,000. This assertion appears based on the assumption that Western is entitled to virtually all of the expected normal increase in traffic. If the expected normal increase in traffic was estimated at a much higher figure then the potential revenue loss would also be higher. Using Western's method of computing revenue loss the more potential traffic in an area which can sustain two airlines the greater the revenue loss will be to the original airline. This result is obvious but not very meaningful in this case. If loss of revenue data is to be meaningful it should be related to cost and profitability of operation. However, Western has not introduced any evidence of costs of operation of the ONT-SFO route. We do not know if it is a highly profitable route or marginal; whether the operation is efficient or

^{17/} The 62,802 passenger statistic is the difference between Western's projection of ONT-SFO traffic in 1968 without PSA's competition (202,268 passengers) and that which it expects to carry if PSA is certificated (139,466 passengers). The \$864,000 loss of revenue statistic is the difference between revenue from 202,268 passengers at current fares (\$2,704,323) and 139,466 passengers at reduced fares (\$1,840,310).

inefficient. A witness for Western did say that the ONT-SFO operation was profitable, and that the profitable segments of Western's routes support the unprofitable ones. But no financial data was submitted which would give a detailed accounting and the actual amount of profit. The limited financial data in this record are not adequate to determine the effect of a revenue reduction on Western's ONT-SFO operation, or on its total operations.

We are not unmindful of the effects of competition on the profitability of air carriers, nor the adverse effects such competition might have on the carriers and on adequate service to the public. In the Orange County - San Jose/Oakland case (Re Air California, Decision No. 73172 dated October 10, 1967 in Application No. 49522) we authorized Air California to serve between Orange County and San Jose/Oakland, and, because the adverse effect of competition would have had a devastating affect on Air California, we denied the application of PSA to serve those same points. The case before us now differs from the Air California case in at least four important particulars:

1. Both PSA and Western are well established, financially sound, profitable air carriers, serving multiple routes and areas. If our traffic forecast in this case falls short each carrier has adequate resources to withstand a period of marginal or nonprofitable operations. By contrast, Air California, operating in a new and relatively confined area, did not have the financial resources to withstand major competition during its development period.

2. Air California is a fledgling airline and needs some protection. In Decision No. 73172 (at sheet 8) we said "AC (Air California) is pioneering in a new segment of the Southern California market, i.e., traffic susceptible of travel through Orange County Airport, is developing strong support on its present route, and is seeking to solidify its position through the natural extension of its market to San Jose and Oakland. We would be doing a disservice to the public if at this early stage of AC's development of its market (with Orange County Airport as its hub) were we to certificate competition at this time. In this instance we have a formidable competitor with great financial resources, and we would be not only over-certificating but also over-burdening the fledgling AC." Neither PSA nor Western is in the embryonic position of Air California.

3. The airport facilities at ONT are better able to handle increased traffic than those at Orange County Airport. This is not to say that Orange County Airport cannot adequately handle increased traffic, but that ONT, with its expansion program, will have superior facilities which should attract patronage. The disadvantageous position that Air California would have been placed in had competition been authorized in the Orange County - San Jose/Oakland case is not present in this case.

4. PSA's application to operate over the Orange County-San Jose/Oakland route did not include a fare lower than Air California offered nor superior equipment.

II - Ontario-Sacramento via San Francisco

The application of PSA to serve ONT-SAC via SFO is, realistically, an application to serve SFO-SAC. PSA's operating witnesses testified about costs and flight times on the SFO-SAC route as if it was a route separate from ONT. Also, PSA's economist discussed potential traffic almost entirely from the viewpoint of the SFO-SAC market, and only incidentally referred to ONT-SAC traffic. We will consider the SFO-SAC route in the same manner as the parties, as a separate and distinct route.

The SFO-SAC route is presently served by United Air Lines (United), West Coast Airlines, and Pacific. West Coast Airlines and Pacific have merged and should be considered as one entity.

As of October 1, 1967 United and Pacific provided twenty-two round trips SFO-SAC between the hours of 6:00 a.m. and 11:00 p.m. It was estimated that 70,000 true O&D passengers traveled in this market in 1967. Pacific's load factors are approximately 52 percent southbound and 60 percent northbound. In addition, Greyhound Bus Lines has at least fourteen nonstop round trips daily between downtown San Francisco and downtown Sacramento. The trip by bus takes one hour and forty minutes and costs \$5.65 round trip. PSA proposes to serve this market with three round trips daily at a fare of \$6.35 one way and \$12.70 round trip.

PSA's estimate of initial revenues, expenses, and break-even requirements for an average month are:

Potential revenue (all seats filled at maximum fare):

Passenger fares	\$ 131,700
Freight, Beverage, etc.	1,300
	<u>\$ 133,000</u>

Operating Expenses:

Direct operating costs	\$ 26,000
Allocated operating expense	31,500
Amortization of start-up costs	1,500
Total operating expenses	<u>\$ 59,000</u>

Break-even traffic requirements:

	<u>Pass. Per Month</u>	<u>Pass. Per Year</u>
To cover direct operating exp.	4,100	49,200
To cover total operating exp.	9,300	111,600

PSA's economist estimated that there were 225,000 potential passengers in the SFO-SAC market. He based this prediction on general statistics concerning population, employment, and income, and a comparison with the San Diego-Los Angeles air market. No community of interest study was made. Unlike the ONT-SFO market, where we found community of interest factors similar to those in the LAX-SFO market from the nature of population growth in the area, and where we found a valid comparison with Air California's experience in the Orange County-SFO market, we find no such parallels here. San Diego-LAX cannot be compared with SFO-SAC. The staff in its brief commented that, "the total

market was estimated at 70,000 without challenge; therefore an increase of over 300 percent would have to take place to achieve (the economist's) projection. We can refer to nothing in this record to support such a fantastic growth rate." Pacific in its brief comments that "this forecast is utterly unrealistic and under the facts and circumstances brought out in this hearing so completely unfounded that it must be dismissed by the Commission as inherently incredible." While not agreeing with the hyperbole, we do agree with the staff and Pacific that the evidence to support a prediction of 225,000 passengers in the SFO-SAC market is not at all convincing.

The evidence in this case shows 1966 SFO-SAC O&D at 53,460; 1967 - 70,000 (estimated). This increase of about 30 percent is the highest SFO-SAC single year percentage increase shown on this record. Based on these figures, and assuming PSA would carry passengers originating or terminating at points other than SFO, we cannot find that there is enough traffic to provide PSA with the 111,600 passengers it needs to recover its total operating expenses. We find that there is not enough traffic, actual or potential, to support PSA's entry into the field.

Because of our finding that there is an insufficient level of traffic to support PSA's entry into the SFO-SAC market it is unnecessary to discuss equipment, fares, costs, timetables or other matters put in issue by the parties. However, the testimony in this case indicates that PSA uses methods of reporting passenger traffic and scheduled flight times that are inconsistent with those methods used by all other major airlines. Consequently, comparisons of such information are difficult.

Findings of Fact

1. The facilities at ONT are adequate to handle the present volume of traffic and any additional traffic that PSA's entry would bring. ONT has an excellent airfield, good runway structures, and clear approaches from the east and west. The City of Los Angeles will spend in excess of \$20,000,000 over the next ten years for capital improvements. Such improvements will include expansion of parking facilities, terminal buildings, better baggage handling capabilities, and additional runways. The Federal Aviation Agency has installed a modern control tower, navigational aids, and ground lights.

2. Total operating costs for PSA to initiate four round trips daily, ONT-SFO, is \$194,000 per month of which \$119,000 per month represents direct operating costs. PSA will require 99,600 passengers per year to cover direct operating costs and 162,000 passengers per year to cover total operating costs.

3. Population growth in the Los Angeles area has occurred in a concentric "spillover" pattern, moving outward and away from its historical urban-economic core, the City of Los Angeles. This Los Angeles area spillover has reached eastern Los Angeles County and the western, most populous portions of San Bernardino and Riverside Counties. The community of interest factors which made the LAX-SFO air corridor the most heavily traveled in the world have followed the population growth of Metropolitan Los Angeles as such growth saturates the suburbs, which include eastern Los Angeles County and the western portions of San Bernardino and Riverside Counties.

4. The logical market area for ONT consists of Eastern Los Angeles County (including El Monte, Arcadia, La Puente, Covina,

West Covina, Pomona, Claremont), San Bernardino County, and Riverside County, except Palm Springs and its environs.

5. With the addition of PSA's service, 1968 O&D ONT-SFO passenger traffic should be approximately 324,800 based on the following projection:

<u>Year</u>	<u>ONT-SFO O&D (000)</u>	<u>% Increase over Prior Year</u>
1965	85.3	
1966	113.8	33.4
1967	177 (4th qtr. est.)	55.5
1968	257 (est.)	45 (average)
15% Stimulation from Competition	38.5	
11.4% Stimulation from Reduced Fare	<u>29.3</u>	
	324.8	
Each carrier share 50%	162.4	

6. We reasonably conclude from Finding No. 5 that PSA would recover its fully allocated costs for four round trip flights daily in 1968 and that Western would lose approximately 14,600 passengers from its 1967 traffic. In addition to the 162,400 true O&D passengers that Western can reasonably be expected to carry in 1968, there must be added those passengers not available to PSA: Palm Springs passengers, passengers going beyond SFO, and interline passengers.

7. Population, employment, and income data, plus community of interest factors in the market areas of ONT, Lockheed Air Terminal at Burbank, and Orange County Airport, are comparable.

Therefore, it is reasonable to compare the experience of Air California in the Orange County market (1967 O&D Orange County-SFO 252,793) the experience of PSA in the Burbank market (1967 O&D Burbank-SFO 270,000) with the experience of Western in the ONT market (1967 O&D ONT-SFO 177,000). This comparison shows that there is potential air traffic in the ONT logical market area that will be available to an additional carrier.

8. Upon entering the ONT-SFO market, PSA will provide additional flights at peak hours in the morning and late afternoon; PSA will lower the fare by about 10 percent; and PSA will introduce jet aircraft on the route. All of these service improvements will benefit the public immediately. The combination of PSA's service and Western's service will provide superior service between ONT-SFO.

9. PSA's entry into ONT will divert traffic from LAX and thereby help relieve automobile traffic congestion at LAX. Not only will passengers in the logical market area of ONT benefit from PSA's entry into the field but passengers using LAX to and from all points, plus persons living in the vicinity of LAX will also benefit.

10. That traffic will be diverted from Western to PSA upon its entry into the ONT-SFO market is not doubted, but that this diversion will cause Western's revenues to go down to a point when a profitable operation becomes unprofitable, or to where its ability to serve has been impaired has not been shown. The limited financial data in this record are not adequate to determine the effect of a revenue reduction on Western's ONT-SFO operation, or on its total operations.

11. PSA has substantial business experience in the field of air operations; has adequate financing to perform the authorized service; has insurance coverage that meets all requirements of law; will employ the most up-to-date equipment on its route; will establish adequate minimum schedules; and will economically give adequate service to the Ontario area and the San Francisco area. ✓

12. Public convenience and necessity require the granting to PSA of a certificate to operate as a passenger air carrier between Ontario International Airport and San Francisco International Airport.

13. PSA requires at least 111,600 passengers per year in the SFO-SAC market to recover its total operating expenses. It has not been established that there is enough traffic in such market, actual or potential, to support such a requirement and also provide adequate revenues for United Air Lines and Pacific Air Lines. Nor are there sufficient passengers traveling from the Ontario area to Sacramento, when added to PSA's potential SFO-SAC traffic, to make PSA's SFO-SAC proposed service economically sound.

14. PSA has not established a need for additional passenger air carrier service between San Francisco and Sacramento, nor between Ontario International Airport and Sacramento via San Francisco.

Based upon the foregoing findings of fact the Commission concludes that the application of PSA for a certificate of public convenience and necessity to operate as a passenger air carrier between Ontario International Airport and San Francisco International Airport should be granted. In all other respects the application should be denied.

Pacific Southwest Airlines is hereby placed on notice that operative rights, as such, do not constitute a class of property which may be capitalized or used as an element of value in rate fixing for any amount of money in excess of that originally paid to the State as the consideration for the grant of such rights. Aside from their purely permissive aspect, such rights extend to the holder a full or partial monopoly of a class of business over a particular route. This monopoly feature may be modified or canceled at any time by the State, which is not in any respect limited as to the number of rights which may be given.

O R D E R

IT IS ORDERED that:

1. A certificate of public convenience and necessity is granted to Pacific Southwest Airlines, authorizing it to operate as a passenger air carrier as defined in Section 2741 of the Public Utilities Code, between the points and over the route particularly set forth in Appendix A, attached hereto and made a part hereof.

2. In providing service pursuant to the certificate herein granted, applicant shall comply with and observe the following service regulations. Failure to do so may result in a cancellation of the operating authority granted by this decision.

- (a) Within thirty days after the effective date hereof, applicant shall file a written acceptance of the certificate herein granted. By accepting the certificate of public convenience and necessity herein granted, applicant is placed on notice that it will be required, among other things, to file annual reports of its operations and to comply with and observe the insurance requirements of the Commission's General Order No. 120-A. Failure to file such reports in such form and at such time as the Commission may direct, or to comply with and observe the provisions of General Order No. 120-A, may result in a cancellation of the operating authority granted by this decision.
- (b) Within one hundred and eighty days after the effective date hereof, applicant shall establish the service herein authorized and file its tariff and timetables to reflect the authority herein granted. Such filings shall be made effective not earlier than five days after the effective date of this order on not less than five days' notice to the Commission and the public and shall comply with the regulations governing the construction and filing of tariffs in the Commission's General Order No. 105-A.

3. In providing service between Ontario International Airport and San Francisco International Airport pursuant to the certificate herein granted, applicant shall charge the following rates:

Lockheed Electra aircraft	\$ 13.33
Jet aircraft	15.24

4. The application for a certificate of public convenience and necessity to serve between Ontario International Airport and Sacramento Municipal Airport via San Francisco International Airport is denied.

The effective date of this order shall be twenty days after the date hereof.

Dated at San Francisco, California, this 14th day of MAY, 1968.

President

William J. ...
Shed P. Monahan
Commissioners

*I concur in the
order in this decision
Peter E. Mitchell*

Pacific Southwest Airlines, by the certificate of public convenience and necessity granted in the decision noted in the margin, is authorized to transport passengers by air in either direction in non-stop service at a minimum of four scheduled round-trip flights daily between Ontario International Airport and San Francisco International Airport.

Restriction

No non-stop service may be operated between Ontario International Airport (ONT) and any other points already served by Pacific Southwest Airlines under other existing certificates.

Issued by California Public Utilities Commission.

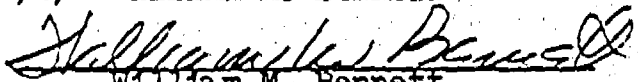
Decision No. 74114, Application No. 49512.

A. 49512

WILLIAM M. BENNETT, COMMISSIONER, DISSENTING

I would grant the authority between Ontario and San Francisco but I would defer judgment upon the additional passenger air carrier service between San Francisco and Sacramento and between Ontario International Airport and Sacramento via San Francisco. My reason for not deciding the latter authority rests in the fact that there is an application for a similar service upon the part of PSA presently before the Commission and yet to be decided. Today's denial by the majority disposes of the request for operating authority from the points named to Sacramento.)

/s/ WILLIAM M. BENNETT


William M. Bennett
Commissioner

DATED: San Francisco, California
May 14, 1968