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TO REQUIRE THE CIVIL AERONAUTICS BOARD TO
GRANT CERTAIN INTRASTATE AIR CARRIERS THE
RIGHT TO PROVIDE INTERLINE SERVICE WITH
INTERSTATE CARRIERS

GOVERNMENT
Storage

DOCUMENTS

(94-49)

JUL 28 1976

THE UNIVERSITY
KANSAS STATE UNIVERSITY

HEARINGS
BEFORE THE
SUBCOMMITTEE ON AVIATION
OF THE
COMMITTEE ON
PUBLIC WORKS AND TRANSPORTATION
HOUSE OF REPRESENTATIVES

NINETY-FOURTH CONGRESS

SECOND SESSION

ON

H.R. 10560

TO AMEND THE FEDERAL AVIATION ACT OF 1958 TO
REQUIRE THE CIVIL AERONAUTICS BOARD TO ISSUE
CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY
UNDER CERTAIN CIRCUMSTANCES

MARCH 3 AND MAY 4, 1976

Printed for the use of the
Committee on Public Works and Transportation



U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1976

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94TH CONGRESS
1ST SESSION

H. R. 10560

IN THE HOUSE OF REPRESENTATIVES

NOVEMBER 5, 1975

Mr. ANDERSON of California (for himself, Mr. DON H. CLAUSEN, Mr. GOLDWATER, Mr. JOHNSON of California, and Mr. MINETA) introduced the following bill; which was referred to the Committee on Public Works and Transportation

A BILL

To amend the Federal Aviation Act of 1958 to require the Civil Aeronautics Board to issue certificates of public convenience and necessity under certain circumstances.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That section 401 (d) of the Federal Aviation Act of 1958
4 (49 U.S.C. 1371) is amended by adding at the end thereof
5 the following new paragraph:

6 “(4) Any person who, on July 1, 1975, was engaged
7 in intrastate air transportation, who from such date to the
8 date of application under this paragraph has continuously
9 engaged in such intrastate air transportation, and who ap-

1 plies for a certificate under this paragraph within one hun-
2 dred and twenty days after the date of enactment of this
3 paragraph, shall be issued a certificate by the Board authori-
4 zing the applicant to engage in interstate air transportation
5 between those places in the same State where the applicant
6 was engaged in intrastate air transportation and with respect
7 to all classes of traffic for which authorization is sought.”.

1. The first of these is the fact that the
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TO REQUIRE THE CIVIL AERONAUTICS BOARD TO GRANT CERTAIN INTRASTATE AIR CARRIERS THE RIGHT TO PROVIDE INTERLINE SERVICE WITH INTERSTATE CARRIERS

WEDNESDAY, MARCH 3, 1976

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON AVIATION
OF THE COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION,
Washington, D.C.

The subcommittee met at 11:07 a.m. in room 2167, Rayburn House Office Building, Hon. Glenn M. Anderson (chairman) presiding.

Mr. ANDERSON. The meeting of the Subcommittee on Aviation will come to order.

Today we are considering H.R. 10560, a bill which would give intrastate carriers the right to offer through ticketing and baggage service in cooperation with interstate carriers.

The interstate carriers are now providing valuable service for the traveling public. In some markets, intrastate carriers provide the only service, and in other markets they provide important competitive service. The intrastate carriers operate modern jet and turboprop equipment, and frequently provide service at fares below those generally offered by interstate carriers.

Because the intrastate carriers do not hold authority from the CAB, they are unable to offer through ticketing and baggage service for passengers who wish to connect to their system from an interstate carrier. Passengers wishing to use an intrastate carrier must purchase a separate ticket, generally at the airport.

Two of the intrastate carriers previously applied to the CAB for authority to enter into interline agreement, but the Board denied their application.

At these hearings we will explore the advantages and disadvantages of legislation to give the intrastate carriers interline authority.

The benefits appear to include improved service and lower fares for interstate passengers wishing to connect to intrastate carriers.

The disadvantages of interline legislation appear to include the expense and burden to the intrastate carriers of Federal regulation and the possible diversion of traffic from interstate carriers who serve the same markets as the intrastate carriers.

Today we will hear from the intrastate carriers. At a later date, we will hear witnesses from State and Federal regulatory agencies and interstate carriers.

Our first witness today is Mr. Paul Seligson, Washington counsel for Southwest Airlines Co.

TESTIMONY OF PAUL Y. SELIGSON, WASHINGTON COUNSEL TO
SOUTHWEST AIRLINES CO.

Mr. SELIGSON. My name is Paul Y. Seligson, and I am Washington counsel to Southwest Airlines Co., which is pleased to present this statement pertaining to H.R. 10560.

Southwest is an airline operating scheduled service entirely within the State of Texas, pursuant to certificates of public convenience and necessity issued by the Texas Aeronautics Commission. Southwest obtained its original certificate after 3 years of hearings and other litigation. It began operations in mid-1971, serving routes between Dallas and Houston, Dallas and San Antonio, and Houston and San Antonio. In February 1975, these routes were extended to the Lower Rio Grande Valley of Texas, served at Harlingen. The company has been in continuous operation since 1971. It flies Boeing 737-200 aircraft with 112 seats each.

Southwest has been extremely successful in bringing its passengers better service, in stimulating very high traffic growth, in charging very low fares, and in earning profits. Carrying about 309,000 passengers in its first full year of operation in 1972, traffic increased to 1,209,000 in 1975. The passenger load factor last year averaged 62.55 percent. This is at least 10 load factor points (or 20 percent) higher than typical interstate airlines. Southwest in 1975 earned net profits of about \$2.2 million (\$2.02 per share) before tax loss carry forwards. Its net after extraordinary items was \$3.4 million, or \$3.18 per share. In 1975, Southwest carried about 50 percent more passengers than in 1974, with revenues up 54 percent and net income after extraordinary credit up 59 percent. Southwest ended the year with 321 employees, some 21 percent more than the 1974 year end figure.

H.R. 10560, as we understand it, is primarily intended to allow intrastate airlines to carry interline traffic which is moving in interstate commerce. This requires economic authority from the Civil Aeronautics Board, and the CAB historically has been very reluctant to grant such rights to intrastate airlines. This results in the interstate passenger being unable to use airlines such as Southwest for the intrastate portion of his trip. We believe the public would benefit from having the added flexibility which H.R. 10560 would permit. As we understand it, intrastate airlines such as Southwest would then have an opportunity to choose whether they wish to obtain these rights from the CAB.

A recent example of the CAB's attitude may be instructive to the subcommittee. As a result of Southwest's desire to serve the Lower Rio Grande Valley, Texas International Airlines drastically reduced its service to Harlingen and asked the Board for permission to suspend all of its operations there. The Board then set Texas International's suspension application down for hearing. The city of Harlingen asked the Board to consider whether, if Texas International was permitted to withdraw, Southwest should be given limited rights to replace it by carrying interstate traffic via interline connection with Board-certificated carriers. Southwest endorsed this request, provided that it received CAB authority which did not in any way limit Southwest's ability to provide its intrastate services subject only to the regulation of the Texas Aeronautics Commission.

Consideration of Harlingen's request for an interline exemption for Southwest was opposed by the Board's Bureau of Operating Rights. The CAB itself, in order 75-9-29, denied the city's petition. The Board said, "This suggestion is without merit." Now, the Bureau of Operating Rights has recommended that Texas International be allowed to withdraw all Harlingen service. If the CAB adopts its staff's views, between 100 and 200 people each day would be denied the benefits of interstate air transportation at Harlingen. Were Southwest allowed to interline, as H.R. 10560 would permit, this situation would be somewhat improved.

Southwest serves Dallas and Houston through their close-in airports, Love Field and Hobby Airport, which the interstate carriers do not use. So even if Southwest held interline authority, most of its passengers would still have to change airports. For this reason we cannot predict how much added traffic we would carry.

Nor can we be certain what conditions the CAB might attach to any rights it granted. Of particular importance, we cannot feel confident that the Board would leave intact our unique fare structure, under which our offpeak and weekend flights are priced 50 to 60 percent below CAB fare levels. (We make profits even at these fares because of extremely high load factors and the consequent productivity of our employees.) Although the Board has said that it has no jurisdiction over intrastate fares, it does control interstate fares, and the provision of low intrastate and high interstate fares for passengers traveling on the same airplane raises a question of discrimination which the CAB now has under investigation.

Southwest believes that it has served the public very well under regulation by the Texas Aeronautics Commission. In view of the problems I have discussed and the historic attitudes of the CAB, Southwest is concerned that economic regulation of it by the Board could diminish the effectiveness of its service, and is not now certain whether it would seek the interline rights if H.R. 10560 became law as presently written. We understand that H.R. 10560 would not directly give the CAB power to regulate Southwest's intrastate services, but we see a gray area as to what the Board might do indirectly. We would hope this bill, if it becomes law, would clearly limit the CAB to regulating only the carriage of interstate traffic.

Southwest thanks the subcommittee for this opportunity to acquaint you with our business and give you our views on this legislation.

Mr. Chairman, I will be happy to receive questions.

Mr. ANDERSON. Thank you, Mr. Seligson. How extensively are Southwest's fares regulated by the State of Texas?

Mr. SELIGSON. Not really extensively at all, sir.

There is a requirement that the fares be filed, but there is virtually no substantive regulation of the fares.

Southwest is able to charge what it wants to charge. It is really a tariff filing or notice requirement.

Mr. ANDERSON. Do the interstate carriers with whom you compete match your fares?

Mr. SELIGSON. Not any longer. They did at one time when we were first getting started. There was a bit of price cutting and matching of the fares by the interstate carriers, but they stopped that quite some time ago.

Mr. ANDERSON. Why are you able to offer lower fares than competing interstate carriers?

Mr. SELIGSON. We think there are several reasons for that.

It is primarily a function of the higher load factors that we have, and the revenue productivity which we have.

Our costs for employees are about the same as those of the local service carriers on an average basis, but on our revenues per employee, we range anywhere from 25 to 40 percent higher. And what we are doing essentially, particularly with the pleasure class fare, is getting people to fly who would not otherwise fly. The fare level is very competitive with the bus; we regard automobile and bus as the main competition in short-haul markets.

We offer about 40 percent of our capacity; our entire schedule during the week on these lower priced flights, and our load factors on those lower priced flights, are very high. They are—well, last year, our system load factor was very high for all the service. It was over 62 percent. And I believe that our load factor on the pleasure class flight was in the area of 70 percent, or perhaps higher.

Now, of course, with the tremendous leverage there is in the airline business, once you get over your fixed costs, your additional cost in handling those additional passengers is really quite small. So when you have load factors at that level, it becomes productive.

Mr. ANDERSON. As I understand your position, you have not decided whether you would seek interline authority if H.R. 10560 was passed.

Assuming you decide to seek interline authority, have you any thoughts as to whether you would offer joint fares and stopover service at the present fare level set by the CAB, or whether you would try to get CAB approval for lower fares?

Mr. SELIGSON. Well, this is something that we have not focused on in depth, Mr. Chairman.

I would think that, consistent with Southwest's overall philosophy of bringing transportation to the public at the lowest possible cost, that if Southwest decides to use the authority, it would attempt to negotiate joint fares at lower levels than now exist.

I say attempt to negotiate, because, as you know, this is something that—first of all, has to be worked out between the airlines that are interlining and then approved by the Board. And whether it would be feasible or not, I just do not know at this point.

Mr. ANDERSON. Am I correct in understanding that under your present pattern of service you would be unlikely to attract much interline traffic because you and the interstate carriers serve different airports at Houston and Dallas?

Mr. SELIGSON. I think that is correct.

Mr. ANDERSON. Do you see much potential for attracting interline traffic at San Antonio?

Mr. SELIGSON. The airport situation is different there. All the carriers serve through the same airport, and it is not very far from our counter to counters of the other airlines.

This is just really speculation, but, yes; I would say there would be some potential for that.

Mr. ANDERSON. If this bill were passed, would you consider shifting service to different airports at Houston and Dallas to attract interstate traffic?

Mr. SELIGSON. Other than this bill, Southwest has no plans to shift airports.

Mr. ANDERSON. Is there any possibility of a shift in service to different airports at Houston and Dallas in the near future?

Mr. SELIGSON. I would think not, Mr. Chairman.

I meant to be fully responsive to your question, sir. And what I was going to say was that apart from this bill there are no plans to shift airports. And even with the passage of this bill, I would doubt very much that Southwest would, for that reason alone, wish to shift airports.

Mr. ANDERSON. Do you anticipate expansion of your service within Texas in the near future?

Mr. SELIGSON. Yes, sir.

Perhaps I should qualify that.

We anticipate filing an application for expansion of our service in the near future. But the history indicates that it may be 3 to 5 years before we get through with the lengthy process of a hearing before the Texas Aeronautics Commission decision there, and then a trial de novo of all the facts in the State court through the appellate process there.

This could take 3 to 5 years. But we do expect to file very shortly for additional rights from the Texas Aeronautics Commission.

Mr. ANDERSON. This would be additional intrastate service?

Mr. SELIGSON. Yes, sir.

Mr. ANDERSON. Mr. Taylor?

Mr. TAYLOR. Thank you.

Mr. Seligson, if you were granted permission to provide interstate service, what would the effect be on your cost on reservations, baggage, and so forth?

Mr. SELIGSON. We have not made any detailed study of that, Mr. Taylor, but I certainly think it is fair to say that I think it would go up.

Mr. TAYLOR. Has your regulatory body in Texas expressed a view on H.R. 10560 as far as you know?

Mr. SELIGSON. Not that I am aware of, sir.

Mr. TAYLOR. With your two classes that you allude to, your executive and pleasure class, what percent of the total business of your company is contained within these two classes?

Do you have any idea?

Mr. SELIGSON. That would be that on the order of perhaps 43.4 percent of our business is carried in the pleasure class flights, which amounts to about 34.5 percent of our capacity.

Mr. TAYLOR. That is in pleasure class?

Mr. SELIGSON. Yes.

Mr. TAYLOR. That is the one where you have the rate—the 65-percent reduction?

Mr. SELIGSON. That is right, yes.

The only figures I have seen on that very recently are with respect to the Harlingen service, and there the breakdown was about 40-percent executive class, and 60-percent pleasure class. And this was for the year 1975.

But, for the system as a whole, I would have to get you the figures, and I will be glad to do that if you would like.

Mr. TAYLOR. Is your company in a relatively good profit position for your present operation?

Mr. SELIGSON. Yes; it certainly is, Mr. Taylor.

In 1975 Southwest earned before tax loss carried forward, approximately \$2,200,000, or a little over \$2 per share of its stock. There were tax losses carried forward from the first 2 years of operation.

When those are taken into effect, the net income rises to \$3,400,000, approximately.

Southwest is now paying taxes, I might add.

Mr. TAYLOR. That is good.

Well, thank you very much. I appreciate your testimony, Mr. Seligson.

Mr. SELIGSON. Thank you, sir.

Mr. ANDERSON. Mr. Milford.

Mr. MILFORD. Thank you, Mr. Chairman.

I would first like to compliment the record of Southwest Airlines which serves my State, particularly in light of the fact that under President Muse, the line has actually attracted new blood into the airline system and into the State with more people flying who previously did not fly.

It is to be complimented in that respect.

I would like to ask you a few questions for the record.

Does Southwest Airlines compete with interstate carriers along all of its routes?

Mr. SELIGSON. Yes, Mr. Milford, we do.

Let me say thank you very much for those kind remarks about Southwest.

Mr. MILFORD. Let me ask here exactly why Southwest Airlines does not simply apply for an interstate certificate to fly other routes like any other carrier rather than go through special legislation of this type?

Mr. SELIGSON. Well, the reason for that, first of all, let me say that this legislation was not Southwest's idea, but the reason that—

Mr. MILFORD. I understand.

Mr. SELIGSON. The reason that we have not applied for regular interstate authority with the Board is that it is our belief that the whole regulatory system of the Civil Aeronautics Board does two things which we feel are very bad for the kind of operation we have.

One, it increases our cost and, two, and perhaps more significantly, it would sharply decrease our productivity, and that would be by eliminating our ability to experiment with fares until we find the right combination that can build the traffic as much as we have. As you noted, the growth has been very substantial.

We do not feel that the CAB would ever have authorized us to provide the kinds of off-peak pricing that we are, and those are the basic reasons.

Mr. MILFORD. Can you outline for this committee what are the advantages of being able to operate as an intrastate carrier as opposed to operating as an interstate carrier, with specifics, if you would, please?

Mr. SELIGSON. Well, sir, let me take a crack at that. It is a rather broad question and rather complex.

First of all, and perhaps the most significant single advantage, we feel, is the freedom we have to charge the prices that we feel will best develop the traffic and best serve the market.

Now, the CAB has adopted a basic philosophy on fares which says that you should charge the same fare per mile in markets of the same distance regardless of where they may be located. This means that the fare per mile in a 250-mile market, which may be only developing 10,000 passengers a year, has got to be the same as the fare in a market of identical distance which may have 200,000 passengers a year.

Now, when you start from that premise, and that is a very basic part of the CAB's regulatory philosophy, this means that you cannot price on the basis of being able to stimulate a great deal of traffic which would sharply increase your load factors and improve your productivity.

Southwest is operating, as you know, mainly in markets that are considered to be dense, although the Rio Grande Valley market, when we started, there was only a medium density market of perhaps in the neighborhood of 200,000 passengers a year. In these dense markets, there are a lot of people waiting to fly if the price is right. And in the smaller markets, they are not.

You could cut the price very substantially, but while you might have a good percentage increase, you still would not be able to fill up the airplanes.

Now, without the pricing flexibility to go to this kind of a system, it is very difficult to get your load factors up to the point where you can make money at low fares. The CAB regulatory system denies that kind of pricing flexibility. This is an advantage that, at least we in Texas, with our form of rate regulation, this is a definite advantage that Southwest has over CAB-certificated carriers.

There are others. I am not sure how much of a lecture the committee wants or needs from me on this.

I might just mention that there is a study that has been done recently on this by the firm of Simat, Helliesen Eichner, for the Department of Transportation, which I am sure you are familiar with. It is called an "Analysis of the Intrastate Air Carrier Regulatory Forum," and the summary report has just come out.

It comments very extensively on both Southwest and the other intrastate airlines, and draws these kinds of comparisons that you are interested in, Mr. Milford.

I noticed that—if I could for just one moment go on and conclude this—I noticed Southwest notices with great pleasure your remarks in the Congressional Record of February 24, and your inclusion of the article in the trade press which focuses quite sharply on Southwest's productivity. And I think that article presented a very good analysis of Southwest and why it is as successful as it is, and what the differences are between the intrastate and interstate carriers.

Mr. MILFORD. Without personally taking a side one way or the other on this thing, let me say it would appear from your testimony that if this particular bill should be passed, it would create inequity and give the intrastate airline an unfair advantage over competing interstate airlines for the reasons that you have pointed out?

Then, perhaps, the better approach to this might be to take a look at the regulatory agencies themselves. Because if Southwest Airlines

can be a productive airline, why cannot Braniff, American, Eastern, and all others, if the competitive factor here is Government regulations?

It would appear that the better approach which we might be looking at is the regulatory agencies themselves as opposed to creating more of a jungle of legislation to be added on top of a problem.

Mr. SELIGSON. Well, Southwest does feel that there are many things that can be improved about the process and Federal regulation of air transport.

With respect to our gaining a competitive advantage, no, I do not think that would occur, because the CAB does traditionally permit departure from its normal fare policies for the specific reason of meeting competition. So that if Southwest were to apply for and receive the authority and charge a lower price, the airlines with which it competes, I am confident, would be allowed to meet the price.

Mr. MILFORD. Well, the point I am trying to make is that you yourself stated that the interstate carrier has certain requirements he has to meet, and they are costly; that you do not have to meet.

But yet, by an interline agreement, you can take advantage of or have the same services as the interstate carrier who, by Government mandate, must comply, and therefore, it costs him more money to operate along the same route.

This is the point I am trying to make here.

Mr. SELIGSON. Well, our studies, or I should say the studies of the CAB are not our studies. CAB staff has done studies which show that the costs of Southwest in terms of cost productivity ton-mile expense per employee, and that kind of thing, are not really very different than the cost of at least the local service carrier.

When you get into trunklines where you have these farflung operations all over the country, that is something else again, obviously.

Mr. MILFORD. Thank you, Mr. Chairman.

Mr. ANDERSON. Mr. Clausen?

Mr. CLAUSEN. No; I have no questions.

Mr. ANDERSON. Mr. Ginn?

Mr. GINN. Thank you, Mr. Chairman.

Mr. Seligson, you indicated that in the event your company decided to apply for additional intrastate service, it might take 3 to 5 years before final decision was rendered. Could you tell me why it takes so long?

Mr. SELIGSON. Yes, sir. The process, in brief outline, is this. We apply to the Texas Aeronautics Commission for a certificate of public convenience and necessity. That goes to a hearing, and you have an examiner's decision, and then a full consideration and decision by the commissioners themselves.

Now, that part of it does not take all that long.

In our most recent experience, I think it was a little over a year, but at that point, under Texas law, as I understand it, and I am not licensed to practice law in Texas, at that point, whatever the decision of the Texas Aeronautics Commission is, it can be appealed directly into a trial court in Texas where you try the whole case all over again.

Mr. Milford, I am certain, can correct me if I am wrong in my understanding of this, but this is what has happened in the Rio Grande Valley situation.

Southwest was able to start operations because Texas International happened to be on strike at the time that Southwest was certificated, and Texas International sought a restraining order, but was not able to stop Southwest from beginning.

However, they did take a full appeal, and that appeal is still going on. The trial judge has not yet issued his decision. In fact, briefs have just been filed.

This is now. We are talking about 2½ years out so far.

And whenever he comes out with his decision, then that can be appealed to the higher court in the State of Texas.

Now, in the ordinary course of events, had Texas International not been on strike, it is quite possible that they would have been able to get a stay of the TAC order until there was full consideration in the court, and that is the process that takes 3 to 5 years, that I am speaking about, sir.

Mr. GINN. Is this procedure used generally throughout the United States and all the States?

Mr. SELIGSON. No; I would not say so.

I think it varies from State to State.

I am sure that the gentleman from California can tell you what the procedures are there.

Mr. GINN. It just appears to me to be quite a disadvantage if you are ready to move and the market is there, to have to wait 3 to 5 years while some judge or bureaucrat drags their feet. It is quite a disadvantage.

I do not see why it should take that long.

Thank you very much.

Mr. ANDERSON. Mr. Cochran?

Mr. COCHRAN. I have no questions.

Mr. ANDERSON. Mr. Levitas?

Mr. LEVITAS. Thank you, Mr. Chairman.

I have just one question that was raised by your testimony.

Did I understand you to say that CAB has a rate structure policy that requires fares covering equal distances to be the same?

Mr. SELIGSON. Yes, sir.

Mr. LEVITAS. Does that means, for example, that if the distance between Atlanta and Washington is the same as the distance between Miami and Atlanta, the fares should be the same?

Mr. SELIGSON. Yes. Under a normal standard, that would be the case: yes, sir.

What you have is the fare formula, and this was set in the domestic passenger fare investigation that they conducted a few year ago. The fare consists of a lump-sum charge for the terminal cost, the cost of getting the plane, passengers into the plane, and the plane off the ground, and then a line haul charge per mile.

That line haul cost will go down as the mileage increases but only in blocks of about 500 miles at a time.

So that if you have the 500-mile flight, the costs per mile will be higher than a 1,000-mile flight, but two flights of identical distance in two entirely different markets must be charged for on the same basis under this formula. It does not take account of traffic density or any of the other factors which might affect individual markets.

The other thing on that which—if I could go on for a minute—which I neglected to mention earlier is these costs, these fare levels are set by CAB on the basis of industry average costs, and that means that the most efficient carrier, the low-cost carrier, must charge actually more than it needs. That is another reason why we do not want to be regulated by the CAB, of course.

Mr. LEVITAS. Further on that line, am I correct in understanding that these rates or these fares are set upon application by the carrier to the CAB?

Is that the way it gets started?

Mr. SELIGSON. Yes; that is correct.

Mr. LEVITAS. In so doing, would it be possible—let us take the hypothetical 500-mile run where there is competition between two carriers—that they may have a lower fare structure for that particular route than they would on another 500-mile run, where there is only one carrier serving the two points?

Mr. SELIGSON. Well, this is possible in the area of discount fares within fairly tight limits which the CAB sets. But not—it is not possible in terms of the normal coach fare that the average passenger will use.

In other words, if carrier No. 1 were to file for a fare in a market which was well below the formula established by the CAB, the Board would, in all likelihood, prevent that fare from going into effect even if carrier 2 came in and said, "I want to meet it, too, for competitive reasons."

Where you get the competition is in the filing of discount fares, but even there it is quite limited in the range of services offered.

Under those discount fares, it is always very small, where as an airline like Southwest will offer as much as 40 or 45 percent of its services on a discount service basis.

Mr. LEVITAS. Thank you, Mr. Chairman.

Mr. ANDERSON. Mr. Mineta?

Mr. MINETA. Mr. Chairman, I have no questions.

Mr. ANDERSON. Thank you.

Thank you, Mr. Seligson, then, for your testimony. We appreciate it very much.

The next witness is Mr. Ted Griffin, president of Air Florida.

TESTIMONY OF THEODORE Q. GRIFFIN, PRESIDENT AND CHIEF OPERATING OFFICER, AIR FLORIDA, INC.

Mr. GRIFFIN. My name is Theodore Q. Griffin, and I am employed as the president and chief operating officer of Air Florida, Inc., a scheduled intrastate air carrier, operating under part 121 of the Federal Air Regulations. Our operation is based in Miami, Fla.

My aviation career began 20 years ago when, in 1955, I was employed by Eastern Airlines as a ticket counter agent. During my 16 years at Eastern, I worked in all of the customer contact and sales and marketing areas of that organization. Among the responsibilities I fulfilled were the positions of district sales manager in Pensacola, Pittsburgh, and Miami; air reservations manager in Miami; director of sales programing in New York; southern regional sales director in Atlanta; and director of passenger sales for the eastern system.

I resigned Eastern Airlines in 1972, and subsequently participated in the development of Air Florida. I felt at the time that there was a need for a new carrier operating between major Florida cities to serve the needs of travelers within our State.

The jet age, with its beginnings in the 1960's, proved to be both good and bad for Florida travelers. Travel to distant northern cities was quicker and easier than it had been during the piston era. Flying time was reduced by almost 30 percent between Miami, New York, and Chicago, and the comfort afforded by the new equipment was a dramatic improvement over the slow and noisy Constellations and DC-7's.

However, while the jet made it possible to dramatically improve long-haul travel, the economics of operating this new equipment forced the interstate—CAB—carriers to eliminate, to the extent possible, the short-haul use of their jets.

Consequently, today, most service offered between Florida cities by the CAB carriers are a result of tag-end flying and the positioning of equipment to meet the schedule requirements of long-haul customers. As a result of this, Florida travelers must accommodate their travel to the often inconvenient schedules offered them between major Florida markets, such as Miami to Tampa, Jacksonville to Miami, et cetera.

Now, what has this to do with our interest in obtaining interline ticketing and baggage agreements with 10 CAB carriers?

Specifically, Air Florida and other intrastate carriers are, to a large degree, excluded from participation in our national air network in spite of the convenient low-cost service we provide resident consumers within our respective States.

We are prohibited from accepting connecting customers from CAB or foreign carriers, and likewise, we are not permitted to deliver our customers and their baggage to these airlines.

We are not permitted to sell or advertise our service outside of our State. We are discriminated against at the expense of the customers' convenience.

Although an intrastate airline's service may be the most convenient for the customer at the connecting city, he is routed by a CAB carrier over another CAB carrier's service, frequently paying a penalty in layover time and often in expense as well.

In this age of consumerism and consumer consciousness, it is appropriate that our air transportation system should be relieved of out-moded and overprotective regulation that prevents the growth and development of the entire air network thereby precluding the public from receiving the most convenient and least expensive air transportation.

Air Florida inaugurated scheduled intrastate air service between Miami, Orlando, and Tampa/St. Petersburg, Fla., on September 27, 1972. Since that time, we have offered a minimum of two round trips daily in each market.

To date, we have carried over 500,000 passengers and at fare levels 20 to 30 percent lower than CAB carriers.

Air Florida is a wholly owned subsidiary of Air Florida System, Inc., a public company with shareholders across the 50 States. Approximately \$3.5 million has been invested in the operation of the airline to date. The company is not as yet profitable although operating losses are reaching manageable levels, and we anticipate profitability during 1976.

Air Florida is regulated by the Florida Public Service Commission with respect to rates charged and routes operated. Rates and routes are approved or awarded following public hearings, examiner's recommendation and Commission approval. Additionally, the company is regulated by the FAA under part 121 of the Federal Air Regulations.

Air Florida provides daily service to Orlando and Tampa/St. Pete from Miami, Fla. Friday and Sunday service between Miami, Tampa, and Tallahassee is operated to provide students attending Florida State University and Florida A. & M. University at Tallahassee, as well as students attending the University of South Florida and Tampa University with a low-cost method of weekendng at home. Schedules and rates are attached to the testimony.

Present annual traffic volume is approximately as follows:

Miami to Tampa/St. Pete, 84,000; Miami to Orlando, 36,000; Miami to Tampa to Tallahassee, 6,000; totaling 126,000.

Our present fleet of aircraft consists of three 91-passenger Lockheed Electra propjets. They are pressurized, air-conditioned, and equipped with radar.

Each of the markets served by Air Florida are also served by two or more CAB carriers.

Air Florida seeks to improve the scope of its service to the flying public through permission to provide interline ticketing and baggage service to its customers. If legislation is enacted to permit the CAB to certificate intrastate air carriers without prejudice, Air Florida will carefully study the requirements outlined in the new law and the implications for our operation.

We anticipate that we would apply for certification for our present routes as well as a new route to Miami to Jacksonville route, which we presently hold State authority for, although we do not operate.

Air Florida would then review schedules to determine that connecting customers would be served with optimum convenience; participate in joint and through fares at present or lower than CAB pro rate levels, and provide ticketing service for onward travel over present CAB carriers' routes.

Intrastate air carriers presently compete effectively for travelers within their respective States. PSA and Southwest Airlines' success is dramatic proof of this statement.

CAB carriers have lost market share as a result of intrastate competition. Although additional erosion of short-haul CAB carrier traffic can be anticipated, certification on some basis for intrastate carriers would permit the CAB trunk carriers to eliminate sufficient unprofitable tag-end service to offset the revenue loss. Competition should be turned into cooperation between present intrastate and CAB carriers. This cooperation would provide a major improvement for the customer and the carriers.

Thank you, Mr. Chairman.

Mr. ANDERSON. Thank you, Mr. Griffin.

As H.R. 10560 is drafted, it is only applicable to intrastate carriers operating large turbojet equipment.

Air Florida would not qualify since it operates turboprop equipment.

Is it your position that H.R. 10560 should be amended to include operators of turboprop equipment?

Mr. GRIFFIN. Yes, sir, and I think it should also refer to PSA, and they would want that opportunity as well.

Mr. ANDERSON. How long does it take for the Florida Public Service Commission to process route and rate cases?

Mr. GRIFFIN. Approximately 90 days.

Mr. ANDERSON. I understand that your basic fares are 20 to 30 percent below those of interstate carriers.

Does Air Florida also offer any discount fares?

Mr. GRIFFIN. No; we feel that our fare level at present, which represents a 20- to 30-percent savings is a discount fare; and we have not entertained, although we have thought about lowering our already low fare for off-peak hours, we have not done this as yet.

Our schedule is not large enough to support the need for off-peak service. We operate primarily in the prime times.

Mr. ANDERSON. Why is Air Florida able to offer lower fares than interstate carriers?

Mr. GRIFFIN. I think basically because of the company overhead.

I did a study at one time, looking at employers per aircraft owned in the—among the trunk carriers, and if my memory serves me correctly, the average is something like 200 employees per aircraft.

We have 100 employees and we have three aircraft. So we have about 33 people. Productivity in the entire State airline business is considerably higher, for a variety of reasons, all of which I cannot enumerate.

We, for instance, do not have an extensive staff. Our overhead, as a proportion of the total, as our schedule grows, is much smaller than that you find in a CAB carrier.

Mr. ANDERSON. As I interpret your schedules, you presently offer a limited pattern of service in the markets you serve.

Do you anticipate increases in service in the near future?

Mr. GRIFFIN. Yes; we do.

We expect to move into more frequent schedules into our major market in Florida, which is Miami to Tampa, which is part and parcel of a package to acquire jet equipment. We anticipate that we will be a jet airline by the end of this year, and we will increase our schedules.

Mr. ANDERSON. Do you believe that there is a substantial volume of interstate connecting traffic in the markets you serve?

Mr. GRIFFIN. Yes; there is. Both in Miami, the Latin American Gateway, as well as in Tampa.

Mr. ANDERSON. Am I correct in understanding that you do not now have any specific plans as to the fares and service you would offer if you received interline authority?

Mr. GRIFFIN. I think that is substantially correct.

Mr. ANDERSON. Do you expect to apply for authority to serve additional intrastate markets in Florida in the near future?

Mr. GRIFFIN. Not at present.

Mr. ANDERSON. Mr. Taylor?

Mr. TAYLOR. Thank you.

Mr. Griffin, you indicate that the differential between the fares that you charge and those charged by interstate are due partly to a lower cost factor that you have.

If you are granted the permission to provide interstate service, would you suspect that possibly your overhead and your expenses would go up, increased personnel that you would be forced to hire to handle baggage, reservations, and other costs?

Mr. GRIFFIN. Yes, I do. However, I feel that—if the question is leading, what would that do to fare levels, I guess that the increased volume in our particular circumstance, which is different than other intrastate carriers, I think each of us because of our new ability to participate in the connecting traffic, which would immediately increase our volume by some percentage, it would be our effort to maintain low fares, and I am not sure at this time that we would be looking at higher fares as a result of increased costs.

I think the traffic volume would offset that.

Mr. TAYLOR. You think the increased volume, even though you are moving into a jet situation, you would still have enough volume to more than offset the additional cost accrued?

Mr. GRIFFIN. Yes; one of the benefits in the jet is that it is much more attractive to a consumer, has more consumer appeal. The Electra is an older aircraft.

Without doing anything, just moving the jet would increase our traffic. Add to that interline ticketing, baggage, and we would have a substantial increase.

Mr. TAYLOR. Thank you, Mr. Chairman.

Mr. ANDERSON. Mr. Milford?

Mr. MILFORD. Thank you, Mr. Chairman.

Mr. Griffin, how does your operation under FAR part 121 differ from the method of operation of CAB certificated air carriers?

Mr. GRIFFIN. In terms of our compliance with the requirements of part 121, I am not aware of any differences.

Our costs are incurred based upon the same type of maintenance, same type of pilot training requirements. I would think that that is the case.

Mr. MILFORD. You, in your testimony, state you are seeking permission for interline ticketing.

For the record, Mr. Griffin, would you please define interline ticketing? What does it mean?

Mr. GRIFFIN. Well, it means specifically that Air Florida would have the ability to ticket a passenger beyond our route system over the route system of another carrier, and likewise we would be able to receive traffic from another CAB carrier connecting to Air Florida.

Presently the inconvenience that frequently occurs, more so in California than in our circumstances, a Delta flight, as an example, may be delayed in Atlanta due to Atlanta weather. It is not going to arrive in Tampa on time, local Tampa customers who would be boarding that flight to Miami, must wait sometimes 2 or 3 hours for another CAB carrier flight, because their ticket is not interchangeable with ours.

Their option is to go to Delta and ask for a refund, which can be time consuming, and we do try to run a scheduled airline on time.

The lack of ability to handle each other's paper causes the customer grave inconvenience.

Mr. MILFORD. The maintenance of an interline ticketing system requires a substantial capital investment on the part of certificated air carriers for complex computer equipment, communications equipment, and accounting systems.

Would your company be prepared to make initial, substantial capital investments to share in that interline cost, if this bill was presented?

Mr. GRIFFIN. Yes, sir, I think that the cost is somewhat less for a carrier of our type.

There is present in the industry for contracting the major carriers' service. For instance, Delta Airlines sells their reservation system at a cost to a commuter air carrier in Florida. Eastern Air Lines has in instances done, I believe, the same thing.

There is excess computer capacity within the industry, and I think our attempt would be to negotiate and buy at the best price possible a reservation service.

Mr. MILFORD. Again, I am going to pose the same question that I posed to the previous witness.

In effect, if this legislation was passed, would it not give your airline an additional advantage over competing interstate air carriers in the sense that by Federal mandate they have to comply with some costly requirements, that you would not have to comply with; and, at the same time, by providing interline agreements, you could in essence offer the same services that they offer, but would have a cost advantage over the interstate air carrier?

Mr. GRIFFIN. I am not sure how to answer the question.

I believe that the cost advantage is really more perceived than real. We would certainly incur additional expenses if we became a CAB carrier in their present form.

I am not sure again of the question of fare, which is a principal issue in terms of: Are we going to be competitive for the CAB carriers?

I feel there is some offset that an intrastate carrier in a circumstance such as Air Florida can provide some benefits to the CAB carrier by eliminating some of this tag-in service that they presently fly, due to their certificate of convenience between certain Florida cities.

Mr. MILFORD. I am not as concerned about that as your competing on a direct line.

Mr. GRIFFIN. Those are the services that I am talking about. Miami to Orlando, as an example. Service, 1011, a large 250-passenger, \$23 million aircraft that leaves Miami for Orlando, is going to Orlando to provide long-haul service from Orlando to New York, Philadelphia, other cities. It is not totally necessary that that airplane ever arrive in Miami on that segment.

It could come into Orlando from a northern city, turn around efficiently, and eliminating a round-trip tag-in, leaving Orlando to provide connecting service. I am not sure of all the ramifications to the CAB carriers, but there are some, as well as to us.

The major advantage we should be considering is in the public interest, in the fact that the fare levels that are presently charged by intrastate carriers—

Mr. MILFORD. Why can you not operate at the third level or feeder or commuter airlines operate by agreement with the carriers?

Mr. GRIFFIN. CAB probably would not permit our equipment.

Presently the commuter carriers are under part 135, they operate under 30-passenger equipment.

Our airlines accommodate 91 people, and in time we hope to operate equipment very competitive with theirs. DC-9's or 727's.

Mr. MILFORD. Thank you, Mr. Chairman.

Mr. ANDERSON. Mr. Cochran?

Mr. COCHRAN. Thank you, Mr. Chairman.

I am curious of your reaction to the legislation. Would this not really put you in a very good position vis-a-vis the regulated carriers?

Mr. GRIFFIN. Mr. Cochran, it would make us a member of the club, if that is what you mean.

We certainly would be granted full status as an air carrier on the same basis with CAB.

I am not opposed to this legislation. I am not sure I understand totally all the ramifications that go with it.

Mr. COCHRAN. I am not sure I do, either, and that is why I was asking you the question.

I have the notion that it would make you a member of the club, and you would not have to pay any of the dues. Is that basically correct?

Mr. GRIFFIN. No; I do not believe so.

I think, as Mr. Milford pointed out, we presently do not have an elaborate computerized system that would be able to effectively handle interline bookings, reservations. That is a new cost for us. That is a cost that, as we grow, in spite of a relationship with the CAB carrier, there is a volume they dictate, anyway.

Mr. COCHRAN. The principle that the administration has exposed, anyway, for whatever that is worth, is for less regulation. Does this bill not actually end up promoting more regulation when it brings intrastate carriers under the regulatory authority of the CAB?

Mr. GRIFFIN. I suppose it does, yes.

Mr. COCHRAN. That is all I have, Mr. Chairman.

Mr. ANDERSON. Mr. Wright?

Mr. WRIGHT. I have no questions, Mr. Chairman. Thank you.

Mr. ANDERSON. Mr. Ginn?

Mr. GINN. Thank you, Mr. Chairman.

Mr. Griffin, although you did not refer to it in your statement, is it not correct that your company asked Air Florida to go the other way of—

Mr. GRIFFIN. No, sir; that is Florida Airlines. Similar name. They are an air taxi or commuter operator.

Mr. GINN. You are fortunate. I had a great number of questions for you, but since I am in the right church but in the wrong pew, I will excuse you.

Thank you for your statement.

Mr. ANDERSON. Mr. Mineta?

Mr. MINETA. Thank you, Mr. Chairman.

I am just wondering, Mr. Griffin, are your salary and wage rates comparable to CAB airlines?

Mr. GRIFFIN. No; they are not. They are lower.

Mr. MINETA. Does this account for part of the differential between your 100 employees for three aircraft?

Mr. GRIFFIN. Yes; I think that is a fair statement.

Additionally, we contract a great deal of the labor that a major airline has as an ongoing overhead.

We, for instance, do not overhaul our own engines. We do not overhaul our own propellers.

We do routine daily maintenance, however, we buy the services as needed, as a result of having an employee on the payroll for 8 hours, who may be productive for 2 or 3 hours, depending on the company, the manner in which we buy these services is totally productive.

It is for the time and service required.

I think the number of employees may be misleading. We still require the other services which are required internally in a big airline, but

I think there are tremendous efficiencies in being able to buy these services as needed.

Mr. MINETA. In terms of your present routes, do you have any projections as to what this legislation might do to displace from CAB certificated carriers, what that impact would be in terms of your own operation?

Mr. GRIFFIN. I do not. I have a feeling that certainly there would be some displacement, because of those routes—of the route system that we serve. A lot depends on what the CAB carrier does in the future.

I looked at the schedule recently between Miami and Orlando. At one time there were 23 CAB flights daily. Today there are something like 13.

So there has been, at least in that instance, a retrenchment on short-haul service, which I am advocating for the carriers. I would like them to be trunk carriers, and the intrastate, such as Air Florida in a specific sense, to be able to provide the short-haul service.

I think there are big deficiencies for the big airlines in getting their big airlines to do the big jobs, and specialists such as Air Florida, Southwest, PSA, to provide the short-haul service.

Mr. MINETA. Thank you, Mr. Griffin.

Thank you, Mr. Chairman.

Mr. ANDERSON. Mr. Levitas?

Mr. LEVITAS. No questions.

Mr. ANDERSON. Mr. Fary?

Mr. FARY. No.

Mr. ANDERSON. No further questions, then we will recess at this time.

I want to thank you, Mr. Griffin, for a very excellent presentation.

We will reconvene these hearings this afternoon at 2:30 in this room, at which time we will hear from Mr. Floyd Andrews, chairman of the board and chief executive officer of Pacific Southwest Airlines.

At this time, the hearing is adjourned until 2:30 this afternoon.

[Whereupon, at 12:10 p.m. the subcommittee was recessed, to reconvene at 2:30 p.m. the same day.]

AFTERNOON SESSION

[Whereupon, at 2:43 p.m. the subcommittee reconvened, Hon. Glenn M. Anderson, chairman of the subcommittee, presiding.]

Mr. ANDERSON. The meeting of the Subcommittee on Aviation will come to order.

We have witnesses this afternoon from Pacific Southwest Airlines—Mr. J. Floyd Andrews, chairman of the board and chief executive officer, and Mr. Paul Barkley, senior vice president for finance.

**TESTIMONY OF J. FLOYD ANDREWS, CHAIRMAN OF THE BOARD
AND CHIEF EXECUTIVE OFFICER, PACIFIC SOUTHWEST AIR-
LINES, ACCOMPANIED BY: PAUL BARKLEY, SENIOR VICE PRESI-
DENT, FINANCE**

Mr. ANDERSON. Mr. Andrews, we have statements here from both of you gentlemen, and we will make them a part of the record. If you wish to read or summarize your statements, it is your option.

Mr. ANDREWS. Thank you, Mr. Chairman.

If it meets approval of the Chair, perhaps Mr. Barkley and I could give you a summary, Mr. Barkley being our vice president for finance, both give you our summary first and then you could ask questions which he or I would be better qualified to answer.

Mr. ANDERSON. We will do that.

Your full statements will be included in the record.

[Prepared statements follow:]

**STATEMENT OF J. FLOYD ANDREWS, CHAIRMAN AND CHIEF EXECUTIVE OFFICER,
PACIFIC SOUTHWEST AIRLINES**

Mr. Chairman, members of the subcommittee:

PSA wholeheartedly supports H.R. 10560. The introduction and continued promotion of this consumer interest measure by Chairman Glean Anderson and California Congressmen Don Clausen, Barry Goldwater, Jr., Bizz Johnson and Norman Maneta, as well as Members of this subcommittee representing other States, is a service to the people and airline users of California and of the Nation at large. Passage of this bill will benefit air travelers by giving this country, at no cost to the Federal Treasury, a better, more complete and integrated, air transport network.

THERE ARE AT LEAST SIX GOOD REASONS FOR PROMPT ENACTMENT OF H.R. 10560

Reason One

Chairman Anderson's remarks introducing H.R. 10560 noted that the bill's enactment would: "Make it possible for a passenger on an intrastate air carrier, who wishes to connect to an interstate carrier, to purchase a through ticket and to obtain through services for his baggage."

H.R. 10560 will provide this important benefit by permitting PSA, along with other intrastate airlines using large aircraft, to receive Federal certificates. The intrastate airlines taking advantage of this provision will thus become a part of the national airline network. As a result, our passengers will enjoy not only through ticketing and baggage service, but also the benefits of joint and common fares lower than the sum of present interstate and intrastate local fares in markets in which PSA could provide connecting services. Such benefits are today denied to passengers wishing to use PSA's schedules in conjunction with those offered by interstate carriers.

Reason Two

This bill will enable us to provide interstate through-billed air freight service and to carry U.S. mails throughout PSA's system.

Reason Three

It will permit us to offer interstate and international charter service for low-cost vacation travel and for the Department of Defense on the same basis as do today's federally-certificated airlines.

Reason Four

It will allow us to fill more seats on existing flights, thus increasing the distance we carry passengers while burning the same amount of fuel.

Reason Five

It will give us an opportunity to participate on an equitable footing in future comparative route proceedings held by the Civil Aeronautics Board to consider new direct interstate or international scheduled services.

Reason Six

The addition to PSA's system of interstate and international passenger and freight traffic and revenues will improve our financial results. This improvement will reinforce our ability to provide competition and the finest of low-cost air transportation services to the public.

THESE SIX BENEFITS OF H.R. 10560 ARE NOT ACCOMPANIED BY ANY REAL
DISADVANTAGES

First: It will not increase the intrastate fares available to our six and one-half million intrastate California passengers.

Second: It will not impair our frequent, convenient and friendly commuter-type intrastate service.

Third: It will not cause appreciable harm to other carriers.

NO ALTERNATIVE TO H.R. 10560 HOLDS EQUAL PROMISE

Alternative One: application by PSA to the C.A.B. under present law is a less appropriate procedure than H.R. 10560 and would probably involve undue delay.

Alternative Two: the Administration's "Aviation Act of 1975" is no substitute for H.R. 10560.

THE FACTS ABOUT PSA SHOW THAT CERTIFICATION UNDER H.R. 10560 WILL BRING
THESE BENEFITS

Paul Barkley, PSA's Senior Vice President-Finance, is with me today. His prepared statement is devoted to the public benefits to be gained through federal certification of PSA. Securing such benefits will not require any sacrifice of the convenient intrastate service and fare structure our many passengers today enjoy. These are the foundation of PSA's success, and we will continue and expand them.

Rather than ask you to rely, in assessing the public benefits of this bill, solely on statements as to the future, I would like to tell you some past and present facts about PSA that help explain why your bill would provide all these advantages, with so few adverse effects.

PRESENT LAW FORCES PSA TO INCONVENIENCE MANY PASSENGERS

As Chairman Anderson rightly said in introducing H.R. 10560, PSA today cannot provide a through ticket or through baggage service for interstate passengers. But the inconvenience to the public and the problem for PSA are even worse than this suggests.

The fact is that PSA is exposed to a risk of severe fines if it even knowingly carries a passenger making a direct connection to or from an interstate flight. No through ticketing or baggage service need be involved.

PSA's exposure is spotlighted by a formal complaint filed with the C.A.B. by United on November 13, 1975, just one week after H.R. 10560 was introduced. United's complaint, which is a matter of public record, alleges that connections were made from interstate flights to PSA by United employees acting pursuant to instructions from United. There is no contention that any through tickets were issued or through baggage services provided. Nonetheless, we are advised that PSA could be subject to fines if all of United's allegations were upheld.

PSA has answered United's complaint denying the material particulars alleged as well as United's general assertions that PSA is in violation of applicable law, and requesting that United's complaint be dismissed. No action has been taken by either the Board or its staff with respect to United's complaint or PSA's answer.

In considering H.R. 10560, the point of the United matter is that the prohibition against an intrastate carrier's conveniencing interstate passengers is a real and effective limitation on PSA's ability to serve the public. Only through federal certification can we move to provide convenient, low-cost service to both intrastate passengers and passengers making direct connections to and from interstate flights.

PSA'S HISTORY SHOWS THAT FEDERAL CERTIFICATION WILL HELP INSURE CONTINUATION OF PSA'S LOW INTRASTATE FARES

The materials presented by Paul Barkley describe the fares PSA proposes to offer following our receipt of a federal certificate under this bill. It is basic that we propose no departure from our current, PUC-approved fare levels, barring unforeseen inflationary pressures.

Some may question this. Since present federally certificated carriers charge higher fares than PSA, some might argue that federal certification would raise PSA's fare levels.

The differences in cost incurred by PSA and presently certificated carriers are much more closely related to the way we conduct our business and the nature of the service we choose to provide than to the question of federal certification. It has always been a principal PSA objective to offer convenient, basic air transportation services at prices attractive to as many of the public as possible. To the extent we have over the years enjoyed financial success, it reflects favorably on this approach.

We are so committed to this type of service that we cannot afford to become a high fare carrier.

PSA began business in 1949 with a rented DC-3. We flew between San Diego and Oakland via Hollywood/Burbank. The Hollywood/Burbank-Oakland fare was \$9.50. Many of our early passengers were servicemen who could not afford to travel at the high first-class prices charged by the interstate carriers.

From 1949 forward, low fares were an important part of PSA's growth pattern. Our growth paralleled the growth of California's air travel markets, and we were able to stimulate those markets and at the same time gather an increasing competitive share by offering lower fares than other airlines.

In 1965, the staff of the C.A.B. published a study which focused on PSA's competitive impact between San Francisco Bay Area and the Los Angeles Basin. This study noted that PSA, "[a]lways a very low-fare carrier" and "once called 'The Poor Sailor's Airline,'" had "induced fare reductions by [competitors] . . . brought down average fares and . . . expanded total traffic far above what it might otherwise be . . ." The study concluded that—

"Thus, the traffic stimulated by [fare] reductions resulted in additional revenues of \$208 thousand in 1962, \$2.1 million in 1963, and \$3.8 million in 1964." Civil Aeronautics Board: *Traffic, Fares and Competition-Los Angeles-San Francisco Air Travel Corridor*, August, 1965.

The year of this quoted study—1965—was also the year of enactment, in California, of the Passenger Air Carriers Act. This Act for the first time established regulatory machinery applicable to the rates and routes of all intrastate carriers and the intrastate rates of federally certificated carriers. Enforcement of these new provisions was vested in the PUC. The PUC has conscientiously pursued its duties under the Passenger Air Carriers Act since its enactment. Since that Act was passed only in 1965, however, it is clear that the great competitive benefits and expansion in number of California passengers, produced by PSA's low fares and frequent service, as described in the 1965 C.A.B. staff study, are not directly attributable to PUC regulation of PSA's fares and routes. Rather they are the result of PSA's own long-held fare, marketing and competitive philosophy.

Since 1965, the federally certificated carriers competing with PSA have evolved a practice of matching PSA's low fares with intrastate tariffs filed with the PUC. The PUC has permitted such matching on the ground that PSA's lower costs make PSA the most efficient carrier. It is PUC policy that the most efficient carrier should be the fare-setting carrier. While matching PSA's fares, PSA's competitors have for many years reported to the PUC large operating losses with respect to their intra-California services.

Because of this "matching" practice, our low fares, which for the first 15 years of PSA's existence were a tool for market penetration against our larger competitors, have not for the last 10 years been available for this purpose. We have, instead, sought successfully to maintain and increase our market share, while

holding fares low, by providing the most frequent service at the most convenient times, making travel pleasant for our passengers, and aggressively and selectively marketing our services to reach new passengers.

PSA has grown steadily. It presently ranks among the top 10 airlines in the country and the top 20 in the world, based on the number of passengers carried.

Today PSA operates 23 Boeing 727-200, 1 Boeing 727-100, and 2 Lockheed L188 aircraft on more than 1,200 flights a week serving San Francisco, Los Angeles, Oakland, San Jose, Sacramento, South Lake Tahoe, Ontario, Hollywood-Burbank, Long Beach, Fresno, Stockton and San Diego. In addition, PSA has applied to serve Monterey. PSA carried approximately 6½ million passengers in 1975 and has approximately 2,500 employees.

The size of our intra-California markets continues to be sensitive to fare levels. As the 1965 C.A.B. staff study concluded, PSA's low fares "expanded total traffic far above what it might otherwise be." The other edge of this sword is that our primary markets would respond to major fare increases by severely contracting in size.

Our equipment and related capital expenditures, as well as our staffing levels, have for many years been predicated on the low-fare-expanded markets for PSA's services. An increase in our basic fares approaching interstate coach levels established by the C.A.B. would shrink PSA's primary markets, forcing us into further groundings of equipment and furlough of personnel. Our continuing obligation to service debt related to the equipment that would be grounded, without the benefit of the revenues such equipment would have generated, would immediately place us in an untenable position.

In summary, anyone arguing that it is any part of PSA's objective in seeking federal certification and supporting H.R. 10560 to raise fares would be ignoring both our history of dedication to low-fare services and our irretrievable investment in air travel at prices within easy reach of the average income.

PSA'S BASIC, SHORT-HAUL AIR TRANSPORTATION SERVICE WILL CONTINUE

PSA's basic commuter-oriented service will continue unimpaired following award to us of a federal certificate. We believe that over 95 percent of our passengers will continue to consist of those making intrastate trips. It is, therefore, only natural that our flight schedules and related services will continue to be oriented to serving them. We will continue to concentrate on the frequent commuter-type service, with a minimum of frills or extras, that has brought us our past successes.

Where it is feasible without reducing the convenience of our service to intrastate passengers, we will make such changes in timing as may be appropriate for the purpose of providing convenient connecting services for interstate passengers. We will be able particularly to convenience those moving to and from California points which today receive relatively infrequent service from the interstate carriers. Among these points are Sacramento, Fresno and Stockton.

We believe that the special characteristics of our service will be a decided benefit for many interstate passengers.

PASSAGE OF H.R. 10560 IS THE BEST AVAILABLE WAY TO SECURE ALL THE PUBLIC BENEFITS OF FEDERAL CERTIFICATION OF INTRASTATE CARRIERS

Legislation such as H.R. 10560 is at present the most appropriate avenue for bringing to the public the benefits of federal certification of major intrastate airlines such as PSA. Beside this legislation, such alternative ideas as filing an application for certification under existing law, or using provisions of the Administration's "Aviation Act of 1975" are seriously inferior in a number of respects.

Congress has recognized instances in which federal air transport authority should be granted by statute rather than case-by-case administrative proceedings. Congress legislatively certificated the trunklines in 1938. In 1955 and 1956, Congress legislated permanency into the certificates of the local service, Alaskan and Hawaiian carriers, even though the C.A.B. had authority to award permanent certificates. Again in 1962, Congress defined the scope of rights which would be awarded to the supplemental carriers, although the C.A.B. had authority to perform this task. The agency was left with the task of choosing the supplementals to receive the Congressionally defined "package."

We think these actions of Congress in 1933, 1955-56, and 1962 are good precedent for passage in 1976 of H.R. 10560, awarding certificates to qualified large intrastate carriers opting to apply for them. Just as are the trunks, locals and supplementals, the intrastate airlines are a classifiable group susceptible to general legislative treatment. As were these other well-recognized classes of carriers, the intrastate airlines are already flying today and have been providing useful and important services for many years. Hence, the "public convenience and necessity" questions involved in their certification do not involve microscopic and variable factual issues. Rather, broad policy issues meriting uniform treatment are presented.

On the other hand, applying to the C.A.B. for authority involving such broad policy matters may involve practical disadvantages. The agency's proceedings with reference to major policy changes such as are here involved have at times been characterized by a restrictive attitude, delay, and vulnerability to judicial attack.

In C.A.B. proceedings leading to the 1962 legislation concerning the supplemental carriers, for example, the Board had been unable to resolve the major policy issues in a manner that would withstand judicial scrutiny, and its efforts had been repeatedly struck down in judicial review proceedings.

In taking into its hands the question of permanent certification of the local carriers, Congress pointed out that there was an unexplained failure by the C.A.B. to act: "In some areas the [local service] experiment has undoubtedly been in effect long enough to have local service routes well established and the failure of the Board to grant the carriers permanent certification for those routes is not understood." (U.S. Cong. & Adm. News, 1955, p. 1904).

PSA has not encountered any eagerness on the Board's part to consider the public benefits of federal certification of intrastate carriers. In 1967, PSA applied to the Board for a certificate granting federal traffic rights over PSA's existing system and extending PSA into Seattle and Portland. The Board, however, ruled that it would not consider allowing interstate passengers to use PSA's existing flights which were confined to California in the same case with the *Seattle-Portland* issues. To PSA, this ruling meant that a Seattle/Portland award to PSA would have required us either to relinquish our intrastate flights or to operate two separate airlines, one interstate and the other intrastate. Following consideration of this problem, PSA withdrew from the case, while Air California went forward and prosecuted, unsuccessfully, an application for the Seattle/Portland authority.

In 1970, PSA and Air California each applied for the right to provide connecting services pursuant to agreements with federally certified carriers. These applications were filed under the exemption provisions of section 416(b) of the Federal Aviation Act. In August, 1971, the Board denied these applications. The reasons stated were (1) that the benefits of the proposals did not appear "overriding," (2) that there was "significant" diversionary potential, and (3) that the issues involved were too "complex" to be resolved under the exemption provisions of section 416(b). (C.A.B. Order 71-8-57).

PSA and Air California next applied for more limited authority, similar to that held by all federally certificated carriers, to provide interstate charter services for the Department of Defense. The Department had expressed to us a specific interest in such services. These applications, however, were also denied. (C.A.B. Order 72-2-31).

Most recently, PSA was the first carrier to apply for emergency authority to assist passengers inconvenienced by the United Air Lines strike which occurred suddenly just before the Holidays. The Board, one member abstaining, denied PSA's application by evenly divided vote, but almost immediately thereafter, granted applications of federally certificated carriers for special emergency authority similar to that sought by PSA, and provided a special procedure for others under delegated authority. The Board's action caused PSA to suffer a loss of the good will of a number of interstate passengers stranded at or unable to reach Stockton and Fresno, where United was the only interstate carrier, since we were (and are) unable to give a satisfactory explanation of our inability to convenience them on our flights. Had PSA enjoyed authority pursuant to H.R. 10560, it would have been unnecessary for us to confront the Board with this emergency request on short notice.

By the foregoing we mean no criticism of the Board's processes or any of its present members. The only point I wish to make is our strong feeling that

passage of H.R. 10560 is the most appropriate way to secure to the public the benefits of federal certification of PSA and other major intrastate carriers.

I do not know if anyone has suggested that the Administration's "Aviation Act of 1975" might be the answer to the inconvenience flowing from the inability of the major intrastate carriers to convenience interline connecting traffic. I am not an authority on the "Administration Bill." I am advised that it does contain provisions designed to confer limited federal authority on the intrastate airlines. But, as I understand it, it does not solve or even directly address the basic problem addressed by H.R. 10560.

In the first place, I am advised that the "Aviation Act of 1975" provides no relief at all for intrastate airlines until 1981. We at PSA think action is needed now.

Next, I understand that the Administration Bill is not designed to allow interstate transportation over intrastate carrier routes, as H.R. 10560 will do. The thrust of the Administration Bill is to allow expansion over routes not previously flown. We are, of course, generally interested in appropriate expansion over additional routes in the future, as we indicated in hearings before the Senate Judiciary Committee's Subcommittee on Administrative Practice and Procedure last year. It is, however, putting the cart before the horse to attempt geographic expansion into interstate markets while lacking authority to convenience interstate passengers over our basic system.

Counsel have pointed out to us that the provisions of the Administration Bill might theoretically be applied to federalize existing intrastate carrier routes, but the consequences of such an application make it impracticable. First, it would doubtless take several years to acquire full federal traffic authority over PSA's existing system by such an application. Second, such "internal" use of the Administration's "deregulation" provisions would entail the geographic stagnation of PSA's system while PSA's competitors would be expanding.

Moreover, use of the Administration Bill's authority to acquire new routes, without first securing federal traffic rights over our existing system, would place PSA or any other intrastate airline in the position of operating a "hybrid" outfit. Our authority and regulation would be extremely complicated. Counsel advise that we could carry interstate passengers over a new nonstop operation set up under new section 401(p) of the Act, and could operate the new flight into our existing system with those passengers aboard. We understand that we could make connections for the new passengers riding the new flight. But the very flights providing such connections for those particular interstate passengers would still, we are told, be prohibited from carrying other interstate passengers wishing to make interline connections. It is by no means clear to us that it would be in PSA's best interests or those of PSA's intrastate passengers to submit to extensive federal regulation in return for such an awkwardly limited package of federal rights as we believe would be conferred under the Administration Bill.

For the foregoing reasons, as well as those set forth in the materials Paul Barkley has brought with him today, we at PSA commend the Members for their introduction of H.R. 10560 and we urge its prompt enactment.

Thank you.

STATEMENT OF PAUL C. BARKLEY, SENIOR VICE PRESIDENT—FINANCE,
PACIFIC SOUTHWEST AIRLINES

Mr. Chairman, Members of the Subcommittee:

Pacific Southwest Airlines today possesses unique resources that are only partly available to part of the public. Passage of H.R. 10560 will make these resources fully available to all the public.

PSA'S STATUS AS A CALIFORNIA INTRASTATE AIRLINE DENIES THE BENEFITS OF ITS
QUALITY, SHORT-HAUL, LOW-FARE SERVICE TO INTERSTATE PASSENGERS

PSA is a short-haul specialist airline. In 1975, PSA's average length of passenger haul was 254 miles. In contrast, our principal competitor, United, had an average length of passenger haul in excess of 900 miles.

Since our flights are short, we have no galleys or food service.

The mild California winters allow us to put seats where other airlines hang coats, and we have no space for carry-on luggage that won't fit under a seat.

Every available space is devoted to revenue-producing seats. It is normal for our Boeing 727-200 to have up to 30 percent more seats than the same aircraft as operated by longer-haul airlines.

PSA's dense routes and efficient operations make it the first ranking of all U.S. airlines in number of passengers handled per employee (1974).

PSA has pioneered simplified ticketing, billing and passenger handling methods.

All the above efficiencies have helped us hold down costs per passenger flown. It has been PSA's philosophy to translate these cost savings into the lowest possible fares. Low fares have expanded PSA's markets and PSA's share in competitive markets and, combined with frequent, responsive service and a good identity with the California public, have led to PSA's success.

The benefits of PSA's unique service are denied to a large and important segment of the traveling public. This denial occurs by virtue of PSA's status as an intrastate carrier.

Under its limitation to intrastate service, PSA serves twelve California cities in thirty-two separate airport-pair combinations, or markets. Fifteen of these markets are served by competing interstate or intrastate carriers (See Appendix B).

PSA currently charges a fare in the Los Angeles-San Francisco markets, including tax, of \$25.50. In the Los Angeles-San Diego market, PSA's current intrastate fare is \$12.25, including tax. These examples are representative of PSA's fare level. The low level of PSA's fares is generally matched, market-by-market, by PSA's competitors, as noted above. However, in interstate markets of the same stage length as PSA's, the interstate carriers charge considerably higher fares. For example, the coach fare charged by interstate carriers in markets of the stage length of the Los Angeles-San Francisco market is \$44.00, including tax, 73% above the PSA fare.

Under the Federal Aviation Act of 1958 (Act), a federal certificate is necessary in order for an airline to transport mail or carry passengers or freight in interstate, overseas or foreign air transportation. PSA, as an intrastate airline, is excluded from participation in these descriptions of traffic, and these users are in turn forbidden to use PSA's frequent, low-priced services.

The most significant of these excluded categories is "interstate" air traffic. "Interstate" passengers include all passengers making a continuous interstate trip, even though one stage of their trip is wholly within California.

The primary significance to PSA of H.R. 10560 is that its passage will enable us to lift the prohibition against these passengers and to convenience interstate traffic as well as other federally regulated air traffic on our present services.

ENACTMENT OF H.R. 10560 WILL ALLOW PSA TO BENEFIT NEARLY 300,000 INTERSTATE PASSENGERS ANNUALLY AND TO PROVIDE OTHER BENEFICIAL SERVICES THAT ARE NOW PRECLUDED

Over One Million Passengers Annually Make Connections Using Intra-California Services But Are Denied Access To PSA

The important benefits of H.R. 10560 are nationwide in scope. Data prepared under the supervision of the Civil Aeronautics Board indicate that over 1,061,000 airline passengers annually move for connections through the Los Angeles-San Francisco segment and the Los Angeles-San Diego segment—the two densest markets served by PSA. This figure includes no passengers using intrastate carriers. It does contain 168,000 passengers who might legally use PSA under existing law if a way could be found to provide interline ticketing and through baggage services limited to intra-California passengers. Such distinctions, however, have proved impracticable. The rest of these 1,061,000 passengers are directly precluded by PSA's intrastate carrier status from using PSA.

The nationwide effect of the restriction on the use of PSA's service is shown in Chart A, a map of the United States. The chart clearly shows the distribution throughout the fifty states of the more than one million passengers moving through PSA's most heavily traveled segments for connections, and precluded from using PSA's services. Of these passengers, 893,000 are moving to and from states other than California. No region of the United States is unaffected by the legal "closed door" on these 893,000 passengers. As a practical matter, the door is today closed on all 1,061,000. Passage of H.R. 10560 will open that door.

PSA Operates More Intra-California Schedules Than Any Other Airline

The extent of the public inconvenience caused by PSA's present prohibition against service to interstate passengers results from the fact that PSA leads all other air carriers in services offered in the top intra-California competitive markets. Chart B shows that in the top seven intra-California competitive markets, PSA offers the most service in six and is tied for the lead in one. The significance of this fact is that more than one million passengers across the United States are denied access, not just to a carrier, but to the leading carrier in the principal competitive intra-California markets.

PSA's service provides numerous potential new connections to and from such points as Sacramento, Fresno, Stockton and San Diego. But the traveling public is prohibited from using these services for such connections.

As is shown in Appendix B, PSA provides the only usable service in seventeen intra-California city pairs, including many of the "satellite" airport markets. Among airports servicing the major population centers, interstate passengers flying between the Bay Area and the Los Angeles Basin today have a limited choice. With a few minor exceptions, they are confined to travel between the Los Angeles International Airport and the San Francisco International Airport. This limitation contributes directly to serious ground travel congestion in the vicinity of these two airports and also obliges interstate passengers to travel by surface a greater distance in order to obtain access to the interstate airline network. Such long surface trips consume time and scarce fuel and impose excessive environmental costs in noise and vehicle emissions. H.R. 10560 will permit such passengers in many instances to travel a much shorter distance to their neighborhood "satellite" airport and obtain, through PSA's existing services, the access they require to the national air network.

The effective prohibition of such users of PSA's schedules today is a public inconvenience of major proportions. Its elimination, which H.R. 10560 will accomplish, deserves the support of air transport consumers in every section of the United States.

Under H.R. 10560, PSA Will Offer Interstate Service And The Full Range Of Interstate Joint And Common Fares In All Present Markets

Following enactment of H.R. 10560, PSA will apply within the prescribed period for authority to serve interstate traffic in all airport pairs PSA now serves. As we understand the bill, PSA will receive full federal authority in the same airport pairs as to which we hold and exercise authority today pursuant to our certificate of public convenience and necessity from the California Public Utilities Commission (PUC).

Upon receiving our federal certificate pursuant to H.R. 10560, it will be PSA's policy to offer joint fares with other federally certificated carriers in all PSA markets. These joint fares will, under current fare practices, be common fares for all PSA points with respect to each given point in the eastern United States. In other words, a passenger moving on a nonstop flight between New York and Los Angeles may make a direct connection to a PSA flight between Los Angeles and Oakland (or any other point in California served by PSA to and from Los Angeles) at no additional charge. PSA's service, which in a sense is "free" to the passenger, will be paid for by a division of the total fare based on a cost prorated formula established for that purpose by the Civil Aeronautics Board.

Joint fares between points served by PSA and other points in the western portion of the United States will be determined by the factors which currently determine joint fares charged by existing interstate carriers, as set forth by the Civil Aeronautics Board in the *Domestic Passenger Fare Investigation*. These fares as of January, 1976, were set at levels no higher than \$13.89 below the sum of the two participating carriers' local fares. In some short-haul connecting markets, use of PSA's local "K" economy fare in the joint fare formula may produce a fare reduction, and joint fares will become available in some markets where they are not available today as a result of the fact that PSA is the only carrier serving some markets, as shown in Appendix B.

Stopover interstate passengers and intrastate passengers will pay the local "K" class economy fare published by PSA with respect to each market we serve. PSA will publish identical basic local "K" economy fares with respect to both federally regulated traffic and intrastate traffic. For 1976, these fares will be at the level of PSA's currently effective intrastate fares. It is PSA's position that it can legally justify and secure the effectiveness of such fares under existing federal law in view of the fact, among others, that PSA's service is unlike interstate "coach" service in density and other cost-causative factors.

PSA's Service To Interstate Passengers Will Annually Benefit 295,450 Passengers Of Whom Only 84,480 Will Be Diverted

PSA estimates that it will carry 295,450 additional passengers in 1976 under the authority it will receive with the enactment of H.R. 10560. This traffic will be new to PSA and will require no increase in mileage flown. Some 84,480 passengers, or 28 percent, will be diverted from eight incumbent air carriers. The remaining 72 percent will be newly-generated or derived from the modest (3% annual) growth PSA projects in the markets. The elements and adjustments employed in PSA's forecast are described in Appendix C hereto. PSA is willing to make details of its forecast available to the Committee and its staff upon request.

Under H.R. 10560 authority, PSA will receive additional opportunities for cargo and mail carriage and interstate civilian and military charter services. While we have made no estimate of the level of service of these types that PSA could provide, we believe that the availability to the public, the Post Office and the Defense Department of such services by PSA will be a significant benefit attributable to H.R. 10560. In this connection, it should be noted that in 1971, the Department of Defense supported and urged favorable action by the Civil Aeronautics Board on a PSA application for exemption authority to operate interstate charter service for the Department of Defense. The Board, however, denied this authority in February 1972.

THE BENEFITS OF H.R. 10560 TO PSA AND ITS USERS OUTWEIGH ANY FORESEEABLE ADVERSE EFFECTS

In conveniencing an additional 295,450 passengers under H.R. 10560 authority, PSA will not add any additional aircraft mileage. Minor adjustments in departure times will be made to facilitate connections without impairing the convenience of schedules for our 6.5 million interstate passengers.

PSA has adequate available seats to accommodate these added passengers. In 1975, PSA operated 3,287 million available seat miles and generated 2,024 million revenue passenger miles for a systemwide revenue passenger load factor of 61.6%. The addition of 295,450 passengers with an average length of haul of 254 miles, or an additional 75 million revenue passenger miles, would have increased PSA's system load factor to only 63.9%, leaving ample seats available for additional interstate and intrastate passengers. Such an increase in load factor, in addition to improving the economics of the operation, conserves fuel.

PSA does not at this time have access to revenue yield information with respect to the connecting traffic now moving over the principal intra-California segments on services of interstate carriers. If the revenues from the traffic PSA projects for itself are computed at PSA's own experienced levels for intrastate passengers, PSA will experience an increase in revenues from the additional 295,450 passengers of approximately \$5.1 million. We estimate that we would incur no more than approximately \$2.0 million of additional expenses in order to carry these passengers and thus would experience a net financial improvement of \$3,000,000.

As noted earlier in this statement, additional public benefits would result from PSA's ability to carry interstate freight and U.S. mail and to provide interstate and foreign charter services for the military and for civilian users. Such services, we believe, would also be profitable to PSA.

In addition to the direct public benefits discussed above, there will be indirect benefits to the public from PSA's receipt of authority pursuant to H.R. 10560.

California intrastate passengers will benefit from the increase in PSA's air transport revenue base associated with the addition of federal traffic and revenues. These increased revenues net of associated expenses will tend to delay future requirements for fare increases and to permit such increases as may be required to be held down. Looking beyond 1976, the addition of these passengers will tend to allow schedule improvements and additions earlier than they might otherwise be feasible where supported by intrastate passengers alone.

Holding federal authority over our system within California will provide us with a fair opportunity to complete in future comparative hearings before the Civil Aeronautics Board with other airlines seeking new routes between points within California and other points, foreign and domestic.

The interstate airline system will benefit from the "new blood" represented by the major intrastate airlines. These carriers are tough, cost-conscious com-

petitors whose livelihood has for many years depended on lowering the price of air service to the public and inducing more people to fly. The overwhelming public acceptance in California of frequent, one-class, simple, low-cost service indicates that the time is ripe for such services and fares to be made available to interstate passengers.

As is noted earlier herein, PSA believes that diversion from the interstate carriers over the period of a year will not exceed 85,480 passengers. This diversion will be distributed among some eight airlines. It is our view that diversion of this magnitude is clearly outweighed by the public benefits described above. Moreover, PSA believes that some of this diversion can be offset through frequency reductions by the interstate carriers.

Although reporting periods vary, the interstate carriers providing intra-California service have reported to the PUC losses aggregating \$40,000,000 for recent 12 month periods. These losses apparently result from a combination of factors, including these airlines' policy of meeting PSA's low fares while incurring a level of costs related to long-haul services with relatively expensive and complex seating configurations and management structures. It is our view that, to an extent, these losses may also be traced to operation of excess capacity in certain markets. By excess capacity I mean levels of services at which very low and uneconomical segment load factors are experienced. Markets in which such excess capacity may exist include the Los Angeles-San Diego market as well as city pairs involving Sacramento, Fresno, Stockton and Bakersfield. Excess capacity is operated by some interstate airlines in these markets in order to retain, on a single-carrier basis, a high percentage of the long-haul traffic moving between the points involved. The availability of impartial connecting services from a carrier such as PSA could well lead to decisions by such carriers to eliminate otherwise uneconomic mileage today flown for such purposes. To the extent that such wasteful services are eliminated, the adverse financial effect of diversion attributed to interstate authorization of PSA will be reduced, and an environmental gain will be achieved.

Finally, in weighing the many benefits of H.R. 10560 against the small amount of revenue diversion, it should be realized that not all interstate airlines would suffer a negative financial impact as a result of PSA's connecting services for interstate passengers. In 1970-1971, when PSA requested interline authority by exemption from the Civil Aeronautics Board, our application was supported by Pan American and a number of trunklines. By their support these carriers indicate their realization that PSA's "feed" of new traffic to their long-haul flights would outweigh any diversionary impact of PSA's authorization.

H.R. 10560 WILL HELP PSA DO A BETTER JOB OF SERVING THE PUBLIC

PSA passengers often conclude that we will not transfer baggage or sell a through ticket because we "won't be bothered." This is a false impression. We are anxious to offer the convenience of interline ticketing and baggage transfers to passengers. Such services will improve our image as an airline that cares about its passengers—and I can assure you that we do.

Federal traffic authority pursuant to H.R. 10560 will enable us to open our doors as an airline to all to whom we can be of service.

Few legislative measures promise as great benefits with so few disadvantages, as H.R. 10560 does, at no cost to the federal treasury.

We urge its enactment.

CHART A

NATIONWIDE, MORE THAN A MILLION AIRLINE PASSENGERS PER YEAR MAKE CONNECTIONS VIA THE LOS ANGELES-SAN FRANCISCO SEGMENT OR VIA THE LOS ANGELES-SAN DIEGO SEGMENT

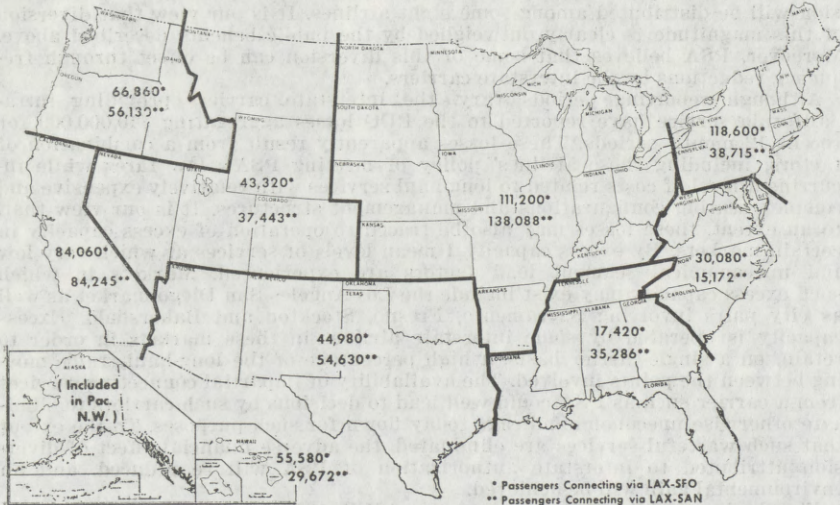
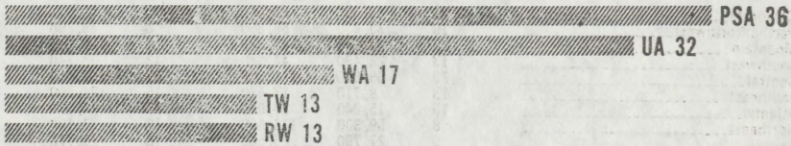


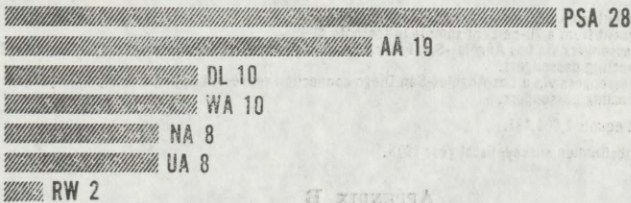
CHART B

PSA LEADS IN SCHEDULED TRIPS PER DAY IN THE TOP INTRA-CALIFORNIA COMPETITIVE MARKETS

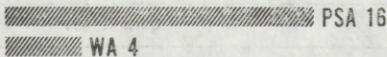
• LOS ANGELES - SAN FRANCISCO



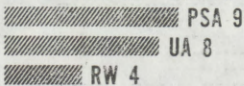
• LOS ANGELES - SAN DIEGO



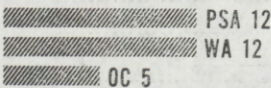
• SAN FRANCISCO - SAN DIEGO



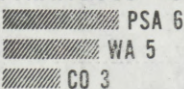
• SAN FRANCISCO - SACRAMENTO



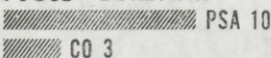
• LOS ANGELES - SACRAMENTO



• SAN FRANCISCO - ONTARIO



• SAN JOSE - BURBANK



Source: Official Airline Guide - Jan. 15, 1976

APPENDIX A

REGIONAL SUMMARY OF GEOGRAPHIC DISTRIBUTION OF CONNECTING PASSENGERS

Regions of United States	Connecting via LAX-SFO or SFO-LAX			Connecting via LAX-SAN or SAN-LAX		
	Number markets	Sample	Total ¹	Number markets	Sample	Total ²
California.....	21	42,030	84,060	13	58,970	84,245
Pacific Northwest.....	10	33,430	66,860	8	39,290	56,130
Mountain.....	8	21,660	43,320	8	26,210	37,443
Southwest.....	13	22,490	44,980	12	38,240	54,630
Central.....	23	55,600	111,200	27	96,660	138,088
Southeast.....	13	8,710	17,420	16	24,700	35,286
Atlantic.....	10	15,040	30,080	9	10,620	15,172
Northeast.....	8	59,300	118,600	10	27,100	38,715
Hawaii.....	5	27,790	55,580	5	20,770	29,672
Total.....	111	286,050	572,100	100	342,560	489,381

¹ Expanded to 100 percent from a 50-percent sample in footnote 3.

² Expanded to 100 percent from a 70-percent sample in footnote 4.

³ The above beyond passengers via Los Angeles-San Francisco connection represent approximately a 50-percent sample of the total of such connecting passengers.

⁴ The above beyond passengers via a Los Angeles-San Diego connection represent approximately a 70-percent sample of the total of such connecting passengers.

Note: Combined total equals 1,061,481.

Source: CAB-Origin-destination survey, fiscal year 1975.

APPENDIX B

NEW NONSTOP ROUND TRIPS WITH ADDITION OF PSA

	Other carriers	PSA
San Diego to Los Angeles.....	29	15
Hollywood/Burbank to San Jose.....	1	5
Hollywood/Burbank to Lake Tahoe.....		1
Los Angeles to San Jose.....		9
San Diego to Long Beach.....		1
Los Angeles to Fresno.....	6	3
Los Angeles to Oakland.....	2	10
Los Angeles to Sacramento.....	6	7
Long Beach to San Francisco.....		3
San Diego to Ontario.....		1
Long Beach to Oakland.....		2
Long Beach to San Jose.....		2
Hollywood/Burbank to Oakland.....		5
Hollywood/Burbank to San Francisco.....		8
San Diego to Hollywood/Burbank.....		5
San Diego to San Francisco.....	1 1/2	6
San Diego to San Jose.....	1	(1)
Long Beach to Sacramento.....		(1)
San Diego to Fresno.....		(1)
Fresno to Stockton.....		3
Fresno to San Francisco.....	5	(1)
Stockton to San Francisco.....	3	3
San Francisco to Sacramento.....	6	6
Ontario to San Francisco.....	2	3
Los Angeles to Lake Tahoe.....		3
Los Angeles to Stockton.....		(1)
Ontario to Sacramento.....	1	(2)
San Diego to Oakland.....		(1)
San Diego to Sacramento.....		(2)
San Diego to Stockton.....		(2)
Hollywood/Burbank to Sacramento.....		(1)
Los Angeles to San Francisco.....	37	16

¹ Single-plane, 1-stop service.

² Connecting or 2-stop service.

APPENDIX C

DESCRIPTION OF FORECASTING TECHNIQUE EMPLOYED TO ESTIMATE 1976 PASSENGERS BENEFITED BY PSA UNDER H.R. 10560 AUTHORITY

In order to forecast the number of passengers who would benefit from PSA's scheduled services as a result of the enactment of H.R. 10560 and PSA's receipt

of authority thereunder, it was assumed that 1976 would be a full, stabilized year of operations by PSA with the new authority.

It was further assumed that, throughout 1976, all air carriers providing scheduled services between affected California points would provide service at levels approximately those in effect as of January 15, 1976.

To develop a historic traffic base, calendar 1974 was selected as the base traffic year. Next, of the 32 point-pairs in which PSA provides effective intrastate service, 10 markets were selected as the most significant ones in terms of connecting traffic that would become available to PSA under H.R. 10560 authority. These 10 markets are:

Los Angeles—San Francisco, San Diego, Oakland, Sacramento, Stockton, and Fresno.

San Francisco—Ontario, Sacramento, Stockton, and Fresno.

It should be noted that no attempt was made to expand the results obtained by study of these 10 markets to account for the fact that PSA provides service in 22 additional airport pairs. Inclusion of only 10 markets in PSA's forecast is one of several elements of conservatism in the methodology employed, enhancing the forecast's reliability.

The source of historic traffic (data base) employed to forecast connecting traffic was the Civil Aeronautics Board *Origin-Destination Survey of Airline Passenger Traffic*.

With respect to two markets—Los Angeles-San Francisco and Los Angeles-San Diego a statistically reliable sample of all passengers moving in these segments and making either on-line (same-carrier) connections or interline (two-carrier) connections at either end of the segment was extracted from the data base. Since total interline connections for each segment were known, a ratio of sample to total interline connections was then computed and applied to sample on-line connections to expand the latter to a total figure.

In respect to the other eight markets examined, the interline connecting passenger totals were extracted directly from the data base. It was assumed that an additional number of passengers equal to the number of passengers making interline connections moved in each of these markets by on-line connections. This assumption appears conservative in the light of the fact that in the Los Angeles-San Francisco and Los Angeles-San Diego markets, nearly two passengers moved and made on-line connections for each one passenger who moved and made interline connections.

The traffic derived as described above was assumed to increase at the rate of three percent per year to 1976. This rate may be overstated with respect to 1975 over 1974, when traffic was quite flat, and understated for 1976 over 1975, in which there are indications that a moderately strong recovery in airline traffic growth is being felt.

Taking into consideration the service information shown in Appendix B to the testimony to which this description is appended, it was estimated that the availability of PSA's services to connecting passenger pursuant to H.R. 10560 authority would cause an increase of 10 percent in the interline connecting traffic and 5 percent in the on-line connecting traffic.

Estimates were then made of the number of passengers using PSA's schedules in 1976, again by reference to the service shown in Appendix B. Estimates of PSA's participation in on-line connecting passengers were made at approximately 40% of the percentage applied to the interline connecting passengers—a low estimate reflecting the known preference of passengers for one-carrier service except where two-carrier connections are clearly more convenient.

The foregoing calculations yielded an indicated total participation of PSA in the transportation of 295,450 passengers.

Diversion from other airlines was estimated by deducting, from the estimated participation of PSA in on-line and interline connecting traffic in each of the 10 markets, PSA's estimates of traffic increases resulting from growth and the availability, pursuant to H.R. 10560, to this traffic of PSA's schedules. This computation yielded an estimated diversion after growth and stimulation of 84,480 passengers. Conversely, it is estimated that 210,970 of PSA's estimated 295,450 passengers will be the result of growth and stimulation of the traffic rather than diversion.

Yield information with respect to the traffic studied was not readily available to PSA at the time of the forecast. Therefore, PSA applied its existing (February 1975) fare levels and experienced dilution, market by market, to its traffic estimate. This computation indicated a gross passenger revenue increase for

PSA in the amount of \$5.1 million. Against this amount PSA offset some \$2,065,000 in passenger-related and other expenses, indicating a net financial improvement to PSA in the amount of \$3,035,000 in 1976.

Mr. ANDREWS. Mr. Chairman and members of the subcommittee:

PSA supports H.R. 10560. When it becomes a law, we will invoke its provisions for the benefit of our airline and its passengers.

This bill will let us sell and honor interline tickets, transfer, and accept interline baggage, and participate in the joint and common fares today offered between California and other points.

But there are still other benefits. This bill will let us offer interstate air freight and mail service, and charter flights beyond California. It will improve our load factors and fuel efficiency. It will allow us to participate equitably in future route cases. By improving our financial results, it will enhance our ability to continue to provide low-fare competitive airline service in California and other places.

These benefits are offered by H.R. 10560 at no cost to the taxpayer, with no increase in fares for our present passengers, and with negligible adverse effects on United and the other carriers which compete with us in California.

Today PSA, regrettably, cannot sell or honor interline tickets or provide through baggage service for connecting passengers. We are, in fact, required to deny identifiable interstate passengers access to our flights. To do so goes against our most basic instinct as an airline, which is to serve all members of the public.

H.R. 10560 will open up all our flights to these passengers. In so doing, it will not impair either the schedules or fares we offer to the 6.5 million intrastate passengers we carry annually. Interstate revenues will strengthen PSA's ability to hold down increased fares and improve schedules for these passengers.

Low fares are the cornerstone of PSA's success. Since our first DC-3 flights in 1949, we have offered air travel at a price even "poor sailors" could afford, as the CAB staff noted in a 1965 study. Major fare increases to CAB coach levels are not a viable option for PSA. They would hurt traffic and be destructive of our business.

Allowing interstate passengers to use our service will not impair the convenience of our schedules for intrastate passenger; 95 percent of our passengers will still fall in this category, and we will not neglect them.

H.R. 10560 is much like grandfather sections of the Civil Aeronautics Act of 1938, the 1955 act giving permanent authority to the local service carriers, and the supplemental airline law passed in 1962. Major decisions of this kind are less appropriate for agency than for congressional action. We hope this subcommittee will do all it can to see that Congress does not pass the buck to the Civil Aeronautics Board on this matter.

PSA in the past has on several occasions asked the CAB for authority similar to that conferred by H.R. 10560. While the Board has on a few occasions granted PSA narrow authority technically within Federal jurisdiction, all PSA's requests for broader authority to open its doors have been denied or dismissed.

The administration's "Aviation Act of 1975," I am told, would let PSA fly new routes starting in 1981, but would not give interlining passengers access to our present flights as H.R. 10560 is designed to

do. The need is for action in 1976, not 1981. The action needed is to open the doors of PSA's present flights to everyone before worrying too much about authorizing new routes.

Again, let me express our thanks for your sponsorship of H.R. 10560 and for the opportunity to appear today in support of it.

I will now introduce to you Mr. Paul Barkley, our senior vice president in charge of finance.

Mr. ANDERSON. Mr. Barkley.

Mr. BARKLEY. Mr. Chairman and members of the subcommittee: The most important benefit of H.R. 10560 is to open the doors of the major intrastate airlines to people who are now excluded.

I would like to explain how this will work with PSA.

We serve 32 airport pairs in California. These are shown in appendix B of my prepared testimony.

Our service is simple and our fares, low. We are not permitted to carry interstate passengers.

Chart A in my prepared testimony shows the size and nationwide distribution of connecting passenger markets PSA cannot serve today but will serve once H.R. 10560 becomes law. In our two biggest city pairs, Los Angeles-San Francisco and Los Angeles-San Diego, there are over 1 million connecting passengers.

The enactment of H.R. 10560 will benefit not only Californians, but thousands of passengers from every State and every region—all prohibited today from using PSA's flights.

If you will look at chart B, you will see that PSA provides more service than any other airline between Los Angeles and the two points we just considered: San Diego and San Francisco.

We also outschedule our competitors in the other major competitive segments shown on chart B, except Los Angeles to Sacramento, where PSA and Western are tied.

In other words, well over 1 million Americans annually are flatly prevented from using the leading scheduled carrier in the California point pairs in which they move. H.R. 10560 will lift that prohibition.

Our current intrastate fare of \$25.50, including tax, between Los Angeles and San Francisco is typical of PSA's low fare structure. The CAB carrier coach fare for the same mileage is \$44, including tax; 73 percent higher.

Once our doors are open to these passengers, PSA intends to publish and file with the CAB tariffs containing basic economy fares at the same levels as our intrastate fares in each of PSA's 32 local markets. These fares will be used by through-ticketed stopover passengers.

Passenger using our service to make direct interstate connections will enjoy joint and common fares on the same basis as they are available using federally certificated carriers today.

Passengers between the eastern United States and points in California served by PSA from a California gateway via connections will enjoy our service at no cost above the present fare to or from the California gateway.

Some joint fares may become available for the first time as a result of the fact that, as shown in appendix B to my written testimony, PSA serves 17 airport-pairs not served by federally certificated airlines.

We estimate that H.R. 10560 will permit us to convenience 295,450 passengers in the first year. Only about 84,480 of these will be diverted; the diversion will be spread among eight interstate carriers, so as to cause negligible harm to anyone. The remaining 210,970 passengers we serve will come from the 3-percent annual growth we project, and by the generative effect of H.R. 10560 in allowing us to open up these new options for passengers.

We will operate no additional flights. Thus, the same amount of fuel and aircraft miles will do more work.

We estimate roughly a \$5.1 million increase in gross passenger revenue for the new passengers. Against these revenues we have netted passenger-related expenses and a general allocation of other expenses aggregating \$2 million, indicating a net financial improvement to PSA of about \$3 million. This amount would have been enough to swing our airline operating result in 1975 from a small loss to a small profit.

The federally certificated carriers have reported losses to the PUC for intra-California service aggregating \$40 million annually. PSA's ability to feed interstate traffic to some of these carriers at the California gateway could well enable some of these carriers to discontinue uneconomical short hops in California, conserving in fuel and reducing environmental impact.

To us at PSA, H.R. 10560 makes sense from the public interest viewpoint and from our own corporate point of view.

Thank you for this chance to appear in its support. We hope now that it will be promptly and favorably reported and considered.

Mr. ANDERSON. Thank you, Mr. Barkley.

Mr. Andrews, why has PSA been able to offer service at fares below those generally charged by interstate carriers?

Mr. ANDREWS. Why has PSA been able to do that?

Mr. ANDERSON. Yes.

Mr. ANDREWS. Effectively because of PSA's operating techniques, the philosophy of the lower fare, which creates volume and frequency, that is the bulk of the real main story behind why are we able to offer those fares.

Our efficiencies built into our operations started many years ago, when PSA was a fledgling, with no assistance, no outside aid. These philosophies of ticketing, moving of passengers, low volume of employees for the high volume of passengers we carried, it is a philosophy we maintain and intend to keep.

Regulatorywise, we see no increase in costs, appreciable increase in costs, other than servicing the interstate connecting passengers, so the regulatory effect from the Public Utilities Commission in California to the CAB, as we see it, will be very minimal.

Mr. ANDERSON. Does PSA expect that in the future it will continue to operate at fares substantially below the general level charged by the interstate carriers?

Mr. ANDREWS. There is no question about that, sir. That is our reason for being in life. That is our entire economic foundation, is built on high-volume traffic, low fares.

Our intention is to continue that forever. For instance, today's rates, even though PSA has had to raise its rates through uncontrollable costs, by comparison of California to the east coast, of a mileage

route of 202 miles, which is Washington to New York, a fare of \$35 exists.

In the State of California, a route of 340 miles, \$25.50 cost exists. A comparison of 7 cents per mile per passenger in California versus 17 cents per mile in the east coast of the United States.

We intend to maintain that spread.

Mr. ANDERSON. Yesterday, when I was asking a question, I think one of the answers as to why low fares were possible in California was weather conditions and things like this.

From your remarks, I gather that you feel the low price increases the volume, so you are able to run a more efficient operation because you have fuller planes.

Mr. ANDREWS. Every market we ever entered, the original one being Burbank-Oakland, and later on as we extended our routes to San Jose-Los Angeles, it was well proven that the new market was built, the small businessman, the students could now fly because of our rate structure, rather than spending the money and the time going to San Francisco, et cetera. It was again proven in Sacramento. It has been proven in every market we entered.

Mr. ANDERSON. How does PSA compare in size to CAB certified carriers?

Mr. ANDREWS. I can tell you best in passenger volume.

We are in the top 10 of passenger volume of the carriers of the United States. We are in the top 20 in passenger volume of all the airlines in the world.

It would not—I could not compare employee to employee, because, as I said before, the efficiency and methods and techniques in all phases that we have built into our operation, have allowed us to enjoy a different ratio.

Mr. ANDERSON. What types of new expenses would PSA incur in interlining?

Mr. ANDREWS. According to Mr. Barkley, and our discussions, we anticipate some 5 percent of our total traffic coming from interline passengers.

The cost would be in the practice of serving these passengers through our telephone system, processing and writing the new IATA type ticket at the gate, and being careful to interline their baggage in a proper manner, so it would not get lost somewhere.

Other than that, the additional costs—we adhere to most CAB reporting forms now in-house—there would be minor costs just through transition in certain paperwork levels.

Mr. ANDERSON. You have a percentage figure there.

Do you have an estimate of the total amount of these costs?

Mr. ANDREWS. Yes, sir, Mr. Barkley has.

Mr. ANDERSON. Mr. Barkley?

Mr. BARKLEY. Assuming the 295,000 passengers that we have in our testimony, we have projected additional passenger costs of \$80,000 a year. Traffic servicing cost of \$406,000 a year. This is servicing of baggage and that sort of thing, which we are using double what our normal costs are in that area.

Reservation and sales costs, up \$873,000, which is a 10 percent increase in reservations now. This is to take care of approximately 5 percent increase in volume.

Again, it is double.

And it includes \$250,000 of computer revision expenses, so that we can interline properly.

Advertising and publicity, we have estimated \$263,000, which is a 10 percent increase in our budget, and general administrative expenses of \$443,000, which includes both a 30 percent increase in accounting personnel, and computer revisions of \$200,000.

That all adds up to \$2,065,000. That is \$2 million that we are applying against this new revenue and some \$5.1 million to come out with a net of \$3 million in improvement.

Mr. ANDERSON. Will these costs be passed on, in any way, to your intrastate passengers?

Mr. ANDREWS. No, sir, quite the contrary.

The profits, as a result of the interline passengers, will assist us in holding the fares at the level they are now when we meet adverse incurring costs that we have no control over.

Mr. ANDERSON. As I understand your testimony, Mr. Barkley, you estimate that with interlining authority you would carry 295,000 new passengers without adding any additional service.

Do you not operate some existing flights at high load factors, and would not extra sections have to be added to accommodate added interline passengers?

Mr. BARKLEY. In 1975, our load factor for the year was 61 percent. These passengers would have raised that load factor to approximately 63 percent. A change of two points on the load factor.

There may be certain flights at peak time that are full, yes, but overall this type of passenger increase could easily be handled without adding any flights in our markets.

Mr. ANDERSON. You might have to add flights at the peak times, because the figures you were giving were just averages throughout the year?

Mr. BARKLEY. If you assume these passengers average out on flights throughout the year, it would be less than 10 passengers on each flight. It would be doubtful if interlining, per se, would make you add an extra section.

Mr. ANDERSON. As I understand it, if you obtained interline authority, you expect to carry two types of passengers: joint fare passengers and stopover passengers.

Would you please describe these types of passengers and the fares you propose to make available to each?

Mr. BARKLEY. We referred to common fare passengers. These passengers would be coming from the east coast, where the point in California, for instance, from Washington, D.C., are common fare. You can fly to Los Angeles for the same price as San Francisco.

In this instance, passengers could fly to Los Angeles, get off, later get on PSA, and go to Oakland or San Francisco or San Jose, and pay nothing extra, because he would be commonfared to the west coast.

The joint fares are fares west of the Mississippi, where the fare is usually constructed by taking—in the case of Dallas, San Diego, Los Angeles, taking the Dallas-San Diego fare from a trunk carrier, and adding the San Diego-Los Angeles portion to that, while, in our case,

would be our PSA fare. And then I believe you subtract some \$13 from that total and that is called a joint fare.

Those are the two type fares that people coming into the State would have.

Mr. ANDERSON. The common fare is not for stopover passengers, is it?

Mr. BARKLEY. Yes; I believe so.

Mr. ANDREWS. Stopover fare on PSA, wherein a passenger goes from New York to Los Angeles, lays over a day and goes to San Francisco.

Our fare of \$20 would apply rather than the instance I cited a moment ago; we would fly that same passenger for \$25.50 where today he pays \$44.

Mr. ANDERSON. Of your 295,000 interline passengers, you estimate that 84,000 would be diverted from interstate air carriers.

Does this mean that you will attract 211,000 new passengers who are not now traveling?

Mr. BARKLEY. Yes.

The reason we feel that we would attract that many is the tremendous increase in schedules that are available to the public once you add PSA. If you go to chart B, you will see that we are the major scheduled carrier in each market.

So the tremendous increase in frequency becomes available to the public, and frequency is generally considered a stimulus to new passenger traffic.

Mr. ANDERSON. Well, you are not adding any new flights, are you? You are just adding—

Mr. ANDREWS. We are adding availability to the public of the new flights. They are there now, but the interline passenger cannot use them.

So, from the interline passenger's viewpoint, the flights are more than doubling.

Mr. ANDERSON. Right now those passengers have to buy the ticket at the airport if they want to use PSA?

Mr. ANDREWS. Well, they cannot use PSA to interline, because we cannot handle their baggage and other problems for them, and they pay an extra fare in using PSA under today's law.

Mr. ANDERSON. Would the availability of through ticketing encourage people to travel when they would not otherwise do so?

Mr. ANDREWS. I am sure; yes.

The convenience, the added convenience, would encourage travel, and there is where we get our stimulation.

Mr. ANDERSON. If H.R. 10560 is passed, will you be offering joint fares with interstate carriers in markets in which these fares are not now available?

Mr. BARKLEY. Again, in appendix B, we have listed all the markets we serve, and most of those that have a dash under the other carrier are not served by an interstate carrier today.

So joint fares would be available into these market points.

Now, there would be additional markets available, but we have not made a study as to what they would be.

But, for sure, these city pairs that are marked with a dash would be opened up to interline travel.

Mr. ANDERSON. Do you have any estimate of how many passengers you will carry in markets of this type?

Mr. BARKLEY. Well, we estimate that in the major market in the study that we have done here, which covers the major portion of PSA travel, we would have 295,000. But we have not pinned it down in the smaller markets.

Mr. ANDERSON. Do you foresee any problem in persuading the interstate carriers to enter into joint-fare agreements with PSA?

Mr. ANDREWS. No, sir.

Some years back we applied to the Civil Aeronautics Board for interline privilege.

We were supported by Eastern, Continental, Delta, and a couple of other airlines, and Pan American. So those people we know need and want our service.

As far as the competitive carriers that are now in the State of California, they also could use our service, and I am quite sure would use our service as a result of our serving markets they do not serve.

So I would say that—I would very definitely say that we would have interline agreements with all carriers.

Mr. ANDERSON. Mr. Taylor?

Mr. TAYLOR. Thank you, Mr. Chairman.

In your testimony, you indicate that you would experience an increase of 459,000 passengers. Is this based on a survey, or how do you arrive at that figure?

Mr. BARKLEY. There is an explanation of the methods used in the last section of my testimony; but to briefly summarize it, we looked at the CAB origin-and-destination traffic for 1974 in the major markets served by PSA, and tested that survey to determine where it came from or where it was going, where the passengers came from or were going, and then determined the amount of penetration PSA would make into these passengers, and that was done by looking at the number of schedules we provide in the marketplace compared to the balance of the carriers.

Now, we did not make an equal proration. In other words, if we provide half the schedules, we did not take half the traffic. We would take perhaps 20 percent of the traffic.

So we downgraded our initial penetration of this market quite a bit, but we arrived at the penetration PSA would have based on our schedules in the various markets.

Mr. TAYLOR. Now, am I correct that your fare, if someone in Los Angeles bought a ticket to fly to San Francisco, is \$44?

Mr. ANDREWS. \$25.50.

Mr. TAYLOR. That is your regular fare?

Mr. ANDREWS. Yes, sir.

Mr. TAYLOR. Where did I get \$44?

Mr. ANDREWS. That was if you rode on American Airlines from New York to Los Angeles, laid over a day and then went from Los Angeles to San Francisco, the interstate fare is \$44.

Mr. TAYLOR. That is what the major trunkline charges?

Mr. ANDREWS. Yes.

Mr. TAYLOR. Your fare is still \$25.50?

Mr. ANDREWS. Yes, sir.

Mr. TAYLOR. It is \$25.50 if someone lives in Los Angeles and wants to go to San Francisco?

Mr. ANDREWS. Yes, sir.

Mr. TAYLOR. Has your regulatory body in California expressed any preference or any views on this bill?

Mr. ANDREWS. I received a letter which I do not have a copy with me. It indicated that they had some problem with the bill, and I think they expect to testify before this committee.

Mr. TAYLOR. Thank you, Mr. Chairman.

Mr. ANDERSON. Mr. Johnson?

Mr. JOHNSON. Thank you, Mr. Chairman.

I want to say, Mr. Andrews and Mr. Barkley, I think you have given us a very well-documented brochure, based upon your summary. There is only one thing that I think has not been touched on.

I use your airline, going from California to here, and have used your airline up and down the State. I know that if this bill were to be passed, you would have a lot more flexibility. It would improve our service and our opportunity to get from here to there and there to here with more convenience in many cases.

Now, I see in your documented facts here where you have already been faced with a protest being lodged by United Air Lines.

Will you go into that just a little for the record?

Mr. ANDREWS. Yes, sir. We have certain arrangements with certain travel agents out of the State of California, including those on the east coast.

We have arrangements with American Airlines on their Sabre system, and with Delta on their computer system. Those arrangements were made with them for primarily—particularly, specifically, and only for sale to passengers who were using some airline facility to go to the State of California, wherein they would remain for a period of at least 24 hours.

And that, in the vernacular, makes them no longer engaged in the field of interstate commerce. They now can be classified as an intrastate passenger.

Over the many years that PSA has flown, we have found people who have found out how to do this on PSA. We have had commercial accounts, travel agents from all over the country, that say: Why can we not use your services? And we have told them always, there is no way we can issue tickets, we cannot come back and set up reservation systems; it is just too overwhelming.

When American Airlines and Delta got their very fine computer reservation system, it then became physically possible for us to do that. So it is a very legitimate method of procuring of passengers, convenience to passengers for their travel once they are in California and have remained there 24 hours before proceeding.

United Air Lines sent out a team of their people to—I suppose—see just how our particular arrangements were working.

They visited many travel agents through the States, Detroit and Seattle, and so forth, and went to extreme trouble to buy tickets on Western from Seattle to San Francisco, thence on to PSA, to Los Angeles, within that 24-hour period.

Throughout each one of these efforts on their part, they were severely inconvenienced because of the layover time required, the lack of their baggage being checked and the higher fare.

So I do not know what they proved, other than the fact they sneakily got on our airplane and became an interstate passenger.

So, for that, there was a complaint filed with the CAB. We filed an answer to it, and we have heard nothing further.

Mr. JOHNSON. The nature of their complaints and your answer are available as a public record?

Mr. ANDREWS. I believe so, yes.

It is filed with the Civil Aeronautics Board, both their complaint and our answer, sir.

Mr. JOHNSON. Mr. Chairman, I wonder if we could have copies of that?

Mr. ANDERSON. Could you provide copies of that for us?

Mr. ANDREWS. Yes, sir.

Mr. JOHNSON. We would like to have it for the record.

Mr. ANDREWS. Yes, sir.

Mr. ANDERSON. Without objection, when the items referred to are received, they will be retained in the subcommittee files.

(Third Party Complaint of United Air Lines, Inc., dated November 13, 1974 in C.A.B. Docket 28495, and the Answer of Pacific Southwest Airlines to Third Party Complaint of United Air Lines, Inc., dated January 2, 1976, in C.A.B. Docket 28495, retained in Subcommittee files.

Mr. JOHNSON. I think the responses to the questions that have been asked by Chairman Anderson and our minority member, Mr. Taylor, have been well answered, and we have the financial figures you people have computed as to the number of people, the costs, and the gross revenues.

The bill that was introduced, I think was fairly simple. It will probably have more complications before we get through with it.

But I do not know of any questions at the present time that I could ask that would throw any light on it. I have been inconvenienced because of the interlining, both the baggage and the tickets, and trying to make use of your frequent schedules to various points in California; but it was restricted unless there was a layover period.

So we stayed with the other type of interline to get to our destination.

Mr. Chairman, I have no further questions.

Mr. ANDERSON. Mr. Milford?

Mr. MILFORD. Thank you, Mr. Chairman.

I did not receive a complete copy of this testimony until this morning, and have not had a chance to give it the close look I would like to.

From a brief reading of the testimony, Mr. Chairman, I do or will have several technical questions on the testimony, and I would ask unanimous consent at this time, rather than take the committee's time, to be able to submit questions to Mr. Andrews and Mr. Barkley and have both the questions and their answers be included in the record.

Mr. ANDERSON. No objection? The record will be kept open (see page 44).

Mr. MILFORD. Mr. Andrews, what is PSA's present profit situation for the last quarter of the year on the whole?

Mr. BARKLEY. We are currently undergoing an audit for our fiscal 1975, and the auditors are not finished, so we are not ready to announce; but the airline had a loss in the first half of the year of some \$2.5 million, principally due to declining passengers, as we sunk into the recession and higher fuel costs.

We got a fare increase in midyear, and the passengers began to come back, as the economy came back, so the second half of the year was profitable but not enough to overcome the first half loss. So we are going to have a small loss in the airline for the year.

Mr. MILFORD. With regard to your testimony about the increased costs you would undergo by going interline or interstate markets, so to speak, what was the figure you estimated for your increased cost to do this?

Mr. BARKLEY. \$2,065,000.

Mr. MILFORD. I wondered. What bothers me a little bit about that—just from a few figures that I was able to get up on short notice here—for example, reservations clerks, in operation as an intrastate carrier spend about 1 minute per passenger in your operation.

Mr. ANDREWS. Yes, sir, they do. And 95 percent of them will still average that much. So 5 percent, which, as Mr. Barkley quoted, is about 300,000 passengers versus 6,200,000, which make up the 95 percent, would be the one that operationally you would really have to gear up for.

Mr. MILFORD. But you would still have to gear up your entire reservation crew just to handle that small percentage. So your cost factor would still be in there, other than the time itself involved?

Mr. ANDREWS. The cost factor is in there, and it is an increase of 10 percent in our reservations group.

We have 290 people in there at this time, who very capably serve the public, and now we will add roughly 30 people for this one purpose, serving only 300,000 people.

Mr. MILFORD. But your reservation clerks would have to be trained for a nationwide system.

Mr. ANDREWS. That does not bother us a bit.

Mr. MILFORD. Let us go into the multiple-stop ticketing, for example.

Your present system is more or less related to receipts, where you really would not have to have a highly trained person to ticket your operations now, but if you went on interline system, that same ticket agent would then have to be able to write a ticket to any place in the world and, as such, he becomes a very highly trained individual.

Mr. ANDREWS. That is correct.

Mr. MILFORD. Which means your entire ticketing agency would have to be changed out.

I am having a problem reconciling the figure that was given to me.

Mr. ANDREWS. There is no doubt about that, sir.

Of course, in time and effort, once they are trained, the bulk of their time will be taken with the 95 percent, which will be the simple tickets, grocery store type check. The five percent will actually physically be written. They will have the necessary training, of course.

We have our own training school. We train everybody in every department. This IATTA thing, where we have become more and more aware of, our people are more and more aware of it, they know that 1

day, somebody, PSA will be able to venture beyond the State of California.

So you are correct, there will be costs in training, but we do not foresee other than what we have in our figures here.

Mr. MILFORD. Another factor you would be going into is—if inter-line space fails and the cost of fueling, tariff, timetable—where your present cost runs about $3\frac{1}{2}$ cents per passenger, it would then go to around 7.2 cents per passenger.

Mr. ANDREWS. Well, we are, with respect to the sales throughout the country, we have, as I mentioned before, made ourselves known to the public here for the specific purpose of an intrastate passenger. We are working with American Airlines and with Delta now, and we have people with them constantly learning procedures, working out any problems that might occur.

We are listed in every known official publication with respect to timetables, et cetera.

So, as far as that, it does not present huge problems to PSA.

To answer your $3\frac{1}{2}$ cents versus 7 cents, I will let Mr. Barkley do that.

Mr. BARKLEY. I guess I do not know where the $3\frac{1}{2}$ cents came from, so I cannot relate to the 7 cents.

But the only additional work would be to file reports at the CAB. PSA's accounting system is already on the CAB charts of accounts.

So we already check all of our basic basic data under the rules of the CAB. This was done at the order of the Public Utilities Commission of California several years ago. So the only thing we lack doing that United is doing is filing the monthly and quarterly reports to the Board.

Mr. MILFORD. You publish your schedules—

Mr. ANDREWS. The official airline guide and all the people that we do business with.

Mr. MILFORD. Another hefty factor would come into being, which you are not now doing. Revenue accounting. If you go into the inter-line system, this means costly computers, communication lines and a rather large staff. This, again, we are going back into that additional cost.

I have a little difficulty with it.

Mr. ANDREWS. As Mr. Barkley said, we use the system of accounts as required by the CAB now.

Mr. MILFORD. The point I am getting at here, you are going to have to figure out tickets you sold and how much you owe another airline, how much another airline owes you, and it is a rather costly procedure.

Mr. BARKLEY. I admit that. That is why we estimated 30 percent increase in our accounting personnel.

Now, we could handle 5 percent of new business without any increase in accounting. We estimated a 30 percent increase and \$200,000 of programming for our computers, to bring us up into this ability in technology.

We also had \$250,000 of programming budgeted for our reservations computer. PSA already has a computerized reservations systems, similar to other air carriers, and we are already able to talk with

American's computer, and Delta's computer. So it is not that big of a transition for us to go further in this program.

Mr. ANDREWS. One thing more, we will then become a member of the clearinghouse, which we are not now, for the handling of ticket sales.

We also, for years, have been charging tickets on the ATC credit card, and all others, that all other airlines use. So a lot of the work that would normally come along with this type of thing has already been accomplished.

Mr. MILFORD. Finally, if you go interline, your present operation—which primarily does not handle a lot of baggage because a lot of folks commute—but by going into the mail business, airline baggage, you will have the new problem of transferring from aircraft to aircraft, there will be baggage facilities required here.

Mr. ANDREWS. We are in the mail business now. One contract from Sacramento to Los Angeles, because no other federally certificated carrier wanted to take it, so we agreed to try it.

We are geared up to carry all the mail out of Sacramento—I cannot give you how many pounds—and we added one person in San Francisco and one in Los Angeles.

Mr. MILFORD. Thank you very much.

Mr. ANDERSON. Yes. Mr. Fary?

Mr. FARY. I have no questions.

Mr. ANDERSON. Mr. Johnson?

Mr. JOHNSON. I have one question.

As I understood your statement, you did operate at a profit last year?

Mr. BARKLEY. We had a \$2.5 million loss in the airline for the first half of 1975, and then we were profitable in the second half; but it does not look like we made \$2.5 million to break even.

So we ended up with a small loss for the year.

Mr. JOHNSON. You figure with this increased business that you would anticipate, providing this bill were passed, it would be profitable for your operation?

Mr. BARKLEY. Yes; we anticipated \$3 million of profit from \$5 million of added business, which, had we had it in 1975, would have been enough to lead us into the black for the year.

Mr. JOHNSON. And it would give better service to the people using the airlines?

Mr. BARKLEY. Absolutely.

Mr. JOHNSON. It would not do too much in the way of damage to the other airlines, as I read your statement?

Mr. BARKLEY. That is correct, sir.

Mr. JOHNSON. And you are capable of handling the freight and the mail as well as the baggage?

Mr. BARKLEY. Right, sir.

Mr. JOHNSON. That is all.

Mr. ANDERSON. If there are no further questions, I want to thank you, Mr. Andrews and Mr. Barkley, for a very excellent presentation.

We will now be in recess until our hearings reconvene in April.

Mr. ANDREWS. May I make one comment?

Mr. ANDERSON. Yes.

Mr. ANDREWS. I want to compliment whoever wrote the bill and put it together. It is certainly well done. It does a tremendous service to the people who come and go from the State of California. It is an equitable bill. It takes nothing away from the interstate carriers. It gives the intrastate carriers nothing, no advantage moneywise, trafficwise, routewise, over that interstate carrier; so everything about it is equitable. And I hope it does go on.

Thank you very much.

Mr. ANDERSON. Thank you very much for your presentation.

[Whereupon, at 3:27 p.m., the subcommittee was adjourned.]

PACIFIC SOUTHWEST AIRLINES,
May 14, 1976.

HON. DALE MILFORD,
U.S. House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN MILFORD: Enclosed are PSA's responses to the questions accompanying your letter of March 17, for insertion in the March 3, 1976, hearings of the Subcommittee on Aviation of the Committee on Public Works and Transportation on H.R. 10560.

It was an honor to appear before your Committee. We regret the delay in responding to your questions, but the time was needed in order to insure that our response would embody the same thoughtful consideration that so clearly went into framing these inquiries.

Please do not hesitate to contact us if further information would be helpful.

Very truly yours,

J. FLOYD ANDREWS.

QUESTIONS BY DALE MILFORD, M.C.

RESPONSES BY J. FLOYD ANDREWS

RE: H.R. 10560

1a. Your testimony contains no reference to the financial condition of Pacific Southwest Airlines. It is our understanding that PSA's financial position has deteriorated in recent years.

In my prepared testimony submitted at a joint session of the Aviation and Investigations and Review Subcommittees, the day following my appearance before the Aviation Subcommittee on H.R. 10560, I submitted the following information, which is apposite to your opening observation:

OPERATING RESULTS FOR THE LAST FIVE YEARS

PSA's airline activities have been contributing a declining amount of profit over the last five years. The pre-tax operating results, excluding gains or losses on aircraft sales are as follows:

1971	-----	\$4,200,000
1972	-----	4,700,000
1973	-----	2,100,000
1974	-----	2,500,000
1975 (loss)	-----	3,600,000

The decline in operating results is due, principally, to the increase in inflation with an ever-increasing regulatory lag in obtaining fare increases from the PUC. Of course, the 300% increase in fuel cost since early 1973 was the most dramatic of the inflationary cost increases. Labor costs, however, are now (1976) the leading inflationary item.

With some \$50 million of stockholders' equity in the airline, the return on equity has been wholly inadequate.

Despite the recent unfavorable results, PSA has adequate financial resources to assure the continuation of its services to the public for the foreseeable future. This is so regardless of whether H.R. 10560 is enacted.

1b. In this regard, I would appreciate your providing for the record the following information:

(a) Is PSA's support for H.R. 10560, at least, in part, based upon the need to improve the carrier's financial position?

Mr. Barkley's prepared testimony submitted on March 3 indicates our view that authority under H.R. 10560 will enable PSA to enjoy a \$5.1 million increase in passenger revenues while incurring no more than approximately \$2.0 million in additional expenses, thus providing a net financial improvement of \$3 million.

The prospect of obtaining this improvement in our operating results is an important factor in PSA's support of H.R. 10560.

1c. If the answer to Paragraph A above is "yes", submit an estimate of the extent to which the Bill will improve PSA's position in the first normal year's operations after enactment. The estimate should be supported by sufficient background material to enable independent evaluation of its validity.

We estimate \$5.1 million in new passenger revenues net of \$2 million of new expenses for a net financial improvement in the first fully stabilized year of \$3 million. These figures and their derivation are explained and supported in the March 3 written and oral submissions by myself and Mr. Barkley. We invite your particular attention to Mr. Barkley's itemization of expenses in response to questioning by Chairman Anderson (page 5 of the typewritten transcript) and the detailed explanation of the traffic and revenue forecasting methodology in Appendix B to our prepared testimony in the brochure. We believe these provide sufficient background material for you to agree with us that our approach is conservative and valid. In this regard, we note that you do not question any of the specific elements of our prior submissions on this subject.

2a. Since the interline connecting traffic you would propose to carry would travel at C.A.B. authorized rates rather than at lower intrastate rates, it is reasonable to assume that there would not be a significant amount of stimulation resulting from your service.

PSA believes that significant stimulation would result from making PSA's service available to a wider sector of the public pursuant to H.R. 10560. There are two reasons why this is so.

First, the H.R. 10560 authority as applied to PSA's California schedule complex will result in a significant increase in the number, variety, convenience, and distribution throughout the travel day of connecting alternatives between PSA's points and all points in the United States. It has so often been proved that it is now generally accepted without question in administrative proceedings that service improvements of this magnitude produce significant stimulation.

Second, to say that the new traffic would move "at C.A.B. authorized rates rather than lower intrastate rates" is somewhat misleading. The "C.A.B. authorized rates" are significantly below the sum of local interstate and intrastate rates for a two-carrier connection for virtually all these passengers. Yet, in some markets, for some passengers, at some times of the day, the sum of local interstate and intrastate rates are today the lowest available rates. (See Exhibit M to PSA's answer to United's Complaint in C.A.B. Docket 28495, submitted for the record herein at the request of Congressman Johnson, showing that existing rates exist. Such stimulation will be in addition to the service stimulation described in authorized rates). In these markets, for these passengers, at these times of the day, there will be a significant fare reduction on which should result in stimulation. Such stimulation will be in addition to the service stimulation described in the immediately preceding paragraph.

The total stimulation estimated by PSA is set forth in more detail in our prepared testimony submitted at the March 3 hearing of the Aviation Subcommittee. Of the 285,000 first-year passengers estimated by PSA, some 89,480 result from diversion and the balance from a combination of market growth and stimulation.

2b. If this is true, presumably much of the interline traffic, would be diverted from federally certificated carriers, including the local service carriers, which are already operating in the respective markets.

We feel the referenced statement is not true. There would be some diversion, in a magnitude generally considered in administrative proceedings to be readily outweighed by potential public benefits far less than those which PSA estimates would accrue as a result of H.R. 10560.

The only local service carrier operating in any of PSA's markets is Hughes Airwest, which competes with PSA between San Francisco and Sacramento. To a very small degree, Hughes also serves the San Francisco-Los Angeles market.

2c. To the extent a carrier is subsidized, this diversion would result in an increase in that carrier's subsidy need. In this light, please explain your statement that there would be "no cost to the Federal Treasury".

Our analysis on this point has, of course, been confined to California.

The first page of Appendix C to our brochure submitted with our testimony on March 3 lists the ten markets, of the 32 point-pairs in which PSA provides effective service, in which PSA forecast connecting traffic. Our estimate that some 84,480 passengers of the 294,450 passengers to be carried by PSA in those ten markets is explained at pages 3 and 4 of Appendix C to our brochure.

The three markets of those ten in which Airwest, in the base period for our forecast, carried significant amounts of traffic are as follows:

Market	Total diversion by PSA (all carriers)	Airwest historic share (percent)	Airwest passengers diverted
Los Angeles-San Francisco.....	20,440	1.8	368
San Francisco-Sacramento.....	18,120	39.0	7,067
Los Angeles-San Diego.....	22,830	.7	160

These passengers represent the following undiluted passenger revenues:

Market	Airwest passengers diverted	Fare (undiluted)	Passengers revenues
Los Angeles-San Francisco.....	368	\$22.10	\$8,132
San Francisco-Sacramento.....	7,067	9.18	64,875
Los Angeles-San Diego.....	160	26.00	4,160
Total.....			77,167

The above \$77,167 in passenger revenues diverted from Airwest in the forecast year is the amount that would be generated by 1,989 passengers paying the average amount (\$38.80) of Airwest's ticket sale.

H.R. 10560, by opening up PSA's Los Angeles-San Francisco schedules to interstate connecting traffic, will, we estimate, stimulate that market by approximately 47,860 passengers. Airwest will share in this newly-generated connecting flow between Los Angeles and San Francisco, through its connections at San Francisco to points to the north.

For example, in calendar 1974, Airwest carried some 236,590 passengers, including 81,180 passengers making interline connections, between San Francisco and some 28 points lying generally to the north of San Francisco. We feel that the stimulative effect of H.R. 10560 in making available to interline connecting traffic 36 additional one-way San Francisco-Los Angeles schedules by PSA, and 32 such schedules between San Francisco and other southern points, will result in an increase of no less than 5% of Airwest's 81,180 interline connecting passengers, or some 4,059 net added passengers. At Airwest's average system fare of \$38.80, these passengers will yield \$157,490 in new revenue. This figure will offset the \$77,167 diversion estimated above and provide some \$80,316 in net added revenues to decrease Airwest's dependence on the Federal Treasury.

3. It is our understanding that PSA is dissatisfied with the regulatory responsiveness of the Public Utilities Commission of California in authorizing PSA fare increases and that you feel that the PUC is using fares as an offensive weapon against your carrier.

We don't believe the PUC is using fares as an offensive weapon against PSA.

3a. Is your support for H.R. 10560, at least in part, based on a need for revenues derived from higher C.A.B. authorized rates to offset inadequate revenues derived from rates for intrastate transportation set by the Public Utilities Commission of California?

No. Fares to be charged interstate passengers are the same as those currently charged intrastate passengers. The \$3 million net benefit to PSA computed and discussed under paragraph 1, above, assumes that the new passengers are carried at current fares.

3b. Is this kind of cross-subsidization of intrastate travel, by the interstate rate-payer, proper in your view? Please explain your answer.

The kind of cross-subsidization described in your question prevails today in the cases of United and Western, for example, but would not exist under PSA's proposal.

Generally, we believe that carriers should be free to experiment with fares and to use different fares in order to maximize traffic, rather than stamping every passenger into the mold of fully allocated costs.

To this extent, we do not regard "cross-subsidization" as a term of opprobrium. However, we see no basis for any such differentiation between interstate and intrastate fares.

3c. If we assume that a significant portion of the new revenues you will attract under the authority provided for in H.R. 10560 will be diverted from other federally certificated carriers is it not true that the consequent losses to the interstate carriers will result in an upward pressure on interstate rates? If your answer is yes, do you believe it is appropriate to increase interstate rates so that intrastate rates may remain at a lower level? Please explain your answer in detail.

H.R. 10560 will definitely result in sharp downward pressure on interstate rates.

We estimate diversion of some 84,480 passengers out of a total 295,450 passengers PSA will carry in the first year of operation. This does represent a potential adverse impact on the financial results principally of United and Western. Other carriers would enjoy a net improvement, we believe, more than offsetting this adverse effect.

However, much more significant than any effect of the drop in the bucket the diversion would represent viewed as against the interstate rate base will be the competitive stimulus of PSA's publication of a new (to interstate passengers) below-coach standard service fare equal to present intrastate economy fares.

The C.A.B. has said: "There is a need for services at a lower price and with fewer amenities than normal coach service, and the carriers could go further in this regard. However, the price for each basic class of service should be soundly geared to the costs of that service so as not to burden other passengers. (*Domestic Passenger-Fare Investigation*, Phase 9, Fare Structure, Order 74-12-109, Page 38.)"

This is what our services area. They are not a discount or a cross-subsidy, but a more basic service charged at cost. To the extent that they are matched, the impact will be to drive fares down, and increase traffic. Millions of dollars in savings will ultimately be realized by interstate passengers all over the nation, as the benefits of H.R. 10560 and PSA's interstate competition under it spread out.

4. If H.R. 10560 is enacted, it will place your carrier under a dual system of economic regulation—you will be subject to the C.A.B. with regard to your interstate authority and to the California PUC with regard to your intrastate authority.

This is true with respect to fares, but with respect to the authority to carry traffic, under present California law, that authority will be subject to federal regulation only. Our position would be no different than American Airlines, Delta Airlines, Hughes Airwest, Trans World Airlines, United Airlines and Western Airlines, all of which operate within California.

4a. Do you believe that such a dual system of regulation is preferable to a regulatory system under which you are required to answer to only one agency?

Unitary regulation is preferable to dual if all traffic and revenue opportunities are controlled by one agency. As matters now stand, it is simple reality that PSA must shop in two stores, state and federal, if it wants both types of traffic opportunity. We do not consider this prohibitive.

4b. If your answer to Paragraph a is in the affirmative, is it your view that the needs of the country would be better served by vesting regulatory authority over air transportation in the hands of a single federal agency or with a proliferation of state agencies?

Answer to 4a is in the negative, so probably no answer is required for this question. However, we believe air transportation is more a national than a local matter. While there is a place for state and local regulation, it is perhaps not logically the field of large aircraft carriage between major city pairs also served by federally regulated airlines.

4c. Would you support an amendment to H.R. 10560 to include a preemption of regulatory authority over all air transportation in the United States by the federal government? Under what circumstances?

No. We think that intrastate carriage in small, air taxi-type planes and metro-commuter type services is a field where the C.A.B. cannot do the job the state and local regulatory authorities can do. Nationwide, the commuter air carriers carried more than 6.8 million passengers in 1974. Where these carriers operate federal exemption in a single state, such as California, we think their operation should be left within the primary regulatory jurisdiction of the state. Likewise, purely local large aircraft operations between points not serviced by any federally certificated carriers might be an area best left to state regulation.

PSA believes that there is definitely an important, growing area where state economic regulation of air passenger service should be supreme.

However, it is perhaps time to consider whether that area should necessarily include airlines operating jet aircraft between points also served by federally certificated carriers. Particularly is this so if the state regulation is an obstacle to letting the intrastate lines convenience connecting passengers and provide other services they are equipped to provide.

5. Is your carrier now knowingly transporting passengers who are in a continuous flow of interstate commerce? Explain.

No. We believe, however, that because of the inadequacy of services provided by the presently certificated interstate carriers, some passengers may be using PSA as a part of continuous interstate trip. We have taken all measures reasonably practicable to avoid encouragement of such use. The use of PSA in this fashion involves the purchase of two, separate airline tickets, portage by the passenger of any checked baggage between PSA and the other carrier used, payment, in all situations of which PSA is aware, of a fare premium in excess of the C.A.B. authorized fare, and a sophisticated manipulation of schedule publications in order to locate and purchase such connections.

That such formidable deterrents are being defied even by a few passengers—and PSA has no practical means of identifying or counting them—is strong evidence of public need for H.R. 10560.

In order that the Aviation Subcommittee may further inform itself with respect to any contentions that may be made on the subject of this question, we have at the request of Congressman Johnson submitted copies of United's Complaint and PSA's answer in Docket 28495.

TO REQUIRE THE CIVIL AERONAUTICS BOARD TO GRANT CERTAIN INTRASTATE AIR CARRIERS THE RIGHT TO PROVIDE INTERLINE SERVICE WITH INTERSTATE CARRIERS

TUESDAY, MAY 4, 1976

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON AVIATION
OF THE COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:12 a.m., in room 2167 Rayburn House Office Building, Hon. Glenn M. Anderson (chairman of the subcommittee) presiding.

Mr. ANDERSON. The meeting of the Subcommittee on Aviation will come to order.

This morning we have a continuation of hearings on H.R. 10560, a bill to require the Civil Aeronautics Board to grant certain intrastate air carriers the right to provide interline service with interstate carriers, and for other purposes.

Before we have our first witness, however, I would like to welcome a new member to the committee, Bill Hefner, from North Carolina.

Bill, very happy to have you with us.

The first witness this morning is John Robson, the Chairman of the Civil Aeronautics Board. John, you have been here before, so you know how to introduce your compadres.

TESTIMONY OF JOHN E. ROBSON, CHAIRMAN, CIVIL AERONAUTICS BOARD; ACCOMPANIED BY HOWARD COHEN, SPECIAL COUNSEL TO THE CHAIRMAN; GARY J. EDLES, ASSOCIATE GENERAL COUNSEL; AND KATHERINE KENT, ASSISTANT DIRECTOR, BUREAU OF ECONOMICS, CIVIL AERONAUTICS BOARD

Mr. ROBSON. Mr. Chairman and members of the committee, this has become a familiar setting, it is a privilege to appear before you today to present the views of the Civil Aeronautics Board concerning H.R. 10560.

By way of background, I should begin by explaining that, under existing law, Federal jurisdiction—that is, CAB jurisdiction—extends only to airlines operating in interstate air transportation. Other airlines, such as PSA or Air California, which operate only intrastate service are not subject to the Board's jurisdiction.

Under longstanding interpretation, however, the transportation of so-called interline passengers—for example, travelers moving on a

continuous journey from Denver, Colo. to San Diego, Calif., via a connection at Los Angeles—constitutes interstate air transportation.

Thus, even airlines participating in the carriage of such passengers over only the Los Angeles-San Diego leg of the trip are deemed to be operating in interstate air transportation and must receive appropriate authority to do so from the CAB. Carriers operating wholly within a single State therefore may not write tickets for through service or accept passengers traveling on a through ticket if they wish to retain their character as intrastate airlines.

The sponsors of H.R. 10560 have submitted the bill as a means of facilitating interline connecting service between interstate and intrastate airlines.

In other words, it is intended to make it possible for a passenger on an intrastate air carrier who wishes to connect with an interstate airline to purchase a through ticket and to obtain through service for his baggage.

The proposed legislation would amend section 401(d) of the Federal Aviation Act to require the Board to issue a certificate of public convenience and necessity to intrastate airlines solely on the basis that the applicant had continuously engaged in intrastate air transportation between July 1, 1975, and the date of the application.

In short, the proposed amendment would accord so-called grandfather rights to any intrastate airline who came forward and applied for a certificate.

Mr. Chairman, it is the Board's view that the mechanism devised by the proposed legislation goes much further than its stated objectives and, in our judgment, raises a number of problems which perhaps were not taken into account when the measure was conceived.

Therefore, we are opposed to the bill as drafted.

Mr. Chairman, the general problem of the relationship between intrastate carriers and the federally certificated system is a complex one that cannot, in the Board's view, be resolved by enactment of a statute conferring grandfather rights on any intrastate airline which asks for it. The narrower objective sought by H.R. 10560—namely the provision of some vehicle for interline transportation—appears to be a worthwhile goal for the traveling public.

However, the problem of interlining should be examined, in our judgment, in a proceeding where not only all interested persons can participate, but where the various issues of a technical nature can be fully explored by the participants and by an agency staff experienced in these matters. Such a forum is available under existing provisions of the Federal Aviation Act and the Board believes that employment of these existing procedures is the preferable way to reach a meaningful resolution of the relevant issues.

For fundamentally the same reasons, the Board has, in the past, declined to authorize such interlining of services through non-hearing-exemption procedures in view of the complicated issues presented, and some of the limitations on our present exemption powers.

However, the Board has not, to date, had occasion to address this issue in a hearing context. Thus, we have formed no conclusions concerning the substantive advantages or drawbacks of the proposal. We stand ready to examine the problem under formal hearing procedures if it is presented to us.

The bill, in contrast, would short circuit this detailed deliberative process of the interlining problem. Instead, a select group—the intrastate carriers, and in cases, those who have particular kinds of aircraft—would be able, upon request, to obtain certificates which embrace the broad panoply of operation in the federally certificated system without passing muster under the standards which other applicants must meet and without examination of the essential elements of public convenience and necessity required under the present law.

Is the applicant fit? Does the public convenience and necessity require the proposed service? Should any conditions to certifications be imposed?

These are all questions which the proposed legislation would preclude the Board from addressing. Perhaps the standards for certification and the procedure need to be altered—indeed the Board has proposed that they should be in the context of its regulatory reform program. But it seems to us unwise and unnecessary to bypass the entire existing structure for the more limited purposes of interlining privileges for a handful of carriers.

We might touch on some of the issues arising from automatic certification. For example, Federal certification generally brings with it eligibility for Federal subsidy, an eligibility based upon the rationale that air service required by the public convenience and necessity would not be provided without subsidy support. This test is not satisfied under automatic certification.

In addition, the bill would magnify problems that already exist in another area. At the present time, the federally certificated carriers have dual fares in their intrastate markets in California: interstate fares which are based on the same fare formula they use in other interstate markets, and intrastate fares which are regulated by the State authorities.

The Board currently has before it for decision a case involving the question of whether this dual fare is unjustly discriminatory. While it would not be appropriate to comment further on the merits of the question, we should indicate that the bill before you would subject the fares of the intrastate carriers to Board regulation to the extent they apply to interstate services. In this respect, the bill would extend the Board's jurisdiction to an area involving sensitive State and Federal regulatory coexistence.

Automatic certification poses another consideration. The act permits a certificated route carrier to engage in a limited amount of charter transportation without regard to the points named in its certificate. This could permit an interstate carrier to conduct charters far afield from the State in which it provides route service.

In sum, the bill as drafter poses a variety of issues beyond the limited matter we understand it was intended to address. Better means, we think, are available for considering the interlining problem which the bill is designed to remedy, and the Board stands ready to employ its resources in examining the problem if it should be presented to us.

A vehicle is available for examining the problems of interline transportation without extending the reach of Federal jurisdiction to car-

riers currently unregulated by the Board. We strongly recommend that such vehicle be explored first.

Thank you. I, or my staff, will be pleased to try to answer any questions the committee may have.

Mr. ANDERSON. Thank you, Mr. Robson, for your statement.

As I understand it, your basic position is that the problem of interlining by intrastate carriers is difficult and complex, and would best be handled by a CAB proceeding.

I wonder whether the subject matter of interlining is any more complex and technical than is involved in most legislation. And I would also note that we are holding comprehensive hearings on H.R. 10560 in which we are hearing interested parties representing a wide range of views. And finally, I would point out that on several occasions in the past Congress has passed legislation giving certification to air carriers, such as the trunk carriers in 1938 and the local service carriers in 1955.

Could you comment on these considerations and how they affect your conclusion that agency procedures are more appropriate than congressional action?

Mr. ROBSON. I certainly do not want to leave the impression, Mr. Chairman, that I have no confidence in Congress's ability to deal with complicated matters.

However, the main point, and the basic thrust of our testimony is that the issue here involved—that is, the ability to interline—is a rather narrow issue and that bringing in the full range of questions that arise under Federal certification seems to us a somewhat broader result than what we understand to be the purpose of this bill, which is to permit passengers to interline and have baggage transfer on an intrastate carrier.

With regard to the question as to historical precedent for certifying carrier groups, you are correct. That has been done before by Congress.

I think in those cases it has generally been in a way which has opened the door to the entire class of carriers intended to be given certificated status, and in this instance, as we read the bill at least, it appears to be limited not just to intrastate carriers but to those who have a special kind of equipment that they employ in their service.

There are other intrastate carriers that use bigger equipment, such as Air Florida, Air Illinois, Yosemite Airlines, and as we read it they would not be eligible for participation in this; but I think the main point is that as we understand the bill it is intended to deal with a narrower problem than according full certificated status to a whole State of carriers, and in that regard it seems to me that perhaps the present procedures, which can be tailored to meet that particular issue, would be more appropriate.

Mr. ANDERSON. I am concerned that if we followed your suggestion and let the CAB hold hearings on interlining the hearings might take years to complete, and at the end of the hearings the Board might conclude that existing law is inadequate to permit a satisfactory resolution of the problem.

Can you advise us now whether the Board believes that it can handle the interlining problem under existing law? If so, how long would it take for the Board to complete hearings on the problem?

Mr. ROBSON. We believe that we have authority under present law to deal with the interline question. Insofar as the hearing duration, it is difficult to predict with certainty how long it could take, although if it were tailored to meet this particular question perhaps it would be much more limited than the general section 401 kind of hearing.

I might add, Mr. Chairman, that under the Board's regulatory reform proposals we have asked Congress to give us authority to deal with section 401 questions with nonhearing procedures so that an abbreviated kind of mechanism would exist to deal with this kind of question. We have also asked Congress to expand the exemption authority.

Mr. ANDERSON. Do you think the hearings could be completed, say, in 18 months or a couple of years?

Mr. ROBSON. I think that is a reasonable period. Yes, sir.

Mr. ANDERSON. Some of the problems you raise about certification are that it would bring subsidy eligibility and offroute charter authority.

With respect to subsidy eligibility, the Board has recommended legislation to end the subsidy eligibility of carriers not now receiving subsidy.

If we passed H.R. 10560, could not the problem of subsidy eligibility for intrastate carriers be handled by the subsidy legislation you propose?

Mr. ROBSON. Yes; it could be. Indeed, this bill could be tailored to deal with that issue, or a condition could be imposed in the course of the Board's hearings.

Mr. ANDERSON. I do not see off-route charters as a major problem, since they would be limited to 2 percent of certified operations.

You point out that if H.R. 10560 was passed an intrastate carrier would be able to conduct charters "far afield from the State in which it provides route service."

Is not this characterization equally applicable to the presently certified carriers?

For example, under present law is not Allegheny free to conduct off-route charters in California?

Mr. ROBSON. Yes, sir.

Mr. ANDERSON. I do not fully understand your concern about State and Federal regulation of fares. It seems to me that H.R. 10560 would place the intrastate carriers in the same position as the presently certificated carriers—intrastate fares would be regulated by the State and interstate fares by the CAB?

Why does it create substantial problems to add a few more carriers to the dual regulatory system?

Mr. ROBSON. This issue we are trying to raise, Mr. Chairman is simply that the fares for the interstate passenger under a bill such as this one, would become the subject of regulation by the Civil Aeronautics Board. We do not raise it as the end of the world. We simply point out that that is another consequence of this bill, and it is one which the Congress should take into account.

Mr. ANDERSON. If the bill were amended so that it applied only to the interlining of tickets and baggage, and none of these other areas, would your objection still be there?

Mr. ROBSON. Well, let me speak personally on this, because without the Board having addressed the issue, Mr. Chairman, I cannot speak for the whole Board.

Presumably this bill could be tailored to deal with the narrow issue here and perhaps made less discriminatory, that is, less exclusionary of other intrastate carriers. Personally, in that case I honestly do not see a major objection to it.

There are impacts on other carriers in those markets, I suppose, and perhaps we will hear from them today on that issue. But offering my personal view, I would think that would deal with the specific problems you have, and would not give me great heart burn.

Mr. ANDERSON. Mr. Mineta?

Mr. MINETA. Mr. Chairman, I have no questions at the present time.

Mr. ANDERSON. Mr. Hefner?

Mr. HEFNER. I have no questions.

Mr. ANDERSON. Mr. Fary?

Mr. FARY. I have no questions, Mr. Anderson.

Mr. ANDERSON. Mr. Robson, this is the shortest you have ever been here.

Mr. ROBSON. I am thankful, Mr. Chairman.

Mr. ANDERSON. Thank you very much, and we appreciate your appearing here.

Our next witness then will be Mr. Charles Murphy, the executive director of the Texas Aeronautics Commission, and chairman of the staff subcommittee on air transportation of the National Association of Regulatory Utility Commissioners.

Mr. Murphy.

TESTIMONY OF CHARLES MURPHY, EXECUTIVE DIRECTOR, TEXAS AERONAUTICS COMMISSION, AND CHAIRMAN, STAFF SUBCOMMITTEE ON AIR TRANSPORTATION OF THE NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS; ACCOMPANIED BY SUMNER KATZ, NARUC ASSISTANT GENERAL COUNSEL; AND ALBERT J. BARR, NARUC DIRECTOR OF CONGRESSIONAL RELATIONS

Mr. MURPHY. Thank you.

Mr. Chairman and members of the subcommittee, my name is Charles Murphy and I am executive director of the Texas Aeronautics Commission and chairman of the staff subcommittee on air transportation of the National Association of Regulatory Utility Commissioners, commonly known as the "NARUC." I am accompanied today by Sumner Katz, NARUC assistant general counsel, and Albert J. Barr, NARUC director of congressional relations.

The NARUC is a quasi-governmental, nonprofit organization founded in 1889. Within its membership are the governmental agencies of the 50 States and of the District of Columbia, Puerto Rico and the Virgin Islands engaged in the regulation of utilities and carriers. The mission of the NARUC is to improve the quality and effectiveness of public regulation for the benefit of the American consumer.

The members of the NARUC appreciate your invitation to make their views known on H.R. 10560, a bill to amend the Federal Aviation

Act of 1958 to require the Civil Aeronautics Board to issue certificates of public convenience and necessity under certain circumstances.

Mr. Chairman, the NARUC views H.R. 10560 with concern and alarm, and is opposed to its passage in its present form.

The bill, if enacted, would require the Civil Aeronautics Board to issue a certificate to any person engaged in intrastate air transportation since July 1, 1975, authorizing such person to engage in interstate air transportation between the same points within a State where the applicant is providing intrastate air transportation. Applications for these certificates must be made within 120 days after the enactment of the bill.

Obviously, the bill is essentially a "grandfather clause," but its purpose is obscure and its parameters are very uncertain.

Before examining the bill, I would like to say a few words about State regulation of intrastate air transportation.

The usefulness and importance of State regulation is perhaps best exemplified by the existence of, and services provided by, Air California and Pacific Southwest Airlines in the State of California and Southwest Airlines in Texas.

We believe that the success stories of those airlines are a great credit to a policy of federalism which has allowed the States to encourage and experiment with the development of intrastate air service that is both economical and responsive to local needs.

Southwest Airlines in my own State was recently asked, for example, why its fares have been traditionally lower than the fares offered by their competitors and fares for comparable distances authorized by the CAB. Its answer was, in my opinion, eloquent and to the point.¹

"Very simply stated, the reason we are able to do this is that our costs are significantly lower than their costs. We are specialists providing a specific service to specific markets all having geographic similarities. We are thus attuned to our particular job and use equipment specifically designed for such short-haul flights. Additionally the fare structures which we ultimately reached are such that they have permitted significant expansion of the markets to permit us to have average loads sufficiently high to justify the lower fare structure."

Southwest Airlines further explained that if it had been subject to CAB, rather than State jurisdiction, it "would never have been able to expand the [Texas] markets as we have and thus become a viable company because the CAB would not have permitted the fare experimentation which we have conducted during the history of our operation."²

It has been my great pleasure during the past few years to observe the growth of Southwest Airlines. Thousands of people who had never flown on a plane before were attracted to try Southwest with its low fares and obvious efforts to be responsive to the needs of various groups of consumers in the localities which it serves.

Returning now to the bill, I am very concerned that H.R. 10560, if enacted, might radically diminish the ability of the States to stimulate

¹ *Oversight of Civil Aeronautics Board Practices and Proceedings* Appendix to Hearings Before the Subcommittee on Administrative Practice and Procedure of the Committee on the Judiciary, 94th Cong., 1st Sess., vol. 3, p. 2194.

² *Id.*, at 2217.

and maintain efficient and low-cost intrastate air service for their citizens.

I am uncertain about the scope of the bill. The bill would authorize any person in intrastate air transportation to receive a Federal certificate "... to engage in interstate air transportation between those places in the same State where the applicant was engaged in intrastate air transportation. . . ."

Given the definitions of "intrastate air transportation" and "interstate air transportation" in the Federal Aviation Act, the above language in the bill is difficult to comprehend. Both phrases are defined primarily in geographical terms and would appear to be mutually exclusive.

For example, intrastate air transportation is defined as "the carriage of persons or property . . . by turbojet-powered aircraft capable of carrying 30 or more persons, wholly within the same State of the United States."¹

The basic definition of interstate air transportation is also phrased in geographical terms as "the carriage by aircraft of persons or property . . . between . . . a place in any State of the United States, or the District of Columbia, and a place in any other State of the United States, or the District of Columbia;"²

Is it the intent of this bill, then, to glide over these distinctions between intrastate and interstate air transportation and to "federalize," at a carrier's option, routes which are presently in intrastate air transportation? The language of the bill does not appear to exclude such an interpretation, and it would seem that the option would be available to both State-certificated and CAB-certificated carriers. If this is the bill's purpose, it would be a devastating blow to both consumers and to the existing authority of State regulatory commissions.

Under such an interpretation, State regulatory authority over intrastate air transportation receiving CAB certification will be—in a word—preempted.

Such preemption will work to the great detriment of the consumers of these intrastate services. Rates will rise to CAB-authorized levels. Patronage will, as a result, decrease. The airport-to-airport service that is now required of intrastate carriers by both the Texas Commission and the California PUC could be replaced with the CAB's point-to-point service which allows wide discretion in choice of airports to be served. Thus, the quality and quantity of intrastate air service presently offered can be expected to diminish if intrastate routes are operated under the CAB's authority.

Even if full preemption is not intended, the issuance of Federal certificates could have many untoward results. It is my understanding, for example, that California law prohibits the PUC from requiring holders of CAB certificates to abide by the operating rights provisions of the California Code.³

In addition, the proposed Aviation Act of 1975,⁴ if enacted, would authorize carriers with Federal certificates to abandon with relative

¹ 49 U.S.C., § 1301(23).

² 49 U.S.C., § 1301(21).

³ Section 2743 of the Public Utilities Code of the State of California.

⁴ S. 2551, introduced on Oct. 22, 1975.

ease routes covered by those certificates,¹ and to transfer, lease, or sell the certificates with equal ease.² Under such circumstances, State authority to regulate in the public interest service provided over intrastate routes which are also covered by Federal certificates will be emasculated.

Apparently, the intent of the bill, as indicated by the subcommittee's meeting notice of April 20, 1976, is simply to authorize interline service between carriers presently certificated by the CAB and intrastate carriers, thereby allowing the intrastate carriers to extend their services to passengers who are on an intrastate segment of an interstate trip. If so, the language of the bill could have been much more precise and phrased not in terms of giving the CAB authority to issue certificates, but rather in terms of authorizing through service and joint rates. Accordingly, we have set forth in the appendix to this statement our proposed amendment to rewrite H.R. 10560 to accomplish this purpose.

I would urge this committee not to take any steps which will significantly impair the present authority of the States to regulate intrastate air service. State regulation has proved to be most beneficial not only to the citizens of such States as California and Texas, but also to the Nation for serving as yardsticks against which CAB authorized rates and air service may be compared.

If the CAB were to regulate *all* air transportation, the public would lose these State "yardsticks" of performance for comparison purposes with CAB carriers. Only last month, for example, Secretary Coleman noted in a speech:³

"Where carriers have offered lower fares in special markets, in the case of intrastate operators in Texas and California, service has improved and demand has grown. The central conclusion of the SIMAT report on State regulation of intrastate air carriers issued last January is that millions of additional passengers would use air transportation if fares were lower."

H.R. 10560 in its present form is a distinct threat to the authority of the States to regulate intrastate air transportation. If this subcommittee believes that air service in the Nation will be enhanced by authorizing the CAB to approve interlining arrangements between intrastate and interstate carriers, then we urge you to adopt the amendment included in the appendix to this statement.

Mr. Chairman, that concludes my statement. I want to thank you for the opportunity to appear before you today. I will be pleased to respond to any questions you and members of the subcommittee may have.

APPENDIX

NARUC PROPOSED AMENDMENT OF H.R. 10560

H.R. 10560 is hereby amended to read as follows:

A BILL To amend the Federal Aviation Act of 1958 to authorize the Civil Aeronautics Board to prescribe through service and joint rates under certain circumstances

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 403 of the Federal Aviation

¹ S. 2551, section 8.

² S. 2551, section 7.

³ Secretary of Transportation William T. Coleman, Jr., remarks prepared for delivery to the Wings Club, New York City, N.Y., Apr. 1, 1976, p. 4.

Act of 1958 (49 U.S.C. 1373) is amended by adding at the end thereof the following new subsection:

"(e) The Board, upon application by a person engaged in the intrastate carriage by aircraft of persons or property whose rates are regulated by State authority and after consultation with such State authority, shall prescribe reasonable through service and joint rates between the applicant and air carriers for the transportation of persons and property. The joint rate shall be the total of the State approved rate for the applicant's segment of the transportation and the Board approved rate for the air carrier segment of the transportation. The prescription of such through service and joint rates shall not otherwise subject the applicant to the jurisdiction of the Board, and such transportation of persons and property by the applicant shall not be deemed in interstate or foreign commerce for purposes of this Act."

Mr. ANDERSON. Thank you, Mr. Murphy, for your statement.

I am going to have to leave very shortly, and so rather than ask my questions, I have asked Mr. Mineta to take over at this time and to take over the questions.

So, Mr. Mineta, will you preside? I will be back shortly.

Mr. MINETA [presiding]. Thank you very much, Mr. Murphy, for your testimony.

Under present law the States have authority to regulate the intrastate fares of interstate carriers. For example, United's fares for intrastate service in California are regulated by the State of California while the CAB regulates United's fares for interstate passengers carried between California cities.

Would not H.R. 10560 place an intrastate carrier, such as PSA, in the same position as United, and preserve California's jurisdiction to regulate intrastate fares?

Mr. MURPHY. Mr. Mineta, that, I understand, is the case in California. That is not the case in Texas.

Short of making a determination of our statute wording by the courts as of this time, we make no attempt to regulate fares for the interstate carriers. We make no attempt to regulate the intrastate segment portion of fares, that intrastate portion of the interstate or certificated CAB carrier.

So, in this instance, I think that our position would be somewhat different than it would be in Texas. And I would assume that once specifically Southwest Airlines received a CAB certificate, if it was a broad and total certificate of public convenience and necessity, that their rates would be set by the CAB and not the Texas Aeronautics Commission. That may well be different in California.

Mr. MINETA. That is because of the operation and by choice of a Texas law.

Mr. MURPHY. I am not sure that that is by choice. I think it may have been due to vagueness at the time the act was written, and the language has just never been interpreted by a court.

Something of this matter may well come along sometime and cause our Texas legislature to look at that language again.

Mr. MINETA. That is something within the power of the Texas legislature to change, to conform to what you have just mentioned.

Mr. MURPHY. Could well be.

I understand the point that you are making, and I agree that if the States so desired, it probably could determine the intrastate fares.

Mr. MINETA. In your appendix, you have proposed amendment to H.R. 10560, and I appreciate your taking the initiative to do that, but

I am just wondering whether or not this would require the CAB to consult with the State authority before authorizing joint fares, and whether or not you intend to give the State a veto power over joint fares?

Mr. MURPHY. I do not understand the question.

You have consultation with the State authorities, and I do not think that was the intention of it, but—

Mr. KATZ. I think the intention, Mr. Mineta, of the proposal was just to authorize the CAB to issue—to approve of joint fares which would combine interstate fares previously approved by the CAB and intrastate fares approved by the State authority, and to make it clear that nothing in this interline authorization would impact on present State authority over intrastate air transportation.

I think our problem has been with the word “certificate” over the years, according to court interpretation, and so forth, and it could very well lead to a CAB takeover of present State jurisdiction because that word “certificate” leads to a lot of discretionary authority perhaps on CAB to review and eventually approve intrastate rates under the CAB certificate.

Mr. MINETA. This draft legislation prescribes that joint fares shall be set by adding together the CAB interstate fare and the intrastate fare set by the State.

Under current CAB policy, the fares for service by two carriers are sometimes set at a level below the sum of the two local fares. For example, joint fares for two-carrier service are set by adding the two local fares and subtracting \$13.

Under your bill, would the CAB have any flexibility to set through fares at a level below the sum of two local fares?

Mr. MURPHY. The purpose in this draft, obviously, was to have a starting point, and we were trying to maintain here, I think, the integrity of the intrastate fare as it exists today and to assure that that portion of that fare would not be raised.

That is the broad intent of what we are trying to get at here, and I would assume, yes, it probably would limit the flexibility of the CAB.

Mr. MINETA. We are trying to get at the problem of through service interline of the baggage and passenger and—

Mr. MURPHY. Mr. Mineta, may I say something here, and this is not testimony in behalf of NARUC, but it is difficult for me to testify here without giving you some of my personal observations and opinions.

I disagreed with the CAB's previous decision in the matter of the failure to let PSA interline tickets, passenger baggage and so forth. I saw no purpose being served by that.

Certainly, from the consumer standpoint, it seemed to me, to put it simply, but what they were doing in order to protect some interest that was rather vague, what they were doing, were requiring the passenger to—if he wanted to take advantage of a lower intrastate fare to stand in line twice and get two tickets for the purpose of making one trip. And I thought that the CAB's reasons and logic in arriving at the past decision on interlining has been rather narrow. And I have some sympathy with the idea of interlining.

However, I have an overriding consideration that the States should be permitted to insure that its carriers do what it wants to do and to serve those consumers or those users of the service that it wants them to serve.

I want Southwest Airlines, for example, to remain under the authority of the jurisdiction of the Texas Aeronautics Commission, and let us make sure that it continues to go into, say, Love Field and not be directed to move out to DFW by the Civil Aeronautics Board.

I want them to go to Hobby and not Houston Intercontinental.

This was made in the statement, and we are interested in airport-to-airport service rather than a point-to-point service.

I do not want Southwest Airlines to get the idea that it wants to become a trunk airline serving interstate passengers. I want them to continue to serve the citizens of Texas who want to go between two points in Texas economically and conveniently and with frequent schedules.

Mr. MINETA. I think that was part of the question Chairman Anderson asked Chairman Robson about the CAB's authority, and the chairman had indicated, yes, they do have the authority, and that is why the bill has in here "shall be issued," because they have the exercise of that option to do so.

But if your amendment that you have suggested were to say, in effect, that the joint fare shall not be higher, would not exceed, nor higher than the sum of the joint fares, would that be something that might be acceptable?

Mr. MURPHY. Certainly. There is no problem with that.

Mr. RONCALIO. Mr. Chairman.

Mr. MINETA. Mr. Roncalio.

Mr. RONCALIO. Could I be permitted only to say that I was not laughing at you. I was musing in my own observation, I just asked myself what the situation was, vis-a-vis with DFW. We visited there last year and Love Field because we had briefed, when this committee went to Dallas-Fort Worth and observed what was taking place with the baggage and moving equipment, and there was that legal battle on something else, and there was not much activity, and the reason we were told that that this was a problem and that Southwest was continuing to use Love Field with a right to maintain space for that area. And I was not being disrespectful to your statement.

I appreciate your feeling of the right of a State regulatory agency to regulate intrastate activity, but the problem is vast and complex.

Mr. MURPHY. It is. And may I say that you are not the first to smile when the DFW-Love case comes up. It is still in the Federal courts, and it is still being worked over.

I would like to disagree with one thing you just said. I do not think that Southwest's use of Love Field has diminished the activity at Dallas-Fort Worth a great deal.

Mr. MINETA. I have no further questions.

Mr. Roncalio, if you have any further questions, go ahead.

Mr. RONCALIO. I do not.

I intend to start taking a better interest in these matters and where we are going to go this fall and come up with something on this legislation. So we will respect your statement. I am reading it now, and we will do the best we can.

Thank you.

Mr. MINETA. Mr. Hefner.

Mr. HEFNER. No questions.

Mr. MINETA. Mr. Fary.

Mr. FARY. No questions, Mr. Chairman.

Mr. MINETA. Mr. Murphy, I thank you very, very much, and Mr. Katz and Mr. Barr for your presentation and constructive effort here in terms of making this something that we change in the present law. Again, thank you very much.

Mr. MURPHY. Good to see you again, Mr. Mineta, and thank you, gentlemen.

Our next witness is Mr. William Kutzke, Assistant General Counsel for Litigation, Department of Transportation, and Mr. Kutzke, we welcome you.

TESTIMONY OF WILLIAM A. KUTZKE, ASSISTANT GENERAL COUNSEL FOR LITIGATION, U.S. DEPARTMENT OF TRANSPORTATION

Mr. KUTZKE. Mr. Chairman and members of the subcommittee, it is a pleasure to appear before your subcommittee to discuss the Department's views on H.R. 10560.

We understand that the purpose of the legislation is to make it possible for a passenger on an intrastate air carrier who wishes to connect to an interstate carrier to purchase a through ticket and to obtain through service for his baggage.

This bill would amend section 401(d) of the Federal Aviation Act of 1958 by adding a new paragraph (4). Within 120 days after the enactment of this bill, any carrier which has been continually engaged in intrastate air transportation from July 1, 1975, to the date it applies for certification would be issued a certificate by the Civil Aeronautics Board (CAB) authorizing the applicant to engage in interstate air transportation "between those places in the same State where the applicant was involved in intrastate air transportation and with respect to all classes of traffic for which authorization is sought."

Under present law, a passenger cannot purchase a through ticket and obtain through service for his baggage when he uses an intrastate and then an interstate carrier. The reason for this is that the sale of through transportation is "interstate air transportation" as that term is defined in the Federal Aviation Act, and an intrastate carrier—without a CAB certificate—may not participate in such interstate traffic.

The stated purpose of this bill is consistent with the objectives of the administration's proposed aviation regulatory reform legislation, H.R. 10261. Our proposal, on which the Secretary of Transportation will be testifying before your subcommittee tomorrow, is designed to remove artificial and unnecessary economic regulatory constraints, increase efficiency in the airline system, and provide consumers better air transportation services at a lower cost.

The Department believes that intrastate carriers holding certificates of public convenience and necessity from State public utility commissions should be permitted to carry interstate traffic on intrastate flights. These intrastate carriers are a valuable asset of the national transportation system. Their experience shows just how efficient a less regulated system works in providing low-cost air fares and good services.

The Secretary will discuss this experience in much greater detail tomorrow.

There is simply no justifiable reason to prohibit the intrastate carriers from carrying interstate passengers. However, the enactment of H.R. 10560 as presently drafted could have a number of unintended and undesirable consequences.

First, the bill would subject the newly certified interstate carriers to dual fare regulation. How much additional CAB regulation intrastate carriers would be subject to is not clear.

In many cases, CAB certification has been found to increase the cost of carriers. Any increased costs associated with new Federal regulation would, in this case, be passed on to intrastate as well as interstate passengers. In contrast, the thrust of our aviation regulatory reform proposal is toward less, rather than new or more, Federal regulation.

Second, another unintended result would possibly be to make these carriers eligible for the present CAB-administered subsidy program, since Federal certification generally brings with it eligibility under that Federal subsidy system.

We would oppose an expansion in the present program. Better alternatives are available, and tomorrow the Secretary will testify about our proposal for a new and more efficient subsidy program.

Finally, the bill would grant the authority to carry interstate passengers only to those intrastate carriers who were operating on July 1, 1975. This provision would create grandfather rights in a limited number of carriers.

We favor removing artificial and unnecessary economic regulatory constraints as to all carriers, not just a select few. We therefore oppose restrictive the benefits of the bill to a small group.

A possible alternative approach to the problems associated with Federal certification might be as follows: You could provide that any person who engages in intrastate air transportation pursuant to State certification be permitted to engage in interstate air transportation over those routes authorized by the State without having to obtain a certificate from the CAB. There are several approaches to the problem of deciding the rates of such transportation.

One approach would authorize the intrastate carriers to carry interstate passengers at the intrastate rate, or to carry them at any applicable interstate through rate, if that interstate rate were lower.

In essence, this approach would create a narrow exemption from present CAB authority and avoid the problems of dual regulation and Federal certification of intrastate carriers, while still allowing the intrastate carriers to carry interstate passengers. There are obviously details to be worked out, and we would be pleased to work with the committee staff on this matter.

This completes my prepared statement, Mr. Chairman. I will be happy to answer any questions you may have.

Thank you.

Mr. MINETA. Thank you very much, Mr. Kutzke.

Your proposed legislation would give any carrier authorized by a State interstate authority over its State routes. Now, in some cases the fares for interstate service over these routes would be the fare authorized by the State.

Are there any constitutional problems in delegating this much authority to the States?

If you would like to reserve your answer for a written memorandum, please feel free to do so.

Mr. KUTZKE. We do not see any constitutional problems, Mr. Chairman. It would not be dissimilar to what would happen if the Civil Aeronautics Board, under today's law, granted an exemption to intrastate carriers to carry interstate passengers.

PSA has several times requested such authority. It has been proposed in a sense in the case of Southwest Airlines service to Harlingen as an alternative to requiring Texas International to continue service.

Mr. MINETA. The problem is there it would be open ended in the sense that CAB would not have any knowledge as to who the States would be certifying, and including thereby into the interstate traffic system.

Mr. KUTZKE. Well, as a practical matter, I think you are right. They would not have any information on that, except on the issue of through fares, but there are very few intrastate carriers in the system. There are very few States large enough to sustain operations by carriers operating solely intrastate. I would think that, if enacted, the legislation would only affect three or four carriers, and ultimately probably not more than 8, 9 or 10, if there were full development of the system.

Mr. MINETA. Now, on the recommendations relative to legislation for interlining, is that independent of your recommendations relative to the legislation under the Aviation Act of 1975?

Mr. KUTZKE. It is not independent in the sense that we feel the issue being addressed here is a relatively small one. There are a series of other similar restrictions under the present Federal Aviation Act that are also imposed on carriers.

For example, supplemental carriers are not permitted to engage in scheduled service.

All cargo carriers, such as Federal Air Express, are limited in their ability to expand under the present system.

Our proposals in the Aviation Act of 1975 would deal with these issues on a broad scale, and deal with a number of fundamental deficiencies in economic regulations. Our proposals, in part, would take care of the problem raised by intrastate carriers here, because intrastate carriers would be free to apply for interstate operating authority, and the Board would have to act on any such application within 10 months.

Mr. MINETA. Do you think we should go forward with this interlining legislation, even if we do not go ahead with the Aviation Act of 1975?

Mr. KUTZKE. We would prefer to see it as part of the broader bill. The idea is good, but we prefer to see it in the broader legislation.

Mr. MINETA. What about diversion of traffic? If the intrastate carriers were allowed to interline, would there be a significant diversion of traffic from the interstate carriers?

Mr. KUTZKE. We made no estimate of diversion. Of course, diversion in one sense is healthy competition, as one carrier seeks to offer better service to the public, and attracts traffic that would otherwise be carried by other carriers.

The estimates of diversion given to you in the PSA testimony earlier suggests that diversion would be relatively small.

Another problem you have in estimating diversion in this instance is that sophisticated travelers may already be breaking their tickets and breaking their trip in order to take advantage of the facilities of intrastate carriers. Thus, it is difficult to get a handle on how many passengers would actually be affected.

Mr. MINETA. Would diversion from the subsidized local service carriers increase in the necessity for subsidy?

Mr. KUTZKE. No; I do not think so. I am not aware that any of the markets that are being served by either PSA or Air California are necessarily profitable to Air West's fares.

My recollection of the administrative law judge's decision in the *Harlingen* case issued a week or two ago, is that Texas International, even with service by Southwest Airlines was profitable in the market, so I do not believe Federal subsidy would be increased.

Mr. MINETA. Mr. Roncalio?

Mr. RONCALIO. I have no questions. Thank you.

Mr. MINETA. Mr. Hefner?

Mr. HEFNER. I have no questions.

Mr. MINETA. Mr. Fary?

Mr. FARY. I have no questions, Mr. Mineta.

Mr. MINETA. Thank you very, very much, Mr. Kutzke, for your help on this bill, and we look forward to hearing from Secretary Coleman tomorrow.

As I understand it, the vice president for public affairs from the United Airlines is here, Mr. Slebos, but I understand you are also slated for 2 o'clock, and Mr. Anderson, I know, has indicated that he would be back at 2 o'clock, and in view of that fact, that Mr. Ellis will be testifying this afternoon on behalf of Texas International, Hughes Airwest, and Southern Airways, I think at this time we will recess the hearings until 2 o'clock this afternoon.

Thank you very, very much.

[Whereupon, at 11:04 a.m., the subcommittee recessed, to reconvene at 2 p.m., the same day.]

AFTERNOON SESSION

[The Subcommittee on Aviation of the Committee on Public Works and Transportation reconvened at 2:36 p.m., Hon. Glenn M. Anderson presiding.]

Mr. ANDERSON. The meeting of the Subcommittee on Aviation will come to order.

Mr. Slebos, you are the first witness.

TESTIMONY OF G. BERNARD SLEBOS, VICE PRESIDENT—PUBLIC AFFAIRS FOR UNITED AIRLINES

Mr. SLEBOS. Thank you.

Mr. Chairman and members of the subcommittee, United Airlines appreciates this opportunity to appear before you to express its views on H.R. 10560.

United opposes this bill. It does so not merely as one of the carriers whose results will be negatively affected by its passage. There are

other, more basic reasons, why we believe the bill should not be enacted, which I will discuss briefly.

The needs of interstate traffic in intrastate markets are being met by existing CAB-authorized carriers. In California, the State in which we would be primarily affected by the proposal, eight CAB-certificated carriers have authority to provide local service within the State. The two largest carriers, Hughes Airwest and United, serve 22 and 13 California points, respectively. In addition, a number of commuter carriers provide service to a substantial number of cities under CAB exemption.

In the major markets, these carriers offer a high level of frequencies and capacity. In numerous smaller markets, which are generally avoided by the intrastate carriers, the CAB-authorized carriers provide the only service—often at a loss.

The burden of these losses would obviously become greater if the intrastate carriers are granted the authority proposed in the bill and reductions of service or fare increases in the smaller California markets could result.

No. 2, if consideration is to be given to the need for expanded interstate authority in the affected markets, this should be done in a CAB proceeding where the needs for the proposed service could be explored in depth and where all possible aspirants for the authority would have the opportunity to present their respective qualifications.

The point here is that determinations as to whether there is a public need for the kind of new authority proposed in the bill and, if so, how it can best be met and by what carriers are not only very complex but involve the rights of both incumbent carriers and such others as might be interested in providing the service.

We do not feel that the legislative process is well suited to resolve such questions. The Civil Aeronautics Board has the responsibility and expertise for making these determinations and, in our view, it should continue to do so as long as the existing regulatory scheme remains in place.

If legislative action on this subject is to be taken, it should be done as a part of the regulatory reform proposals which are currently under consideration and not as an isolated, independent action.

The Congress is currently considering proposals for significant revisions in the framework under which air transportation is to be regulated. One of the primary subjects under consideration is whether there should be a relaxation of the criteria in the present act for the certification of new or additional authority. In our opinion, the current proposal presents issues which are directly related to the questions to be addressed in the broader evaluation of regulatory reform and should be resolved concurrently and consistent therewith.

Thank you.

Mr. ANDERSON. Thank you, Mr. Slebos, for your testimony.

You state that the needs of interstate traffic in single State markets are being met by the existing CAB-authorized carriers. It seems to me that there are several service benefits which only the intrastate carriers can provide.

First, aren't there some markets that are served by intrastate carriers but are not served by the interstate carriers? For example, isn't PSA the only carrier serving the Los Angeles-San Jose market?

Mr. SLEBOS. At the moment, Mr. Chairman, this may be correct; however, there are other carriers who have the authority to do so. That is a market with a relatively limited potential, and, rather than creating a situation where all carriers are losing money in serving a market like that with a limited potential, you will find that there are one or two markets of this sort where the interstate carriers, primarily because of the existence of the intrastate carriers, have withdrawn or do not serve those markets.

Mr. ANDERSON. PSA testified that if H.R. 10560 was passed PSA would charge interstate stopover passengers PSA's intrastate economy fare. Aren't PSA's intrastate economy fares lower than the fares which interstate carriers charge stopover passengers?

Mr. SLEBOS. Yes; they are.

Mr. ANDERSON. You state that any legislative action on interlining should be taken in conjunction with regulatory reform legislation. You specifically mention reform legislation to relax the requirements for entry. Does United support reform legislation to relax the requirements for entry?

Mr. SLEBOS. United—and this is in Mr. Carlson's testimony before the Senate subcommittee—United favors various forms of regulatory reform, but we believe that it would not be in the public interest to make any material change in the entry provision or the exit provision of the existing legislation.

Mr. ANDERSON. If H.R. 10560 was passed, would the intrastate carriers divert passengers from the interstate carriers? Have you estimated the extent of the diversion, if any?

Mr. SLEBOS. There is no question that this is what they would do. Obviously it is the intent of the legislation to permit this. As to an estimate as to the extent which this would take place, we have not had the time to make such an estimate.

I do believe, however, that it would be substantial. Also I believe that, whatever the amount of this diversion, it is something that endangers the ability of the currently certificated interstate carriers to continue to conduct the kind of operations within California that they are doing today.

Just as an indication of why that is so, in a study performed by Simat Hellieson and Eichner for the DOT, which I believe was published January of this year, there are indications every one of the interstate carriers are today losing money on the provisions of their intrastate service within California.

Mr. ANDERSON. What would your objection be if instead of their getting a certificate they got a special exemption?

Mr. SLEBOS. I would say this: Obviously, I do not know what the nature of that exemption or what the language might be. We think doing it by way of certificate is objectionable, and to the extent that it used processes other than certification I think it would be at least as objectionable because of the likelihood this would give these intrastate carriers the opportunity to divert the kinds of traffic that they would be capable of diverting from us without some of the obligations that we believe ought to go with the conduct of interstate service.

Mr. ANDERSON. Mr. Slebos, do you have anything more that you would like to add?

Mr. SLEBOS. No, sir.

Mr. ANDERSON. Thank you very much for coming.

Our next witness is Mr. Emory Ellis, attorney representing Texas International, Hughes Airwest, and Southern Airways.

TESTIMONY OF EMORY ELLIS, JR., COUNSEL, TEXAS INTERNATIONAL AIRLINES, INC., HUGHES AIRWEST, AND SOUTHERN AIRWAYS

Mr. ELLIS. Thank you, Mr. Chairman.

We appreciate the opportunity to appear before you today and to testify on behalf of Texas International, Airwest, and Southern with regard to H.R. 10560.

Texas International, Airwest, and Southern are federally certificated local service carriers. Their routes are a part of the national system of scheduled airline routes which has been developed by the Civil Aeronautics Board under the Federal Aviation Act of 1958 and its predecessor, the Civil Aeronautics Act of 1938. One of the primary functions of a local service carrier is to feed traffic from smaller cities into major transportation hubs for the benefit of the local passengers as well as those who seek connections to other parts of the nationwide system.

The locals serve both profitable and inherently unprofitable markets. Route and rate policy at the CAB has been specifically designed to permit service to the unprofitable points and segments to be supported by the profits from the more lucrative operations. For example, many years ago Texas International was authorized to provide nonstop service between Dallas and Houston for the explicit purpose of permitting the carrier to use the nonstop operations to support services to several smaller communities lying between the major hubs. There are many other examples available within the systems of all of the local service carriers.

The locals also receive direct subsidy payments from the Federal Government to cover the costs of that portion of service to the smaller communities which is not supported by operating revenues.

A number of years ago in California, and quite recently in Texas and Florida, a limited number of intrastate large-aircraft airlines have come into being. Because of the specialized nature of their operations and relatively low early wage rates, these carriers operate at costs well below those of the federally regulated carriers—at least in the early years of their existence. Consequently they entered local intrastate markets at generally lower fare levels than those charged by the interstate carriers and now dominate many of the major intrastate markets in the States where they operate.

In testimony last week before the Joint Subcommittees on Aviation and Investigations and Review, you will recall that Texas International's president, Francisco A. Lorenzo, gave detailed testimony on Southwest Airlines' operations in Texas and their impact on Texas International. I will not belabor the point by repeating that testimony here.

While the intrastate carriers have stimulated local intrastate traffic significantly in some of the markets they serve, they have also diverted many passengers from the federally certificated local service carriers,

thereby reducing, or completely eliminating, profits in major intrastate markets which formerly were used to offset losses from small city service. This means that additional subsidy will be needed to make up for these losses, or that service to smaller communities will be reduced or eliminated.

So far the diversion has been mainly local traffic. The intrastate carriers have not been able openly to seek interstate connecting traffic because of the Federal Aviation Act's certification requirements. However, we are convinced that they are carrying more than de minimis amounts of this traffic.

One of the stated purposes of H.R. 10560 is to give these carriers the right to participate in this interstate connecting traffic by granting them Federal certificates for the routes they now operate under intrastate certificates. In our view this bill will have a significant adverse effect on the federally certificated carriers.

The most serious impact will be on the subsidized local service carriers which provide the bulk of the connecting service between cities within a single State. If the bill is passed this traffic will be available to those carriers which now hold only intrastate authority. These carriers would hold Federal certificates, and would be subject to Federal rate regulation. This necessarily contemplates that their fare levels as set by the CAB would be comparable to those charged by the other and older carriers in the market.

Therefore, the new services would generate very little traffic. Rather, the effect would be almost entirely diversionary, and the existing carriers, particularly the local service carriers, stand to lose millions of dollars in revenues.

Undoubtedly there would be a corresponding adverse impact on Federal subsidy payments. Revenue diversion of this magnitude will either reduce profits which would otherwise go to offset the need for subsidy on other parts of the carrier's system or would directly increase subsidy need where the respective market is eligible for subsidy payments. In either event the result will be an increase in the Federal subsidy bill.

It would appear that one of the reasons the intrastate carriers are supporting H.R. 10560 is that it will permit them to cross-subsidize intrastate rates which are set below cost. Pacific Southwest Airlines has testified in recent congressional hearings that the Public Utilities Commission of California has not been satisfactorily responsive to PSA's request for rate increases. It believes that its competitors are using fares as an offensive weapon against it.

We think PSA's president made his company's position clear in this regard when he testified at an earlier time in these hearings that he would anticipate a profit improvement from the bill in the amount of approximately \$3.5 million per year. While we can understand the interest of PSA in improving its position to that extent, we fail to understand why interstate passengers should provide what is in effect subsidy for intrastate rates which PSA itself admits are set at too low a level.

We would also view H.R. 10560 as an unfair and unreasonable interference with the procedure established in the Federal Aviation Act for awarding new routes. The act now treats airline routes as exclusive licenses. Only a limited number of them are available. Therefore, the

act and the Administrative Procedure Act provide that all interested applicants be given a fair and equal opportunity, with other applicants, to seek this scarce commodity. A substantial body of case law has been developed, carefully defining the rights of applicants for exclusive licenses. H.R. 10560 would eliminate the normal certification procedures for a limited number of intrastate carriers, giving them preference over other interested carriers who are also seeking valuable Federal licenses.

Airwest, for example, is interested in obtaining from the CAB, operating authority in numerous of the Los Angeles and San Francisco satellite markets which PSA now serves on an intrastate basis. H.R. 10560 would give PSA a Federal certificate to serve these markets. When Air West seeks certification from the CAB it will not only find it necessary to go through the normal CAB hearing procedures to establish that its services are required by the public convenience and necessity; it will be faced with the opposition of an entrenched Federally certificated carrier, PSA, contending that Airwest's services are not required.

Southwest Airlines has recently applied to the Texas Aeronautics Commission for unlimited authority to provide service between every big city in Texas. This would include El Paso-Houston, which Texas International has sought from the CAB for several years. It would also include El Paso-Dallas/Fort Worth and Lubbock-Dallas/Fort Worth, in which Texas International holds restricted authority. Removal of these restrictions would be a natural future progression in Texas International's operating authority. But award of a certificate to Southwest in these markets would severely prejudice TXIA's chances.

We recognize that the bill contains a cutoff date of July 1, 1975, and that the new authority sought by Southwest will not meet the date. But, the arguments behind introduction of the bill in the first place, if they are valid at all, would certainly support an amendment in the cutoff date at a later time. We fully expect that the intrastate carriers would continue to press for such amendments as they receive new authority from the State regulatory agencies.

Under H.R. 10560 the only basis for the preference accorded intrastate carriers over other applicants for the same operating authority, is the fact that they had first obtained a certificate from a State regulatory agency. There is no requirement that the procedures under which the certificate is awarded correspond with the procedural safeguards built into the Federal Aviation Act and the Administrative Procedure Act. The whim of the State agencies under a proliferation of State laws will become the deciding factor on new entry into the interstate air transportation system.

As CAB Chairman Robson said this morning, the intrastate carriers can seek authority from CAB if they want a Federal certificate. The CAB has indicated that it is amenable to holding hearings on these applications and we think this is the proper way to accomplish new entry into air transportation.

This brings us to the final, but certainly not least important reason for opposing H.R. 10560. We believe that the bill will cast in legislative concrete a dual system of regulation of air transportation which is inimical to the national air transportation program.

When the Civil Aeronautics Act of 1938 was first passed, air transportation was thought of as an interstate mode. No one anticipated the development of intrastate operators of large jet aircraft or the burden on the interstate air transportation system which those carriers could cause.

Therefore the act and its successor, the Federal Aviation Act of 1958, left a vacuum in the regulatory system. As short-haul markets, and jet equipment to serve them developed, the vacuum was filled by State regulatory authorities which in differing degrees have taken on regulatory responsibilities and powers which even exceed those of the Federal Civil Aeronautics Board. This dual system of regulation is causing increasingly significant problems of conflicts which we believe must be dealt with by the Congress in the near future.

It has caused the current conflict between the CAB and the California PUC as to which agency has authority over service between California points and Lake Tahoe. It manifests itself in the authorizations by State agencies of intrastate carriers in markets which the CAB had formerly awarded interstate carriers. It is the cause of many of the problems, which have erupted in our last contests, related to the development of service at the Dallas/Fort Worth regional airport.

Moreover, the situation threatens to get much worse. In both Texas and Florida, State agencies have made recent attempts to bring interstate carriers under their power. The National Association of Regulatory Utilities Commissioners has proposed a model Uniform Air Carrier Act, which it urges each of its members to promote in their State legislatures. The Model Act, if adopted, would give State agencies authority over both intrastate and interstate carriers which even exceeds that vested in the Civil Aeronautics Board by the Federal Aviation Act. The problems which could arise from this proliferation of State regulation are obvious.

H.R. 10560 does not deal with any of these root problems. Rather it would perpetuate them by purporting to recognize legislatively a complete distinction between the intrastate and interstate operating authority held by the same carrier.

Both Houses of Congress are now engaged in a deep and searching review of the regulatory system for all modes of transportation including air transportation. H.R. 10560 deals with a minor and peripheral part of the entire picture. We believe that enactment of the bill in its present form and, in any event, before the overall investigation is completed could do a great deal of harm.

Thank you again for the opportunity to appear before you and I will answer any questions you might have.

Mr. ANDERSON. Thank you, Mr. Ellis, for your testimony. You state that if this bill is passed, the local service carriers stand to lose millions of dollars in revenues. Is this based on a study? If so, would you furnish a copy of this study?

Mr. ELLIS. Mr. Chairman, it is not based on a diversion study. It is based on my information as to what has happened with regard to local traffic in intrastate markets, and also based on Mr. Andrews' testimony that he would expect that this bill would improve his profit position by \$3.5 million in 1 year. That is an improvement in profit

position and must contemplate certain expenses included in that so the revenue diversion would probably be more than that.

I also am very familiar with what has happened in Texas under the circumstances and in the first year of Southwest's service in the Dallas-Houston market, Texas International carried 20,000 less passengers than they did in the preceding year. At a \$35 fare this would amount to about \$700,000 in division.

Texas International is now suffering competition from Southwest Airlines in several markets, including the lower Rio Grande markets where it previously was the sole carrier serving there.

Mr. ANDERSON. You referred to Mr. Andrews' testimony and I believe he indicated that the millions of dollars that they would be gaining would come from newly generated traffic and from growth in traffic, and I see here a statement PSA estimates it will carry 290,000 additional passengers in 1976. This traffic will be new to PSA and will require no increased miles flown, some 84,000 passengers or 20 percent will be diverted. So apparently they are talking about three-fourths new traffic.

Mr. ELLIS. That is what he is talking about, Mr. Chairman, but I do not believe that that is right. As I say in my testimony, in my view the intrastate carriers participating in that intrastate traffic will be subject to CAB rate regulations and therefore they will have to charge CAB-regulated fares and if that is true there would be very little generation of new traffic in these markets and practically all of it would be diverted from the existing carriers. That is my opinion.

Mr. ANDERSON. I understand that Texas International has applied for authority to suspend its operations at Harlingen, Texas which is served by Southwest Airlines, an intrastate carrier. If Texas International is permitted to suspend at Harlingen would it oppose authorization of Southwest to carry interstate traffic over Southwest's Harlingen routes?

Mr. ELLIS. In my view they would, sir, and let me explain that.

Texas International serves two airports in the Lower Rio Grande Valley within 35 miles of one another. It would not suspend service at Harlingen if it felt it was doing the public a disservice.

We feel that our service through the McAllen Airport is readily available to the interstate passengers as well as Braniff's service at Brownsville, also very close to Harlingen—three airports within 60 miles of one another.

Mr. ANDERSON. How far are they apart in the Harlingen Airport?

Mr. ELLIS. The McAllen Airport is about 30 to 35 miles from the airport to downtown Harlingen.

Mr. ANDERSON. Who goes in there?

Mr. ELLIS. Texas International serves McAllen.

Mr. ANDERSON. Now, the other one?

Mr. ELLIS. Brownsville is about 25 miles from downtown Harlingen in the other direction, so Harlingen sits in the middle of three airports which now have federally-regulated service—federally-certificated service, and I was the counsel on the development of that record and it is clear to me that it would not inconvenience Harlingen passengers as much as I am inconvenienced in going out to Dulles Airport if they received their service—their interstate service only through McAllen

and Brownsville, and we would definitely oppose Southwest getting authority to carry connecting traffic from Harlingen unless they are willing to go through the CAB certificate proceedings and undertake the same burdens and obligations that we have under our certificate.

Mr. ANDERSON. If the CAB did have a certificate application by Southwest would you oppose their getting the certification?

Mr. ELLIS. Well, we would have to see what the application was for but if it were for our markets that we are serving we would oppose it, yes, sir.

Mr. ANDERSON. Does Southern Airways believe that operations under H.R. 10560 would divert any traffic from it?

Mr. ELLIS. It is my understanding that they do, yes, sir. Under H.R. 10560, not as presently set up because H.R. 10560 now would apply only to operators of jet aircraft, turbojet aircraft, they are not now competing against any intrastate carriers which operate turbojet aircraft. Air Florida has appeared at these hearings, though, and has recommended that the legislation not exclude them. So they obviously are interested in the legislation, will press to have it either amended to take care of their needs, and it is my understanding that Air Florida has jet aircraft aspirations but the legislation as presently constituted—presently written does not allow Air Florida that authority.

Mr. ANDERSON. You state that PSA "believes that its competitors are using fares as an offensive weapon against it." Could you explain the meaning of "offensive weapon" and give us the source of your information about PSA's position?

Mr. ELLIS. Yes. The source is testimony that Mr. Kutzke gave before Senator Kennedy's Subcommittee on Administrative Law and Procedure in the hearings that were held last year, and I think from reading the testimony that he was concerned that interstate carriers are now starting to charge fares or to file fares which are lower than PSA's in the California markets and I believe from reading the testimony again that his concern was that the interstate carriers were using their interstate system to support the intrastate—lower intrastate fares at rates that were lower than their costs. That is my understanding.

Mr. ANDERSON. You indicate that if H.R. 10560 is passed, the intrastate carriers would charge the same fares as the existing interstate carriers. PSA testified at hearings on H.R. 10560 that it would charge interstate stopover passengers PSA's intrastate economy fare. Do you believe that the CAB would refuse to allow PSA to change its intrastate economy fare?

Mr. ELLIS. That is a very difficult question to answer. I would hate to speak for the CAB. The CAB rate standards are generally rate standards which are applicable to the industry. They are very complicated and I think it would be a difficult thing for the CAB to allow PSA to charge the intrastate fare level when it is dealing with interstate stopover passengers. Under the fare system, as I understand it, that would be very difficult to do.

Mr. ANDERSON. You state that in Texas and Florida State agencies have made recent attempts to bring interstate carriers under their power. Could you describe these situations in more detail?

Mr. ELLIS. There have been, in the last session of the legislature in the State of Texas, there were two bills introduced which would have

given—which would have given the Texas Aeronautics Commission the authority to regulate the intrastate operation of interstate carriers. That was the effect.

It is my opinion that in Florida last year the Public Service Commission attempted to accomplish the same thing in essence, same kind of control of the interstate carriers by notice of proposed rulemaking, and that was defeated. In Texas, the two bills that were introduced were also defeated.

Mr. ANDERSON. Could you also give us more information on the model Uniform Air Carrier Act that you referred to in your comments?

Mr. ELLIS. Yes. The model Uniform Air Carrier Act was written by a committee of the National Association of Regulatory Utilities Commissioners and it was approved by the entire body. It is a very detailed set of regulatory rules and regulations, actually a model regulatory statute for the regulation of air transportation by State bodies. It was based on the original 1938 Civil Aeronautics Act with certain modifications. In other words, it has the normal type certificate provision. It has very detailed rate provisions similar to those now in the Federal Aviation Act. It also has something that is not in the Federal Aviation Act, a provision for reparations.

In cases where the Commission—any Commission being vested with this authority finds the rates are too high, this would be *ex post facto*, retroactive activity on reparation and that is not included in the Federal Aviation Act now.

It also includes very much broader enforcement powers. It has of course no force and effect unless it is adopted by the State legislatures. It has been adopted in some States. They do not come to my fingertips right now but they are not States which have a big intrastate air carrier.

I do not think it goes any further than the enabling act for the California Public Utilities Commission which is quite detailed, quite comprehensive, but it is something of that nature.

Mr. ANDERSON. You say in your remarks the national association urges each of its members to promote this act in their State legislature and the model act, if adopted, would give State agencies authority over both intrastate and interstate carriers. I was going to ask if it has been adopted by any State as proposed.

Mr. ELLIS. I think that it has been adopted and I am not sure in which States but I can find that out and supply it.

Mr. ANDERSON. Do you feel it is somewhat similar to the California PUC Act? The implication you gave is that it would not make much change there.

Mr. ELLIS. It is not written the same. It is just as comprehensive as the California PUC Act.

Mr. ANDERSON. Because the California PUC does not give them authority over both.

Mr. ELLIS. That is true, the California PUC gives them authority over interstate carriers only as far as rates are concerned. You are quite right there. The model act would give them—the State agencies authority over routes and rates whether the carrier is interstate or intrastate, providing the operations are between points within the same State.

Mr. ANDERSON. Do the carriers you represent recommend any legislation to limit the jurisdiction of the States over air transportation?

Mr. ELLIS. Well, I do not think I can speak for all three carriers on that. I can speak for Texas International and in my view Texas International, I believe they have said that they believe that the regulation of air transportation should be in the Federal Government, and the Civil Aeronautics Board, and they would support Chairman Wright's bill, H.R. 7996, I believe it is, which would do that.

Mrs. LLOYD. Thank you very much, Mr. Chairman, I am sorry I was late.

Is Texas International making a profit at the present time? Is it subsidized?

Mr. ELLIS. It is subsidized. It did not make a profit in 1975. It did in 1974. It is a subsidized airline.

Mrs. LLOYD. Who determines whether or not you receive a subsidy?

Mr. ELLIS. The Civil Aeronautics Board.

Mrs. LLOYD. But yet you are under the jurisdiction of the Texas regulatory body?

Mr. ELLIS. No; we are not. We hold a Federal certificate from the Civil Aeronautics Board and the Texas statute as it now stands precludes jurisdiction by the Texas Aeronautics Commission over federally certificated airlines.

Mrs. LLOYD. Do you feel you would have unrealistic competition if another airline entered your market?

Mr. ELLIS. Well, we have probably the most competitive system among the federally regulated local service carriers and a very substantial part of our routes are duplicated by other carriers, and we compete very vigorously with them.

Our problem in Texas is with an intrastate carrier which is highly specialized in high-density markets, which came into certain of our markets and is operating under different regulatory systems and has been able to capture very substantial amounts of the traffic in those markets. We do not believe that we can compete effectively with that carrier under the present system.

Mrs. LLOYD. Then, your rates are lower than interstate carriers, is that right?

Mr. ELLIS. We are an interstate carrier and our rates are regulated by the Civil Aeronautics Board.

Mrs. LLOYD. But the interstate carriers' rate——

Mr. ELLIS. Intrastate rates are lower than ours, yes, in Texas.

Mrs. LLOYD. Thank you very much, Mr. Chairman.

Mr. ANDERSON. Mr. Taylor.

Mr. TAYLOR. Mr. Chairman, I do not believe I have any questions. I appreciate your testimony Mr. Ellis, and I will be happy to read it. Thank you very much.

Mr. ANDERSON. Anything more, Mr. Ellis, before concluding? If not, that concludes the hearings on H.R. 10560 and this meeting will be recessed. Tomorrow we start at 10 o'clock on the regulatory reform bill, and we invite you all to come back.

The meeting is adjourned.

[Whereupon, at 3:15 p.m., the subcommittee was adjourned.]

[The following was received for the record:]

AIR CALIFORNIA,
Newport Beach, February 26, 1976.

HON. GLENN M. ANDERSON,
Chairman, Subcommittee on Aviation, Committee on Public Works and Transportation, U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: I understand that the Subcommittee on Aviation plans to hold hearings in the near future on H.R. 10560, a bill authorizing the issuance of federal certificates to intrastate airlines. I would like to submit for inclusion in the hearing record a statement on behalf of Air California, an intrastate carrier operating in California. In this statement, we describe the nature of Air California's operations, the ways in which the bill would affect it and its views on the bill. We appreciate having the opportunity to submit this statement and hope that the Subcommittee will find it useful.

Very truly yours,

R. W. CLIFFORD,
President.

Enclosure.

STATEMENT OF AIR CALIFORNIA

Air California is a scheduled airline operating wholly within the State of California. It was incorporated in 1966 to provide air service between Orange County in Southern California and the San Francisco Bay area. In 1967 it carried 293,000 passengers with two Lockheed Electra turboprop aircraft. Today Air California provides regular passenger and air freight service between nine California cities, representing 28 city pairs. It serves these markets with a fleet of eight Boeing 737 jets and two Lockheed Electras. In 1975 it carried 1,584,000 passengers in its scheduled services. (The markets served by Air California and the aircraft it operates, the fares it charges, the traffic it carries and the competition it receives in each of them are set forth in the attached table.)

Air California provides these intrastate services pursuant to certificates of public convenience and necessity issued by the Public Utilities Commission of the State of California. That agency regulates the routes served and the rates charged by passenger air carriers operating entirely within the State, and it also regulates the rates charged by interstate carriers to California intrastate passengers.

Thus, in order to operate a new route or suspend or delete an existing point, or to increase or decrease passenger fares, Air California must first apply to and obtain authorization from the Commission. Air California also holds an exemption from the Civil Aeronautics Board permitting its flights to penetrate beyond the three-mile limit to the extent necessary for air traffic control or air safety purposes.

In the statement he made upon introducing H.R. 10560, Chairman Anderson of this Subcommittee indicated that its primary purpose is "to make it possible for a passenger on an intrastate carrier, who wishes to connect to an interstate carrier, to purchase a through ticket and to obtain through service for his baggage."¹ Air California is very much interested in the possibility of entering into arrangements with interstate carriers for the provision of such interline ticketing and baggage transfer services. It cannot do so that the present time, however, because such arrangements would involve "interstate air transportation" in which Air California, as an intrastate carrier, is not authorized to engage.

There are probably some travelers who would find it convenient to be able to purchase a single through ticket for a continuous journey over the routes of both an interstate and an intrastate carrier, and to have their baggage transferred from one carrier to the other at the connecting point. Moreover, Air California believes that the availability of such interline service might well generate additional traffic and revenues for both categories of carriers.

For these reasons, Air California applied to the Civil Aeronautics Board in November 1970 for an exemption authorizing it to enter into interline arrangements with interstate carriers, but the Board in August 1971 denied the application. Since the Board is unwilling (or considers itself unable) to authorize interline traffic arrangements through the exercise of its exemption power, Air

¹ 121 Cong. Rec. E5856 (Daily Edition, November 5, 1975).

California would support the adoption of legislation granting such authority to the intrastate carriers.

If Air California had the authority to exchange interline passengers and baggage with interstate carriers, it would attempt to bring the benefits of such service to the maximum number of travelers. It would enter into interline ticketing and baggage agreements with as many carriers as were interested in such arrangements. It would encourage the sale of through tickets by participating in the computerized reservations systems of interstate carriers and in out-of-state promotional activities. To the extent feasible, it would enter into joint-fare arrangements with interstate carriers. As a result of these efforts, Air California would hope to increase its traffic by about 10 percent, or roughly 160,000 passengers annually. Very few of these passengers would be diverted from interstate carriers, since Air California engages in relatively little direct competition with such carriers.

Since interstate passengers carried pursuant to interline arrangements would be in "interstate air transportation," the fares charged such passengers would be subject to regulation by the Civil Aeronautics Board. Air California assumes that the situation now prevailing in California would continue to exist—i.e., that interstate passengers moving over intra-California routes would pay fares somewhat higher than those paid by purely intrastate passengers (whose fares are, and would continue to be, regulated by the California Public Utilities Commission). That situation could change, however, since the lawfulness of the differential between interstate and intrastate fares over the same route is now before the Board for consideration in Interstate and Intrastate Fares in California and Texas Markets (CAB Docket 24779), in which oral argument was presented to the Board in May 1975.

While Air California would endorse legislation permitting the interlining of passengers and baggage between interstate and intrastate carriers, it must point out that H.R. 10560 would do a great deal more than that. By authorizing federal certification of intrastate carriers, the bill would subject any carrier taking advantage of its provisions to comprehensive and largely exclusive federal regulation. Such a carrier would find itself under the regulatory jurisdiction of the Civil Aeronautics Board with respect to routes (interstate or intrastate), interstate rates and virtually everything else from accounts, records and reports to agreements, acquisitions and mergers. By virtue of federal preemption (and, in the case of California, the provisions of the State's Public Utilities Code), the State regulatory bodies would be left with power over nothing but the fares charged to intrastate passengers—the same power they now possess with respect to all interstate carriers.

It is possible that at some time in the future Air California may wish to apply for a federal certificate in order to secure opportunities for route expansion beyond the borders of California. For the present, however, it is not clear that federal certification would be in Air California's best interests. For one thing, Air California does not believe it has yet developed its full potential as an intrastate carrier. Furthermore, Air California is not satisfied that, for a carrier of its size and at its stage of development, the advantages of federal certification are commensurate with the added costs that go with certification. In this connection, Air California expects that, even if it held a federal certificate, the bulk of its traffic would continue to be intrastate for years to come; since the fares charged these passengers would be regulated by the California Public Utilities Commission, Air California would still be subject to a considerably greater degree of State regulation than most interstate carriers.

In short, Air California has some question as to whether it is yet ready for full-scale federal regulation, especially when coupled with a substantial measure of continued State regulation. However, if a bill similar to H.R. 10560 were enacted, Air California might nevertheless apply for a federal certificate, lest it lose the only chance it may ever have to do so. If it were to become federally certificated, Air California would make the best possible use of whatever authority it received. It is difficult to predict how the traffic might respond to such efforts, but Air California would expect an initial traffic increase comparable to what it would hope for if granted interline ticketing and baggage transfer authority—i.e., about 10 percent or 160,000 passengers annually.

Regardless of whether H.R. 10560 is intended to grant only interline traffic rights to intrastate carriers or to subject them to comprehensive federal regulation, Air California believes the bill should be amended. If the bill has the more limited of these purposes, then it should be much less broadly drawn.

It should specifically provide that any carrier now engaged in intrastate air transportation within the meaning of the Federal Aviation Act may henceforth carry passengers and property in interstate air transportation over the routes licensed to it by the appropriate State regulatory authority, and that such carriage shall not subject it to regulation by the Civil Aeronautics Board except as to the rates charged to interstate traffic.² Air California would favor the passage of such a bill.

If, on the other hand, the bill is intended to transform intrastate carriers into interstate carriers, that purpose should be somewhat more clearly spelled out. For example, as now written, the bill might be construed as authorizing the issuance of a certificate covering only routes within a single State; such a construction might, in turn, engender the notion that the Board could not award the holder any routes extending out of the State. In Air California's view, if intrastate carriers are to be federally certificated, they should receive certificates that are on a full par with those held by the presently certificated carriers.³

In summary, then, Air California would favor legislation authorizing intrastate carriers to exchange interline passengers and baggage with interstate carriers. It is not now in a position to endorse legislation providing for the federal certification of intrastate carriers, although it might conceivably wish to seek such certification at some future time. In any case, however, Air California urges that the terms of H.R. 10560 be clarified as suggested herein, so as to assure that it will accomplish its intended result.

MARKETS SERVED BY AIR CALIFORNIA

City pair	Type of service	Aircraft type	1-way fare ¹	Passengers, 1975	Other airlines ²
Lake Tahoe-Oakland.....	Direct.....	L-188	\$19.00	23,900	
Lake Tahoe-Ontario.....	Connecting....	L-188	32.00	(³)	
Lake Tahoe-Orange County.....	Direct.....	L-188	32.00	18,400	
Lake Tahoe-Palm Springs.....	Connecting....	L-188	38.00	(³)	
Lake Tahoe-San Diego.....	do.....	L-188	35.00	(³)	PS
Lake Tahoe-San Francisco.....	Direct.....	L-188	19.00	20,800	
Lake Tahoe-San Jose.....	do.....	L-188	19.00	27,200	
Oakland-Ontario.....	do.....	B-737	26.45	81,300	
Oakland-Orange County.....	do.....	B-737	26.45	198,200	
Oakland-Palm Springs.....	do.....	B-737	32.20	12,300	
Oakland-San Diego.....	do.....	B-737	29.00	8,900	PS
Oakland-San Jose.....	do.....	B-737	9.20	4,200	PS, WA, RW
Ontario-Orange County.....	do.....	B-737	9.20	2,400	
Ontario-Palm Springs.....	do.....	B-737	13.40	1,700	WA
Ontario-Sacramento.....	do.....	B-737	26.95	53,500	WA, PS
Ontario-San Jose.....	do.....	B-737	26.45	101,600	CO
Orange County-Palm Springs.....	do.....	B-737	13.40	17,900	
Orange County-Sacramento.....	do.....	B-737	26.95	158,300	
Orange County-San Diego.....	do.....	B-737	12.60	50,100	
Orange County-San Francisco.....	do.....	B-737	26.45	350,600	RW
Orange County-San Jose.....	do.....	B-737	26.45	297,700	
Palm Springs-Sacramento.....	do.....	B-737	32.70	1,400	WA
Palm Springs-San Francisco.....	do.....	B-737	32.20	29,200	WA, RW
Palm Springs-San Jose.....	do.....	B-737	32.20	16,300	
Sacramento-San Diego.....	do.....	B-737	29.20	22,600	WA, PS
Sacramento-San Jose.....	do.....	B-737	12.60	29,300	RW
San Diego-Palm Springs.....	Connecting....	B-737	26.00	(³)	
San Diego-San Jose.....	Direct.....	B-737	29.00	56,400	PS

¹ Includes tax.

² CO—Continental Air Lines; PS—Pacific Southwest Airlines; RW—Hughes Airwest; WA—Western Airlines.

³ Not applicable.

² The statutory definition of "intrastate air transportation," 49 U.S.C. 1301(23), should also be amended to eliminate the ambiguity created by the fact that the term "turbojet-powered aircraft" as used therein does not clearly embrace the Lockheed Electra aircraft operated by Air California and other carriers. The term "turbine-powered aircraft" would be preferable.

³ Accordingly, any bill authorizing the federal certification of intrastate carriers should be framed along the lines of the "grandfather clauses" under which the present trunkline and local-service carriers originally obtained their federal certificates, see 52 Stat. 988 (1938); 69 Stat. 49 (1955).

