



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

Issued by the Department of Transportation  
on the 8<sup>th</sup> day of January, 1999

Served: January 12, 1999

Essential Air Service at

**MAY CREEK AND  
McCARTHY, ALASKA**

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

**Docket OST 1996-2009**

Essential Air Service at

**GULKANA, ALASKA**

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

**Docket OST 1995-492**

**ORDER TENTATIVELY RESELECTING CARRIER  
AND SETTING SUBSIDY RATES**

**Summary**

By this order we are tentatively reselecting Ellis Air Taxi, Inc., to provide subsidized essential air service at Gulkana, May Creek and McCarthy, Alaska, for the two-year period beginning February 1, 1999, through January 31, 2001, at an annual subsidy rate of \$84,082 for Gulkana service and \$39,627 for May Creek and McCarthy service. Both rates are identical to the existing rates for the subject communities. (See Appendix A for a map.)

**Background**

Ellis Air was most recently selected to provide essential air service at Gulkana, May Creek and McCarthy by Order 96-12-26. The subsidy rates of \$84,082 for Gulkana and \$39,627 for May Creek and McCarthy established by that order will expire January 31, 1999.

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. Consistent with that practice, when we contacted Ellis Air we were advised that the carrier was interested in continuing to provide service at all three points for a new rate term and would submit a service proposal.

### **Carrier Service Proposal**

Ellis Air has proposed to continue operating the historical service patterns of two round trips per week over a Gulkana-McCarthy-May Creek-Gulkana routing and two nonstop round trips per week in the Gulkana-Anchorage market. Service in the McCarthy/May Creek-Gulkana markets would be provided with either 3-seat Cessna 185 or 206 aircraft and service in the Gulkana-Anchorage market would be provided with 4-seat Cessna 310 equipment. Based on informal rate discussions held between the carrier and the Department staff, annual subsidy rates of \$84,082 for Gulkana and \$39,627 for May Creek and McCarthy have been agreed upon for each year of the new rate term.

### **Essential Air Service Determinations**

The essential air service determination for Gulkana requires that two round trips per week be provided to Anchorage or Cordova on a year-round basis with small aircraft (10 or fewer seats) with a maximum of two intermediate stops.

The essential air service determinations for May Creek and McCarthy require one round trip per week on a year-round basis with small aircraft (10 or fewer seats) to either Gulkana or Cordova with a maximum of two intermediate stops.

The level of service proposed by Ellis Air is in keeping with the historical service at the communities and appears adequate to accommodate demand based on recent traffic levels.

### **Tentative Reselection**

Based on our review of Ellis Air's proposal and its service at May Creek, McCarthy and Gulkana, we have tentatively decided to reselect the carrier for an additional two-year period, as detailed in Appendix C, for annual subsidy rates of \$84,082 for Gulkana and \$39,627 for May Creek and McCarthy. We find both the service and the subsidy aspects of the Ellis Air proposal to be reasonable. The service meets the communities' essential air levels. Ellis Air's performance continues to be reliable, and the communities have historically been supportive of the service offered by the carrier.

### **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.

Carriers interested in filing competing proposals, with or without subsidy requests, should file them within the 20-day period set for objections. At the end of that period, our staff will docket any competing proposals, thereby making them public, and direct each carrier to serve a copy of its proposal on the civic parties and other applicants. Each applicant, including the incumbent, will then have an opportunity to finalize its proposal in rate discussions with Department staff

before we seek final community comments. We will give full consideration to all proposals that are timely filed.

### **Historical Traffic at Gulkana, May Creek and McCarthy**

In order to assist interested carriers in developing traffic and revenue projections for their service proposals, we have summarized the historical origin-destination traffic below and presented it by quarter and direction in Appendix D.

<u>Y/E</u>	<u>Psgrs.</u>	<u>Cargo</u>	<u>Mail</u>
<u>Sept 1998</u>		(lbs.)	(lbs.)
Gulkana	197	2,178	- 0 -
May Creek	1	99	4,689
McCarthy	207	1,580	38,775

<u>Y/E</u>	<u>Psgrs.</u>	<u>Cargo</u>	<u>Mail</u>
<u>Sept 1997</u>		(lbs.)	(lbs.)
Gulkana	197	3,152	- 0 -
May Creek	6	18	6,920
McCarthy	195	2,301	31,919

### **Procedures for Filing 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.

### **Community and State Comments**

If we receive competing proposals, the communities and State are welcome to submit comments on the proposals at any time.<sup>1</sup> Early in the proceeding, comments on the perceived strengths and weaknesses of the proposals would be particularly helpful to the Department,

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<sup>1</sup> Civic parties should file an original and five copies of their comments in Docket OST 1996-2009 and OST 1995-492. This filing should be addressed to: Documentary Services Division, Docket Section, SVC-124.10, Office of the Secretary, U.S. Department of Transportation, Room PL-401, 7<sup>th</sup> Street, S.W., Washington D.C. 20590.

although 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 will provide a summary of the conference results to the civic parties and ask them to file their final comments.<sup>2</sup>

### **Other Carrier Requirements**

The Department is responsible for implementing various Federal statutes governing lobbying activities, drug-free workplaces and nondiscrimination.<sup>3</sup> 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.

### **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 Ellis Air fit to provide limited scheduled passenger service as an air taxi by Order 96-12-26, December 23, 1996. The Department has routinely monitored the carrier's operations, and 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 Ellis Air continues to have available adequate financial and managerial resources to maintain reliable service at May Creek, McCarthy and Gulkana, 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 Ellis Air remains fit.<sup>4</sup>

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

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<sup>2</sup> 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.

<sup>3</sup> The regulations applicable to each of these three areas are (1) 49 CFR Part 20, New Restrictions of 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; 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.

<sup>4</sup> The fitness finding affirmed in this order authorizes Ellis Air to provide subsidized essential air service at May Creek, McCarthy and Gulkana, but does not authorize the carrier to conduct operations as a commuter air carrier. If, at some time in the future, Ellis Air desires to operate as a commuter air carrier (carry passengers on five or more round trips per week in at least one market according to a published flight schedule), it will be necessary for Ellis Air to seek specific commuter authorization in accordance with Parts 204 and 298 of our rules.

ACCORDINGLY,

1. The Department tentatively reselects Ellis Air Taxi, Inc., to provide essential air service at May Creek, McCarthy and Gulkana, Alaska, as described in Appendix C, for the period beginning February 1, 1999 through December 31, 2001;
2. The Department tentatively sets the final rates of compensation for Ellis Air Taxi, Inc., for the provision of essential air service as follows: at May Creek and McCarthy an annual subsidy of \$39,627 and at Gulkana an annual subsidy of \$84,082, 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 and shall be determined by multiplying the number of subsidy-eligible arrivals and departures operated during the month by \$95.26 for May Creek and McCarthy separately and 404.24 for Gulkana;<sup>5</sup>
3. The Department finds Ellis Air Taxi, Inc., fit, willing, and able to provide limited scheduled service, and capable of providing reliable essential air service at May Creek, McCarthy and Gulkana, Alaska;
4. The Department requests that interested parties 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 Department of Transportation Dockets, SVC-124.10, 400 7<sup>th</sup> Street, S.W., Washington, D.C. 20590. Carriers interested in filing competing proposals to serve May Creek, McCarthy and Gulkana, 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 7<sup>th</sup> Street, S.W., Washington, D.C. 20590, with the Title, "Proposal to Provide Essential Air Service at Gulkana, Alaska, Docket OST 1995-492 and/or May Creek, McCarthy, Alaska, Docket OST 1996-2009";
5. In the event timely objections or competing proposals are filed, the rates tentatively established in ordering paragraph (2) above, shall be effective as a final rates until further Department action;
6. If no objections or competing proposals are filed, all further procedural steps will be deemed to have been waived, and the carrier reselection tentatively made by this order shall become effective on the twenty-first day after the date of service of this order;
7. The Department directs Ellis Air Taxi, 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

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<sup>5</sup> See Appendix C footnotes for detail calculation.

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;

8. These dockets will remain open until further order of the Department; and

9. The Department will serve a copy of this order on the communities of May Creek, McCarthy and Gulkana, the Governor of Alaska, the Alaska Department of Transportation and Public Facilities, Ellis Air Taxi, 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/reports/reports\\_aviation.asp](http://dms.dot.gov/reports/reports_aviation.asp)  
The electronic version may not include all of the appendices*

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

Ellis Air Taxi, Inc.  
Annual Subsidy Need Projection At  
Gulkana, May Creek and McCarthy, Alaska

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	<u>May Creek McCarthy</u>	<u>Gulkana</u>
Block Hours:	240 <sup>1/</sup>	N/A <sup>2/</sup>
Aircraft Type:	Cessna 185/206	Cessna 310
Revenue Projection:		
Passenger <sup>3/</sup>	\$ 9,168	\$14,385
Mail <sup>4/</sup>	24,676	- 0 -
Freight <sup>4/</sup>	<u>412</u>	<u>1,034</u>
Total Revenue	\$34,256	\$15,419
	Blk. Hr.	
Direct Costs	<u>Rate</u>	
Pilot wages	69.95	\$16,788
Fuel & Oil	44.34	10,642
Insurance	39.50	9,480
Maintenance	49.72	11,933
Depreciation	12.00	<u>2,880</u>
Total Direct Costs <sup>2/</sup>		\$51,723
Indirect Cost		\$18,642
Total Operating Cost		\$70,365
Return (5% of TOC)		<u>3,518</u>
Total Economic Cost		\$73,883
Annual Subsidy Need (at 100% completion)		\$39,627
		\$84,082

<sup>1/</sup> Block Hours: GKN-MXY-MYK-GKN 2.1hrs/trip x 2 trips/week x 52 weeks x  
1.1 weather diversions = 240 annual hrs.

<sup>2/</sup> Ellis wet leases a Cessna 310 from Security Aviation at a Cost of  
\$796.12 per round trip with backup.

<sup>3/</sup>	<u>Psgrs</u>	<u>Fare</u>
Gulkana	137	\$105
May Creek	10	\$ 60
McCarthy	156	\$ 53

<sup>4/</sup> Freight and mail at \$0.64 per pound

ESSENTIAL AIR SERVICE TO BE PROVIDED AT  
GULKANA, MAY CREEK AND McCARTHY, ALASKA

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EFFECTIVE PERIOD: For a two-year period from February 1, 1999 through January 31, 2001

SERVICE: Two round trip flights a week between Gulkana and Anchorage

Two round trip flights a week over the routing Gulkana-McCarthy-May Creek-Gulkana

AIRCRAFT TYPE: 4 seat Cessna 310 in the Gulkana-Anchorage market

3 seat Cessna 185 in the winter months and  
4 seat Cessna 206 in the summer months in the  
McCarthy/May Creek-Gulkana markets

	<u>Gulkana</u>	<u>May Creek McCarthy</u>
RATE PER ARRIVAL/ DEPARTURE:	\$404.24 <sup>1/</sup>	\$95.26 <sup>2/</sup>
WEEKLY COMPENSATION CEILING: <sup>3/</sup>	\$1,616.96 <sup>4/</sup>	\$762.08 <sup>5/</sup>

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<sup>1/</sup> \$84,082 annual subsidy divided by 208 annual arrivals from and departures to Anchorage calculated as follows:  
GKN-ANC -- 4 arrvs/deps per week x 52 weeks = 208

<sup>2/</sup> \$39,627 annual subsidy divided by 416 annual arrivals from and departures to Gulkana calculated as follows:  
MXY-GKN -- 4arvs/deps per week x 52 weeks = 208  
MYK-GKN -- 4arvs/deps per week x 52 weeks = 208  
416

<sup>3/</sup> Weeks that fall into separate months shall be considered as part of the latter month for the purposes of calculating both service weeks per month and monthly compensation.

<sup>4/</sup> GKN-ANC 4arvs/deps per week x \$404.24 = \$1,616.96

<sup>5/</sup> MYK/MXY-GKN 8arvs/deps per week x \$ 95.26 = \$ 762.08

**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 this rate, 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 agreement, 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.

May Creek, McCarthy and Gulkana O-D Traffic  
12 Months Ended September 1998

	<u>4thQ 97</u>	<u>1stQ 98</u>	<u>2ndQ 98</u>	<u>3rdQ 98</u>	<u>Total</u>
- May Creek -					
<u>Passengers:</u>					
May Creek-Gulkana	0	0	0	0	0
Gulkana-May Creek	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>1</u>
Total	0	0	1	0	1
<u>Cargo (lbs):</u>					
May Creek-Gulkana	0	0	0	0	0
Gulkana-May Creek	<u>0</u>	<u>99</u>	<u>0</u>	<u>0</u>	<u>99</u>
Total	0	99	0	0	99
<u>Mail (lbs)</u>					
May Creek-Gulkana	66	119	895	369	1,449
Gulkana-May Creek	<u>906</u>	<u>1,146</u>	<u>704</u>	<u>484</u>	<u>3,240</u>
Total	972	1,265	1,599	853	4,689
- McCarthy -					
<u>Passengers:</u>					
McCarthy-Gulkana	3	7	24	57	91
Gulkana-McCarthy	<u>6</u>	<u>9</u>	<u>24</u>	<u>77</u>	<u>116</u>
Total	9	16	48	134	207
<u>Cargo (lbs):</u>					
McCarthy-Gulkana	0	0	0	0	0
Gulkana-McCarthy	<u>463</u>	<u>63</u>	<u>465</u>	<u>589</u>	<u>1,580</u>
Total	463	63	465	589	1,580
<u>Mail (lbs):</u>					
McCarthy-Gulkana	549	520	1,474	1,686	4,229
Gulkana-McCarthy	<u>5,430</u>	<u>6,802</u>	<u>11,433</u>	<u>10,881</u>	<u>34,546</u>
Total	5,979	7,322	12,907	12,567	38,775
- Gulkana -					
<u>Passengers:</u>					
Gulkana-Anchorage	13	14	17	54	98
Anchorage-Gulkana	<u>13</u>	<u>18</u>	<u>18</u>	<u>50</u>	<u>99</u>
Total	26	32	35	104	197
<u>Cargo (lbs):</u>					
Gulkana-Anchorage	0	151	21	566	738
Anchorage-Gulkana	<u>237</u>	<u>149</u>	<u>366</u>	<u>688</u>	<u>1,440</u>
Total	237	300	387	1,254	2,178
<u>Mail (lbs):</u>					
Gulkana-Anchorage	0	0	0	0	0
Anchorage-Gulkana	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	0	0	0	0	0

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

May Creek, McCarthy and Gulkana O-D Traffic  
12 Months Ended September 1997

	<u>4thQ 96</u>	<u>1stQ 97</u>	<u>2ndQ 97</u>	<u>3rdQ 97</u>	<u>Total</u>
- May Creek -					
<u>Passengers:</u>					
May Creek-Gulkana	0	1	2	0	3
Gulkana-May Creek	<u>0</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>3</u>
Total	0	2	3	1	6
<u>Cargo (lbs):</u>					
May Creek-Gulkana	0	0	0	0	0
Gulkana-May Creek	<u>0</u>	<u>0</u>	<u>0</u>	<u>18</u>	<u>18</u>
Total	0	0	0	18	18
<u>Mail (lbs)</u>					
May Creek-Gulkana	65	38	420	78	601
Gulkana-May Creek	<u>905</u>	<u>2,565</u>	<u>1,961</u>	<u>888</u>	<u>6,319</u>
Total	970	2,603	2,381	966	6,920
- McCarthy -					
<u>Passengers:</u>					
McCarthy-Gulkana	3	8	13	69	93
Gulkana-McCarthy	<u>6</u>	<u>14</u>	<u>23</u>	<u>59</u>	<u>102</u>
Total	9	22	36	128	195
<u>Cargo (lbs):</u>					
McCarthy-Gulkana	0	0	25	141	166
Gulkana-McCarthy	<u>460</u>	<u>105</u>	<u>968</u>	<u>602</u>	<u>2,135</u>
Total	460	105	993	743	2,301
<u>Mail (lbs):</u>					
McCarthy-Gulkana	548	447	980	1,573	3,548
Gulkana-McCarthy	<u>5,430</u>	<u>6,392</u>	<u>7,145</u>	<u>9,404</u>	<u>28,371</u>
Total	5,978	6,839	8,125	10,977	31,919
- Gulkana -					
<u>Passengers:</u>					
Gulkana-Anchorage	12	9	17	46	84
Anchorage-Gulkana	<u>14</u>	<u>19</u>	<u>23</u>	<u>57</u>	<u>113</u>
Total	26	28	40	103	197
<u>Cargo (lbs):</u>					
Gulkana-Anchorage	0	12	115	1,526	1,653
Anchorage-Gulkana	<u>239</u>	<u>41</u>	<u>892</u>	<u>327</u>	<u>1,499</u>
Total	239	53	1,007	1,853	3,152
<u>Mail (lbs):</u>					
Gulkana-Anchorage	0	0	0	0	0
Anchorage-Gulkana	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	0	0	0	0	0

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

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