

ORIGINAL

Decision No. 79085

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
AIR CALIFORNIA for a certificate of
public convenience and necessity to
provide passenger air service between
Orange County Airport/Ontario Inter-
national Airport/Hollywood Burbank
Airport, on the one hand, and
Sacramento on the other.

Application No. 51007
(Filed April 14, 1969)

In the Matter of the Application of
PACIFIC SOUTHWEST AIRLINES for a
certificate of public convenience
and necessity in either direction
between San Diego/Ontario/Hollywood
Burbank/San Jose/Oakland and
Sacramento.

Application No. 51058
(Filed May 6, 1969)

Friedman, Heffner, Kahn and Dysart, by C. Hugh Friedman and Ted Pulaski, Attorneys at Law, for Air California, applicant.
McInnis, Fitzgerald and Wilkey, by John W. McInnis, Attorney at Law, for Pacific Southwest Airlines, applicant.
Kaditz, Howard and Garcia, by Glenn A. Howard, Attorney at Law, for Golden Pacific Airlines, protestant.
Proaps and Gregor, by Robert E. Proaps, Jr., Attorney at Law, and Robert L. Fleines, Deputy County Counsel, for the County of Sacramento; Dennis O'Neal, Deputy City Attorney, for the City of Newport Beach; Edward L. Colby, Attorney at Law, for the Municipal Airport, City of Palm Springs; and Hydeman and Mason, by Lee M. Hydeman, Attorney at Law, for Continental Airlines, Inc.; intervenors.
Darling, Hall, Rae and Gute, and Ernest T. Kaufmann, by Donald K. Hall, Attorney at Law, for Western Airlines, Inc., interested party.
Donald C. Meaney, Attorney at Law, A. L. Gielegheem, and Charles Astrue, for the Commission staff.

O P I N I O N

This proceeding involves two applications to conduct passenger air carrier operations between Sacramento and various points in Southern California. The applicants, Air California (Air Cal) and Pacific Southwest Airlines (PSA), are passenger air carriers as defined in the Passenger Air Carriers Act (Sections 2739 et seq. of the Public Utilities Code) and public utilities as defined in Section 216(a) of said code.

In Application No. 51007, Air Cal seeks authority to operate passenger air carrier service in either direction between:

<u>Route</u>	<u>One-Way Fare Excluding Tax</u>
1. Sacramento to Palm Springs via San Jose	\$26.17
2. Sacramento to Orange County via San Jose, and nonstop	\$20.37
3. Sacramento to Long Beach via San Jose	\$19.44
4. Sacramento to Ontario via San Jose	\$19.44
5. Sacramento to San Diego via Orange County and San Jose	\$23.15
6. Sacramento to San Jose	\$ 7.87

In Application No. 51058, PSA seeks authority to operate in either direction between:

<u>Route</u>	<u>One-Way Fare Excluding Tax</u>
1. Hollywood-Burbank to Sacramento via San Jose and/or Oakland, and nonstop	\$19.44
2. Ontario to Sacramento via San Jose and/or Oakland, and nonstop	\$20.83
3. Ontario to San Jose and Oakland	\$16.67
4. Ontario to Oakland	\$16.67
5. Oakland to Sacramento	\$ 7.41
6. San Jose to Sacramento	\$ 7.41
7. San Diego to Sacramento via Ontario and/or Hollywood-Burbank and/or San Jose and/or Oakland; and nonstop	\$23.15

As in other route applications involving these two carriers, each protested the other's application. The two applications were consolidated because they involve to some extent direct competition on the same route. Golden Pacific Airlines (GPA) filed a protest with regard to the certification of any competitive service by either applicant between Sacramento and San Jose. Western Airlines (Western) intervened in each application and appeared as an interested party. At the hearing, however, Western's position was primarily concerned with the proposed service between Ontario and Sacramento. Continental Airlines (Continental), which serves the Ontario-San Jose market, also filed a petition to intervene.^{1/} This petition was granted, but Continental did not appear at the public hearing. The County of Sacramento, the Municipal Airport of the City of Palm Springs, and the City of Newport Beach also intervened and participated in the hearings. Five days of public hearing were conducted in San Francisco between April 12-16, 1971 before Examiner Foley. The matters were submitted subject to the filing of opening and closing briefs on May 21, 1971 and June 28, 1971, respectively.

Various public witnesses appeared in support of additional air carrier service between Southern California and Sacramento. These witnesses included an assemblyman from the Sacramento area, the director of airports for Sacramento County, the manager of the Sacramento visitors and convention bureau, the assistant to the

^{1/} In Pacific Northwest-California Investigation, Docket 13884, decided May 12, 1970, the Civil Aeronautics Board (CAB) designated Continental as a satellite specialist carrier between Southern California - Northern California - Pacific Northwest. It awarded Continental route authority between Ontario/Hollywood-Burbank/Orange County to San Jose/Oakland to Portland and Seattle. Continental has not commenced any service to Oakland, and it has not been able to acquire terminal rights at Orange County Airport. It is presently providing flights to the northwest from Ontario to San Jose via Hollywood-Burbank, and then to Portland and Seattle.

city manager, representing the mayor and city council of Sacramento, the airport director for the City of Palm Springs, the executive director of the Palm Springs convention and visitors bureau, the general manager of a major hotel in Palm Springs, the mayor and a councilman of the City of Costa Mesa, the executive manager of the Costa Mesa Chamber of Commerce, an administrative analyst from the San Jose Municipal Airport representing the position of the San Jose Municipal Airport, an investment broker, a real estate broker, both from the Sacramento area, the manager of the metropolitan development section of the Sacramento Chamber of Commerce, a representative of the home and apartment builders association in Sacramento, and the director of operations and training for McClellan Air Force Base, Sacramento.

These witnesses all testified generally in support of additional air carrier service for Sacramento. They generally did not express a preference for service by either applicant, although most of these witnesses were called by Air California. In particular, these witnesses complained that present air carrier service to Sacramento was inadequate because a traveler had to utilize either Los Angeles International Airport (LAX) or San Francisco International Airport (SFO) as intermediate points in order to fly to other points in Southern California. They expressed the opinion that the present service, including GPA's service between Sacramento and San Jose, and Western Airlines service between Sacramento and Ontario and between Sacramento and Palm Springs, is inadequate. They uniformly expressed a preference for direct non-stop flights from Sacramento to the various satellite airports in Southern California, and to Oakland, San Jose, and San Diego.

Sacramento is the capital city of the State. The metropolitan area, including Sacramento, Yolo and Placer Counties, had a population of over 800,000 in 1970. Government is the primary employer in the area. In 1970 about 100,000 persons were employed

by the federal, state and local governmental agencies in the area. There were about 22,000 persons employed in manufacturing. (Exh. No. 22.)

.. Since October, 1967 Sacramento has been served by a major new airport facility, Sacramento Metropolitan Airport (SMF). It is located about 11 miles northwest of central Sacramento on Interstate Highway 5. According to the Director of Airports of Sacramento County, the traffic ground time by freeway to SMF is less than thirty minutes for the entire Sacramento-Yolo County metropolitan area; and that communities such as Vallejo, Fairfield, Marysville, Auburn, and Stockton are within one hour's driving time.

The County of Sacramento strongly supports additional air passenger carrier service at SMF, and is willing to provide terminal facilities to Air Cal. PSA already has station facilities there. The airport has a runway of 8,600 feet with extensions up to 10,600 feet programed for the future. It has thirteen 200-foot gate positions, seven of which are equipped with second level jet-way loaders for use with large jet aircraft. The terminal buildings are of modern, contemporary design. There is ample ground area for parking facilities. Currently SMF is handling 1.3 million passengers per year. Its designed maximum capacity is approximately six million passengers per year.

Service between SMF and Southern California is provided primarily by PSA, Western, and United Airlines (UAL) with nonstop flights to LAX. According to the Commission staff, the true origin

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and destination (O&D) traffic between SMF-LAX has increased each year, and dramatically since 1967 when PSA instituted commuter operations.^{2/} The recent O&D traffic figures for all carriers are:

<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
249,100	476,100	517,800	556,400

..(Source Exh. No. 25, sheet 1)

There is also direct service (i.e., single plane flights with one or more stops, but not requiring a change of planes) between Sacramento and some Southern California points via San Francisco. Such service is provided by PSA to Hollywood-Burbank Airport (BUR) and Ontario International Airport (ONT) with five and one daily round trips, respectively. In addition PSA provides some connecting service between SMF-ONT via SFO. This connecting service takes considerably more time than the direct flights. There is no nonstop service between SMF-BUR.

^{2/} 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. For instance, there are three different estimates of the true O&D traffic between SMF-LAX for 1967; 490,470 passengers according to Air Cal, 495,290 in PSA's study, and 476,100 as reported by the Commission staff. 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).

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PSA's direct and connecting service between SMF-BUR and SMF-ONT via SFO resulted from Decision No. 76110, dated September 3, 1969 in Application Nos. 50261, 50381 and 50438, in which we authorized PSA to operate between SMF-SFO, as well as from Long Beach Airport (LGB) to SMF via SFO. PSA commenced operations between SMF-BUR and SMF-ONT via SFO in 1969. PSA's O&D traffic on these routes for 1969 and 1970 is as follows:

	<u>SMF-SFO</u>	<u>SMF-BUR via SFO</u>	<u>SMF-ONT via SFO</u>
1969	4,200	4,100	700
1970	64,700	51,700	9,700

(Source Exh. No. 25, sheet 1)

These traffic results are far below both the forecast figures presented by PSA in Application No. 50261 and the lower forecast figures adopted by the Commission in Decision No. 76110. The low volume of traffic on PSA's flights to ONT, however, may result from the fact that Western provides one daily one-stop flight and one daily nonstop flight between SMF-ONT. As of the date of hearing in these proceedings PSA had not commenced operations between SMF-LGB via SFO; and there is no other direct service provided on this route.

Sacramento does not have any service, either nonstop or direct, between SMF and Orange County Airport (OCA). Air travelers between these two points are required to utilize either SFO or LAX as a connecting point.

With regard to service between SMF and San Diego International Airport (SAN), there are two direct and five connecting daily round trip flights via LAX provided by PSA. In addition, Western and UAL provide some connecting flights via LAX. There are also numerous other flights between LAX-SAN by PSA and various interstate carriers which can be utilized to connect with SMF-LAX flights. There is no nonstop service. The O&D traffic transported by all carriers during the recent past is:

<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
22,700	34,300	44,800	47,900

(Source: Exh. No. 25)

Finally there is only air taxi service to San Jose Municipal Airport (SJC) from SMF. This is provided by GPA. It commenced this service in 1969; and, according to its executive vice president, it is carrying about 500 passengers per month between SMF-SJC.

(Tr. 453.) There is no service to Oakland Metropolitan International Airport (OAK), although GPA has such authority.

I. Air Cal's Proposal

Air Cal was incorporated in 1966, and it commenced operations in 1967. It presently serves the following cities: San Francisco, Oakland, San Jose, Ontario, San Diego, Palm Springs, and Santa Ana (Orange County). It has authority to serve, but is not now serving, Hollywood-Burbank and Long Beach.

At the time of the hearing Air Cal was utilizing seven Boeing 737 jet aircraft; an eighth Boeing 737 is to be added during this summer. All these aircraft are leased.

According to its balance sheet of December 31, 1970, Air Cal has total assets of \$6.6 million. It sustained a net loss of \$2.4 million from operations during 1969. During 1970 the net loss fell to \$376,370. The carrier's systemwide passengers and operating revenue for the last two years were as follows:

	<u>Passengers</u>	<u>Operating Revenue</u>
1969	835,702	\$13,448,598
1970	801,702	\$16,034,214

Its total stockholder deficit increased from \$5.4 million in 1969 to \$5.8 million at the end of 1970.

In 1970 Air Cal passed through a financial crisis. After falling into technical default under the terms of some of its debt obligations, Air Cal and PSA filed a joint application for the approval of the acquisition of Air Cal by PSA. (Application No. 57736, dated February 25, 1970.) This application was dismissed after PSA changed its position. (Decision No. 77341, dated June 9, 1970.) Subsequently, Air Cal was acquired by Westgate-California Corporation by means of a stock purchase. This Commission authorized the acquisition, subject to certain conditions, in App. Westgate-California Corp., Decision No. 78399, dated March 2, 1971, in Application No. 52036.

Under Air Cal's proposal it seeks to integrate Sacramento into its system by establishing the following service pattern:

	<u>Daily Frequencies</u>		
<u>Sacramento to:</u>	<u>Nonstop</u>	<u>One-Stop</u>	<u>Two-Stop</u>
Long Beach	-	2	-
Palm Springs	-	1	-
Orange County (Santa Ana)	2	2	-
Ontario	-	3	-
San Diego	-	-	2
San Jose	6	-	-

(Source: Exh. No. 14, p. 2)

It plans to concentrate its efforts on linking SMF with Orange County through OCA and Santa Clara County through SJC. Each of these counties has sustained substantial growth from 1960 to 1970. Neither county currently has any direct service from SMF with large jet aircraft. Accordingly, the SMF-SJC segment would be allotted six daily round trip flights and SMF-OCA would receive a total of four daily round trips - two one-stop flights via SJC and two nonstops. The remainder of Air Cal's proposal consists of establishing additional, but faster service between SMF and LGB, ONT and PSP. Its proposal to institute two-stop service between SMF-SAN via OCA and SJC seems primarily designed to achieve better load factors on its recently inaugurated SAN-SJC service.

Air Cal presented three witnesses in support of its proposal. These were an independent economic consultant, its assistant vice-president for schedules and economic planning, and its vice-president and treasurer.

Air Cal's traffic analysis and forecast were presented by its economic consultant. Since there were not any historic traffic results in the particular markets Air Cal proposes to serve, he first estimated the total 1972 traffic between Sacramento and the Bay Area; and between Sacramento and the Los Angeles area. Then using demographic factors he divided the total traffic in the two areas among the respective satellite airports. Next he evaluated what percent of the potential traffic for each airport could be achieved with the quantity of service proposed. After providing some additional traffic allowance for stimulation arising out of the increased level of service, he determined Air Cal's share of the forecast market. (Exh. No. 14.) Under this method the witness arrived at the following traffic forecast for Air Cal in the proposed markets:

<u>Market</u>	<u>Forecast Passengers</u>
Sacramento and	
Long Beach	23,900
Orange County	90,200
Ontario	42,000
Palm Springs	3,300
San Diego	11,600
San Jose	<u>34,000</u>
Total	205,000

Based upon this traffic forecast, Air Cal's two company witnesses determined its proposed Sacramento operations would produce the following results for 1972:

Total operating revenue	\$3,571,000
Total operating expenses	<u>3,000,000</u>
Operating income	\$571,000

(Source: Exh. No. 15, AC 206)

With regard to estimated operating expenses Air Cal's treasurer testified that 1970 historical costs were utilized after adjustment for expected increases during 1971. (Tr. 259.) He explained that the forecast includes only the additional costs which Air Cal will incur in operating the Sacramento service. He did not prepare a study of the proposed service on a fully allocated cost basis. (Tr. 261.)

II. PSA's Proposal

PSA serves San Diego, Los Angeles, Ontario, Hollywood-Burbank, Long Beach, San Jose, San Francisco, Oakland, and Sacramento. It commenced operations in 1949. Its greatest growth dates from 1960 when it 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 percent 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 seventeen Boeing 727-200 jet aircraft and ten Boeing 737 jet aircraft. PSA's net income has increased from \$3.6 million in 1969 to over \$4.9 million in 1970. System passengers and operating revenue:

	<u>Passengers</u>	<u>Operating Revenue (Millions)</u>
1960	621,000	\$ 8,130
1965	1,863,000	24,051
1966	2,713,000	38,139
1967	3,346,000	48,825
1968	3,998,000	51,139
1969	4,488,000	59,840
1970	5,162,000	72,950

PSA proposes to operate between SMF-BUR, SMF-ONT, and SMF-SAN with nonstop, one-stop or two-stop flights. The one-stop flights would be via SJC and/or OAK. The two-stop flights would be via ONT and/or BUR. In order to achieve maximum flexibility so as to adjust its schedules to meet whatever schedule pattern seems best, PSA also seeks authority to overfly any of the intermediate points. It also proposes to carry passengers between ONT-SJC/OAK and between SJC-SMF and OAK-SMF.

PSA's traffic consultant presented its passenger forecast, and its vice president for finance presented its forecast of operating results. The traffic forecast is based upon an analysis of the historical traffic in the California corridor since 1960. The witness calculated the 1972 projected traffic by applying the average annual growth rate of about 20 percent between 1960-1969 in the Los

Angeles-Sacramento and San Diego-Sacramento markets. He then allocated the projected 1972 traffic among the specific markets PSA proposes to serve. Finally he estimated PSA's share of the projected traffic.

PSA's projection of operating results utilizes costs as experienced by it during the last half of 1970. It shows the following monthly profit and loss results:

<u>Route</u>	<u>Number of Daily Nonstop Round Trips</u>	<u>Monthly Profit* (Loss)</u>
SAN-SMF	1	\$ 34,258
BUR-SMF	2	69,323
ONT-SMF	1	16,401
ONT-SJC	2	18,368
ONT-OAK	2	11,159
SJC-SMF	2	(6,178)
OAK-SMF	2	(5,701)

*Before interest and income taxes.

(Source: Exh. No. 31)

Since the primary dispute in this proceeding involves the ONT-SMF route we shall consider it first.

III. Ontario-Sacramento Service

Air Cal presently operates between ONT-SJC/OAK. It provides some nonstop ONT-OAK service on weekends and during the summer. It proposes herein to operate three daily one-stop round trip flights between ONT-SMF, two via OCA and one via SJC. It does not seek authority to operate nonstop flights between ONT-SMF or one-stop flights via OAK. Its proposed fare is \$19.44 excluding tax.

PSA currently provides service between ONT-SFO and ONT-SMF via SFO. It proposes to operate two daily round trips between ONT-SMF via SJC and two such trips between ONT-SMF via OAK. The proposed one-way fare is \$20.83 excluding tax. Included within its Sacramento proposal PSA requests authority to carry passengers between ONT-SJC and ONT-OAK, or ONT-SJC and OAK, at a one-way fare of \$16.67 excluding tax. Finally, PSA also requests nonstop authority on

the ONT-SMF route, although it apparently does not intend to exercise such authority immediately because it believes the one-stop service must be operated for a period before it could successfully introduce ONT-SMF nonstop service. (Tr. 515-6, 574, 579-580.) PSA emphasizes in its brief that authority to serve intermediate points is vital to the development of a nonstop market between end points of a particular route. We accept this position, but it raises the question whether this is the time for direct competition between PSA and Air Cal on the ONT-SJC/OAK route.

Air Cal currently operates in the ONT-SJC/OAK market; the ONT-SFO market is served by both PSA and Western. Recent O&D traffic results are:

<u>ONT-SFO</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Western	131,170	76,320	Not Available
PSA	80,338	126,030	157,153
Total	211,508	202,350	Not Available
<u>ONT-SJC</u>			
Air Cal*	12,292	38,676	84,221
<u>ONT-OAK</u>			
Air Cal**	8,271	66,306	71,553
Total	20,563	154,982	155,774

* Also some one-stop service by Continental.
 ** Air Cal is the only carrier in this market, although Continental has authority to serve it.

(Source: Exh. No. 29, Table 2)

Both PSA and Western serve the ONT-SMF market. PSA operates between ONT-SMF via SFO; Western provides one daily one-stop and a daily nonstop flight between ONT-SMF. Western initially provided two daily nonstop flights in July, 1969, but this was cut to one daily nonstop shortly thereafter. The resulting O&D traffic is as follows:

<u>ONT-SMF</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Western	15,800	23,600	34,350	46,124
PSA (via SFO)	-	-	700	9,700
Total	15,800	23,600	35,050	55,824

(Source: Exh. No. 25 and Exh. No. 30; WA-11)

PSA contends that the ONT-SJC/OAK route is ready for direct competition. Its traffic analyst forecasts total 1972 traffic between ONT-SJC/OAK as 335,175 compared to the actual historic traffic during 1969 and 1970 of 154,982 and 155,774 passengers respectively. In short, although Air Cal carried in this market only 792 more passengers in 1970 than it did in 1969, PSA expects over a 100 percent increase in it for 1972. With this dramatic increase in the market PSA foresees Air Cal and itself each carrying about 167,500 passengers in 1972, provided that Air Cal reduces its current fare of \$21.60 to meet PSA's lower proposed fare of \$18.00, including tax. If Air Cal does not, PSA concedes that Air Cal "will be quickly placed in an uncompetitive position in these markets." (Exh. 22, p. 25.)

Air Cal vigorously argues that PSA should be denied entry into the ONT-SJC/OAK market. It states that its present service achieves only a 49 percent load factor; and that it faces actual competition from Continental to both SJC/OAK, and potential competition from Western to OAK. It forecasts that PSA will carry only 92,000 passengers in 1972 and suffer an operating loss if it is permitted to compete with Air Cal; and that, in addition, Air Cal will lose an additional \$500,000 as a result of diversion of traffic to PSA. It charges that PSA has neglected to develop adequately its service on the ONT-SMF via SFO route, where it is providing only one daily direct round trip; and that PSA seeks authority on the ONT-SMF via SJC/OAK route primarily for the purpose of serving ONT-SJC/OAK in direct competition with Air Cal.

The development and evaluation of traffic forecasts is an uncertain art. However, it is clear that automatic growth at the annual rate of 19-20 percent in the California markets cannot any longer be considered as certain. According to the staff's on board traffic figures, the traffic between the Los Angeles and San Francisco metropolitan areas declined from 6.48 million persons carried in 1969 to 6.24 million transported in 1970. (Exh. No. 29, Table 1.)

PSA's extremely optimistic traffic forecast is not reasonable, given the recent actual traffic results and the generally accepted fact that economic conditions are in a state of recession.^{3/} For instance, it should be noted that in 1970 PSA experienced a 25 percent increase over 1969 in the traffic it carried between ONT-SFO, while Air Cal experienced virtually zero growth in the ONT-SJC/OAK market. Despite this recent experience PSA forecasts a 100 percent increase in the ONT-SJC/OAK market for 1972. Such an extreme increase seems most unlikely. We accept Air Cal's analysis that the traffic potential in this market justifies the certification of only one carrier. There is another reason why we have decided to deny PSA's request at this time. PSA already carries more passengers on its ONT-SFO route than Air Cal carries to SJC/OAK. And it enjoys a virtual monopoly in the Burbank-Bay Area market, subject only to minimal competition from Continental. Its entry into the ONT-SJC/OAK market will most likely result in destructive competition similar to that experienced when both carriers competed wing tip to wing tip in the BUR-SJC/OAK market. Destructive competition is not in the public interest.

^{3/} PSA's forecast ignores Air Cal's actual experience in this market. Instead PSA estimated the total traffic for the Burbank-Bay Area market in 1972 at 1,025,000 passengers, and taking 60 percent of it as being the Ontario-Bay Area market, it arrives at an ONT-Bay Area projection of 615,000 passengers. The 1972 Burbank-Bay Area forecast figure of 1,025,000 includes a 20 percent increase over the actual 1970 traffic of 850,479 passengers in this market. This level of growth for the Burbank-Bay Area market between 1970 and 1972 is too high; in 1969 BUR-Bay Area traffic was 825,311; and in 1970 it grew only by 25,000 to 850,479. This amounts to mere three percent increase. Given the changed economic conditions, the recent traffic experience is entitled to more weight than the long term trend.

Therefore, the Commission concludes that PSA's application to operate between ONT-SJC/OAK will be denied. Consequently we will not discuss in detail its proposal to serve ONT-SMF nonstop or via SJC/OAK since ONT-SJC/OAK authority is a necessary prerequisite.^{4/}

Air Cal's 1972 traffic forecast for the ONT-SMF is 116,000 passengers. This figure represents an allocation of total 1972 traffic between the Sacramento-Los Angeles area.^{5/} It is not far below PSA's forecast figure of 122,700 passengers, but it is far above the actual recent O&D traffic between ONT-SMF: 55,824 passengers in 1970. According to Air Cal's study, about 85 percent of this potential 1972 traffic, or 105,000, would be achievable with the level of service provided by Western, PSA and itself. Of this 105,000 passengers Air Cal predicts it will carry 42,000 of them in 1972, or about 40 percent. This is far below PSA's estimate that if permitted to operate between ONT-SMF via OAK/SJC it would carry 73,000 passengers on the route in 1972.

Western challenges the forecast of Air Cal's share of the ONT-SMF market in light of its nonstop service, and it objects to the 5 percent stimulation of the total market potential traffic as a result of Air Cal's entry. We agree with Western to the extent that it seems doubtful that Air Cal can capture 40 percent of the

^{4/} PSA states in its reply brief that profitable nonstop service is difficult to establish, and that it must be preceded by a build-up of the particular market with one- or two-stop service. It further states that it would be an "economic fallacy" to consider ONT-SMF nonstop service without having the ability to support it with one-stop service via SJC/OAK. (PSA Reply Brief, p. 4.)

^{5/} Air Cal's forecast between these areas is more conservative than PSA's. It assumes a decline in traffic between Sacramento-Los Angeles for the interstate carriers, but growth for PSA. The result is about a 12 percent annual growth rate for traffic between the two areas. (See Exh. No. 14, AC 107.)

ONT-SMF market with one-stop service. The presence of Western's nonstop service would undoubtedly result in Air Cal carrying only 25 to 30 percent of the traffic.

Although it appears doubtful that the ONT-SMF traffic will increase from 55,000 1970 O&D passengers to 100,000 such passengers by 1972, the Commission will grant Air Cal's request for operating authority. Traffic between the two points has increased during the last two years. With more frequent direct flights it should increase. This may relieve congestion at LAX to some extent. Air Cal is the logical choice of carrier to commence development of the ONT-SMF market since the ONT-SJC/OAK market presently justifies only one carrier. Furthermore, the future of Western's service is not entirely clear since it may become part of American Airlines. Air Cal will be able to achieve greater utilization of its aircraft fleet, and it will be able to strengthen its ONT-SJC and OCA-SMF loadfactors.

IV. San Diego-Sacramento Service

A. PSA's Application

PSA seeks authority to establish the first nonstop service between SAN-SMF. It currently serves this market with direct and connecting flights via LAX. It proposes a daily nonstop round trip flight at a one-way fare of \$23.15 excluding tax.

This market and PSA's participation in it has steadily increased since it initiated operations in 1967. At the same time the traffic carried by United and Western has decreased. At the present time PSA is the dominant carrier; during 1969 it carried 37,500 of the 47,900 total O&D passengers, or 78 percent of the total traffic. During 1970 it carried 39,100 passengers between these points, which represents a four percent increase over 1969. (Exh. No. 25.)

PSA's traffic forecast predicts that the total SAN-SMF traffic will be 122,847 passengers in 1972, and that PSA will carry

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80 percent of them, or 98,277 passengers. The forecast makes an arbitrary division between nonstop and direct traffic of 52,677 and 45,600 passengers, respectively.

Based upon the above traffic forecast, PSA's monthly financial results for one daily nonstop round trip are estimated as follows:

Operating Revenues (after dilution)	\$101,844
Operating Costs	<u>67,586</u>
Monthly operating income	
before interest and taxes	
on income	\$ 34,258

There is no opposition to PSA's request. Since it is the dominant carrier in this market almost all the traffic diverted from the present direct or connecting flights to PSA's nonstop flight will be its own. Furthermore, PSA's base of operations is San Diego and it logically should be granted this authority.

However, we do not accept its 1972 traffic projection as realistic. Again it is too high. In our judgment it is reasonable to assume that this total market will increase by about 5 percent in 1970 and in 1971. And a reasonable stimulation factor for first nonstop service is 25 percent. This results in a 1972 traffic forecast of about 66,000 passengers. This amount of traffic will probably support one daily nonstop round trip, assuming that PSA's breakeven loadfactor is 50 percent.

PSA has also requested authority to operate between SAN-SMF via ONT/BUR and SJC/OAK in order to combine segments between SAN-SMF with the greatest amount of flexibility possible. We have above determined that two carriers should not be authorized to operate between SJC-SMF and between ONT-SJC/OAK. Consequently, we will not authorize PSA to operate between SAN-SMF via ONT and/or SJC. Such operations by PSA would compete directly with the operations awarded herein to Air Cal. But we will authorize PSA to operate between SAN-SMF via BUR/OAK because we are below

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awarding it authority to service OAK-SMF and BUR-SMF, and it has authority to operate between SAN-OAK via BUR. Since it also holds authority and is operating between SAN-OAK nonstop we will revise its Route 1 restriction so that it may operate between SAN-SMF via OAK. When PSA's present authority is considered in connection with the results herein, it has various routings by which to service SAN-SMF:

- San Diego-Sacramento nonstop
- San Diego-Los Angeles-Sacramento
- San Diego-Burbank-Sacramento
- San Diego-Oakland-Sacramento
- San Diego-Long Beach-San Francisco-Sacramento

It is obvious that the above possibilities constitute considerable flexibility for PSA in serving SAN-SMF. Moreover, if this market is ready to support nonstop service much of the direct service for which PSA holds authority will probably be unnecessary.

B. Air Cal's Application

Air Cal seeks authority to operate between SAN-SMF via OCA and SJC. This two-stop direct service would be offered at the same fare charged by PSA, \$23.15 excluding tax. The primary purpose of this request is to permit Air Cal to build up its load factors on its present SAN-SJC flights, most of which are currently operated via OCA. It would schedule these two daily two-stop round trip flights in between the faster flights offered by PSA.

Air Cal's forecast of the total 1972 traffic between SAN-SMF is only 57,860 passengers, or about 10,000 more than the

1969 total traffic. Its forecast estimates, however, that it will carry 20 percent of this 1972 traffic even though PSA will be initiating nonstop flights and despite the fact that PSA presently carries about 80 percent of all SAN-SMF traffic. This forecast of Air Cal's share of the market overlooks the fact that United and Western operate connecting one-stop service in this market. We doubt that Air Cal can hope to carry more than 10 percent of the SAN-SMF traffic with two-stop flights.

Standing alone as a new service proposal, Air Cal's request to introduce two-stop flights is not in the public interest because it is not needed. However, it already holds permanent authority to provide SAN-SJC nonstop flights, as well as temporary authority to operate between SAN-SJC via OCA. And we have determined herein that it should receive authority to operate between SJC-SMF. Therefore, it is reasonable to permit it to carry passengers between SAN-SMF via OCA/SJC. The amount of SAN-SMF traffic it will carry will undoubtedly be small in view of PSA's nonstop and one-stop service, but to the extent that traffic does develop this authority will allow Air Cal to increase its load factor between SAN-SJC. Insofar as operations via OCA are concerned, this authority will be granted subject to the outcome of the hearing scheduled in Applications Nos. 52165 and 51080 (Phase I), in which Air Cal seeks to have its temporary certificate made permanent and PSA seeks to serve Orange County.

PSA opposes Air Cal's request because it will divert traffic from PSA's flights and because, according to PSA, Air Cal will only suffer additional losses. These contentions are rejected. Any diversion of traffic from PSA will most likely be minor. And to the extent that Air Cal attracts SAN-SMF passengers it will help reduce the losses or increase the profits it is now receiving as a result of its flights between SAN-SJC.

V. San Jose-Sacramento Service

Both applicants seek authority on this route. However, we have determined above that Air Cal should provide service between ONT-SMF via SJC primarily because the ONT-SJC/OAK market is not large enough to justify operations by two carriers. We also are granting Air Cal's request for authority to serve the OCA-SMF, PSP-SMF, and SAN-SMF markets via SJC. Since PSA also requests authority on this route the Commission must determine if it is a two carrier market.

PSA proposes to operate a minimum of two daily round trip flights between SJC-SMF, at a fare of \$7.41 excluding tax. Air Cal, assuming that its entire application is granted, proposes to operate six daily round trip flights at a slightly higher fare, \$7.87 excluding tax. Currently the only service between these points is provided by GPA with two nonstop round trips which operate six days a week. The one-way fare is \$14.00 including tax. GPA operates with Beech 99 aircraft, which carry fifteen passengers.

PSA's SJC-SMF traffic forecast is derived by allocating to SJC-SMF 25 percent of the total Sacramento-Bay Area O&D traffic (200,000 passengers) adopted by the Commission in Decision No. 76110. The result is a forecast of 50,000 O&D passengers, which PSA combines with its projected through passengers from ONT (10,092) and BUR (28,464). This results in a forecast of 88,556 SJC-SMF passengers during 1972.

Air Cal's forecast is more conservative. It projects 136,100 passengers as the 1972 traffic between Sacramento and the Bay Area. Like PSA, it allocates 25 percent of this traffic to SJC-SMF, which results in 34,000 passengers.

Insofar as these two forecasts are concerned, we accept Air Cal's lower estimate of 34,000 O&D passengers. Even this lower estimate is probably high, given the proximity of San Jose to Sacramento and the unknown nature of this market. PSA's reliance upon Decision No. 76110 is misplaced. That decision is out of date insofar as traffic projections are concerned because the studies therein were prepared long before the current period of inflation and recession.

After considering the expected size of the SJC-SMF market, we accept Air Cal's position that only one carrier should be certificated to commence large jet service in it. According to Air Cal's traffic analysis, slightly more than 300 passengers per day will be carried on this segment. Assuming that Air Cal initiates at least four daily round trip flights, this results in less than 30 passengers per flight. It is clear, therefore, that as PSA's fully allocated financial forecast shows, the SJC-SMF segment will not itself be profitable, but that its purpose will be to function as an "entry segment" and aid the carrier's overall operating results by contributing additional passengers on routes currently being served. The local SJC-SMF traffic will assist in reducing the loss on this entry segment of a through flight to or from Southern California. Certification of two carriers would result in their splitting the local SJC-SMF traffic, which would probably increase the loss of each on the segment. We conclude, therefore, that only Air Cal should receive this authority.

GPA argues that the Commission should deny both applicants SJC-SMF authority, or that the Commission restrict the successful applicant from carrying local SJC-SMF passengers. It contends that there is no public need for large jet service, and that if this service is authorized GPA will suffer severe financial harm. Although GPA's executive vice president testified that it is carrying about

500 passengers per month, it did not present any traffic study or economic study showing the precise effect of direct competition. In addition, the representative of the San Jose Municipal Airport testified that some GPA flights have been cancelled during the last few months.

The Commission must balance the opposing public interests in considering GPA's argument. There is no doubt that GPA will probably lose most of its SMF-SJC passengers after frequent large jet service is commenced at a lower fare. The loss of most of its 500 passengers will be a serious blow, but its witness did not testify that it would definitely cause GPA to fail. It may be able to sustain its present two daily round trips by filling gaps in the schedule offered by Air Cal, or perhaps it can reorganize its route system so as to minimize the adverse effect. On the other hand, lined against the private interest of GPA is the large public interest in additional air carrier service between Sacramento and Southern California proposed by the applicants and their supporters. We do not agree that public need for Air Cal's proposed service is lacking. The public witnesses explained the difficulty of the limited and inconvenient service present today between Orange County, Palm Springs and Ontario and Sacramento. Air Cal's proposal would provide frequent flights between these points. It is necessary and reasonable to institute most of this service by means of one-stop flights. The local SJC-SMF traffic, the extent of which is not known, is needed to help make the through service viable. If the through traffic does not develop, Air Cal may reduce its SJC-SMF flights to the point where GPA can compete with it. The Commission concludes that GPA's protest should be denied.

VI. Unopposed Route Requests

There is no opposition to Air Cal's request to operate between Sacramento-Long Beach, Sacramento-Palm Springs, and Sacramento-Orange County, or to PSA's proposal to serve Sacramento-Burbank, and Sacramento-Oakland. These requests are discussed below:

A. Long Beach-Sacramento

At the time of the hearing there were not any direct flights between SMF-LGB. Only connecting service via SFO was available. Recently, however, PSA has instituted direct service with two daily round trip flights via SFO. (See PSA Schedule dated July 9, 1971, Table 22.)

Air Cal was authorized to operate between LGB-SJC by Decision No. 77874, dated October 27, 1970 in Applications Nos. 50261 and 50381. This service has not been commenced, however, because Air Cal has not received terminal space at LGB from the City of Long Beach. Under the same decision PSA received authority to operate between LGB-SFO and LGB-OAK. By Decision No. 78848, dated June 22, 1971 in Applications Nos. 50261 and 50381, the Commission granted Air Cal's and PSA's motions to reopen the proceeding regarding authority to operate between LGB-SJC and LGB-OAK since neither service had been commenced. In this reopened proceeding each carrier seeks authority to operate exclusively between LGB-SJC/OAK.

Under its traffic forecast for 1972, Air Cal expects to carry 23,900 passengers between the two points. The proposed fare is \$19.44 excluding tax. There is no opposition to this request. Normally we would not hesitate to grant the authority requested since it would permit direct single-plane service between these points. At the present time, however, it would not be appropriate to grant Air Cal's request. The question of which carrier should be authorized to conduct LGB-SJC service is unresolved and subject to further hearing. This question must be resolved before we determine whether service between SMF-LGB via SJC should be permitted. Therefore, for this reason the Commission concludes that Air Cal's request to operate between SMF-LGB via SJC should be denied.

B. Palm Springs-Sacramento

Air Cal proposes to initiate a daily one-stop round trip between Sacramento and Palm Springs Airport (PSP) via SJC. The proposed fare is \$26.17 plus tax. The estimated flight time is one hour and 35 minutes.

At the time of the hearing the only service between these points was provided by Western's one daily two-stop flight from PSP to SMF. Western did not provide any southbound service.^{6/} Western's fare is \$28.70 plus tax, and its scheduled flight time is 2 hours and 45 minutes. Western's brief does not include any argument in opposition to Air Cal's request.

Three public witnesses testified for the City of Palm Springs in support of additional service. Two witnesses from the visitors and convention bureau stated that Palm Springs' one industry is tourism, and that as a result the community is heavily dependent on air transportation. They complained that air carrier service to and from SMF was very poor because there was only Western's limited service described above, or connecting flights via SFO, which were described as time consuming. Several witnesses from the Sacramento area also complained about the lack of frequent and direct service to PSP.

The Palm Springs' Airport Director expressed the opinion that considerable PSP-SMF traffic is not recorded as traveling between these two points because it is carried between SMF-PSP by interstate carriers, Western and Air West, from PSP to LAX and then to SMF on flights of PSA. Furthermore, he presented a traffic forecast of 12,952 passengers for 1972. (See Exh. No. 1, PSP No. 104.) This forecast includes stimulation at a rate of 100 percent

^{6/} According to Western's current schedule, it has now instituted a daily one-stop round trip between PSP-SMF via LAX. (Western Airlines Schedule dated July 1, 1971, pp.15 and 19.) Flight time is just over two hours.

for Air Cal's new service. In arriving at this forecast he relied primarily on the experienced growth in traffic of 117 percent carried by American Airlines during the first year it operated a direct one-stop flight between Chicago and PSP.

Air Cal's traffic forecast is more conservative. Its witness estimates that 1972 traffic will be 5,258 passengers. After adding 25 percent stimulation for Air Cal's new service this forecast is approximately 6,600. He concluded that Air Cal and Western would split the expected market, resulting in a forecast of 3,300 passengers to be carried by each carrier. His view is that the SMF-PSP market is underdeveloped, and that considerable stimulation in traffic is likely with the introduction of direct one-stop service.

Assuming that his forecast is correct Air Cal would average an additional five passengers on one of Air Cal's present flights between PSP-SJC. These five passengers would continue from SJC to SMF with whatever local and connecting traffic boarded at SJC. During cross-examination of Air Cal's treasurer it was disclosed that under its projection Air Cal would lose about \$110,000 in 1972 on the SMF-PSP service. It would achieve a profitable operation if it carries about 25 SMF-PSP passengers each day.

On this record the SMF-PSP route is receiving minimal service. The market is seasonal and underdeveloped, but it is also probably limited to tourism and business meetings. Air Cal is currently operating between PSP and SFO/SJC/OAK. It has expended about \$100,000 in advertising its PSP service during the last two years. (Tr. 168.) Its proposed SMF-PSP service would be faster than present service with about a 9 percent lower fare. It will institute family plan and military standby fares. Both communities strongly support the proposal, and there is no opposition. Under these circumstances, and considering the fact that Air Cal has been awarded the SJC-SMF route, we will grant Air Cal's request even though the proposal is questionable.

C. Orange County (Santa Ana)-Sacramento

Air Cal intends to initiate the first direct service between SMF-OCA with four daily round trips. Two round trips will be nonstop flights, although they will originate and terminate in ONT. Air Cal already holds authority to operate between ONT-OCA with a restriction that no local passengers are to be carried. The other two round trips would be one-stop flights via SJC. They would originate and terminate at San Diego, resulting in a routing SMF-SJC-OCA-SAN.

Under the sample schedule introduced at the hearing Air Cal's service might be scheduled as follows:

<u>Leave SMF</u> <u>for OCA</u>	<u>Leave OCA</u> <u>for SMF</u>
7:00 a.m. via SJC	7:30 a.m. nonstop
9:00 a.m. nonstop	9:35 a.m. via SJC
3:30 p.m. via SJC	4:30 p.m. nonstop
6:00 p.m. nonstop	6:35 p.m. via SJC

The scheduled flight time is 1:05 hours for nonstop, and 1:25 hours for one-stop flights. Air Cal states that the best connecting service results in a flight time of 2:05 hours, including groundtime at the connecting points of LAX, SFO or SJC. Air Cal's proposed SMF-OCA fare is \$20.37 plus tax. Family plan and military standby fares will be offered.

Air Cal's market expert projects 1972 stimulated traffic for this route at 92,055 passengers. This forecast represents 75 percent of the total potential traffic between SMF-OCA (108,300 passengers), and it includes 10 percent stimulation for this new service. It assumes that Air Cal will carry 98 percent of the stimulated traffic, or 90,200 passengers. The remaining 2 percent is expected to utilize LAX as either its point of origin or destination between the points. This is enough traffic to support two daily nonstop round trips and perhaps one direct round trip, assuming that a 50 percent load factor achieves breakeven operations.

There is no opposition to this request. Air Cal inaugurated air carrier commuter service to Santa Ana, and it is profitable. (Tr. 253, 294.) There is no direct OCA-SMF service at the present time, although PSA has recently commenced two daily direct flights to SMF from nearby LGB. Nevertheless, Air Cal can be expected to carry the bulk of the OCA-SMF traffic since it will be offering the only nonstop service. The revenues produced by this new service will aid Air Cal's overall financial position. Direct flights to SMF will reduce travel time between the two areas, and should reduce congestion at LAX to some degree. We will grant this part of Air Cal's application.

D. Burbank-Sacramento

PSA is the only applicant for authority to institute nonstop flights between BUR-SMF. The proposed fare is \$19.44 plus tax. PSA intends to commence operations with two daily round trip flights. It currently provides direct one-stop service between the two points via SFO. During 1970, the first full year of operating this direct service, PSA carried almost 52,000 O&D passengers. (Exh. No. 25.) During the same year it carried 370,400 C&D passengers between LAX-SMF. (Exh. No. 25.)

PSA forecasts total 1972 BUR-SMF traffic of 207,769 passengers. This figure is arrived at by increasing the total 1969 LAX-SMF traffic for all carriers (559,010) by 19.1 percent each year through 1972, and allocating 22 percent of the result (944,409) to BUR-SMF. PSA expects 115,000 passengers to utilize its nonstop flights. This includes some 11,000 passengers originating in San Diego. It expects to carry the other 100,000 passengers on its direct flights.

PSA is virtually a monopoly carrier in the Burbank market, and it is the dominant carrier in the LAX-SMF market, having carried 62 percent of the total 1969 O&D LAX-SMF traffic. Since it carried about 52,000 O&D BUR-SMF passengers during 1970, it seems reasonable to expect that this traffic will double if nonstop BUR-SMF flights are commenced. We expect that most of this traffic will constitute passengers presently using PSA's nonstop LAX-SMF flights, and passengers now using its direct flights between BUR-SMF via SFO.

Assuming that a 50 percent load factor is the breakeven point for PSA's flights, it will need total O&D traffic of about 82,000 passengers for its nonstop service. Given the potential traffic available from LAX flights this quantity of traffic is reasonable to expect. Therefore, we will require that PSA institute a minimum of two daily nonstop round trip flights.

Secondly, PSA seeks authority to operate direct one-stop flights between BUR-SMF via SJC/OAK. For the reasons set out in the opinion above we will only authorize service via Oakland. This new direct service via less congested OAK should be convenient to the public. Whether PSA's direct flights via SFO will be economically viable in light of the nonstop and direct flights via OAK is questionable.

E. Oakland-Sacramento

PSA is the only applicant for this route. It proposes a fare of \$7.41 excluding tax. GPA is authorized to operate on this route, but is not doing so.

The purpose of this service would be primarily to function as an entry segment into long haul routes between Oakland and Southern California. The Sacramento-Southern California passengers would help increase the load factor on flights between Oakland and Southern California. Assuming two daily round trips between OAK-SMF, PSA's fully allocated financial forecast shows this segment as

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resulting in a monthly net loss of \$5,701 before interest and income taxes. (Exh. No. 32, p. 9.)

PSA forecasts 30,000 passengers as the 1972 O&D traffic between OAK-SMF. This result is derived by taking 15 percent of the forecast of total Sacramento-Bay Area traffic (200,000 passengers) adopted by the Commission in Decision No. 76110. PSA concedes that the proximity of Sacramento and Oakland by freeway makes substantial airline traffic between these points doubtful.

As we stated in the opinion with regard to San Jose-Sacramento service, we doubt that the traffic forecasts adopted in Decision No. 76110 are reliable any longer. As we did with regard to San Jose-Sacramento service, we will grant the authority requested so that Oakland may be used as an intermediate point by PSA for flights between Sacramento and Southern California. It may be that if nonstop service between San Diego and Sacramento fails to prove economical then one or two-stop service via Oakland and Burbank, which will bypass congested LAX and SFO, will prove profitable. With SMF-OAK authority PSA will be able to develop this route structure in the most favorable manner.

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VII. Miscellaneous Issues

A. Minimum Number of Daily Nonstop Flights

The County of Sacramento and the Commission staff urge that a minimum number of two daily round trip flights be imposed on non-stop authority sought by PSA and Air Cal. With the exception of the Burbank-Sacramento market, however, it is not clear that a sufficient amount of traffic can be expected to make such a requirement reasonable. In providing nonstop service the Commission believes that the carriers should be free to commence first with only weekend nonstop flights or one daily nonstop round trip. Therefore with the exception of the Burbank-Sacramento market, we will not impose such a requirement.

B. PSA's Excluded Fully Allocated Cost Exhibit and Air Cal's Financial Position . . .

PSA attempted to introduce an exhibit which purports to be an analysis of Air Cal's proposal on a fully allocated cost basis. It shows Air Cal sustaining a substantial loss from the proposed operations rather than a profit. This exhibit was excluded by the examiner because it was not introduced on schedule. PSA contends that the exhibit should have been accepted and that as a result Air Cal's application should be denied.

Even though this ruling by the examiner may have been erroneous, the Commission concludes that exclusion of this exhibit was harmless error. Air Cal's financial position is stronger now than it was a year ago because it has been acquired by Westgate-California Corporation. (See App. Westgate-California Corp., Decision No. 78399, dated March 2, 1971, in Application No. 52036, pp. 26-29.)

Even if PSA's exhibit is accurate, Air Cal appears to be in a position to sustain losses during the developmental period. Furthermore, since it already serves Ontario-San Jose, Orange County and Palm Springs, it is the obvious choice for the award of authority to serve these points. Increased air carrier service to Sacramento is in the public interest. Although Westgate-California's financial

reports as of March 31, 1971, which were introduced in unaudited form as a late filed exhibit, show that its recent earnings have been small;^{7/} its control of Air Cal leaves the carrier in stronger financial condition than it was last year. For instance, at the end of 1970 Air Cal had reduced its losses by \$2 million, and it experienced about six months of operating profit during that year. Insofar as future applications for new route authority are concerned, however, the Commission concludes that Air Cal will be required to present its financial forecast of operating results on a fully allocated cost basis.

Findings of Fact

1. PSA and Air Cal are passenger air carriers as defined in the Passenger Air Carriers Act (Sections 2739 et seq. of the Public Utilities Code) and public utilities as defined in Section 216(a) of said code.

2. Passenger air carrier traffic between Sacramento and Southern California has steadily increased from 249,100 O&D passengers in 1966 to 556,400 O&D passengers in 1969. Air carrier service to the satellite airports in Southern California is almost exclusively provided by flights via the congested major airports of SFO and LAX. Initiation of nonstop and direct flights between Sacramento and these satellite airports in Southern California will establish service between some points not receiving any nonstop or direct service at the present time, reduce the travel time between these points, avoid the discomfort of changing planes and/or air carriers at the major airports, and aid in reducing congestion at the major airports. Therefore, increased air passenger carrier service between Sacramento and these satellites is in the public interest.

3. During 1969 and 1970 Air Cal carried 154,982 and 155,774 O&D passengers between ONT-SJC/OAK, resulting in virtually zero growth. Air Cal's load factor on this service is about 49 percent. Because of these recent historic traffic results, it is not reasonable

^{7/} This unaudited consolidated earnings report for January-March, 1971 shows Westgate's total net earnings as \$7,498 on revenues of \$38 million, and a total long term debt of \$124 million. (See Exh. No. 34.)

to expect the level of traffic between these points which is forecast by PSA. This market is not ready for direct competition between PSA and Air Cal. Since PSA's proposal to serve the ONT-SMF market includes as a prerequisite the authority to carry passengers between ONT-SJC/OAK it is reasonable to conclude that its application to serve ONT-SMF should be rejected.

4. Air carrier traffic between ONT-SMF has steadily increased from 15,800 O&D passengers in 1967 to 55,824 O&D passengers in 1970. Western presently provides two daily round trip flights, and PSA provides one direct round trip via SFO. With the one-stop flights via OCA and SJC proposed herein by Air Cal it is reasonable to conclude that ONT-SMF traffic will develop to about 90,000-100,000 O&D passengers within two or three full years of service. Air Cal should carry about 33 percent of this traffic, which will assist its load factor on its SMF-OCA and ONT-SJC flights.

5. Air carrier O&D traffic between SAN-SMF has increased from 22,700 passengers in 1966 to 47,900 passengers in 1969. With the institution of nonstop service by PSA it is reasonable to expect this traffic to increase to about 66,000-70,000 passengers during 1972, or after a full year's operations. There is no opposition to PSA's request. It is reasonable to grant PSA this authority.

6. PSA's proposal for authority to operate between SAN-SMF via BUR/OAK is unopposed. It will permit PSA routing flexibility since it presently operates between San Diego-Burbank and Oakland. Therefore, it is reasonable to grant PSA this authority. PSA's request for authority to operate between SAN-SMF via ONT/SJC, or via ONT/OAK, if granted, would result in direct competition with Air Cal's operations between ONT-SJC/OAK and ONT-SMF via SJC. This direct competition is not justified by the size of the ONT-SJC/OAK market. Therefore PSA's request for authority to operate between SAN-SMF via ONT/SJC is not in the public interest at this time.

7. Air Cal has authority to operate between SAN-SJC nonstop and temporary authority for such operations via OCA. Therefore, its proposal to carry passengers between SAN-SMF via OCA/SJC is reasonable and in the public interest because whatever amount of SAN-SMF traffic it is able to carry will assist in achieving profitable load factors between SAN-SJC. It is reasonable to expect that this traffic which utilizes Air Cal's two-stop service will be so small as to have virtually no adverse effects on PSA's flights between these points.

8. It is reasonable to accept Air Cal's estimate of 34,000 passengers as the 1972 O&D traffic between SJC-SMF because of the proximity of San Jose to Sacramento and the undeveloped nature of this market. Service on this segment will not be profitable in itself, but only function as an entry segment for carrying Sacramento passengers on "long haul" flights to and from San Jose on to other points in Southern California. Therefore, only one carrier should initiate service on this route, and it is reasonable that Air Cal be awarded this authority. The increased level of air carrier service for the public, which will result from the implementation of Air Cal's proposal, outweighs any adverse effects on GPA's present SJC-SMF service. These adverse effects may prove to be minimal if SJC-SMF traffic is stimulated by Air Cal's operations so that GPA can continue to operate satisfactorily the two daily round trip flights it is currently providing.

9. Since the question of which carrier should provide service between LGB-SJC has been reopened for further consideration, it would be premature to grant Air Cal's request for authority to operate between LGB-SMF via SJC.

10. Air Cal currently operates between PSP-SJC/OAK/SFO. There is presently only minimal air carrier service between PSP-SMF provided by Western with a one-direction flight. Air Cal's daily one-stop direct round trip flight between PSP-SMF via SJC will be

faster than the present service, and the PSP-SMF traffic carried by Air Cal will aid its Palm Springs-Bay Area load factor results. Western did not oppose this request in its brief. It is reasonable to grant Air Cal's proposal.

11. There is no direct or nonstop air carrier service between OCA-SMF at the present time. Air Cal's proposed nonstop and direct flights will provide the first such service to the Orange County area. This service will be faster and more convenient than using flights into or from LAX. Air Cal forecasts that it will carry about 90,000 passengers between these points during 1972, or the first full year of operations. This traffic is sufficient to justify the initiation of service. Therefore, it is reasonable to issue Air Cal this authority.

12. There is no nonstop air carrier service between BUR-SMF. PSA's direct service via SFO resulted in almost 52,000 BUR-SMF O&D passengers in 1970. With nonstop flights, which will carry some passengers now using LAX-SMF flights, PSA can reasonably be expected to carry 90,000 passengers between BUR-SMF in 1972, or during the first full year of operations. This is sufficient traffic to support two daily nonstop round trip flights. There is no opposition to PSA's request. The result will be faster travel time for the public and some reduction in congestion at LAX. It is reasonable to grant PSA's proposal, including one-stop direct service between BUR-SMF via OAK. This direct service authority will permit PSA flexibility in scheduling and routing its BUR-SMF service. It should also relieve to some extent any congestion at SFO created by its direct flights operated through there.

13. There is no air carrier service currently provided between OAK-SMF. PSA expects to carry 30,000 OAK-SMF O&D passengers during 1972, or the first full year of operations. In addition it expects to carry Sacramento passengers to and from other Southern California points. Although this proposed service will not be profitable in itself, it will function as an entry leg for "long haul" flights to and from Oakland, and increase the load factor on these Oakland flights. There is no opposition to PSA's request, and it is reasonable to grant it.

14. In providing service between the following points pursuant to the certificate herein granted, Pacific Southwest Airlines shall charge the following rates, excluding tax:

Hollywood-Burbank Airport and Sacramento Metropolitan Airport	\$19.44
San Diego International Airport and Sacramento Metropolitan Airport	\$23.15
Hollywood-Burbank Airport and Sacramento Metropolitan Airport via Oakland Metropolitan International Airport	\$19.44
Oakland Metropolitan International Airport and Sacramento Metropolitan Airport	\$ 7.41
San Diego International Airport and Sacramento Metropolitan Airport via Oakland Metropolitan International Airport	\$23.15
San Diego International Airport and Sacramento Metropolitan Airport via Hollywood-Burbank Airport	\$23.15
San Diego International Airport and Sacramento Metropolitan Airport via Hollywood-Burbank Airport and Oakland Metropolitan International Airport	\$23.15

15. In providing service between the following points pursuant to the certificate herein granted, Air California shall charge the following rates, excluding tax:

San Jose Municipal Airport and Sacramento Metropolitan Airport	\$ 7.87
Orange County Airport and Sacramento Metropolitan Airport	\$20.37
Orange County Airport and Sacramento Metropolitan Airport via San Jose Municipal Airport	\$20.37
San Diego International Airport and Sacramento Metropolitan Airport via Orange County Airport and San Jose Municipal Airport	\$23.15
Ontario International Airport and Sacramento Metropolitan Airport via San Jose Municipal Airport	\$19.44

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Palm Springs Airport and Sacramento
Metropolitan Airport via San Jose
Municipal Airport \$26.17

Ontario International Airport and
Sacramento Metropolitan Airport via
Orange County Airport \$20.37

Conclusions of Law

Based upon the foregoing findings of fact the Commission makes the following conclusions of law:

1. The application of PSA for a certificate of public convenience and necessity to operate as a passenger air carrier between BUR-SMF, SAN-SMF, BUR-SMF via OAK, SAN-SMF via OAK, SAN-SMF via BUR, and SAN-SMF via BUR/OAK should be granted. In all other respects the application should be denied.

2. The application of Air Cal for a certificate of public convenience and necessity to operate as a passenger air carrier between SJC-SMF, OCA-SMF, OCA-SMF via SJC, SAN-SMF via OCA/SJC, ONT-SMF via OCA, ONT-SMF via SJC, and PSP-SMF via SJC should be granted. In all other respects the application should be denied.

Pacific Southwest Airlines and Air California are 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 routes particularly set forth in Appendix A, attached hereto and made a part hereof.

2. A certificate of public convenience and necessity is granted to Air California, 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 routes particularly set forth in Appendix B, attached hereto and made a part hereof.

3. In providing service pursuant to the certificates herein granted, each applicant certificated herein 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, each applicant shall file a written acceptance of the certificate herein granted. By accepting the certificate of public convenience and necessity herein granted, each 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, each 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.


A. 51007, A. 51058 ek

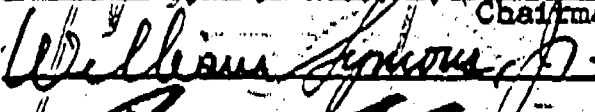
4. The application of Pacific Southwest Airlines for a certificate of public convenience and necessity to serve between Sacramento Metropolitan Airport and San Jose Airport, Hollywood-Burbank Airport and Sacramento Metropolitan Airport via San Jose Municipal Airport, Ontario International Airport and San Jose Municipal Airport and/or Oakland Metropolitan International Airport, Ontario International Airport and Sacramento Metropolitan Airport, Ontario International Airport and Sacramento Metropolitan Airport via San Jose Municipal Airport or Oakland Metropolitan International Airport, and between San Diego International Airport and Sacramento Metropolitan Airport via Ontario International Airport and/or San Jose Municipal Airport is denied.


5. The application of Air California for a certificate of public convenience and necessity to serve between Long Beach Airport and Sacramento Metropolitan Airport via San Jose Municipal Airport is denied.


The effective date of this order shall be the date hereof.

Dated at San Francisco, California, this 24th
day of AUGUST, 1971.



Chairman






Commissioners

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 over numbered routes in either direction. The authority granted herein supersedes all certificates previously granted to Pacific Southwest Airlines.

Routes

1. Between San Diego and Los Angeles, Burbank, San Francisco and Oakland.
2. Between Los Angeles and San Francisco and Oakland.
3. Between Burbank and San Francisco.
4. Between Los Angeles and San Jose.
5. Between Los Angeles and Sacramento.
6. Between Ontario International Airport and San Francisco International Airport.
7. Between San Jose Municipal Airport and Oakland International Airport, on the one hand, and Hollywood-Burbank Airport, on the other hand.
8. Between San Diego and Ontario.
9. Between San Francisco International Airport and Sacramento Metropolitan Airport.
10. Nonstop between Long Beach Airport and San Diego International Airport.
11. Nonstop between Long Beach Airport and Oakland International Airport.
12. Nonstop between Long Beach Airport and San Francisco International Airport.
13. Between Long Beach Airport and Sacramento Metropolitan Airport via intermediate point of San Francisco International Airport.
14. Between San Jose Municipal Airport and San Diego International Airport via intermediate point of Hollywood-Burbank Airport.

Issued by California Public Utilities Commission.

Decision No. 79085, Application No. 51058.

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APPENDIX A

PACIFIC SOUTHWEST AIRLINES
(a corporation)

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Routes (Continued)

- #15. Nonstop between Hollywood-Burbank Airport and Sacramento Metropolitan Airport.
- #16. Nonstop between San Diego International Airport and Sacramento Metropolitan Airport.
- #17. Between Hollywood-Burbank Airport and Sacramento Metropolitan Airport via intermediate point of Oakland Metropolitan International Airport.
- #18. Nonstop between Oakland Metropolitan International Airport and Sacramento Metropolitan Airport.
- #19. Between San Diego International Airport and Sacramento Metropolitan Airport via intermediate point of Oakland Metropolitan International Airport.
- #20. Between San Diego International Airport and Sacramento Metropolitan Airport via intermediate point of Hollywood-Burbank Airport.
- #21. Between San Diego International Airport and Sacramento Metropolitan Airport via intermediate points of Hollywood-Burbank Airport and Oakland Metropolitan International Airport.

Issued by California Public Utilities Commission.

#Added by Decision No. 79085, Application No. 51058.

Restrictions#Route 1

No service of any type shall be operated between any of these five points and any other points authorized in other routes by the Commission except through service between San Diego and San Jose via Los Angeles, through service between San Diego and Sacramento via Los Angeles, and the through service authorized in Route 19.

Routes 2 and 3

These route authorizations are limited to the specific segments of each route, except for the tacking of Route 3 and Route 9 to provide direct service between Burbank and Sacramento via San Francisco as provided in the Restriction on Route 9.

Route 4

This route authorization is limited to the specific segment of Route 4, except for through service from San Jose to San Diego via Los Angeles.

Route 5

This route authorization is limited to the specific segment of Route 5, except for through service from Sacramento to San Diego via Los Angeles.

Routes 1 through 5, Inclusive

Passengers shall be transported by air in either direction in Lockheed Electra, Boeing 727, Boeing 737, or Douglas DC-9 aircraft.

Route 6

1. Passengers shall be transported by air in either direction in nonstop service at a minimum of four scheduled round trip flights daily.
2. No nonstop service may be operated between Ontario International Airport (ONT) and any other points served by Pacific Southwest Airlines under other authorization with the exception of San Diego.

Issued by California Public Utilities Commission.

#Added by Decision No. 79085, Application No. 51058.

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APPENDIX A

PACIFIC SOUTHWEST AIRLINES
(a corporation)

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Route 7

1. Passengers shall be transported in either direction in Lockheed L-88 (Electra) aircraft, Douglas DC-9, Boeing 727-100, Boeing 727-200 and Boeing 737 aircraft with a minimum of four round trips daily.
2. This route authorization is limited to the specific segments of Route 7.

Route 8

Passengers shall be transported in either direction in nonstop service at a minimum of two scheduled round trips daily.

Route 9

Passengers shall be transported in either direction in nonstop service at a minimum of four scheduled round trips daily. All service to Sacramento Metropolitan Airport from any other points already served by Pacific Southwest Airlines must be provided via San Francisco International Airport, except for the nonstop service authorized between Los Angeles International Airport and Sacramento Metropolitan Airport.

Routes 10, 11, 12 and 13

Service between the points authorized on these routes shall not be connected, combined or operated in combination with points or routes previously authorized, or with each other except as herein provided. Route 10 may be connected with Routes 11, 12 or 13 at Long Beach to provide through service to passengers as follows:

San Diego - Long Beach - Oakland
San Diego - Long Beach - San Francisco
San Diego - Long Beach - San Francisco (intermediate
point per Route 13) - Sacramento

The points herein authorized must be operated as specified; no over flights of points authorized shall be permitted.

Route 14

Service between the points authorized on this route shall not be connected, combined or operated in combination with points or routes previously authorized. The points herein authorized must be operated as specified; no over flights of points authorized shall be permitted.

Issued by California Public Utilities Commission.

Decision No. 79085, Application No. 51058.

#Route 15

1. Service between the points authorized on this route shall not be connected, combined or operated in combination with any other authorized points or routes.
2. Passengers shall be transported in either direction in nonstop service at a minimum of two scheduled round trips daily.

#Route 16

Service between the points authorized on this route shall not be connected, combined or operated in combination with any other authorized points or routes.

#Route 17

Service between the points authorized on this route shall not be connected, combined or operated in combination with any other authorized points or routes.

#Route 18

Service between the points authorized on this route shall not be connected, combined or operated in combination with any other authorized points or routes.

#Route 19

Service between the points authorized on this route shall not be connected, combined or operated in combination with any other authorized points or routes.

#Route 20

Service between the points authorized on this route shall not be connected, combined or operated in combination with any other authorized points or routes.

#Route 21

Service between the points authorized on this route shall not be connected, combined or operated in combination with any other authorized points or routes.

Issued by California Public Utilities Commission.

#Added by Decision No. 79085, Application No. 51058.

The authority stated herein to Air California supersedes all previously granted certificates of public convenience and necessity granted in Decisions Nos. 71310, 73172, 74248, 76110, and 76397, as modified by Decisions Nos. 73916, 74672, 75473, 75997, and 77768.

Air California, by the certificate of public convenience and necessity granted in the decision noted in the margin, is authorized to operate with Douglas DC-9 aircraft or Boeing 737 aircraft over the routes described as follows:

Route 1

Between Orange County Airport, on the one hand, and San Jose Municipal Airport, Oakland International Airport and San Francisco International Airport, on the other hand, with each of the last three named airports being either a terminal or intermediate point for this route.

Route 2

Between Orange County Airport, Hollywood-Burbank Airport and Ontario International Airport, on the one hand, and San Jose Municipal Airport and Oakland International Airport, on the other hand, with each of the first three named airports and each of the last two airports, respectively, being either a terminal or intermediate point for this route.

Route 3

Nonstop service between San Diego International Airport and San Jose Municipal Airport.

Route 4

Nonstop service between San Diego International Airport and Oakland International Airport.

Route 5

Between Palm Springs Municipal Airport, on the one hand, and San Jose Municipal Airport, Oakland International Airport and San Francisco International Airport, on the other hand, with each of the last three named airports being either a terminal or intermediate point for this route.

Route 6

Nonstop service between Long Beach Airport and San Jose Municipal Airport.

Issued by California Public Utilities Commission.

Decision No. 79085, Application No. 51007.

#Route 7

Between San Jose Municipal Airport and Sacramento Metropolitan Airport.

#Route 8

Between Orange County Airport and Sacramento Metropolitan Airport.

#Route 9

Between Orange County Airport and Sacramento Metropolitan Airport via the intermediate point of San Jose Municipal Airport.

#Route 10

Between San Diego International Airport and Sacramento Metropolitan Airport via the intermediate points of Orange County Airport and San Jose Municipal Airport.

#Route 11

Between Ontario International Airport and Sacramento Metropolitan Airport via the intermediate point of San Jose Municipal Airport.

#Route 12

Between Palm Springs Airport and Sacramento Metropolitan Airport via the intermediate point of San Jose Municipal Airport.

#Route 13

Between Ontario International Airport and Sacramento Metropolitan Airport via the intermediate point of Orange County Airport.

Issued by California Public Utilities Commission.

#Added by Decision No. 79085, Application No. 51007.

CONDITIONS

Minimum number of round trip schedules daily between points shown shall be:

- a. Orange County Airport and San Francisco International Airport 5
- b. Orange County Airport and San Jose Municipal Airport 3
- c. Orange County Airport and Oakland International Airport 4
- d. Between Hollywood-Burbank Airport and Ontario International Airport, on the one hand, and San Jose Municipal Airport and Oakland International Airport, on the other hand 2
- e. Between San Diego International Airport and San Jose Municipal Airport 2
- f. Between San Diego International Airport and Oakland International Airport 2
- g. Between Palm Springs Municipal Airport, on the one hand, and San Jose Municipal Airport, Oakland International Airport and/or San Francisco International Airport, on the other hand 1
- #h. The authority granted in Route 10 is subject to the Commission's final decision in Application No. 52165 in that if permanent authority to operate between San Diego International Airport and Orange County Airport is denied, the intermediate point Orange County Airport is deleted from this route.

Issued by California Public Utilities Commission.

#Added by Decision No. 79085, Application No. 51007.

RESTRICTIONS

No passengers shall be accepted for transportation solely between the following pairs of points:

- a. Orange County Airport - Ontario International Airport.
- b. Orange County Airport - Hollywood-Burbank Airport.
- c. Hollywood-Burbank Airport - Ontario International Airport.
- d. San Francisco International Airport - San Jose Municipal Airport.
- e. San Francisco International Airport - Oakland International Airport.
- f. Oakland International Airport - San Jose Municipal Airport.
- g. San Francisco International Airport - Ontario International Airport.
- h. San Francisco International Airport - Hollywood-Burbank Airport.
- i. San Diego International Airport and other airports already served by Air California except as authorized by Routes 3 and 4.

The following restrictions relate to Route 5:

No passengers shall be accepted for transportation solely between, nor shall operations be conducted by way of, the following pairs of points:

- j. Palm Springs Municipal Airport - Orange County Airport.
- k. Palm Springs Municipal Airport - Ontario International Airport.
- l. Palm Springs Municipal Airport - Hollywood-Burbank Airport.

The following restriction relates to Route 6:

- m. Long Beach International Airport and any other airports served by Air California, except as authorized by Route 6.

Issued by California Public Utilities Commission.

Decision No. 79085, Application No. 51007.