

Decision No. 84658**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of GOLDEN WEST
AIRLINES, INC. for authority
to increase its passenger air
fares for certain local intra-
state Passenger Fares.

Application No. 55426
(Filed January 6, 1975)

INTERIM OPINION

Golden West Airlines, Inc. is a passenger air carrier engaged in commuter type air service between airports in southern California. It here seeks authority to increase fares by varying amounts which it estimates will provide \$310,646 additional revenues which is an increase of about 5.6 percent. Applicant's last general intrastate fare increase was effective January 6, 1971. In 1974 applicant was authorized by the Commission in Decisions Nos. 82355, 82389, and 83548 to increase fares to offset fuel cost increases by 23, 15, and 28 cents, respectively, per intrastate passenger. The proposed increased fares are at the same level as the local interstate passenger fares maintained by applicant in its tariffs subject to regulation by the Civil Aeronautics Board.

Applicant asserts that despite diligent efforts to minimize losses, it continues to sustain net losses of such magnitude as to make it imperative to apply for the proposed fare adjustments. It incurred a net loss of \$566,206 from operations in the 12-month period ending April 30, 1974. It asserts that it has, however, been steadily improving its operating condition by discontinuing or reducing service between cities which have shown evidence of long-term unprofitability; it has obtained agreements with major interstate airlines regarding fares to and from eastern or midwest U. S. cities which should

increase its passenger volume and interstate revenue; and it continually has been reducing administrative and general expenses. It has also, however, been incurring increases in costs of wages and benefits to operating employees, and increases in costs of materials, supplies, and repairs which has been general throughout the economy. It asserts that unexpected and expensive aircraft modifications required by the FAA has been a financial burden. Since January 1972 the cost of those modifications has been \$317,000.

The Commission staff made studies of the requested increases in fares. The report of the Division of Finance and Accounts is received as Exhibit 1, and the report of the Transportation Division is received as Exhibit 2.

Exhibit 1 shows that the applicant is sustaining losses in the conduct of airline operations. The Finance and Accounts Division asserts that the present plight of applicant makes it clear that fare increases alone, not coupled with other necessary financial measures, will not assure either the survival of the airline or a continuation of its services. It points out that applicant's current liabilities are nearly twice its current assets. It asserts that as receiver for the now defunct United States National Bank, the Federal Deposit Insurance Corporation (FDIC) holds debt against applicant approaching \$10 million and that applicant has not maintained payment schedule on that debt. The report asserts that applicant continues to operate because in reality FDIC both owns and controls the corporation. The common stock equity position of applicant is not only gone, but stands in a tremendous negative position of over \$8 million. The total assets of the corporation are even less than one-half the fully secured debt held by the FDIC.

While applicant maintains local fares for interstate transportation at the same level of fares proposed for intrastate transportation between the same points, it also has entered into joint fares with major airlines for interstate transportation between points served by applicant and points generally east of the Mississippi River. The Commission staff asserts that such agreements have resulted in fare dilution. They cannot be certain of the impact of such dilution without further study, but it is their opinion that it may be substantial. Exhibit 2 sets forth an analysis of applicant's operations assuming that each passenger transported paid the intrastate fare for transportation during 1974. The results of operations are projected for 1975 by extrapolating applicant's expenses for the nine months ended January 31, 1975. The analysis, assuming all passengers pay the intrastate fare, discloses the following projected results under the present fares and under the proposed fares:

	<u>Present Fares</u>	<u>Proposed Fares</u>
<u>Revenue</u>		
Passenger	\$5,122,033	\$6,206,937
Other	<u>291,719</u>	<u>291,719</u>
Total	\$5,413,752	\$6,498,656
Operating Expenses	\$5,685,439	\$5,685,439
Operating Income (Loss)	\$ (271,687)	\$ 813,217
Operating Ratio before Income Taxes	105.02%	87.49%

The indicated operating ratio before income taxes under proposed fares is not indicative of excessive earnings for a passenger air carrier. We take notice of the Commission's Decision No. 82687 in Application No. 53308 in which increases in the fares of Air California were found to be justified which provided an operating ratio before income taxes of 86.1 percent and an operating ratio

after income taxes of 92.7 percent, and of Decision No. 81793 in Application No. 53525 in which Pacific Southwest Airlines was authorized to increase fares which would provide it with an operating ratio after income taxes of 88.47 percent.

The Finance and Accounts Division asserts that the continuance of applicant's operations is actually within the control of FDIC. Its actions have indicated an intent to attempt to keep the corporation alive so that there does not appear to be any emergency. Except for special conditions now obtaining under the aforementioned highly unusual circumstances surrounding applicant, it could be judged to be in a bankrupt condition and perhaps insolvent. It is asserted that any fare relief, however welcome, would be merely temporizing a problem much more deeply seated in the company's present capitalization and financial future. Applicant itself is immobilized by the conditions depicted on its balance sheet: negative working capital, debt in default, and deficit of such magnitude the common stock equity is negative. The Finance and Accounts Division recommends that applicant's request for fare relief be denied pending determination of the extent and impact of fare dilution related to the joint interstate fares, and pending development and submission of a proposal for reorganization and recapitalization of applicant to restore viability to the company's financial condition and prospects.

The Transportation Division recommends that the fare increases be granted. It asserts that if the Commission feels that additional study along the lines suggested above is necessary, an interim fare increase should be granted until the study is completed. It also advises that a study involving separation of interstate and intrastate operations could not be completed before November 1, 1975.

The financial statements accompanying the application, Exhibits 1 and 2, disclose what appears to be a viable airline operation except for the drain of working cash because of tremendous debt, much of which it would appear resulted from transactions because of affiliations with Westgate Corporation, United States National Bank, and other interests identified with C. Arnholt Smith. Exhibit 1 depicts a very dismal picture regarding the future of applicant whether or not the fare relief sought is granted. The remedies suggested by the Finance and Accounts Division are not wholly within the power of the Commission to effect. We have before us an application to increase fares, and the primary issue here is whether those increases are justified. Whether or not the passenger transportation applicant provides under its joint fares is diluting applicant's revenue position or is benefiting it by reason of attracting additional patronage on existing flights that it, otherwise, would not have is conjecture at this point and can only be determined after further study. Regardless of that issue, Exhibit 2 shows that if all passengers transported were carried at the proposed intrastate fares applicant's earnings would not be excessive.

We adopt the recommendation of the Transportation Division. Applicant provides the most extensive commuter type passenger air carrier service in California. It is in the public interest that the service be maintained, and it is the desire of the Commission to exercise whatever powers it has to assure the continuance of that service. The instant application will provide a vehicle under which the Commission may be apprised of the proper exercise of its powers in that regard and also may receive evidence regarding the impact of the interstate joint fares upon applicant's intrastate passenger air carrier service. The application will be held open, and applicant will be granted the sought fare relief in an interim order in this proceeding.

Findings

1. Applicant is a passenger air carrier engaged in transporting passengers between points in southern California in intrastate commerce and in interstate commerce under local fares and under joint fares.

2. Applicant seeks authority to increase its intrastate passenger fares by varying amounts up to the level of its local fares for transportation of passengers in interstate commerce.

3. The proposed increase will provide applicant with additional passenger revenue in an amount of about \$300,000.

4. Applicant's financial condition is poor by reason of negative working capital, debt in default, and deficit of such magnitude the common stock equity is negative. It is questionable whether the additional revenues from the proposed increase will restore viability to the company's financial condition and prospects without a form of reorganization and recapitalization.

5. It is questionable whether the transportation of passengers in interstate commerce under joint fares is impairing the ability of applicant to provide intrastate passenger air carrier service.

6. The level of proposed intrastate fares will not provide applicant with excessive earnings, and the increases are justified.

Conclusions

1. Applicant should be authorized to establish the increased fares on not less than five days' notice to the Commission and to the public.

2. This proceeding should be kept open for the purpose of receiving further evidence regarding the impact of applicant's interstate joint fares upon its intrastate passenger air service, for receiving further evidence which would permit the Commission to

exercise its powers to assure continuation of applicant's passenger air carrier service, and to make whatever additional orders concerning applicant's fares that may be required.

INTERIM ORDER

IT IS ORDERED that:

1. Golden West Airlines, Inc., a California corporation, is authorized to establish the increased fares proposed in Application No. 55426. Tariff publications authorized to be made as a result of this order shall be filed not earlier than the effective date of this order and may be made effective not earlier than five days after the effective date of this order on not less than five days' notice to the Commission and to the public.

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

3. The tariff filings made pursuant to this order shall comply with the regulations governing the construction and filing of tariffs set forth in the Commission's General Order No. 105-Series.

4. In addition to the required posting and filing of tariffs, applicant shall give notice to the public by posting in its terminals a printed explanation of its proposed fares. Such notice shall be posted not less than five days before the effective date of the fare changes and shall remain posted for a period of not less than thirty days.


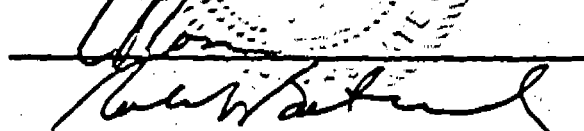
5. This proceeding shall remain open for the purpose of receiving further evidence concerning applicant's intrastate fares, for the purpose of receiving evidence concerning the impact of applicant's interstate joint fares upon its intrastate passenger air carrier service and fares, and for the purpose of receiving evidence

from which the Commission can determine the manner in which it may exercise its powers so as to assure the continuance of the passenger air carrier service provided by applicant.

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

Dated at San Francisco, California, this 8th
day of JULY, 1975.


President



Commissioners

Commissioner William Symons, Jr., being necessarily absent, did not participate in the disposition of this proceeding.