

ORIGINAL

Decision No. 80353

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 Sacra-)
mento, on the other.

Application No. 51007

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

Dietsch, Gates, Morris and Merrell, by Brownell
Merrell, Jr., Attorney at Law, for Pacific
Southwest Airlines, applicant.

Friedman, Heffner, Kahan and Dysart, by Edward J.
Pulaski, Attorney at Law, for Air California;
and Proaps, Gregor and Brophy, by Robert E.
Proaps, Jr., Attorney at Law, and Robert L.
Pleines, Deputy County Counsel, for the County
of Sacramento; protestants.

W. Jeffrey Terrill, for Western Airlines, Inc.,
interested party.

Mark Sepaspour, for the Commission staff.

ORDER GRANTING PETITION FOR MODIFICATION

By Decision No. 79085, dated August 24, 1971, in the above-
entitled consolidated proceedings, Pacific Southwest Airlines (PSA)
was granted a certificate of public convenience and necessity to
conduct nonstop passenger air carrier service between Hollywood-

Burbank and Sacramento. In granting this nonstop authority, the Commission required that PSA provide a minimum of two nonstop round-trip flights each day. (Decision No. 79085, supra, Appendix A, Original Page 5, Restriction Route 15.)

By this petition, filed on February 14, 1972, PSA requests modification of the above restriction to reduce the required number of daily round trips from two to one. Air California (Air Cal) and the county of Sacramento (Sacramento) filed protests. A public hearing was held before Examiner Foley on April 27, 1972, in Sacramento.

In its petition, PSA stated that it would commence Burbank-Sacramento nonstop flights with one daily round trip on February 18, 1972. It requests the modification because it was providing six daily one-stop direct flights (three single-plane round trips) between the points via San Francisco, and seven daily connecting flights via the same point. It also stated that it would be initiating two daily one-stop flights (one daily round trip) via Oakland on February 18, 1972. It asserted that this level of service combined with only one nonstop flight was adequate, that the winter season did not require two daily nonstops, and that its original proposal was to operate only one nonstop flight, but that the Commission imposed the requirement of two such flights on the recommendation of Sacramento County and the Commission staff even though neither party presented a study in support of its recommendation.

At the hearing PSA presented its traffic results on both its one-stop service, which was instituted in November, 1969, and its nonstop flight initiated in February of this year. The total origin and destination (O & D) traffic results for the period February 18 - April 20, 1972, are as follows:

	<u>Total O & D Traffic Burbank-Sacramento</u>	
<u>Direct Flight via Oakland</u>	<u>Direct & Connecting Flights via S.F.</u>	<u>Nonstop Flight</u>
2,326	5,001	4,938

PSA's nonstop flight has operated with an overall load factor of 35 percent. This result is well below the break-even point in operations.

PSA contends that it is more economical to develop the market with only one nonstop round trip flight at the outset. Its witness explained that although its market forecast introduced at the original hearing showed sufficient traffic for two daily nonstop flights, the forecast was for a mature market which could not be achieved until after 12-18 months of operations.

The witness related that PSA's experience has shown that frequency of service is the great stimulator of traffic rather than the institution of nonstop flights. One-stop service is advisable for some time in order to build the market to the point at which nonstop operations are justified. One-stop service is more economical to develop the market because local passengers can be carried to and from the intermediate point. This local traffic supports the costs of flying the through traffic. Obviously, local traffic is not available on nonstop flights. Therefore, more one-stops provide the opportunity to give the public more frequencies at less cost and to develop the market for nonstop service. Consequently, PSA requests that it be permitted to delete the second daily nonstop or postpone its commencement.

Air Cal, Sacramento and the Commission staff oppose PSA's petition. Air Cal insists that the minimum flight requirement imposed by the Commission is in the public interest, and that PSA should be required to provide the service for a reasonable period of time before requesting a modification. It points to the various minimum flight requirements imposed on it, and it criticizes PSA for not presenting revised traffic and financial forecasts in support of its request. However, its witness suggested that PSA be permitted to delete nonstop service on the weekends in order to increase its load factor on this service.

Sacramento contends that nonstop service will stimulate the market faster than a build up with one-stop flights. It presented a survey of the Burbank-Sacramento passengers traveling on Friday, April 14, 1972. On this day, the nonstop southbound flight carried 90 passengers, resulting in an 80 percent load factor. Sacramento stated that it does not object to a modification which delays imposition of the Commission's requirement for three or six months.

The Commission staff opposes PSA. It urges that the carrier be required to provide the two nonstops until the end of this year, at which time there would be more adequate traffic data upon which to base a decision.

Since commencing one-stop service on this route in November, 1969, PSA has carried a total of 51,640 O & D Burbank-Sacramento passengers during 1970. (Exh. No. 1B) It carried only a few more passengers, 51,698, during 1971. These traffic results show almost no growth and are far less than forecast in PSA's application seeking one-stop authority. (See Apps. Pacific Southwest Airlines, Air California and Pacific Air Transport, 70 Cal. P.U.C. 122 (1969) (Decision No. 76110, dated September 3, 1969).)

In Application No. 51058, PSA's proposal to commence nonstop service was unopposed, and the applicant suggested initiation of only one daily round trip. The Commission imposed a minimum of two such flights at the request of Sacramento and the Commission staff, and because PSA's traffic forecast, as adjusted by our decision, indicated the market had the potential in the future to support two daily nonstop flights. Its daily nonstop service, operated during March and April, 1972, has produced a relatively low load factor of 35 percent. This load factor is well below PSA's break-even load factor of about 52 percent, as indicated by its witness. (Tr. 672.) On the other hand, if the March and April results are annualized for the entire year, total 1972

O & D traffic on the route would be 72,000 of which about 30,000 would be nonstop passengers. This suggests that the nonstop service now provided by PSA will stimulate the market considerably, but the 30,000 nonstop passengers are far below the forecast of 90,000 adopted in Decision No. 79085, supra.

Even though PSA's nonstop flight appears to be stimulating the market, the above facts indicate that the development of nonstop service will require considerable time. There does not appear to be any compelling reason to require operation of the second nonstop flight immediately. In addition to its one nonstop round trip flight, PSA is operating three direct one-stop round trip flights via San Francisco daily and one via Oakland.

Eased upon the traffic results presented, the Commission agrees with PSA that the addition of a second nonstop flight would only result in additional operating losses. Since PSA has been a successful developer of California intrastate markets, its experience and judgment should be given considerable weight. Both Air Cal and PSA have indicated that frequency of service is more important in developing a market than the immediate institution of nonstop service. (Tr. 692-3.) Air Cal has utilized this approach in seeking modification of its San Diego authority to delay institution of nonstop service and substitute more frequent and less uneconomic one-stop flights. (Application No. 52165, filed August 27, 1970.) Since PSA is seeking only to avoid having to operate a second daily nonstop, and not to cease all nonstop operations, its request is not unreasonable. We will, however, grant only a one year's delay in introducing the second nonstop flight. At that time, it will be required to operate the second flight unless it seeks further relief from the Commission.

Findings of Fact

1. PSA is a passenger air carrier as defined in the Passenger Air Carriers Act. (Sections 2739 et seq. of the Public Utilities Code.)

2. PSA holds one-stop operating authority to conduct one-stop service between Burbank-Sacramento via San Francisco. During 1970 and 1971 it carried about the same number of O & D passengers on this route, 51,600. This indicates that growth in this market will be relatively slow.

3. Under Decision No. 79085, supra, PSA was granted authority to operate nonstop flights between Burbank-Sacramento. It was required to operate a minimum of two daily nonstop round trips. It commenced one daily nonstop round trip on February 18, 1972. Its March and April, 1972, nonstop traffic results, if annualized for the entire year 1972, would produce about 30,000 O & D nonstop passengers. This amount of traffic is far below the forecast level of 90,000 such passengers. The total 1972 O & D traffic, as based upon March and April results, would be about 72,000 passengers. Since this expected increase in traffic shows that PSA is stimulating the market, but since the expected nonstop traffic results show that only one third of the forecast nonstop traffic is likely to be carried, it is reasonable to allow PSA a one-year delay in introducing its second daily nonstop round trip flight on this route.

4. The protestants to PSA's proposal have not shown any compelling facts or reasons which support denial of PSA's request.

Conclusion of Law

Based upon the foregoing findings of fact, the Commission concludes that PSA's petition should be granted to the extent provided in the order below.

O R D E R

IT IS ORDERED that:

1. Pacific Southwest Airlines is granted a delay in introducing a second daily nonstop round trip flight between Hollywood-Burbank Airport and Sacramento Metropolitan Airport, as required by Decision No. 79085, dated August 24, 1971, in Applications Nos. 51007 and 51058, Appendix A, Restriction on Route No. 15, until August 1, 1973.

2. On August 1, 1973, the authorization granted by paragraph 1 above shall cease to have any effect, and Pacific Southwest Airlines shall commence the minimum daily required level of service unless further order of the Commission provides otherwise.

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

Dated at San Francisco, California, this 8th day of AUGUST, 1972.

Jerome L. Sturgeon
President
William J. Quinn
John J. Quinn
Thomas J. Quinn
Commissioners