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ORIGINAL

Decision No. 81893

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of HOLIDAY AIRLINES, INC., a California corporation, for authority to transport local passengers between all airports on Holiday's system where flights can be operated subject to the condition that all flights shall originate or terminate at Lake Tahoe.	Application No. 53266 (Filed April 14, 1972)

Beauvais, Roberts and Associates, by Edward R. Beauvais and Philip D. Roberts, for Holiday Airlines, Inc., applicant.

Darling, Hall, Rae and Gute, by Donald K. Hall, and Ernest T. Kaufmann, Attorneys at Law, for Western Airlines; Gates, Morris, Merrell and Stephens, by Mark T. Gates and Brownell Merrell, Jr., Attorneys at Law, for Pacific Southwest Airlines; Freidman, Heffner, Kahan and Dysart, by Edward J. Pulaski, Jr., Attorney at Law, and Frederick R. Davis, for Air California; Richard A. Fitzgerald, Attorney at Law, and Henry Myers, for Hughes Air West; and Donald L. Klein, for Valley Airlines; protestants.

Gary C. Chase, City Manager South Lake Tahoe, for City of South Lake Tahoe; Frank C. Souza, South Lake Tahoe Property Owners Association; Alex W. Talmant, for County of El Dorado; Jim Heydon, for South Lake Tahoe Tourist Development Commission; and John W. Morris, for Tahoe Daily Tribune and South Lake Tahoe News Service; interested parties.

J. Kerwin Rooney, Port Attorney, by John E. Nolan, Assistant Port Attorney, for the Port of Oakland, intervenor.

Scott K. Carter and James J. Cherry, Attorneys at Law, and Richard Brozosky, Mark Sepaspour, and Edward C. Crawford, for the Commission staff.

O P I N I O N

Holiday Airlines, Inc. (Holiday), a passenger air carrier as defined in the Passenger Air Carriers' Act (Sections 2739 et seq. of the Public Utilities Code), has authority to transport passengers by air in either direction between Los Angeles International Airport (LAX),[1/] Hollywood-Burbank Airport (BUR), Oakland International Airport (OAK), San Jose Municipal Airport (SJC), San Diego International Airport (SAN), on the one hand, and Tahoe Valley Airport (TVL), on the other hand. By this application Holiday seeks modification of its operating authority granted by Decision No. 77228 dated May 19, 1970 in Application No. 51346, and amended by Decision No. 77276 dated May 22, 1970 in Application No. 51346, Decision No. 79545 dated January 4, 1972 in Application No. 52186, and by Decision No. 79601 dated January 18, 1972, affirmed by Decision No. 80650 dated October 25, 1972, in order that it may carry local passengers between the points it is authorized to serve in southern and northern California by removal of a restriction currently in its certificate which prohibits carrying such traffic.

Protests to Holiday's application were filed by Air California (Air Cal), Hughes Air West (Air West), Pacific Southwest Airlines (PSA), Western Airlines (Western), and Valley Airlines (Valley). Public hearings were held before Examiner Foley on November 8, 9, and 10, 1972 at South Lake Tahoe and on November 27, 28, 29, and December 19, 1972 in San Francisco. The matter was taken under submission subject to the mailing of concurrent opening briefs on March 6, 1973 and closing briefs on March 23, 1973.

1/ Holiday's terminal facility at LAX is not at the main passenger terminal complex located on Century Blvd., but is at the terminal adjacent to LAX known as West Imperial Terminal, which is located on the West Imperial Highway immediately south of LAX. Throughout this opinion the abbreviation "LAX" refers to Holiday's terminal facilities at West Imperial Terminal.

Background

Holiday commenced Lake Tahoe service in July 1965 with flights from the Bay Area. Service was expanded to southern California in 1968 when it instituted operations with one Lockheed Electra aircraft. After acquiring a second Electra aircraft in mid-1969, daily service was offered throughout the year, and more than 80,000 Lake Tahoe origin and destination (O&D) passengers were carried in 1969 and over 100,000 were carried in 1970. However, these passengers were occupying only about 35 percent of the seats provided on the carrier's flights with the result that it consistently sustained operating losses.

As a result of these unfavorable operating conditions and generally adverse economic conditions, Holiday was granted a 25 percent fare increase in October 1970. Traffic continued to decrease and it reduced the frequency of service between southern California and TVL from two daily round-trip flights to one round trip per day in December 1970. Because of further dramatic decreases in traffic during the early winter months of 1970, Holiday ceased daily operations in January 1971 and provided only weekend flights. In late May 1971, however, daily service was reestablished for the summer season.

Until ceasing daily operations in 1971, Holiday served TVL by operating nonstop flights from either the Bay Area or the Los Angeles area. In June 1971 it determined that it could combine these somewhat separate operations and still accommodate all the passengers available in the Tahoe market while at the same time reducing its operating costs. Accordingly, it revised its flight schedules to operate single-plane multi-stop flights between southern California and Lake Tahoe via San Jose and Oakland. Scheduled nonstop southern California-Lake Tahoe service was provided only once each day, and increased on the weekends.

In the 1971-72 winter season Holiday reduced operations to five days a week. Its basic schedule in the summer season (June-November) is two daily multi-stop round-trip flights between southern California and Lake Tahoe via the Bay Area and one nonstop daily round trip between Los Angeles and Lake Tahoe. The winter schedule consists of one daily multi-stop round-trip flight, but no service is provided on Tuesdays or Wednesdays. A nonstop Los Angeles flight is offered on Monday and Thursday. There are additional nonstop and multi-stop flights scheduled for the winter weekends.

From the commencement of Holiday's service, the Commission has restricted its operating authority by requiring that all passengers must originate or terminate their transportation at Lake Tahoe. (See App. of Holiday Airlines, Decision No. 79545 dated January 4, 1972 in Application No. 52186, Appendix A, Condition 1.)

Holiday has two fare structures, one for peak travel times and lower fares for Monday through Thursday, as shown below:

San Diego and Lake Tahoe			
Friday-Sunday & Holiday Periods	$41.00	including	tax
Monday-Thursday	35.00	"	"
Los Angeles/Burbank and Lake Tahoe			
Friday-Sunday & Holiday Periods	33.50	"	"
Monday-Thursday	28.50	"	"
Oakland/San Jose and Lake Tahoe			
Friday-Sunday & Holiday Periods	19.50	"	"
Monday-Thursday	16.50	"	"

The carrier also offers special excursion fares, family fares, and group fares.

During the entire period of its operations, Holiday has never been able to attain profitable system operations on an annual basis. Between the first full year of operations (1966) and September 30, 1972, the end of Holiday's most recent fiscal year, it has sustained a loss of $4.16 million on total revenues of $6.93 million. (Exh. No. HL-12.) Summer operations, which make up the peak season, are moderately profitable, but winter service has always produced such large losses that summer profits are more than offset. Even so, the carrier did not earn an overall quarterly profit during its peak traffic period until the summer of 1971. (Exh. No. 7, HL-13.)

Although Holiday forecast in its 1971 annual report that the year 1972 would produce an overall net profit, this expectation failed to materialize. Holiday in fact lost $295,000 for the year ended September 30, 1972. (Tr. 291.) Its traffic for the months between June through October 1972 was 12.2 percent below forecast levels. Holiday's president testified that it has not been able to secure any credit from financial institutions since 1970, and that four financial institutions cited the carrier's poor earnings record as the reason. (Tr. 337-8.) The analysis of the Commission's Finance and Accounts Division shows that charter operations have been consistently profitable and have aided the carrier by offsetting losses from certificated operations. (Exh. No. 11, p. 5.) Recent financial results are shown on the following page:

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HISTORY OF HOLIDAY'S FINANCIAL RESULTS
(Certified and Charter Operations)

	Year Ended 10/31 1966	Year Ended 10/31 1967	Year Ended 10/31 1968	Year Ended 10/31 1969	11 Months Ended 9/30* 1970	Year Ended 9/30 1971	Year Ended 12/31 1971	Fiscal Year 9/30/72
Oper. Revenues	$124,935	$ 89,583	$ 127,087	$ 1,238,067	$ 2,179,009	$1,452,982	$1,454,746	$1,721,305
Cash Oper. Expenses	160,194	245,787	651,147	2,384,364	3,087,937	1,801,878	1,416,856	1,859,019
Cash Oper. Profit (Loss)	(35,259)	(156,204)	(524,060)	(1,146,297)	(908,928)	(348,896)	37,890	(137,714)
Depreciation Expense	6,342	11,354	7,684	268,102	229,246	158,931	164,883	153,731
Total Oper. Profit (Loss)	(41,601)	(167,558)	(531,744)	(1,414,399)	(1,138,174)	(507,827)	(126,993)	(291,445)
Net Non-Oper. Income (Expense) Net	(2,231)	(5,021)	(277)	(113,570)	29,183	21,972	(2,368)	(3,320)
Net Profit (Loss)	$(43,832)	$(172,579)	$(532,021)	$(1,527,969)	$(1,108,991)	$ (485,855)	$ (129,361)	$ (294,765)

(Source: Exh. No. 7, HL-12)

*Holiday changed its fiscal year end from October to September in 1970.

Holiday's Application

By its request herein, Holiday seeks removal of the operating restriction in its certificate which denies it the opportunity of carrying local passengers between southern California and the Bay Area points, i.e., SAN-LAX, LAX-BUR-SJC-OAK. With the aid of the local southern California-Bay Area passengers (the corridor traffic) which it expects to carry, Holiday states that it can provide daily service to Lake Tahoe all year round. By so doing it maintains that the public convenience and necessity will be served, and that no other carrier will suffer any adverse economic effects. Therefore, it contends that its request is in the public interest and should be granted.

In carrying local traffic in the corridor, Holiday proposes to charge the following fares.

PROPOSED HOLIDAY FARES IN THE CALIFORNIA CORRIDOR MARKETS

Market		Basic Fare	Federal Tax	Total Fare
Los Angeles	- Burbank	$11.11	$ .89	$12.00
	- Oakland	15.28	1.22	16.50
	- San Diego	7.41	.59	8.00
	- San Jose	15.28	1.22	16.50
Burbank	- Oakland	15.28	1.22	16.50
	- San Jose	15.28	1.22	16.50
Oakland	- San Jose	11.11	.89	12.00

Special Fares

Children: 50% discount for children ages 2 through 12.

Stopover: For an additional charge of $2.50 (2.32 before tax) to the Lake Tahoe-southern California through fare utilized, passengers may stopover in the San Francisco Bay Area.

Various public witnesses from the South Lake Tahoe area appeared in support of the carrier's request, including the city manager of the city of South Lake Tahoe and the Director of Airports for El Dorado County. These witnesses, along with other witnesses representing local business interests, urged approval of Holiday's request in order to have year-round daily service restored to TVL. (Exh. No. 1.) They emphasized that the area is dependent upon tourism for its economic livelihood. They indicated that full-year daily service would serve to ease the problem of seasonality in the tourist business. By seasonality they explained that they meant the fact that the South Lake Tahoe area does not have as much business during the winter months as it does during the summer. The witnesses denied that Western's service into Reno with a one or two hour bus connection to South Lake Tahoe constituted adequate air carrier service. A similar opinion was expressed regarding Air West's one round-trip flight operated five days a week between TVL and San Francisco.

The Director of Airports explained that El Dorado County is very concerned with continued and expanded service by Holiday because it is the major carrier operating at TVL. He estimated that for the first ten months of 1972 Holiday had carried about 50,000 TVL passengers and Air West had carried only 4,000. (Tr. 142.) If Holiday ceased to operate he indicated that the TVL terminal, recently constructed at a cost of $860,000 would become virtually useless, and that the Federal Aviation Administration had informally indicated it might close the flight control tower. (Tr. 142-144.) He further stated that without Holiday's operations at TVL, the airport's revenues of about $100,000 per year would be lost. (Tr. 145.) He also explained that as Director of Airports he had contacted other carriers, including PSA, Air Cal, and Frontier Airlines, seeking new service. None of these carriers were either willing or able to seek authority to serve TVL. (Tr. 209-210.)

The Port of Oakland, acting for the city of Oakland, also supports Holiday's request primarily because service between Oakland and Lake Tahoe would be improved in that full year-round daily service would be provided by Holiday, and because there would be a few additional flights between Oakland-Burbank and Oakland-Los Angeles. Both markets are presently served exclusively by PSA, except for a very small level of service by Western in the Oakland-Los Angeles market. Oakland considers itself, San Jose, and Burbank as under-served satellite airports which should receive more service by the various airlines. It contends that the dire competitive consequences predicted by the protestant carriers if Holiday's request is approved are substantially overstated because Holiday's few flights in the corridor would be flown with older, smaller, propellor-driven aircraft. It concludes that common sense indicates that the competitive threat of Holiday to the larger, and financially stronger protestant carriers, is minimal.

The Commission staff presented witnesses from the Finance and Accounts Division and the Transportation Division. The staff recommends approval of Holiday's request herein on the ground that the carrier requires financial relief either by securing a fare increase or greater traffic volume; and that the quality of service provided to Lake Tahoe would be improved by having daily year-round flights, particularly because a return flight from Lake Tahoe would be available each day. (Exhs. Nos. 11 and 14; Tr. 493-4.)

Protestants

Western, Air West, Air Cal, Valley, and PSA oppose Holiday's application.

Western argues that permission to carry local traffic in the corridor all year round should not be permitted just to allow Lake Tahoe to have year-round daily service. It maintains that its service to Reno is equivalent to Tahoe service. It predicts that the local corridor traffic expected to be carried by Holiday will not prove to be the solution to its financial difficulties. It joins the other protestants in contending that Holiday's true, but concealed, purpose in the application is to acquire corridor operating authority.

Air West, which serves Lake Tahoe from San Francisco with one round-trip flight five days each week, agrees with Western that there is no need for the additional service to Lake Tahoe. It objects to the proposed daily service on the ground that Holiday is seeking financial aid to provide these additional flights by the device of authorizing the diversion of revenues from the incumbent carriers in the corridor. Furthermore, it asserts that Holiday will fail to secure sufficient revenues from corridor traffic to offset its overall loss in serving Lake Tahoe. It is also critical of Holiday for not showing any need for increased local service in the corridor markets it would serve.

Air Cal presently does not operate in any of the markets served by Holiday. It provides some package tours to Lake Tahoe via bus connections from its flights to Sacramento. It objects to Holiday's proposal on the basis that there is no need to authorize an additional intrastate carrier to operate in the corridor. It views Holiday's request as one which seeks subsidy by the corridor carriers through diverted traffic, although it does agree that the Lake Tahoe parties' request for daily air carrier service is reasonable. Air Cal states that its corridor markets, except those serving Orange County, "are only economically marginal", and that the diversion of any traffic from these markets will make its operations less than marginal. (Air Cal Initial Brief, p. 7.) Finally, this protestant maintains that Holiday can provide year-round daily service without carrying any corridor traffic because the 1974 Tahoe traffic alone will be sufficient to assure profitable operations for the carrier, and if it schedules its operations to TVL in a different manner.

Valley Airlines, Inc. (Valley), an intrastate passenger air carrier authorized to operate between San Jose-Oakland, protests Holiday's request to carry passengers between these two Bay Area points. Valley states that it carried only 5.1 passengers per month in this route during 1972, and this meager traffic does not justify authorizing another carrier in addition to itself, Air West, and Western. Valley argues that removal of Holiday's closed door restriction on this route will only divert this small amount of traffic from it.

The major protestant is PSA, the dominant airline in the corridor as well as the most financially successful one. It presented two witnesses, its vice president for finance and a traffic consultant. They presented evidence in support of the main objections advanced by all the protestants: i.e., that Holiday has failed to prove any public need for the service; that the corridor traffic Holiday carries will be diverted passengers from the incumbent carriers; that PSA will suffer the loss of over $144,000 in revenue which it cannot afford; that the degree of traffic and revenue diversion in the corridor could be greater; and that Holiday is attempting to achieve corridor carrier status through the "back door" of a certificate for modification, which in turn will be followed by conversion to full jet aircraft and then a proposal to operate turnaround service in the corridor as the protestants presently provide. As a solution to Holiday's problems, PSA recommends either a fare increase as it, Air Cal, and Western are seeking, or that it apply for authority to operate between Lake Tahoe-San Francisco because the latter city is Lake Tahoe's largest potential source of traffic.

DISCUSSION

At the outset it must be recognized that this application is not one which requests the award of new route authority. Holiday has been granted operating authority to serve Lake Tahoe and has done so on a daily basis in the past. It discontinued daily operations in 1971 as a result of economic necessity. During its entire operating history it has sustained continuing operating losses. It now wishes to restore full year daily service to Lake Tahoe and to improve its financial position by removal of the "closed door" restriction in its certificate. This restriction prevents it from carrying local passengers in the corridor on the flights it presently operates as segments of its Lake Tahoe service. Holiday does not seek authority to provide turnaround service between the Bay Area and Los Angeles; each of its flights will have to continue on to or originate from TVL. Therefore, the terms of Section 2753 of the Public Utilities Code,[2/] which governs the awarding of air passenger carrier certificates, do

2/ Section 2753 provides as follows:

"An applicant shall submit his written verified application to the commission. The application shall be in such form and contain such information and be accompanied by proof of service upon all passenger air carriers with which the proposed service is likely to compete and such other interested parties as the commission requires.

"In awarding certificates of public convenience and necessity pursuant to Section 2752, the commission shall take into consideration, among other things, the business experience of the particular passenger air carrier in the field of air operations, the financial stability of the carrier, the insurance coverage of the carrier, the type of aircraft which the carrier would employ, proposed routes and minimum schedules to be established, whether the carrier could economically give adequate service to the communities involved, the need for the service, and any other factors which may affect the public interest."

not fully apply in evaluating this request. However, the standards set forth in Section 2753, particularly the standard requiring consideration of "other factors which may affect the public interest", will be utilized in considering the issues involved herein, as well as the provision set forth in Section 2754 which allows the Commission to attach such terms and conditions in certificates of public convenience and necessity as in its judgment are required by public convenience and necessity.[3/]

Insofar as Holiday is required to demonstrate public need for daily service to Lake Tahoe, we conclude that its showing, combined with the testimony of the Lake Tahoe witnesses as set forth above, is more than adequate. The restoration of year-round daily service to Lake Tahoe would certainly be convenient to the public and may reasonably be deemed necessary, particularly in the winter when the access roads may be closed on occasion by weather. Holiday is the only intrastate carrier directly serving TVL, and Air West, which is the only interstate carrier providing flights to TVL, plans to transfer its operations to Minden, Nevada. (Exh. No. 18.)

3/ Section 2754 provides as follows:

"Each application for a certificate of public convenience and necessity made under the provisions of this part shall be accompanied by a fee of one hundred fifty dollars ($150).

"The commission shall, with or without hearing, issue a temporary or permanent certificate, except that a certificate may not be issued without a hearing over the formal objection of a person or party possessing standing to object. The commission may deny the application for a temporary or permanent certificate in whole or in part, with or without hearing, except that such denial may not be ordered without a hearing over the formal objection of the applicant. The commission may attach to the exercise of the rights granted by the certificate such terms and conditions as, in its judgment, the public convenience and necessity require. Minimum schedules may be received and revised by the commission at intervals of not less than one year."

Moreover, the intrastate carriers' expert witnesses have advanced the theory many times in certificate application proceedings that successful intrastate air passenger carrier operations require market identity. This is achieved by providing frequent and reliable service combined with the knowledge by the public that this level of service is available. Providing year-round daily service to the fullest extent possible is an essential element of this theory. Otherwise members of the public will have doubts as to whether flights are being operated on any given day and may choose alternative transportation modes based on these doubts alone. Finally, the protestants did not present any witnesses who opposed such daily service as either unnecessary or inconvenient.

Nor are the protestants correct in maintaining that Holiday must show public need for additional flights in the corridor before removal of the closed door restriction is justified. As stated above, this is not an application to become a major competitor in the corridor, such as PSA, Air Cal, Western, or United Air Lines. At the most it represents an attempt to become a small, supplemental carrier in the corridor such as Air West, American, and Trans World Airlines.4/ Furthermore, it is only common sense that if an adequate airport exists, as is true here, and if a carrier is providing less than daily year-round flights to that airport, as is also true here, that Holiday be permitted to exercise any reasonable means to upgrade its service to full year daily service unless the means proposed would have a serious adverse impact on the other carriers or the public interest. The precise question is not whether more corridor service

4/ American is restricted from operating turnaround service in the corridor, but it may carry local corridor traffic on through flights beyond Los Angeles or San Francisco. (Exh. No. 14, p. 3.)

is needed or is in the public interest, but whether the carriage of whatever local traffic Holiday can acquire on the SAN-LAX-BUR-SJC-OAK corridor route is likely to burden the incumbent carriers so severely that removal of the "closed door" restriction should be denied.

Turning to the impact on the protestant carriers, Holiday correctly points out that Air Cal, Air West, and Western did not make any specific showing as to diversion of traffic which they now carry either in the corridor or to Lake Tahoe. This is undoubtedly because these protestants are not currently providing any flights on the BUR-OAK route. Air Cal is not authorized to serve LAX, either at the main terminal or the West Imperial terminal, and it has not provided service in the Burbank-Oakland market for several years. Western's limited service between LAX-OAK would presumably be uneffected since its few flights are nonstop while Holiday's are two-stop and they do not depart from the main terminal complex at LAX. Therefore, as far as Air West and Western are concerned, the most serious diversionary effect they face is the possible loss of a few passengers on their flights between San Diego-Los Angeles. We conclude that the diversionary effect on these protestants is de minimis since they cannot quantify it.

PSA, on the other hand, has presented a specific estimate of traffic diversion. Its study shows a projected loss in gross revenues of about $145,000 if Holiday's traffic forecasts prove correct. If Holiday was so successful as to capture passenger traffic at the same level as the percent of seats it will be providing in the Burbank-San Jose/Oakland market, i.e., 4.8 percent; PSA claims that it could sustain gross revenue diversion of $1 million. It states that a large number of unused seats are available in this market; and that nonstop Burbank-Oakland service will be delayed if Holiday's request is approved because this route is not profitable without being combined with flights to San Jose. It joins Western in suggesting that Holiday should seek an increase in its fares as a solution to its financial problems, or it recommends that Holiday apply for San Francisco authority.

The presentation of PSA is not convincing. Assuming, arguendo, that diversion in the amount of $145,000 will result, this amount is de minimis considering PSA's size, position in the corridor market, its outstanding success, and its recently approved fare increase. (Decision No. 81793 dated August 21, 1973 in Application No. 53525.) The loss of $145,000 in gross revenues represents less than one percent of PSA's expected gross revenues in 1973.[5/] (Tr. 643.) With respect to its estimate of potential diversion of $1 million, we conclude that this borders on the realm of fantasy, given the fact that Holiday operates a total of two jet-propellor driven aircraft, that it cannot serve LAX's main terminal, and that its BUR-SJC/OAK flights will have some seats occupied by Lake Tahoe passengers. We take note that except for the very little service offered by Continental Airlines between BUR-SJC, PSA is the only carrier operating in this market, and that Holiday will be providing only one morning and one evening flight in each direction between Burbank and San Jose/Oakland. We also take note that Air Cal could not compete with PSA in this market, although it was offering six or seven daily round-trip flights with jet equipment. We conclude, therefore, that the level of competition presented by Holiday's request does not appear to threaten PSA in any way.

Several protestants, including PSA and Western, contend that Holiday's problems will be solved if it initiated service to San Francisco from Lake Tahoe. PSA presented an elaborate forecast for Bay Area operations by Holiday. This forecast for 1973 reflects increased traffic of 69,000 passengers from the Bay Area, presumably 50,000 to 65,000 of whom would be San Francisco passengers. (Exhs. Nos. 22; 27 - PSA R-11; Tr. 633-4.) This dramatic result apparently would be achieved during Holiday's first year of operations. This level of San Francisco traffic is more than 2.5 times that which Holiday forecasts for 1973 in the Lake Tahoe-San Jose/Oakland market. It is almost nine times the approximate 7,000 San Francisco-Lake Tahoe

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5/ Actual loss would be substantially less, because of costs of rendering such service.

passengers Air West would have carried in 1972, assuming that it had operated a full twelve months that year. Even after allowing for stimulation resulting from Holiday's lower fares and service seven days a week, this traffic forecast is unrealistic. Such a high volume of traffic from San Francisco could reasonably be expected only after several years of route development. In addition, adoption of this suggestion would require Holiday to undertake the burden of start-up expenses at a new airport station.

Likewise, the contention that Holiday resolve its financial difficulties by applying for a seven percent fare increase is unacceptable. Holiday's response that it recently increased its fares fully answers this cavalier suggestion. It completely overlooks the fact that unlike PSA and Western, Holiday relies for its survival primarily on tourist and recreation oriented traffic, which involves discretionary spending. (See Decision No. 79545 dated January 4, 1972 in Application No. 52186, p. 6.) A fare increase should be the last step it takes to relieve its financial problems, not the first.

Valley opposes authorization of Holiday to carry San Jose-Oakland passengers. Although it did not actively participate in the proceeding, its brief states that its traffic between these nearby points is meager, amounting to about 5 passengers per month. In the past Valley has also protested applications by PSA and Air Cal for this authority. The proposal by PSA is still pending with the Commission. Under these circumstances, and in consideration of the fact that Valley is a third level carrier, the Commission concludes that Holiday should not be permitted to carry such traffic at this time. The question whether all or any of the major intrastate carriers should be permitted to carry local passengers on this short segment given the presence of a third level operator on the route, should be resolved in a consolidated proceeding.

Holiday presented two forecasts for the forecast year 1973; one based on operations without local traffic authority, and one with such authority. Under the former, Holiday's 1973 traffic is expected to increase about 14.3 percent over the 1972 result. This is based on actual results in traffic carried for the June-October period in 1972 over the same period in 1971. (Exh. No. 7, HL-9 Rev.) It also expects increases in its charter revenues and that at the same time all costs will be closely controlled. Under these assumptions, Holiday's traffic consultant concluded that if it provides service on only 310 days per year, as it is currently doing, the result will be a $10,000 loss, or virtually a breakeven operation. However, if permitted to carry local traffic in the corridor, Holiday will be able to operate scheduled Tahoe service 365 days a year. This will result, according to the witness, in Holiday carrying an additional 10,000 Tahoe passengers. (Exh. No. 7, HL-24.) Furthermore, the carrier expects to carry about 20,000 local corridor passengers. (Exh. No. 7, HL-29.) The end result of carrying these additional 30,000 passengers is expected to be an operating profit ranging between $24,000 and $75,000. (Exh. No. 7, HL-26, Tr. 356-7.) On the other hand, if it operates year-round daily service without carrying any local traffic in the corridor, it predicts an operating loss of about $131,000. (Exh. No. 7, HL-26, 30.)

Although any forecast for Holiday is difficult to evaluate because its traffic is peculiarly dependent on discretionary spending, the forecast of increased Lake Tahoe traffic appears reasonable in that subject to weather conditions Holiday will be providing service on the 55 winter days during which it is presently not providing any service. In addition, it will be adding an additional flight on Saturday.

It is doubtful, however, that Holiday will succeed in carrying 20,000 local corridor passengers during its first full year of operations. Since we are not permitting it to carry local traffic between San Jose-Oakland, it will not carry the 4,200 passengers forecast between these two points. The reduction in gross revenues resulting from this fact will be about $42,000. Therefore, it must be concluded that Holiday's ability to achieve breakeven results in its overall operations will be dependent on its ability to attract Los Angeles/Burbank-San Jose/Oakland traffic, combined with increased Lake Tahoe and charter traffic. It follows that Holiday's prospects will continue to be marginal even though its request herein is granted.

Nevertheless, the record is clear that Holiday's present certificated operations have resulted in significant operating losses and that it will soon require financial relief through either increased fares or traffic. (Exh. No. 11, p. 8.) Financially sound air passenger carriers are in the public interest. It is also clear that the diversionary effect on the protestant carriers will be minimal at most. Given the fact that Holiday operates only two aircraft, and that it will be conducting daily operations plus charter operations, it is unlikely that any of the protestant carriers are threatened by its proposal. Finally, the Commission has recognized in the past that Holiday should be given wide latitude in experimenting with methods of bringing in more revenue because its entire operation is a luxury-type service. (App. of Holiday Airlines, Decision No. 79545, supra.)

The Commission concludes that it is reasonable and in the public interest, therefore, to permit Holiday this opportunity to achieve improvement in its overall financial position while at the same time preserving and expanding passenger air carrier service to Lake Tahoe. In granting the requested modification, we will adopt the Commission staff's recommendation that Holiday's certificate be revised to provide that a minimum of one round-trip flight per day be operated between Lake Tahoe and each of the two metropolitan areas, i.e., the San Francisco Bay Area and Los Angeles, and that a minimum of two round-trip flights per week be operated between Lake Tahoe and San Diego.

In view of the fact that granting Holiday's request involves restoration of flights it previously provided at Lake Tahoe during the winter season, and permission to carry local passengers on flights it is presently operating in the corridor, the Commission concludes with reasonable certainty that there will not be a significant effect on the environment.

No other points require discussion.

Findings of Fact

1. Holiday is a passenger air carrier currently holding authority to operate between South Lake Tahoe, on the one hand, and various points in the Bay Area and southern California, on the other hand. Holiday's service is a luxury-type service which is dependent on discretionary spending because it involves the transportation of recreational traffic rather than business traffic.

2. Holiday has never attained profitable results since it commenced operations as a passenger air carrier. Between 1966 and September 1972 it has sustained a total loss of $4.16 million. During the fiscal year ending September 30, 1972 it suffered a net loss of $295,000. It has not been able to secure any credit from financial institutions since 1970. Holiday's financial condition is weak, and it is in need of additional passenger traffic or it may have to seek fare relief.

3. Holiday operates two jet-propellor Lockheed Electra aircraft, which are older and slower than any of the protestants' aircraft. It does not serve the main terminal complex at LAX, and its flights must continue to and originate from TVL.

4. If permitted to carry local passengers in the California corridor, Holiday expects to carry 10,000 additional Lake Tahoe passengers as a result of providing year-round daily service to TVL, and about 16,000 local passengers in the corridor. This forecast of increased traffic is reasonable, and will aid Holiday in achieving a small operating profit or a breakeven result in the near future.

5. Air Cal, Western, and Air West did not present any specific estimate of traffic diversion if Holiday's request is granted. All these carriers have greater financial resources, larger route structures, and more modern equipment than Holiday. Based on these facts and finding 3, it is reasonable to conclude that any adverse impact upon these carriers which may occur as the result of granting Holiday's request herein will be de minimis.

6. PSA will face a minimal degree of competition in the Los Angeles/Burbank-San Jose/Oakland market if Holiday's request is granted. PSA is virtually the sole carrier in the Burbank-San Jose/Oakland market. It is the dominant carrier in this market as well as the entire California corridor. In light of its past success, its size, and the receipt of a recent fare increase from the Commission, it is reasonable to conclude that it will not sustain any serious impact from the small degree of competition which may occur if Holiday's request is granted.

7. Valley Airlines presently serves the San Jose-Oakland market. It is a third level carrier which has averaged about 5 passengers per month on this route during 1972. It has protested an application by PSA and Air Cal for authority to carry passengers on this short route. The question whether the two major intrastate carriers and Holiday should be authorized to operate in this local market when there is a third level carrier presently operating in it should be decided in a consolidated proceeding. For this reason it is reasonable to deny Holiday's request to carry traffic in this market at this time.

8. Holiday does not object to the Commission staff's recommendation that it be required to provide that Holiday provide a minimum of one daily round trip between Lake Tahoe and the San Francisco Bay Area, and between Lake Tahoe and Los Angeles, and a minimum of two round-trip flights per week between Lake Tahoe and San Diego.

9. The Commission finds with reasonable certainty that the removal of the closed door restriction in Holiday's certificate will not have a significant impact on the environment.

Based upon the foregoing findings of fact, the Commission concludes that the requested modification of Holiday's operating authority should be granted.

O R D E R

IT IS ORDERED that Appendix A of Decision No. 77228, as heretofore amended, is further amended by incorporating therein Fourth Revised Page 1, attached hereto, in revision of Third Revised Page 1.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 14th day of SEPTEMBER, 1973.

Vernon L. Sturgeon
President

William Symons Jr.

J. P. Vukasin Jr.

D. W. Holmes

Commissioners

Commissioner Thomas Moran, being necessarily absent, did not participate in the disposition of this proceeding.

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Appendix A (D.77228)

HOLIDAY AIRLINES CORPORATION*
(Formerly Holiday Airlines, Inc.)

Fourth Revised Page 1
Cancels
Third Revised Page 1

Holiday Airlines Corporation is authorized to operate in either direction as a passenger air carrier between the following airports only:

OAK-TVL	OAK-SJC	LAX-OAK
SJC-TVL	BUR-LAX	BUR-OAK
BUR-TVL	LAX-SJC	BUR-SJC
LAX-TVL	LAX-SAN	
SAN-TVL		

Conditions

#1. No passenger whose transportation is solely between SJC and OAK shall be carried in either direction.

#2. A minimum of one round-trip flight per day shall be operated between TVL and SJC/OAK.

#3. A minimum of one round-trip flight per day shall be operated between TVL and LAX/BUR.

#4. A minimum of two round-trip flights per week shall be operated between TVL and SAN.

#5. No turnaround service shall be operated between LAX-SJC, LAX-SAN, LAX-OAK, LAX-BUR, BUR-OAK, BUR-SJC. Each flight operated between the airports set forth in this paragraph shall originate or terminate at TVL.

6. Passengers between SAN and TVL may be transported nonstop or via LAX only.

7. The following airports shall be used:

Symbol	Location	Name
BUR	Burbank	Hollywood/Burbank Airport
LAX	Los Angeles	Los Angeles International Airport
OAK	Oakland	Oakland International Airport
SJC	San Jose	San Jose Municipal Airport
TVL	South Lake Tahoe	Tahoe Valley Airport
SAN	San Diego	San Diego International Airport

*NOTE: Authority for transfer of certificate to Holiday Airlines Corporation granted by Decisions Nos. 81169 and 81366 in Application No. 53565.

Issued by California Public Utilities Commission.

#Added by Decision No. 81893, Application No. 53266.