



Order 99-5-1
Served: May 5, 1999

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

Issued by the Department of Transportation
on the 3rd day of May, 1999

Essential Air Service at:

MANISTEE/LUDINGTON, MICHIGAN

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

Docket OST 96-1711

ORDER TENTATIVELY RESELECTING CARRIER

SUMMARY

By this order we are tentatively reselecting Great Lakes Aviation, Ltd., Inc., d/b/a United Express, to provide subsidized essential air service at Manistee/Ludington, Michigan, (Manistee) for the two-year period December 29, 1998, through December 31, 2000, at an annual rate of \$361,808.

BACKGROUND

Great Lakes was selected to provide essential air service at Manistee by Order 96-12-42. That order set Great Lakes' annual subsidy rate from December 16, 1996, through December 28, 1998, at \$132,014 for ten one-stop round trips a week to Chicago O'Hare. That rate was later adjusted upward to \$158,417 to support twelve round trips a week.¹ Great Lakes has served Manistee on a subsidized basis since December 1996. Before that, the Department had allocated four Chicago O'Hare slots for Manistee service by Order 85-9-70.

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 that practice, we invited Great Lakes to submit a proposal for continuation of essential air service at Manistee.

¹ In response to budget cuts for fiscal year 1996, the Department had made program-wide subsidy cuts by reducing the number of subsidized round trips for any community to ten per week (Order 95-11-28). For fiscal year 1998 and subsequently, funding was restored to higher levels and accordingly the Department increased subsidies for Manistee and all other communities to support at least twelve round trips per week, the statutory minimum essential air service requirement.

CARRIER SERVICE PROPOSAL

In response to our inquiry Great Lakes indicated its desire to continue to serve Manistee. As a result, the Department and Great Lakes negotiated a renewal proposal for an additional two-year rate term for Manistee-Chicago O'Hare service. (See Appendix B to this order for a summary of the subsidy computation for Great Lakes Aviation, Ltd.) Manistee would continue to receive two one-stop round trips per day. Based on rate discussions held between the carrier and the Department staff, an annual subsidy rate of \$361,808 has been agreed upon for each year of the new rate term.

TENTATIVE RESELECTION

We will tentatively reselect Great Lakes to provide essential air service at Manistee as detailed in Appendix C, for an additional two-year period, from December 29, 1998, through December 31, 2000, for an annual subsidy of \$361,808. The proposed rate reflects continuation of the service Great Lakes is currently providing--two one-stop round trips a day, six days a week, with 19-seat Beech 1900s.

The new subsidy rate appears reasonable for the level of service provided, although it is significantly higher than the recently expired rate of \$158,417 that was established by Order 97-8-14. Unit costs are up substantially from those on which that rate was based, especially in the area of maintenance, reflecting the effects of Great Lakes' change from Part 135 to Part 121 status and its under-accrual for engine overhauls and other reserve accounts in previous rate periods, thus understating those expenses in the past.

OBJECTIONS OR PROPOSALS

As is our usual program practice, 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.

As a general matter, we request proposals that would meet Manistee's essential air service requirements of two one-stop round trips a day to Chicago or any other suitable hub with at least 15-seat aircraft. For carriers proposing O'Hare service, the Department has four Chicago O'Hare slots available for Manistee service. We will also entertain proposals contemplating alternative service, especially if they would reduce required levels of subsidy and have community support. Service to hubs other than O'Hare should generally be for two or three round trips a day with 15- to 19-seat aircraft. All service should consist of at least two round trips a day, six days a week to the hub.

SERVICE HISTORY AND TRAFFIC DATA

Great Lakes has served this community on a subsidized basis since December 1996. In order to help carriers in making their passenger and revenue forecasts, we have included historical traffic data in Appendix D.

PROCEDURES FOR FILING PROPOSALS

For interested air carriers that are not familiar 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 seeking proposals, conducting financial and operational audits of the applicant carriers and selecting a replacement carrier. The second is an evidence request containing an

explanatory statement and a copy of section 14 CFR 204.4 of the Department's regulations which deals with the information required of all applicants for authority to provide basic essential air service, and provides schedules giving our recommended form for submitting data required for determining the financial and operational ability of applicants to provide dependable air service. ²

COMMUNITY AND STATE COMMENTS

If we receive competing proposals the community and State are welcome to submit comments on the proposals at any time. ³ Early in the proceeding, comments on the perceived strengths and weaknesses of the proposals would be particularly helpful to the Department, 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 would provide a summary of the conference results to the civic parties and ask them to file their final comments. ⁴

OTHER CARRIER REQUIREMENTS

The Department is responsible for implementing various Federal statutes governing lobbying activities, drug-free workplaces, and nondiscrimination. ⁵ 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 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 pay it compensation for essential air service. In that regard, Great Lakes has operated successfully for many years as a certificated carrier. Great Lakes remains subject to the Department's continuing fitness monitoring, and no information has come to our attention that would lead us to question the carrier's fitness. 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 Great Lakes remains fit. Therefore, we conclude that the carrier remains fit to conduct the operations proposed here.

² Copies of these documents can be obtained from: EAS & Domestic Analysis Division, X-53, Office of Aviation Analysis, Room 6401, Department of Transportation, 400 7th Street, S.W., Washington, DC 20590. Telephone requests for these documents are accepted at (202) 366-1053.

³ Civic parties should file an original and five copies of their comments in Docket OST-96-1711. 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.

⁴ 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.

⁵ 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 for the Department of Transportation--Effectuation of Title VI of the Civil Rights Act of 1964; 49 CFR Part 27, Nondiscrimination on the basis for 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.

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

ACCORDINGLY,

1. The Department tentatively reselects Great Lakes Aviation, Ltd., to provide essential air service at Manistee/Ludington, Michigan, for the two-year period from December 29, 1998, through December 31, 2000;
2. The Department tentatively sets the final rate of compensation for Great Lakes Aviation, Ltd., Inc., for the provision of essential air service at Manistee/Ludington, Michigan, for the two-year period from December 29, 1998, through December 31, 2000, at \$361,808 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 weekly ceilings and shall be determined by multiplying the subsidy-eligible departures from and arrivals at the hub completed during the month by \$294.87;⁶

⁶ See Appendix C for calculation.

3. We direct any interested persons having objections to the selection of Great Lakes to provide essential air service as described in ordering paragraph (1) above at the rate set forth in that paragraph (2), to file such objections or competing service proposals no later than 20 days from the date of service of this order;⁷

4. In the event objections or competing proposals are received, the rate in ordering paragraph (2) above will be effective as a final rate from December 29, 1998, until further Department action;

5. We find that Great Lakes Aviation, Ltd., Inc., continues to be fit, willing, and capable of providing reliable air service at Manistee/Ludington, Michigan;

6. We direct Great Lakes Aviation, Ltd., Inc., to retain all books, records, and other source and summary documentation to support claims for payment and to preserve and maintain such documentation in a manner that readily permits the audit and examination 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;

7. This docket will remain open until further order of the Department; and

8. We will serve a copy of this order on the Mayor and airport manager of Manistee/Ludington, Michigan, the Michigan Department of Transportation, Great Lakes Aviation, Ltd., Inc., and the carriers listed in Appendix E.

By:

A. Bradley Mims
Acting Assistant Secretary for Aviation
and International Affairs

(SEAL)

*An electronic version of this document is available on the World Wide Web
http://dms.dot.gov/reports/reports_aviation.asp*

⁷ Objections should be filed with the Documentary Services Division, SVC-124.1, Room PL401, Department of Transportation, 400 7th Street, S.W., Washington, DC 20590. Proposals to provide essential air service should be filed with the Chief, EAS & Domestic Analysis Division, X-53, Office of Aviation Analysis, Room 6401, Department of Transportation, at the same address. Questions regarding filings in response to this order may be directed to Dennis J. DeVany at (202) 366-1061.

Great Lakes Aviation, Ltd., Essential Air Service to be Provided at
Manistee, Michigan, Docket 98-3521

MBL-ORD: 2,875 @ \$89.55	\$257,456
<u>Other Revenue @ .5%</u>	<u>\$1,287</u>
Total Revenue	\$258,743
Block Hours 1/	562
Flight Hours 2/	450
Cycles 3/	1,227
Available Seat Miles 4/	1,771,730
Passengers	2,875
Pilot Expenses @ \$94.17/BH	\$52,924
Dispatch @ \$5.61/Cycle	\$6,883
Fuel Expenses: 78.5 galls./flt. x \$.72/Gallon 5/	\$69,350
Maintenance: \$75/Cycle	\$92,025
Maintenance: \$104.82/FH	\$47,169
Insurance: \$16,692/aircraft x 1/4 aircraft	\$4,173
<u>Aircraft Lease: \$414,048/aircraft x 1/4 aircraft</u>	<u>\$103,512</u>
Direct Expenses	\$376,036
Pax. Related @ \$16.63/pax.	\$47,811
Station 6/	\$141,925
<u>General & Administrative @ \$.01424/ASM</u>	<u>\$25,229</u>
Indirect Expenses	\$214,965
Operating Expense	\$591,001
<u>Return @ 5%</u>	<u>\$29,550</u>
Total Economic Cost	\$620,551
Annual Subsidy @ 98% Completion	\$361,808

1/ MBL-MKG: 24 flts./week x 52 weeks x 27.5 minutes x .98/60 x 313/312 =	562
2/ MBL-MKG: 24 flts./week x 52 weeks x 22 minutes x .98/60 x 313/312 =	450
3/ MBL-MKG: 24 flts./week x 52 weeks x .98 x 313/312 =	1,227
4/ MBL-MKG: 24 flts./week x 52 weeks x 19 seats x 76 miles x .98 x 313/312 =	1,771,730
5/ Gallons burned: Gallons = $-.0003 \cdot \text{miles}^2 + .05165 \cdot \text{miles} + 40.963 =$ $-.0003 \cdot 76^2 + .5165 \cdot 76 + 40.963 = 78.5$ gallons per flight.	
6/ MBL Facility Lease, \$10,752; MBL landing fee, \$9,000; Station Mgr. @ \$22,600; 2 Station Agents @ \$34,600; \$5,000 Advertising; \$9,625 deicing; MKG Turns @ \$50,348	

**Great Lakes Aviation, Ltd., Inc., Essential Air Service to be Provided to Manistee/Ludington,
Michigan Docket OST-96-1711**

Effective Period: December 29, 1998, through December 31, 2000

Scheduled Service: Manistee/Ludington-Chicago O'Hare, 12 one-stop round trips each week to Chicago O'Hare

Aircraft: Beech 1900s

Rate per Chicago O'Hare Departure/Arrival¹ \$294.87

Weekly Ceiling: \$7,076.88²

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.

¹ Annual compensation of \$361,808 divided by the estimated annual completed departures and arrivals at a 98 percent completion factor:

24 departures/arrivals x 52 weeks x .98 x 313/312 = 1,227 total.

² Subsidy rate per arrival/departure at Chicago O'Hare of \$294.87 multiplied by 24 subsidy-eligible arrivals and departures each week.

Historical Traffic Carried by Great Lakes at Manistee/Ludington, Michigan

<u>Quarter Ended</u>	<u>Manistee/Ludington Enplanements</u>	<u>Manistee/Ludington Deplanements</u>
December 31, 1998	299	293
September 30, 1998	514	468
June 30, 1998	260	221
March 31, 1998	213	188
December 31, 1997	296	276
September 30, 1997	507	458
June 30, 1997	91	174
March 31, 1997	180	177
December 31, 1996	137	143
September 30, 1996	318	312
June 30, 1996	324	362

Source: Form 298C, Schedule T-1

SERVICE LIST FOR THE STATE OF MICHIGAN

Aero Taxi Rockford, Inc.
Air Wisconsin, Inc.
Allied Airlines, Inc.
Amerijet International, Inc.
Bemidji Airlines
Chautauqua Airlines, Inc.
Chrysler Pentastar Aviation, Inc.,
Comair, Inc.
Delta Connection
Direct Air, Inc.
Enterprise Airlines, Inc.
Executive Airlines, Inc.
Florida Air, Inc.
Great Lakes Aviation, Ltd.
Jet Services, Inc.
Jetstream International Airlines, Inc.
Logansport Flying Service, Inc.
Mesaba Aviation, Inc.,
Metroflight, Inc.
Michigan Airways, Inc.
Midway Airlines, Inc.
Midwest Aviation
Midwest Express Airlines, Inc.
Northcoast Executive Airlines, Inc.
Northwest Airlink
Pennsylvania Commuter Airlines, Inc.
Planemaster Services, Inc.
Scott Aviation, Inc.
Shawano Flying Service, Inc.
Simmons Airlines, Inc.
Southern Air Transport, Inc.
Trans North Aviation Ltd.
Welch Aviation, Inc.

Chester Anderson
Ken Bannon
David Cole, Chairman
Sabrina Cranor
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A. Edward Jenner
Dan Katzka
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Tracy Schoenrock
Kevin Thomas
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