



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

Issued by the Department of Transportation
on the 20th day of November, 1998

Served: November 24, 1998

Essential Air Service at

CORTEZ, COLORADO

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

Docket OST-1998-3508

ORDER TO SHOW CAUSE

Summary

By this order, the Department is tentatively reselecting Great Lakes Aviation, Ltd., d/b/a United Express, to provide subsidized basic essential air service at Cortez, Colorado, consisting of 18 nonstop round trips each week to Denver with 19-seat Beech 1900 aircraft at an annual rate of \$408,227.

Background

By Order 96-10-39, October 25, 1996, the Department selected Mesa Air Group to provide subsidized basic essential air service at Cortez consisting of ten round trips to Denver each week with 19-passenger Beech 1900 aircraft for \$210,544 annually. (See Appendix A for a map of the service area.) By Order 97-8-14, August 14, 1997, the Department authorized a pro rata subsidy increase for Mesa based on the rate set by Order 96-10-39 for an additional two round trips each week from August 9, 1997, onward, in order to restore support for statutorily-required weekend service. By Order 97-11-9, November 6, 1997, the Department authorized an increased service level to be provided by Mesa consisting of 24 one-stop and nonstop round trips to Denver each week for \$387,001 annually.

On February 17, 1998, Mesa Air Group filed a 90-day notice of intent to suspend its service at Cortez, as of May 18, 1998. At roughly the same time that Mesa filed its notice, United Airlines and Great Lakes Aviation, Ltd., d/b/a United Express, began coordinating efforts to maintain service and ensure a smooth transition at Cortez. Great Lakes proposed to provide service at Cortez comparable to Mesa's service at the annual subsidy rate previously established for Mesa in Order 97-11-9 for the remainder of Mesa's rate term, through September 30, 1998.

By Order 98-3-32, March 30, 1998, the Department approved the transfer of service responsibilities and the accompanying subsidy rate for Cortez from Mesa to Great Lakes. Great Lakes inaugurated its service, consisting of four one-stop and nonstop round trips to Denver each weekday and weekend on June 1, 1998.

Summary of Air Carrier Proposal

As is our customary procedure, we contacted Great Lakes when the end of its selection period at Cortez was approaching and requested that, if the carrier found that subsidy was necessary for its continued service at the community, it submit a proposal to the Department. Great Lakes responded by submitting and negotiating with us a proposal to provide three nonstop round trips to Denver each weekday and each weekend with pressurized, 19-passenger Beech 1900 aircraft for an annual subsidy rate of \$408,227. The carrier estimates that it would make the transition from the current mix of four nonstop and one-stop round trips to the new three nonstop round-trip service pattern during the week of December 13, 1998.

Selection Decision

We have tentatively decided to reselect Great Lakes to provide essential air service at Cortez for another two-year period. We have reviewed the service and traffic history for Cortez and find that the service proposed is reasonable.¹ Although Mesa and Great Lakes have served the community with four round trips, that service frequently included an intermediate stop. The proposed service would provide the community with three nonstop round trips at an estimated load factor of approximately 52 percent (which falls well within the program's statutory guidelines). (Great Lakes may, if it wishes, continue providing four round trips with intermediate stop authority, at the subsidy rate already established for such service by Order 97-11-9.) We tentatively find that Great Lakes' proposed subsidy rate for the three-round-trip service is reasonable.²

Carrier Fitness

49 U.S.C. 41737(b) and 41738 require that we find an air carrier fit, willing, and able to provide service before we may pay it for essential air service. We last found Great Lakes Aviation, Ltd., fit to provide scheduled passenger service as a certificated air carrier by Order 98-7-24, July 31, 1998, when we selected it to provide subsidized service at Ironwood, Michigan/Ashland, Wisconsin. The Department has routinely monitored the

¹ See Appendix B for a survey of historical traffic data.

² Appendix D contains a summary calculation of Great Lakes' compensation requirement.

carrier's continuing fitness, and based on our review of its most recent submissions, we find that Great Lakes continues to have available adequate financial and managerial resources to establish and maintain quality service at Cortez, 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 that we should not find that Great Lakes remains fit.

Response to Tentative Proposal

We will give interested persons 20 days from the date of service of this order to show cause why we should not make final our tentative decision to reselect Great Lakes to provide essential air service at Cortez at the subsidy rates discussed above. 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.

Carriers interested in filing competing proposals, with or without subsidy requests, should file them within the 20-day period set for objections. If we receive a competing proposal by the end of that period, we will so advise the incumbent carrier and allow it an additional ten days to submit a revised proposal if it wishes. Our staff will then docket the proposals, thereby making them public, and direct each applicant to serve a copy of its proposal on the civic parties and other applicants. We will give full consideration to all proposals that are timely filed.

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.³ 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 community of Cortez and the State of Colorado are welcome to submit comments on the proposals at any time.⁴ Early in the proceeding, comments on the proposals' strengths and weaknesses would be particularly helpful, and the civic parties may also express a preference for a particular carrier, if they choose. In any event, after conducting rate conferences with all applicants, we will provide a summary of the conference results to the civic parties and ask them to file their final comments.⁵

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

³ The regulations applicable to each of these three areas are (1) 49 CFR Part 20, New Restrictions on Lobbying, implementing 31 U.S.C. 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; and (3) 49 CFR Part 21, Nondiscrimination in Federally-Assisted Programs of the Department of Transportation -- Effectuation of Title VI of the Civil 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.

⁴ Civic parties should file an original and five copies of their comments in Docket OST-1998-3508. This filing should be addressed to:

Documentary Services Division, SVC-121.30
Office of the Secretary
U.S. Department of Transportation, Room PL-401
400 Seventh Street, S.W.
Washington, D.C. 20590

⁵ In cases where a carrier proposes to provide 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.

ACCORDINGLY

1. The Department directs all interested persons to show cause within 20 days from the date of service of this order why it should not select Great Lakes Aviation, Ltd., d/b/a United Express, to provide basic essential air service at Cortez, Colorado, as described in Appendix D to this order, for the two-year period beginning October 1, 1998, through September 30, 2000;

2. The Department directs all interested persons to show cause within 20 days from the date of service of this order why it should not set the final rates of compensation for Great Lakes Aviation, Ltd., d/b/a United Express, for the provision of basic essential air service at Cortez, Colorado, for the period October 1, 1998, through September 30, 2000, to be payable as follows: For each calendar week in which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling rates set forth in Appendix D, and shall be determined by multiplying the subsidy-eligible departures performed during the week ⁶ by the following rates:

Four-round-trip service with intermediate stop authority	\$157.70
Three nonstop round trip service	\$221.86

3. The Department directs Great Lakes Aviation, Ltd., 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 the audit and examination thereof by 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;

5. Docket OST-1998-3508 shall remain open until further order of the Department; and

⁶ Subsidy-eligible departures are defined as each arrival from and departure to the hub from the essential air service point.

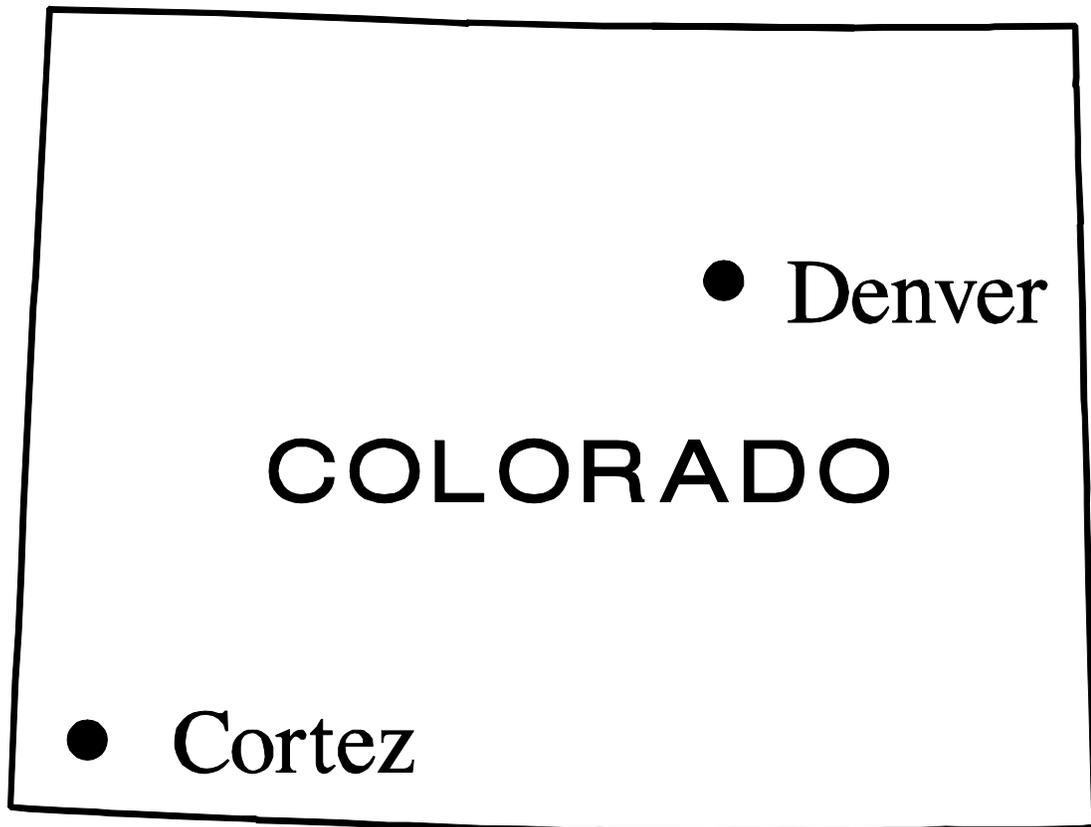
6. We will serve a copy of this order on the Mayor and Airport Manager of Cortez, the Governor of Colorado, the Aeronautics Division of the Colorado Department of Transportation, Great Lakes Aviation, Ltd., and the air carriers listed in Appendix E.

By:

CHARLES A. HUNNICUTT
Assistant Secretary for Aviation
and International Affairs

(SEAL)

*An electric 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.*



Historical Origin-Destination Traffic and Average Daily Enplanements
at Cortez, Colorado

<u>Four quarters ended</u>	<u>Origin- destination passengers</u> ¹	<u>Average annual enplanements</u> ²	<u>Average enplanements per service day</u> ³
12/31/90	9,988	4,994	16.0
12/31/91	12,486	6,243	19.9
12/31/92	14,904	7,452	23.7
12/31/93	16,773	8,386	26.8
12/31/94	17,510	8,755	28.0
12/31/95	21,748	10,874	34.7
12/31/96	17,424	8,712	27.7
12/31/97	20,975	10,488	33.5

¹ Source: U.S. Department of Transportation, Bureau of Transportation Statistics (BTS), Form 298-C, Schedule T-1, for traffic reported by Mesa Airlines through June 30, 1995, and from July 1, 1997, onward, and BTS Form T-100 on-flight market origin-destination passengers for the period of July 1, 1995, through June 30, 1997.

² Origin-destination passengers divided by two.

³ Average annual enplanements divided by 313 effective annual service days, except for the four quarters ended 12/31/92 and 12/31/96 (314 effective annual service days)

Great Lakes Aviation, Inc., d/b/a United Express,
Provision of Basic Essential Air Service at Cortez, Colorado
Calculation of compensation requirement

Estimated annual block hours						
Estimated annual departures:						
Cortez						920
Denver						<u>920</u>
Total estimated annual departures						1,840
Estimated annual available seat-miles						9,718,880
Operating revenue:						
Passenger revenue:						
		Estimated	Average	Passenger	Trip	Revenue
	<u>Market</u>	<u>passengers</u>	<u>fare</u>	<u>revenue</u>	<u>distance</u>	<u>passenger</u>
	CEZ-DEN	18,000	\$99.00	\$1,782,000	278	<u>miles</u>
						5,004,000
Other revenue		\$1,782,000	0.0062	<u>11,048</u>		
Total operating revenue				\$1,793,048		
Operating expense:						
Direct operating expense:						
Flying operations		\$109.20	2,377	\$259,568		
Fuel & oil		\$110.79	2,377	263,337		
Maintenance		\$138.37	2,377	328,911		
Hull insurance		\$7.76	2,377	18,450		
Aircraft lease		\$136.31	2,377	<u>324,000</u>		
Total direct operating expense				\$1,194,266		
Indirect operating expense:						
Marketing/reservations expense				\$308,056		
Other traffic-related expense				123,707		
Station-related expense				402,161		
General & administrative				<u>68,262</u>		
Total indirect operating expense				\$902,186		
Total operating expense				<u>\$2,096,452</u>		
Operating loss				\$303,404		
Profit element		\$2,096,452	0.05	<u>104,823</u>		
Compensation requirement				<u>\$408,227</u>		

Great Lakes Aviation, Ltd.
Basic Essential Air Service To Be Provided at Cortez

Effective period: October 1, 1998, through September 30, 2000

Service: (A) 24 nonstop or one-stop round trips per week to Denver until
(B) the inauguration of service consisting of 18 nonstop round trips per week to Denver. ¹

Intermediate stops and upline service: (A) Nonstop or one-stop to Denver.
(B) Nonstop to Denver.
No upline limitations in either case.

Aircraft type: Beech 1900 (19 passenger seats).

Timing of flights: Flights must be well-timed and well-spaced in order to ensure full compensation.

Annual compensation: (A) \$387,001.
(B) \$408,227.

Subsidy rate for each arrival from or
departure to Denver: (A) \$157.70 ²
(B) \$221.86 ³

Weekly compensation ceiling: ⁴ (A) \$7,569.60 ⁵
(B) \$7,986.96 ⁶

¹ Option (A) assumes continuation of the current service (24 nonstop or one-stop round trips a week) contemplated by Order 98-3-32, March 30, 1998, at the subsidy rate (\$387,001 annually) and terms set by that Order until the exclusively nonstop service contemplated by this Agreement (Option (B)) is inaugurated.

² Annual compensation of \$387,001, divided by the number of departures estimated to be performed annually (2,454 departures, calculated by multiplying eight departures each service day by 313 annual service days (counting each weekend as one service day) and multiplying further by 98 percent completion).

³ Annual compensation of \$408,227 (from Appendix C), divided by the number of departures estimated to be performed annually (1,840 departures, calculated by multiplying six departures each service day by 313 annual service days (counting each weekend as one service day) and multiplying further by 98 percent completion).

⁴ Weeks that fall into separate calendar months shall be treated as part of the latter month for the purpose of calculating service weeks each month and monthly compensation. Service above the ceiling level in one week cannot make up for service shortfalls in another week.

⁵ The subsidy rate for each arrival/departure multiplied by the number of scheduled subsidy-eligible flights per week (48).

⁶ The subsidy rate for each arrival/departure multiplied by the number of scheduled subsidy-eligible flights per week (36).

Great Lakes Aviation, Ltd.
Basic Essential Air Service To Be Provided at Cortez

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 this 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 the 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 requirement 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.

SERVICE LIST FOR THE STATE OF COLORADO

Air L.A., Inc.
Air Transport, Inc.
Alpine Aviation, Inc.
Amerijet International, Inc.
Arizona Airways, Inc.
Arizona Pacific Airlines, Inc.
Aspen Airways, Inc.
Aviation Services West, Inc.
Barken International, Inc.
Blue Ridge Airlines
Delta Connection
GP Express Airlines, Inc.
Laredo Air, Inc.
Lone Star Airlines, Inc.
Mesa Airlines, Inc.
Metroflight, Inc.
Midway Airlines, Inc.
Midwest Express Airlines, Inc.
Northwest AirlinK
Pacific Air West, Inc.
Pennsylvania Commuter Airlines, Inc.
Renown Aviation, Inc.
Rocky Mountain Airways, Inc.
Rocky Mountain Helicopters, Inc.
Skywest Airlines, Inc.
Wings West Airlines, Inc.

Chuck Aune
Ken Bannon
E.B. Freeman
Ben Harrison
A. Edward Jenner
Keith Kahle
Bob Karns
Alan W. Markham
Helen McCoy
John McFarlane
Richard A. Raymer
Kevin Thomas