

Order 98-3-29

Served: April 1, 1998



**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.**

Issued by the Department of Transportation
on the 27th day of March, 1998

Essential Air Service at

**CENTRAL AND
CIRCLE, ALASKA**

under 49 U.S.C. 41731, *et seq.*

**Docket OST 1998-3621
(42609)**

ORDER TENTATIVELY RESELECTING CARRIER

Summary

By this order we are tentatively reselecting Warbelow's Air Ventures, Inc. to provide subsidized essential air service at Central and Circle, Alaska, for the two-year period beginning April 1, 1998, through March 31, 2000, at an annual subsidy rate of \$31,839.

(See Appendix A for a map.)

Background

Warbelow's Air Ventures, Inc. was last selected to provide essential air service at Central and Circle, Alaska, pursuant to Order 96-4-52, issued April 30, 1996, at an annual subsidy rate of \$20,374 that will expire on March 31, 1998.

Under our normal procedures when nearing the end of a rate term, we contact the incumbent carrier to determine whether it is interested in continuing service and whether it will continue to require subsidy. If the carrier wishes to continue service with subsidy, we usually negotiate a new subsidy rate with the carrier, issue an order tentatively reselecting the carrier for a new rate term at the agreed rate, and direct other parties to show cause why we should not finalize our tentative decision. Other carriers wishing to submit competing proposals are invited to do so in response to the show-cause order; if any such proposals are filed, we process them as a competitive case. Consistent with this practice, we invited Warbelow's Air Ventures to submit a proposal for continuation of essential air service at Central and Circle.

Carrier Service Proposal

In response to our inquiry Warbelow's Air Ventures submitted a proposal to continue to provide the historical level of service at Central and Circle for a new two-year rate term: five

trips a week over the routing Fairbanks-Circle-Central-Fairbanks with 8-seat Piper Navajo aircraft and service limited to a maximum of two intermediate stops between either eligible point and Fairbanks. Based on informal rate discussions held between the carrier and the Department staff an annual subsidy rate of \$31,839 has been

agreed upon for each year of the new rate term. (See Appendix B to this order for a summary of the subsidy computation for the Warbelow's Air Ventures proposal.) Although this rate is substantially more than the current rate, we find it to be reasonable, as discussed below, in that it reflects the use of Piper Navajo aircraft, which are slightly larger and have higher costs than the Cessna equipment on which the current rate is based.

Essential Air Service Determination

The essential air service definition for Central and Circle requires three round trips per week to Fairbanks with small aircraft (10 or fewer seats) and no more than two intermediate stops. While we will not amend that determination at this time we believe that the proposed service level is appropriate given the directional imbalance of traffic at Central and Circle and recognizing that the carrier has historically operated five weekly trips between Central/Circle and Fairbanks in order to accommodate the traffic.

Decision

After reviewing Warbelow's Air Ventures' proposal and its recent service at Central and Circle we will tentatively reselect the carrier for an additional two-year period, from April 1, 1998, through March 31, 2000, at an annual subsidy rate of \$31,839.

As shown in Appendix D, the Fairbanks-Central/Circle markets are characterized by a pronounced, year-round directional imbalance in the movement of cargo and mail. Historically, over 90 percent of Central/Circle cargo and mail traffic is inbound, i.e., from Fairbanks to Central and Circle. In Order 92-5-6, the Department concluded that Warbelow's Air Ventures' five-flight-per-week service pattern with Cessna 206/7 equipment was necessary to accommodate all of Central's and Circle's traffic across the critical first segment leaving Fairbanks at reasonable load factors. The carrier on its own has now decided to use the larger Piper Navajo. In addition to giving it a higher payload, use of the twin-engine Navajo permits Warbelow's Air Ventures to conduct Central/Circle operations under instrument flight rules, thus affording the communities greater schedule reliability. Thus, we conclude that the carrier's proposal to use Navajo equipment in providing essential air service at Central and Circle is warranted and the proposed rate appears reasonable for that service level. Lastly, Warbelow's Air Ventures' performance at Central and Circle continues to be reliable.

Consistent with long-standing program practice, we will allow interested parties 20 days from the date of service of this order to object to our decision and/or file competing proposals. In the event objections are filed, the agreed-to annual rate for Warbelow's Air Ventures will become effective as a final rate as detailed in Appendix B until further Department action.

Objections or Proposals

As usual, we will allow interested parties 20 days to object to our decision and/or to file competing proposals. If no timely objections or competing proposals are filed this order will automatically become final. We expect persons objecting to our tentative decision to support their objections with relevant and material facts. We will not entertain general, vague, or unsupported objections. In order to help carriers in their passenger and revenue forecasts, we have included historical passenger and cargo data in Appendix D.

Procedures for Filing Replacement Proposals

For interested carriers unfamiliar with our procedures and recommended form for supplying the necessary information, we have prepared two explanatory documents that we will make available upon request. The first describes the process for handling carrier replacement cases under 49 U.S.C. 41734(f) and discusses in detail the process of requesting proposals, conducting reviews of applicants, and selecting a replacement carrier. The second is an evidence request containing an explanatory statement, a copy of Part 204 of our regulations (14 CFR 204), and schedules setting forth our recommended form for submitting data required for calculating compensation and determining the financial and operational ability of applicants

to provide reliable essential air service. (Section 204.4 describes the fitness information required of all applicants for authority to provide essential air service.) Applicant carriers that have already submitted this information in another case need only resubmit it if a substantial change has occurred. However, if there are more recent data or if there have been any changes to the information on file, carriers should provide updates of those information elements. Interested carriers that need to obtain copies of these documents may contact the Office of Aviation Analysis at (202) 366-1053.

Other Carrier Requirements

The Department is responsible for implementing various Federal statutes governing lobbying activities, drug-free workplaces, and nondiscrimination.¹ Consequently, all carriers receiving Federal subsidy to support essential air service must certify that they are in compliance with Department regulations regarding drug-free workplaces and nondiscrimination, and those carriers whose subsidies exceed \$100,000 over the life of the rate term must also certify that they are in compliance with the regulations governing lobbying activities. All carriers that plan to submit proposals involving subsidy should submit the required certifications along with

their proposals. Interested carriers requiring more detailed information regarding these requirements as well as copies of the certifications should contact the Office of Aviation Analysis at (202) 366-1053. The Department is prohibited from paying subsidy to carriers that do not submit these documents.

Community and State Comments

If we receive competing proposals the communities and State are welcome to submit comments on the proposals at any time.² Early in the proceeding, comments on the perceived strengths and weaknesses of the proposals would be particularly helpful to the Department, and the civic parties may also express a preference for a particular carrier or proposal option at that time, if they choose. In any event, after we conclude rate conferences with all applicants, we would provide a summary of the conferences results to the civic parties and ask them to file their final comments.³

Carrier Fitness

49 U.S.C. 41737(b) and 41738 require that we find a carrier fit, willing, and able to provide reliable service before we may compensate it for essential air service. We last found Warbelow's Air Ventures fit to provide scheduled passenger service as a certificated air carrier by Order 96-4-52, April 30, 1996. The Department has routinely monitored the carrier's continuing fitness, and

¹ The regulations applicable to each of these areas are (1) 49 CFR Part 20, New Restrictions on Lobbying, Implementing title 31, United States Code, section 1352, entitled "Limitation on use of appropriated funds to influence certain Federal contracting and financial transactions"; (2) 49 CFR Part 29, Subpart F, Drug-Free Workplace Requirements (Grants) implementing the Drug-Free Workplace Act of 1988; (3) 49 CFR Part 21, Nondiscrimination in Federally-Assisted Programs of the Department of Transportation--Effectuation of Title VI of the Civic Rights Act of 1964; 49 CFR Part 27, Nondiscrimination on the Basis of Handicap in Programs and Activities Receiving or Benefiting from Federal Financial Assistance; and 14 CFR Part 382, Nondiscrimination on the Basis of Handicap in Air Travel.

² Civic parties should file an original and five copies of their comments in Docket OST-1998-3621. Comments should be addressed to: Documentary Services Division, Docket Section, SVC-124.1, Office of the Secretary, U.S. Department of Transportation, Room PL 401, 400 Seventh Street, S.W., Washington, D.C. 20590.

³ In cases where a carrier proposes to provide full essential air service without subsidy and we determine that service can be reliably provided without such compensation, we do not normally hold rate conferences. Instead, we rely on the carrier's subsidy-free service.

no information has come to our attention that would lead us to question its ability to operate in a reliable manner. Based on our review of its most recent submissions, we find that Warbelow's Air Ventures continues to have available adequate financial and managerial resources to maintain reliable service at Central and Circle, and that it continues to possess a favorable compliance disposition. The Federal Aviation Administration has advised us that the carrier is conducting its operations in accordance with its regulations, and knows of no reason why we should not find that Warbelow's Air Ventures remains fit.

This order is issued under authority delegated in 49 CFR 1.56(i).

ACCORDINGLY,

1. The Department tentatively reselects Warbelow's Air Ventures to provide essential air service at Central and Circle, Alaska, as described in Appendix C, for the period beginning April 1, 1998, through March 31, 2000;

2. The Department tentatively sets the final rate of compensation for Warbelow's Air Ventures for the provision of essential air service at, Central and Circle, Alaska, at \$31,839 per year, as described in Appendix C, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the ceiling per week of \$612.20, and shall be determined by multiplying the number of subsidy eligible arrivals and departures operated during the month by \$30.61⁴;

3. The Department finds Warbelow's Air Ventures, Inc. fit, willing, and able to operate as a certificated air carrier and capable of providing reliable essential air service at Central and Circle, Alaska;

4. The Department requests that carriers interested parties to show cause within 20 days of the date of service of this order why we should not make final the tentative findings and conclusions set forth above. Objections should be filed with the Documentary Services Division, SVC-124.1 Room PL-401, 400 7th Street, S.W., Washington, D.C. 20590. Carriers interested in filing competing proposals to serve Central and Circle, Alaska, should submit their proposals, with subsidy requests if necessary, within 20 days of the date of service of this order. Proposals should include all the data required by section 204.4 of our Regulations (14 CFR 204.4). An original and five copies of the proposal should be sent to the EAS & Domestic Analysis Division, X-53, Office of Aviation Analysis, Room 6401, Department of Transportation, 400 7th Street, S.W., Washington, D.C. 20590, with the title, "Proposal to Provide Essential Air Service at Central and Circle, Alaska, Docket OST-1998-3621;

5. The Department directs Warbelow's Air Ventures, Inc. to retain all books, records, and other source and summary documentation to support subsidy claims for payment and to preserve and maintain such documentation in a manner that readily permits its audit and examination by

⁴ The annual compensation of \$31,839 divided by 1,040 annual arrivals and departures at 100% completion.

representatives of the Department. Such documentation shall be retained for seven years or until the Department indicates that the records may be destroyed. Copies of flight logs for aircraft sold or disposed of must be retained. The carrier may forfeit its compensation for any claim that is not supported under the terms of this order;

6. In the event timely objections or competing proposals are filed, the rate tentatively established in ordering paragraph (2) above, shall be effective as a final rate until further Department action;

7. If no objections or competing proposals are filed, all further procedural steps will be deemed to have been waived, and the carrier selection tentatively made by this order shall become effective on the twenty-first day after the date of service of this order; and

8. The Department will serve a copy of this order on the civic officials of Central and Circle, Alaska, the Governor of Alaska, the Alaska Department of Transportation and Public Facilities, Warbelow's Air Ventures, Inc. and the carriers listed in Appendix E.

By:

CHARLES A. HUNNICUTT
Assistant Secretary for Aviation
and International Affairs

(SEAL)

*An electronic version of this document is available on the World Wide Web at
<http://dms.dot.gov>
The electronic version may not include all of the appendices*

EAS Map Will Be Supplied
On Request (202) 366-1055

Annual Compensation Projection For Warbelow's Air Ventures'
Provision of Essential Air Service At Central and Circle, Alaska

Block Hours: 1/ 676 5 trips/wk
Aircraft Type: Piper Navajo 8 seats
Routing: Fairbanks > Central > Circle > Fairbanks

| | | | <u>Totals</u> |
|--|---------------|------------------|--------------------------|
| <u>Passenger Revenue</u> | <u>Psgrs.</u> | <u>Fare</u> | (\$) |
| Central | 23 | \$68.00 | 1,564 |
| Circle | 310 | \$70.00 | <u>21,700</u> |
| Passenger total | | | 23,264 |
| <u>Cargo Revenue</u> | <u>Pounds</u> | <u>Rate</u> | |
| Central | 5,413 | 0.29 | 1,570 |
| Circle | 14,039 | 0.35 | <u>4,914</u> |
| Cargo total | | | 6,484 |
| <u>Mail Revenue</u> | <u>Pounds</u> | <u>Rate</u> | |
| Central | 51,018 | <u>2</u> / | 44,737 |
| Circle | 53,143 | <u>2</u> / | <u>50,790</u> |
| Mail total | | | 95,527 |
| Total Revenue | | | 125,275 |
| | | <u>Rate per</u> | |
| | | <u>Block Hr.</u> | <u>Totals</u> |
| <u>Direct Expense</u> | | (\$) | (\$) |
| Pilot & Copilot | | 45.35 | 30,657 |
| Fuel & Oil | | 26.27 | 17,759 |
| Other | | 8.66 | 5,854 |
| Maintenance | | 50.88 | 34,395 |
| Depreciation | | 18.40 | <u>12,438</u> |
| Total Direct Expense | | | 101,103 |
| <u>Indirect Expense at</u> 48.0% of Direct Exp. | | | 48,529 |
| <u>Total Operating Cost</u> | | | 149,632 |
| Profit Element @ 5% of TOC | | | <u>7,482</u> |
| Total Economic Cost | | | 157,114 |
| Subsidy need | | | <u><u>31,839</u></u> |

Footnotes on following page.

Footnotes:

1/ At 2.6 block hours per trip Based on scheduled times shown in the March 1998, OAG

| <u>Fairbanks</u> | > | <u>Circle</u> | > | <u>Central</u> | > | <u>Circle</u> <u>Hot Springs</u> | > | <u>Fairbanks</u> |
|------------------|----|---------------|----|----------------|----|-------------------------------------|----|------------------|
| AR -- | | 1120 | | 1150 | | 1210 | | 1320 |
| LV 1015 | | 1130 | | 1200 | | 1220 | | -- |
| Block time | 65 | | 20 | | 10 | | 60 | 2.6 hrs |

2/ Central: 54,561 lb/2,000 = 25.5 tons x 104 miles = 2,837 ton-miles

Circle: 54,343 lb/2,000 = 27.2 tons x 131 miles = 3,563 ton-miles

Central:

| | | |
|--|---------------------|---------------|
| Terminal charge based on pounds originated | 54,561 x \$0.3805 = | 20,760 |
| Ton-mile mile charge | 2,837 x \$8.4514 = | <u>23,977</u> |
| Total | | 44,737 |

Circle:

| | | |
|--|---------------------|---------------|
| Terminal charge based on pounds originated | 54,343 x \$0.3805 = | 20,678 |
| Ton-mile mile charge | 3,563 x \$8.4514 = | <u>30,112</u> |
| Total | | 50,790 |

**ESSENTIAL AIR SERVICE AT
TO BE PROVIDED AT CENTRAL & CIRCLE, ALASKA**

EFFECTIVE PERIOD: For the two-year period from April 1, 1998
through March 31, 2000

SERVICE: Five trips a week over the routing
Fairbanks-Circle-Central-Fairbanks.¹

AIRCRAFT TYPE: Piper Navajo (8 passenger seats)

TIMING OF FLIGHTS: Flights must be well-timed and well-spaced to
ensure full compensation.

RATE PER ARRIVAL AND
DEPARTURE:² \$30.61

WEEKLY COMPENSATION
CEILING:³ Central:⁴ \$306.10
Circle:⁵ \$306.10

See Note on next page

¹ Warbelow's is allowed to operate service via intermediate points provided such service does not result in more than two stops in either the Central-Fairbanks or Circle-Fairbanks markets.

² Annual subsidy \$31,839 divided by 1,040 annual arrivals and departures at Central and Circle.

³ Calendar weeks that fall into separate calendar months will be treated as part of the later month for the purpose of calculating both calendar weeks per month and the monthly compensation.

⁴ 5 arrivals + 5 departures between Central and Fairbanks per week x \$30.61

⁵ 5 arrivals + 5 departures between Circle and Fairbanks per week x \$30.61

NOTE

The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

Central Circle O&D Traffic
12 mos ended September '97

| Passengers | <u>4Q 96</u> | <u>1Q 97</u> | <u>2Q 97</u> | <u>3Q 97</u> | <u>Total</u> |
|-------------------|--------------|--------------|--------------|--------------|--------------|
| Central-Fairbanks | 3 | 2 | 3 | 3 | 11 |
| Fairbanks-Central | <u>3</u> | <u>3</u> | <u>3</u> | <u>3</u> | <u>12</u> |
| Total | 6 | 5 | 6 | 6 | 23 |

| Cargo (lbs) | | | | | |
|--------------------|------------|--------------|------------|--------------|--------------|
| Central-Fairbanks | 8 | 143 | 105 | 92 | 348 |
| Fairbanks-Central | <u>928</u> | <u>1,520</u> | <u>728</u> | <u>1,889</u> | <u>5,065</u> |
| Total | 936 | 1,663 | 833 | 1,981 | 5,413 |

| Mail (lbs) | | | | | |
|-------------------|---------------|---------------|---------------|---------------|---------------|
| Central-Fairbanks | 2,089 | 1,300 | 1,378 | 1,371 | 6,138 |
| Fairbanks-Central | <u>13,272</u> | <u>14,506</u> | <u>10,442</u> | <u>10,203</u> | <u>48,423</u> |
| Total | 15,361 | 15,806 | 11,820 | 11,574 | 54,561 |

| Passengers | | | | | |
|-------------------|-----------|-----------|-----------|-----------|------------|
| Circle-Fairbanks | 51 | 63 | 30 | 40 | 184 |
| Fairbanks-Circle | <u>24</u> | <u>46</u> | <u>31</u> | <u>25</u> | <u>126</u> |
| Total | 75 | 109 | 61 | 65 | 310 |

| Cargo (lbs) | | | | | |
|--------------------|--------------|--------------|--------------|--------------|---------------|
| Circle-Fairbanks | 229 | 589 | 313 | 40 | 1,171 |
| Fairbanks-Circle | <u>4,709</u> | <u>3,312</u> | <u>2,490</u> | <u>2,357</u> | <u>12,868</u> |
| Total | 4,938 | 3,901 | 2,803 | 2,397 | 14,039 |

| Mail (lbs) | | | | | |
|-------------------|---------------|---------------|--------------|--------------|---------------|
| Circle-Fairbanks | 788 | 614 | 920 | 1,289 | 3,611 |
| Fairbanks-Circle | <u>14,741</u> | <u>19,570</u> | <u>7,453</u> | <u>8,968</u> | <u>50,732</u> |
| Total | 15,529 | 20,184 | 8,373 | 10,257 | 54,343 |

Source: From 298-C, Sched. T-1

Central Circle O&D Traffic
12 mos ended September '96

| Passengers | <u>4Q 95</u> | <u>1Q 96</u> | <u>2Q 96</u> | <u>3Q 96</u> | <u>Total</u> |
|-------------------|--------------|--------------|--------------|--------------|--------------|
| Central-Fairbanks | 22 | 13 | 8 | 0 | 43 |
| Fairbanks-Central | <u>16</u> | <u>19</u> | <u>8</u> | <u>3</u> | <u>46</u> |
| Total | 38 | 32 | 16 | 3 | 89 |

| Cargo (lbs) | | | | | |
|--------------------|--------------|--------------|--------------|--------------|--------------|
| Central-Fairbanks | 76 | 51 | 92 | 292 | 511 |
| Fairbanks-Central | <u>3,366</u> | <u>2,708</u> | <u>1,902</u> | <u>1,481</u> | <u>9,457</u> |
| Total | 3,442 | 2,759 | 1,994 | 1,773 | 9,968 |

| Mail (lbs) | | | | | |
|-------------------|--------------|--------------|---------------|--------------|---------------|
| Central-Fairbanks | 1,803 | 1,231 | 1,263 | 292 | 4,589 |
| Fairbanks-Central | <u>7,001</u> | <u>8,626</u> | <u>13,464</u> | <u>9,333</u> | <u>38,424</u> |
| Total | 8,804 | 9,857 | 11,820 | 9,625 | 43,013 |

| Passengers | | | | | |
|-------------------|-----------|-----------|-----------|-----------|------------|
| Circle-Fairbanks | 73 | 61 | 32 | 46 | 212 |
| Fairbanks-Circle | <u>56</u> | <u>31</u> | <u>21</u> | <u>17</u> | <u>125</u> |
| Total | 129 | 92 | 53 | 63 | 337 |

| Cargo (lbs) | | | | | |
|--------------------|--------------|--------------|--------------|--------------|---------------|
| Circle-Fairbanks | 191 | 57 | 130 | 747 | 1,125 |
| Fairbanks-Circle | <u>4,724</u> | <u>3,732</u> | <u>2,428</u> | <u>4,691</u> | <u>15,575</u> |
| Total | 4,915 | 3,789 | 2,558 | 5,438 | 16,700 |

| Mail (lbs) | | | | | |
|-------------------|--------------|--------------|--------------|---------------|---------------|
| Circle-Fairbanks | 782 | 861 | 2,158 | 1,187 | 5,588 |
| Fairbanks-Circle | <u>8,704</u> | <u>9,785</u> | <u>9,434</u> | <u>15,485</u> | <u>43,408</u> |
| Total | 9,486 | 10,646 | 11,592 | 16,672 | 48,996 |

Source: From 298-C, Schd. T-1

Service List To This Order
Will Be Supplied On Request (202) 366-1055