

JM

ORIGINAL

Decision No. 79712

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
GOLDEN WEST AIRLINES, INC., to in-)
crease certain of its intrastate)
passenger fares. }

Application No. 52297
(Filed November 13, 1970;
Amended December 17, 1970)

Gerry Levenberg and Robert M. Oster, Attorneys
at Law, for applicant.

Ernest T. Kaufman, Attorney at Law, for Western
Air Lines, Inc.; and Mark T. Gates, Jr., for
Pacific Southwest Airlines; interested parties.

B. A. Peeters, Attorney at Law, A. L. Gielegem,
and Richard Brozosky, for the Commission staff.

FINAL 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.

Decision No. 78131, dated December 30, 1970, in this proceeding authorized GWA to increase its air fares on an interim basis, pending hearing. Decision No. 78620, dated April 27, 1971, Decision No. 79169, dated September 21, 1971, and Decision No. 79523, dated December 2, 1971, extended the interim fares which are now scheduled to expire May 15, 1972.

Public hearing on GWA's application was held before Commissioner Sturgeon and Examiner Mallory at San Francisco on July 13 and 14 and December 15, 1971 and in Bakersfield on September 24, 1971. The matter was submitted on January 14, 1972, upon the receipt of late-filed Exhibit 10, a balance sheet audit report of GWA as of June 30, 1971, prepared by Arthur Young and Company.

Evidence on behalf of applicant was presented by Fred L. Austin, president of GWA; by Machiel P. Van Dordrecht, comptroller of Air California, who appeared as GWA's principal financial witness; Henry Voss, an employee of GWA who testified with respect to estimates of future passenger traffic; and by Hollis B. Roberts, the controlling stockholder of GWA and the Chairman of its Board of Directors. Mark Sepaspour, an associate transportation engineer employed by the Commission, presented a report containing estimated operating results under permanent and interim fares. A. L. Gielegem, employed by the Commission as a principal financial examiner, testified with respect to the efforts of employees of the Commission's Finance and Accounts Division to obtain and verify GWA's books and records and to analyze certain financial transactions, and with respect to the financial background, present condition and survival prospects of GWA under continuing losses.

The evidence presented by the GWA and the Commission's staff clearly indicates that the interim fares authorized to GWA are necessary for its continued operations and that said fares should be made permanent. The protracted hearings conducted in this proceeding stem, in part, from the reluctance of GWA to make all of its records available to the staff upon reasonable request therefor; in part from allegations that certain financial transactions may have been imprudent or, in any event, are improperly recorded and documented; and in part from allegations that control of GWA may be exercised by Westgate-California Corporation or corporations or persons associated with said company.

The proceeding was submitted upon receipt of an auditor's report prepared by a firm of certified public accountants (Exhibit 10). Said report is a public document and will be considered as a part of any analysis of GWA's financial status in any future fare or route proceeding. GWA will be directed to cooperate fully with our staff by furnishing all financial records to the staff upon request therefor. The question of possible improper exercise of control of GWA by Westgate-California Corporation or persons or corporations affiliated or associated therewith, or the improper exercise thereof will be considered in Case No. 9285, Pacific Southwest Airlines vs. Golden

West Airlines, Inc., et al. It is not necessary for the purposes of this proceeding to discuss in detail the several matters raised and questioned by our staff.

The record shows that because of consolidation of operating rights, changes in the principal ownership of the corporation, and changes in officers and other personnel, there are no supporting data in GWA's records for many entries on its books, particularly with respect to the sources of its unsecured debt. This debt largely has been converted to equity during the period that this application has been pending. The record indicates that GWA's operations under the interim fares did not result in an operating profit and that there is little likelihood of an operating profit in the near future. Therefore, return on equity capital, return on rate base and determination of a reasonable debt-to-equity ratio for GWA are not direct issues in this proceeding. We caution applicant that in any proceeding wherein return on rate base or equity is a factor, equity capital resulting from the issuance of shares to replace unsubstantiated debt will not be given consideration by the Commission.

The Commission finds:

1. Decision No. 78131, dated December 22, 1970, herein granted GWA an interim increase in fares pending hearing, based on a finding that GWA had incurred substantial operating losses in the year ended September 30, 1970, and that it was in urgent need of additional net operating revenue for the future.

2. Exhibits introduced by applicant and the Commission's Transportation Division staff show that although GWA's net operating revenues were improved in the period following the interim fare increase, said operations were not conducted at a profit. The data introduced by applicant and the staff show that under current levels of patronage and service GWA's operations will not be profitable in the near future. (The staffs' Exhibit 6 shows operations under

interim fares for a test year ended August 31, 1972 would result in an operating loss of \$1,651,800 and an operating ratio of 136.6 percent.)

3. Increases resulting from the establishment of interim fares on a permanent basis are justified.

The Commission concludes:

1. Interim fares should be made permanent.
2. GWA should be ordered to make available to the Commission staff all financial records pertaining to its operations as a passenger air carrier upon request therefor.

FINAL ORDER

IT IS ORDERED that:

1. Golden West Airlines, Inc. is authorized to establish as permanent fares the increased fares proposed in Application No. 52297, and authorized as interim fares by prior orders of the Commission herein. 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 ninety days after the effective date of this order.

3. Applicant is hereby ordered to make available to members of the Commission's staff all financial records pertaining to operations as a passenger air carrier upon request therefor.

4. GWA is placed on notice that in any proceeding in which rate of return, return on common equity or reasonable ratio of

debt-to-equity may be an issue, unsubstantiated debt, or unsubstantiated debt converted to common equity will not be considered for rate-making purposes.

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

Dated at San Francisco, California, this 15th day of FEBRUARY, 1972.

William Seymour Chairman
Thomas L. Stinson
J. P. Valensin, Jr. Commissioners

Commissioner J. P. Valensin, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

A. 52297 JM

GOLDEN WEST AIRLINES, INC.

Certificate Re Increase in Rates

Inasmuch as the fares of Golden West Airlines, Inc. approved in the order to which this is attached have been continuously in effect since January 7, 1971, prior to the enactment of the Economic Stabilization Act of 1971, the action of making said fares permanent does not fall within the provisions of that Act.