

ORIGINAL

Decision No. 81791

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application  
of GOLDEN WEST AIRLINES, INC., for  
a Certificate of Public Convenience  
and Necessity.

Application No. 51216  
(Notice of Discontinuance  
Filed June 25, 1973)

Oster, Millard & Suchman, by Robert M. Oster,  
Attorney at Law, for applicant.  
Barbara Purvis, Attorney at Law, and Roy E.  
Bayless, For City of Riverside, protestant.  
Elmer J. Sjoström, Attorney at Law, and Edward  
Crawford, for the Commission staff.

O P I N I O N

On June 25, 1973 Golden West Airlines, Inc. (GWA) filed a notice of intent to discontinue its Riverside operation pursuant to Section 2769.5 of the Public Utilities Code. Under that section GWA has a right to discontinue air passenger service to and from Riverside on August 25, 1973 unless the Commission finds, after hearing, that the operation is "not unprofitable". The city of Riverside<sup>1/</sup> protested. Duly noticed hearing was held in Riverside before Examiner Gilman on July 30, 1973. The matter was taken under submission on August 9, 1973 with permission to file proposed findings and conclusions.

---

<sup>1/</sup> The city owns and operates the airport which is used for the operation in question.

At hearing applicant called its director of schedules and planning who testified as to the history and profitability of the Riverside operation. The city called its airport director who testified on the same topics; in addition, he indicated that the airport staff had offered to renegotiate the terminal space rental and landing fees charged GWA, substantially reducing those costs. The staff called an engineering witness who presented service and economic data and who recommended that the service be found not unprofitable. Statements were made by a passenger, by the mayor of the city of Riverside, by a member of the Chamber of Commerce, and by the Riverside County airport director. All of these statements claimed that the Riverside operation was required by public convenience and necessity and might become profitable if well promoted. It was also claimed that GWA's joint and arbitrary fare arrangements<sup>2/</sup> available only at Ontario airport but not at Riverside airport (less than 20 highway miles from Ontario) have diverted traffic from Riverside to Ontario.

Background

GWA or its predecessor (Cable Flying Service, Inc., dba Cable Commuter Airlines) has operated air commuter service to and from Riverside since September 1968. GWA's certificate to operate to and from Riverside was granted under Section 2754.1 of the Public Utilities Code based on a finding that the operation had been conducted in good faith and continuously on or before April 1, 1969. The operation is an extension of GWA's Ontario to Los Angeles route. GWA has experimented with direct service between Los Angeles and Riverside, but such service is no longer scheduled, although direct service is sometimes provided on an extra section basis.

---

<sup>2/</sup> Both types of fares offer passengers who connect with certain other flights at Los Angeles, free or reduced rate transportation on the Ontario to Los Angeles flight.

Discussion

The principal dispute in this proceeding concerns the definition of the word "unprofitable" as used in Section 2769.5 of the Public Utilities Code.<sup>3/</sup> GWA contends that an operation is unprofitable unless the revenues produced exceed all the costs incurred, including an allocated portion of total system costs, which cannot be avoided or reduced as a result of the proposed discontinuance.

The staff on the other hand contends that only savable costs can be considered in determining whether the operation is profitable.

If GWA's interpretation is adopted, it clearly has a statutory right to discontinue without permission; the revenues derived from the Riverside operation are not sufficient to offset all expenses allocable to this operation (cf. Table I, column 1, below). On the other hand, if the staff's interpretation is correct, GWA would have no statutory right to discontinue since the revenue is more than sufficient to cover savable expenses and to make some significant contribution to GWA's general overhead costs (Table I, column 2).

Section 2769.5 must be interpreted under the general legislative policy stated in Section 2739 of the Public Utilities Code.<sup>4/</sup>

---

<sup>3/</sup> "No passenger air carrier shall discontinue operations between any two or more terminals without authority of the commission, unless such operations are unprofitable. Unprofitable operations may be discontinued upon 60 days' notice to the commission, and to such other persons as the commission may require, unless within such 60-day period the commission, after hearing, makes a finding that such operation is not unprofitable and orders its continuance."

<sup>4/</sup> "The purpose of this chapter is to provide regulation of the transportation of passengers by air in common carriage within the State of California in order that an orderly, efficient, economical, and healthy intrastate passenger air network may be established to the benefit of the people of this State, its communities, and the State itself."

Reading those sections together we conclude that discontinuance was intended to be a tool to prune away operations which are an economic burden on other better-patronized segments of a carrier's system. If, as GWA contends, we must give equal weight to both savable and nonsavable costs, this objective might be frustrated; we would be required to permit a discontinuance, even though the revenues produced by the operations were greater than the costs which could be eliminated. In such a situation, the nonsavable costs would remain to be spread over a smaller revenue base, thus weakening rather than strengthening the carrier's ability to adequately perform its remaining service obligations. We will reject GWA's interpretation and adopt the staff's.

In the following tabulation, insurance costs are treated as savable since GWA demonstrated that premiums are based on a passenger-mile formula. GWA did not attempt to demonstrate that discontinuance would produce any savings in aircraft depreciation or in general and administrative and sales expenses.

TABLE I

	<u>Full Cost</u> <sup>1/</sup>	<u>Savable Cost</u>
Revenue Passengers	4,658	4,658
Block Hrs. to Market Area	411.5	411.5
Fuel Costs	\$ 4,781	\$ 4,781
Maintenance Material Costs	1,265 <sup>1/</sup>	1,265
Landing Fees W/RAL Segment	2,810 <sup>1/</sup>	2,810
Airworthiness Reserve	6,222	6,222
Liability & A/C Hull Ins.	3,142	3,142
Flight Crew Costs	16,369	16,369
Maintenance Salaries	9,250	9,250
Station Personnel Costs	9,166	9,166
Station Facilities & Lease Costs	2,795 <sup>2/</sup>	2,795 <sup>2/</sup>
Communications Costs	1,500	1,500 <sup>3/</sup>
Aircraft Depreciation	7,658	
Other Route & Station Costs	2,195	2,195 <sup>3/</sup>
G & A, Sales, etc.	13,789	
Total Expenses	\$ 80,942	\$59,495
Total Revenue & Airfreight	\$ 70,273	\$70,273
Income	<u>\$(10,669)</u>	<u>\$10,778</u>

(Red Figure)

- <sup>1/</sup> \$4,121 less \$1,311 (Riverside landing fees January-April 1973) = \$2,810.
- <sup>2/</sup> 4,658 passengers times \$0.60 per passenger (RAL proposed contract offer) = \$2,795.
- <sup>3/</sup> Expenses not considered savable.

Findings

1. GWA's aircraft depreciation and G&A and sales expenses would not be reduced if the Riverside operation were discontinued; discontinuance would produce a saving of \$3,142 per year in insurance costs.

2. GWA earns \$70,273 per year on its Riverside operations; if the operation were discontinued, it would save \$59,495 per year in costs.

3. The Riverside operation generates \$10,778 of revenue per year in excess of savable costs to defray the nonsavable total system costs of GWA.

4. GWA's Riverside operations are not unprofitable.

Conclusions

1. Nonsavable expenses should be disregarded in determining whether a passenger air carrier's operations are unprofitable under Section 2769.5 of the Public Utilities Code.

2. GWA has no right under Section 2769.5 to discontinue its air passenger operations to and from Riverside.

O R D E R

IT IS ORDERED that Golden West Airlines, Inc. shall continue to offer service to and from Riverside Municipal Airport in accordance with its certificate of public convenience and necessity.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 21<sup>st</sup>  
day of AUGUST, 1973.

Vermon L. Sturgeon  
President  
William J. Quinn  
William J. Quinn  
William J. Quinn  
Commissioners

Commissioner D. W. Holmes, being necessarily absent, did not participate in the disposition of this proceeding.