

Decision No. 78131

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )

GOLDEN WEST AIRLINES, INC. )

to increase certain of its intrastate )  
passenger fares. )Application No. 52297  
(Filed November 13, 1970;  
Amended December 17, 1970)INTERIM OPINION

Golden West Airlines, Inc. (GWA) operates as a passenger air carrier offering commuter service between Los Angeles and several Southern California points, including Santa Catalina Island; and between San Francisco and Santa Rosa, San Jose and Monterey. In this application, GWA seeks an immediate expedited increase in fares between most of the points it serves.

The application alleges that the very existence of GWA depends upon obtaining the fare increase sought herein, as GWA has been operating at a substantial loss and cannot continue to provide service without the sought revenue increase.

GWA has been authorized to increase its fares in three different proceedings since October, 1969<sup>1/</sup>. In each proceeding, GWA has alleged that the fare increases sought were necessary to

<sup>1/</sup> Decision No. 76352, dated October 28, 1969, in Application No. 51119; Decision No. 76680, dated January 20, 1970, in Application No. 51467; and Decision No. 77225, dated May 19, 1970, in Application No. 51605.

meet the near-term financial requirements of the company. Each proceeding was decided without hearing.

The application herein, as amended, contains a statement of income for the twelve-month period ended September 30, 1970 (Exhibit 8), as summarized in Table 1, as follows:

TABLE 1

GOLDEN WEST AIRLINES, INC.  
INCOME STATEMENT  
FISCAL YEAR ENDED SEPTEMBER 30, 1970

<u>Revenues</u>	\$ 4,439,000
<u>Operating Expenses</u>	
Flying Operations	\$ 2,711,000
Direct Maintenance	\$ 1,236,000
Maintenance Burden	\$ 261,000
General and Administrative	\$ 2,802,000
Depreciation and Amortization	<u>\$ 927,000</u>
Total	\$ 7,937,000
<u>Operating Income (Loss)</u>	\$(3,498,000)
<u>Non-operating Income and Expenses</u>	
Interest Income	\$ 19,000
Interest Expense	\$ 1,521,000
Miscellaneous Expense	<u>\$ 787,000</u>
Total	\$(2,289,000)
<u>Net Income (Loss)</u>	\$(5,787,000)

Exhibit 9, attached to the amendment to the application, contains a list of property and equipment of GWA, which shows a total net book value of \$8,234,100 as of September 30, 1970, including aircraft having a net book value of \$7,521,080.

The application indicates that GWA will carry approximately 425,000 passengers in 1970, or an average of 33,000 per month. GWA estimates that it will carry a greater number of passengers in

1971. It projects a total of 476,069 for the year, or an average of approximately 39,000 per month. Applicant estimates that its revenues in 1971, based on such projected number of passengers, will be \$4,783,092 under present fares, and \$5,502,865 under proposed fares. The revenue increase under proposed fares is estimated to be \$714,773, or 14.9 percent. GWA asserts that it will have substantially reduced operating expenses in 1971 as compared with 1970. Such reduced expenses, the application alleges, will result from reductions in its routes, cuts in the number of flights operated, and reductions in personnel. Also, the application indicates that GWA will endeavor to dispose of certain aircraft in excess of that necessary for its past or present operations. The details of the route and schedule reductions and the means of accomplishing the asserted reduction in personnel and disposal of aircraft are not spelled out in the application.

The following is GWA's estimate of its 1971 operations under present fares and planned levels of services:

TABLE 2

GOLDEN WEST AIRLINES, INC.  
ESTIMATED RESULTS OF OPERATIONS  
YEAR 1971  
(PRESENT FARES)

<u>Revenues</u> (Including Charter)	\$ 4,968,092
<u>Operating Expenses</u>	\$ 4,705,108
<u>Depreciation and Amortization</u>	\$ 571,800
<u>Net Operating Profit (Loss)</u>	\$ (308,816)

The application alleges that GWA's debt has risen steadily and that its major stockholders have made substantial loans to GWA to permit it to continue to operate. The application indicates that such stockholders have expressed a willingness to negotiate for the conversion of their loans to an equity position provided the Commission grants the fare increase requested herein and provided further that the operating cost reductions indicated above are made effective immediately. The conversion of debt to equity appears to be a necessary requisite to the future healthy financial position of GWA. However, the application contains no assurances that such conversion actually will be made nor the date thereof.

Based upon the application, it appears, and we so find, that GWA has incurred substantial operating losses in the year ended September 30, 1970, and that it is in urgent need of additional net operating revenue for the future. We conclude that immediate financial relief should be granted through an interim increase in fares. It is noted that even the extremely optimistic estimate of

1971 operations incorporated in the application indicates that GWA will operate at a loss under present fares.

In reaching the conclusion that the increased fares should be authorized on an interim basis, the Commission is concerned that repeated substantial increases in commuter airline fares may be self-defeating. Applicant has never achieved the number of passengers estimated for future periods in prior fare applications.

In recent years, the Commission authorized repeated fare increases to Los Angeles Airways and to San Francisco-Oakland Helicopter Airlines, both of which serve the same type of markets as GWA. Even in face of fare increases, such carrier operations are not profitable, and SFO is in receivership and LAA has suspended operations. GWA will be expected to show by competent evidence the result of past fare increases on the numbers of passengers carried by it.

We are not persuaded that GWA can achieve the increased number of passengers estimated for 1971 in face of any great reduction in points served or of the number of flights. Therefore, it appears that all expenses of GWA should be pared to the bone, including interest expense.

We herein authorize an interim fare increase so that before final levels are established, we may be better informed of the steps to be taken by GWA to reduce its expenses through every available means. In this connection, the Commission desires to have before it firm commitments to eliminate excess aircraft and to reduce debt expenses.

Upon notification by applicant that it is ready to proceed, public hearing regarding permanent fare levels will be scheduled for receipt of evidence by applicant, the Commission staff, and other interested parties.

INTERIM ORDER

IT IS ORDERED that:

1. Golden West Airlines, Inc., is authorized to establish the increased fares proposed in Application No. 52297 for a period of 180 days from the effective date of the increased fares.

Tariff publications authorized to be made as a result of the order herein shall be filed not earlier than the effective date of this order and may be made effective not earlier than three days after the effective date hereof on not less than three days' notice to the Commission and the public.

2. The authority granted herein shall expire unless exercised within thirty days after the effective date of this order.

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

Dated at San Francisco, California, this 22nd day of DECEMBER, 1970.

[Signature]  
Chairman

[Signature]

[Signature]

[Signature]

Vernon L. Sturgeon  
Commissioners