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Order 2000-8-4

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

Issued by the Department of Transportation
on the 2nd day of August, 2000

Served: August 7, 2000

Essential Air Service at:
AKUTAN, ALASKA
Under 49 U.S.C. 41731 *et seq.*

Docket OST 00-7068 - 9

ORDER SELECTING CARRIER

SUMMARY

By this order we are selecting Peninsula Airways, Inc., to provide subsidized essential air service at Akutan, Alaska, for the period June 8, 2000, when Peninsula was first eligible for compensation, through August 31, 2002, at an annual subsidy rate of $343,246.

Background

On March 10, 2000, Peninsula filed a 90-day notice to terminate all of its subsidy-free service at Akutan, effective June 8, 2000. The carrier stated that it could no longer operate to Akutan without subsidy support because of the high cost of operating the Grumman Goose aircraft it has historically used to serve Akutan. Peninsula provided two <u>daily</u> nonstop round trips to Dutch Harbor with 9-seat Grumman Goose equipment at the time of its notice. By Order 2000-6-1, dated June 1, 2000, the Department prohibited Peninsula from suspending its service and requested proposals for replacement service. That order also stated that we would review the essential air service (EAS) definition for Akutan, since it was clear that the two round trips per <u>week</u> level Akutan was guaranteed was clearly insufficient to accommodate historical traffic. The order required Peninsula to continue to provide 13 round trips a week to Dutch Harbor, three of which could be operated on a flagstop basis, and indicated we would await service proposals from interested carriers and any further comments from the community and State before we establish a new definition.

Carrier Proposals
In response to our request, Peninsula submitted two service/subsidy options for Akutan. All of the proposals contemplate nonstop service to Dutch Harbor with 9-seat Grumman Goose aircraft.

Under Option A, Peninsula would provide 13 round trips per week, three of which at the carrier's discretion could be operated on a flagstop basis. [1] This level of service is consistent with that required in the Order 2000-6-1 which prohibited Peninsula from suspending service, but is less that the 14 round trips per week Peninsula scheduled at the time it filed notice. Peninsula agreed to provide this level of service for $343,246 annually at an assumed full-fare yield of $90 per passenger.

Under Option B, Peninsula would provide 13 round trips per week during the peak period (the first 13 weeks of the calendar year) and 10 round trips per week during the remainder of the year. Peninsula agreed to provide this level of service for $261,598 annually. This Option assumes a full-fare yield of $90 per passenger.

The reduced service option was agreed to by Peninsula at the staff's behest so that a full range of options would be available.

Community Comment
In a letter dated July 19, the state of Alaska endorsed Option A, noting that the airfares at Akutan were already high given the 35-mile distance from Akutan to Dutch Harbor and the historical level of airlift required at Akutan.

Decision
We have decided to select Option A, as requested by the state and community. We note that while Option A's costs reflect a 100% completion of the 13 round trips per week, this option gives Peninsula the flexibility not to operate three round trips a week if there is insufficient demand. This flexibility may make the two subsidy levels somewhat closer to each other, and will better allow service to meet the level of demand. [2]

This case is unique because the need for any subsidy at all is a result of the very high cost of operating the Grumman Goose aircraft, not for lack of traffic. Recent fares and traffic at Akutan would clearly be sufficient to ensure subsidy-free service if the aircraft utilized had costs more typical of similar sized aircraft as the Goose. The Goose is a 50-year old aircraft whose costs are increased by its need to operate in the salt water landing sites and open water environment at Akutan. Moreover,

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[1] Peninsula would operate flagstop flights only if there were demand.

[2] By longstanding Department policy, carriers are paid only for flights they operate, except for certain weather-related cancellations.

Given Peninsula's route system and the geography, the carrier is not able to achieve good aircraft utilization, thus further increasing unit costs. This is because there are very few alternative service opportunities in the vicinity of Akutan and the age of the Goose and the saltwater require Peninsula to keep a backup aircraft on hand for the scheduled inspections and maintenance of the Goose. Peninsula has stated that the rugged "flying boat" design of the Goose enables it to better handle the unprotected waters of Akutan than today's aircraft equipped with floats under the wing. The community and state have indicated there are proposals they are pursuing to construct a landing strip at Akutan. Given the size of the historical traffic at Akutan and the high fares and high subsidy required for operating the Goose, we encourage those developments. When such a strip is completed, which will be after this two-year contract cycle, we anticipate reevaluating the continuing need for subsidy.

We are concerned with the amount of subsidy need at Akutan. There is no bush community in Alaska that enplanes this many passengers yet requires subsidy support. It is very clear that the force driving the subsidy need is the high--though fully legitimate and demonstrated--cost of operating the Grumman Goose, an aircraft that has operated since the 1930's. Our concern is two-fold: one, that as the life of the aircraft is extended, the subsidy cost to the government and the fares and cargo yields facing the private customer will continue to escalate, and second, that at some point the Grumman Goose may simply no longer be able to operate to Akutan, which would leave this relatively large traffic-generating community with no service of any kind.

We have reviewed Akutan's EAS definition and will not change it at this time. It is our usual procedure to change EAS definitions when we are reasonably certain that that service level will remain the standard. In the next two years we will gain a better understanding for the service level the community requires. In the meantime, the community will receive a level of service far in excess of its definition of two round trips a week but consistent with its traffic.

We have reviewed Peninsula' proposals at Akutan as well as the community's traffic history and find that the proposed subsidy level is appropriate for the service proposed. We also find that Peninsula's service has been reliable.

Carrier Fitness

49 U.S.C. 41737(b) and 41738 require that we find an air carrier fit, willing and able to provide reliable service before we may compensate it for essential air service. The Department has routinely monitored the carrier's continuing 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 Peninsula remains fit. Peninsula has experience providing essential air service at Akutan, and, based on its operating record, we find that the

arrier continues to be fit to provide the essential air transport tion at issue in this ase.

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

ACCORDINGLY,

1. The Department selects Peninsula Airways, Inc., to provid essential air service at Akutan, Alaska, through August 31, 2002;

2. The Department sets the final rate of compensation for Pen nsula for the provision of essential air service at Akutan, Alaska, as described in Appen lix C, to be payable as follows: for each calendar month during which essential air se rvice is provided, the amount of compensation shall be subject to the weekly ceiling and shall be determined by multiplying the subsidy-eligible flights completed each mo th between Akutan and Dutch Harbor by $253.88; [3]

3. We find that Peninsula Airways, Inc., continues to be fit, willing, and able to provide reliable air service at Akutan, Alaska;

4. We direct Peninsula 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 legs for aircraft sold or disposed of must be retained. The carrier may forfeit its compensation for any claim that is not supported under the te ms of this order;

5. This docket will remain open until further order of the Dej artment; and

6. We will serve a copy of this order on the Mayor, City Adi ninistrator, President of the Native Village, of Akutan, and on the Alaska Departmen of Transportation and Public Affairs, the United States Postal Service, and Peninsu a Airways, Inc.

By:

A. Bradley Mims
Deputy Assistant Secret ry for Aviation
and International Aff irs

(SEAL)

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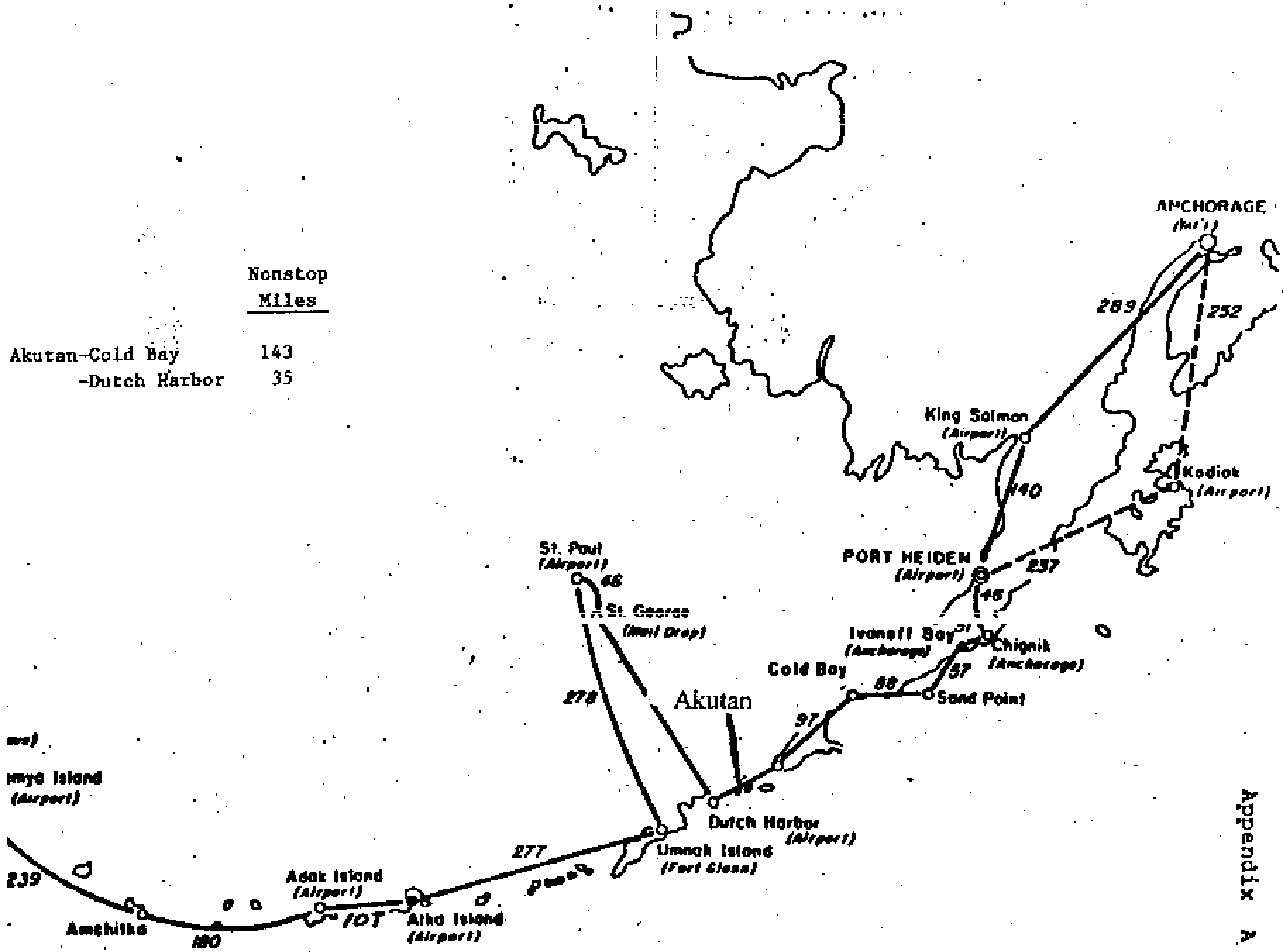
[3] See Appendix C for calculations.

Appendix A

	Nonstop Miles
Akutan-Cold Bay	143
-Dutch Harbor	35



Peninsula Airways' Annual Subsidy Need at Akutan, Alaska, Dock. t 7068
13 Round Trips Year Round and $90 Full-Fare Yield

Aircraft Type	G-21 Goos
Block Hours 1/	54
Passenger, 4,121 pax. @ $89.19 2/	$367,54
Cargo @ $.40/lb. 3/	$27,23
Mail @ $.5167 4/	$60,90
Total Revenue	$455,68
Flying Operations @ $165/hr.	$89,26
Fuel & Oil @ $124.75/hr. 5/	$67,49
Other 6/	$51,52
Maintenance 7/	$235,72
Depreciation 8/	$79,49
Direct Expense	$523,49
Traffic related @ 12.46% of revenue	$56,77
Departure related @ $20.35/wtd.dep.	$119,67
Capacity related @ $14.89/wtd. hr.	$35,03
Indirect Expense	$211,49
Total Operating Expense	$734,98
Return at 5%	$36,74
Interest @ 3.7%	$27,19
Total Economic Cost	$798,92
Annual Subsidy Need	$343,24

1/ 52 weeks x 26 flts./week = 1,352 flts
1,352 flts. x 24 min./flt. = 541 hrs.; 541 x 4.35 = 2,353 wtd. hrs.;
1,352 flts. x 4.35 = 5,881 wtd. deps.
2/ 3,873 pax. @ $90 plus 124 Seniors @ $81 plus 124 Children @ $72.
3/ 68,094 lbs. of freight.
4/ Mail rate per Order 2000-5-30; 117,868 pounds.
5/ $2.34/gallon @ 50 gph plus $7.75/gallon oil @ 1 gph.
6/ $35,000/aircraft x 2 aircraft x 541/735 system hours = $51,524
7/ $272.39 historical unit cost; 90% of costs are fixed; $272.39 x .9 = $ 45.15/hr.
1,837 historical hrs. (including Kodiak) x $245.15/hr. = $450,341 x 2/3 aircraft = $300,227;
$300,227 x 541/735 hrs. = $220,983; $27.24 var. cost x 541 hrs. = $1 ,737
8/ $54,000/aircraft x 2 aircraft x 541/735 system hours = $79,494

PENINSULA AIR, INC., ESSENTIAL AIR ERVICE AT AKUTAN, ALASKA, DOCKET 00-7608

EFFECTIVE PERIOD: June 8, 2000, through August 31, 002

SCHEDULED PASSENGER SERVICE: 13 nonstop round trips each week to Dutch Harbor, three of which may be operated on a flagstop basis.

AIRCRAFT TYPE: Grumman Goose (G-21), 9-seats.

TIMING OF FLIGHTS Flights must be well-timed and w ll-spaced to ensure full compensation

SUBSIDY RATE PER FLIGHT: $253.88 [1]

COMPENSATION CEILING EACH WEEK: $6,600.88 [2]

NOTE

The carrier understands that it may forfeit its compensation for any flight that it does not operate in conformance with the terms and stipulations of the rate order, including t e service plan outlined in he order and any other significant elements of the required service, with t prior approval. The carrier understands that an aircraft take-off and landing at its scheduled d stination 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 a e considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with his order for a significant period, it may jeopardize its entire subsidy cla n for the period in question. If the carrier contemplates any such changes beyond the scope f the order during the pplicable period of these rates, it must first notify the Office of Aviation Analysis in writing and eceive written approval from the Department to be assured of full compe sation. Should circumstances warrant, the Department may locate and select a replaceme t carrier to provide ervice on these routes. The carrier must complete all flights that can be afely operated; flights that verfly points for lack of traffic will not be compensated. In determining whether subsidy payment or a deviating flight should be adjusted or disallowed, the Department wi . consider the extent to which the goals of the program are met and the extent of access to the nat onal air transportation ystem provided to the community.

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

ubsidy contracts are subject to, and incorporate by reference, relevant st utes and Department egulations, as they may be amended from time to time. However, any s h statutes, regulations, or mendments thereto shall not operate to controvert the foregoing paragrap .

Annual compensation of $343,246 divided by the estimated annual comp eted departures and arrivals at 100 percent completion factor: 26 flights x 52 weeks = 1,352 total.

Subsidy rate per arrival/departure of $253.88 multiplied by 26 subsidy-e igible flights each week.