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Order 2000-10-20
Served: October 19, 2000



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

Issued by the Department of Transportation
on the 19th day of October, 2000

Essential Air Service at:

PONCE, PUERTO RICO

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

Docket OST 99-6592 - 15

ORDER SELECTING CARRIER

Summary

By this order we are selecting Hyannis Air Service, Inc., d/b/a Cape Air, to provide subsidized essential air service at Ponce, Puerto Rico, for the two-year period beginning with the start of service at an annual subsidy rate of \$474,910 the first year and \$337,551 the second year.

Background

On December 2, 1999, American Eagle filed a 90-day notice of its intention to suspend its subsidy-free service at Ponce, Puerto Rico, effective March 2, 2000.

By Order 2000-2-6 the Department prohibited Eagle from terminating service and required it to continue to provide essential air service until replacement service could be secured. We also requested proposals for replacement service. Eagle served Ponce with 12 nonstop round trips a week in 1997 and 10 nonstop round trips a week most recently. Ponce is a major community of 200,000 residents, 80 highway miles from San Juan. The close proximity of a major hub such as San Juan normally favors frequent service with small aircraft.

By Order 85-3-76, March 27, 1985, the Department defined essential air service for Ponce as requiring at least two daily nonstop round trips to San Juan with sufficient capacity to enplane at least 25 passengers a day or, based on an assumed 60% load factor, at least 42 seats arriving and 42 seats departing from the community per day.

Recent traffic levels at Ponce show a steady decline in enplanements as shown below:

Annual Enplanements at Ponce, Puerto Rico

YE 12/31/96	20,300
YE 12/31/97	15,746
YE 12/31/98	12,038
YE 9/30/99	10,109

Proposal

In response to our request, only Cape Air submitted a proposal. Under its proposal, Cape Air would provide five nonstop round trips a day, seven days per week, to San Juan with 9-seat Cessna 402 aircraft. ¹ Cape Air would require \$474,910 the first year and \$337,551 subsidy the second year. This level of service is consistent with that required in Order 85-3-76, but is less than the number of seats the community has been receiving.

Community Comment

We have received unanimous support for Cape Air's proposal from the community of Ponce and the San Juan Ports Authority.

Decision

We have decided to select Cape Air. The service it proposes would accommodate recent traffic at Ponce. We note that the carrier estimates that it will need a great deal less subsidy in the second year of service, as a result of the increased traffic the carrier projects. We hope that in several years the need for continued subsidy support at Ponce may be eliminated. By flying smaller aircraft more frequently the carrier will be better able to accommodate the needs of people in the community who wish to complete one day of business in either Ponce or San Juan and return the same day.

We have reviewed Ponce'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 new service level will remain the standard. In the next two years we will gain a better understanding for the service level the community requires.

We have reviewed Cape Air's proposal at Ponce as well as the community's traffic history and find that the proposed service and subsidy levels are appropriate.

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

¹ Under our normal payout provisions, the carrier would be able to supply more service on some days and less on others within any calendar week and still be fully compensated.

operations in accordance with its regulations, and knows of no reason why we should not find that Hyannis Air Service, Inc., d/b/a Cape Air remains fit. Cape Air has a great deal of experience providing air service, and, based on its operating record, we find that the carrier continues to be fit to provide the essential air transportation at issue in this case.

As a final matter, before American Eagle suspends service, we expect it to make every effort to ensure an orderly transfer of service at the Ponce, including notifying all passengers holding reservations on its flights that the service will be suspended, informing them of the availability of replacement service by Cape Air, and assisting them in arranging alternative transportation.²

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

ACCORDINGLY,

1. The Department selects Hyannis Air Service, Inc., d/b/a Cape Air to provide essential air service at Ponce, Puerto Rico, for the two-year period, beginning when the carrier inaugurates its proposed service;
2. The Department sets the final rate of compensation for Cape Air for the provision of essential air service at Ponce, as described in Appendix C, to be 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 flights completed each month between each Ponce and San Juan;³
3. We find that Cape Air continues to be fit, willing, and able to provide reliable air service;
4. We direct Cape Air 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;
5. This docket will remain open until further order of the Department; and

² Pursuant to 49 U.S.C. 41734, we will continue to require American Eagle to maintain its existing service until Cape Air inaugurates its full service pattern.

³ See Appendix C for calculations.

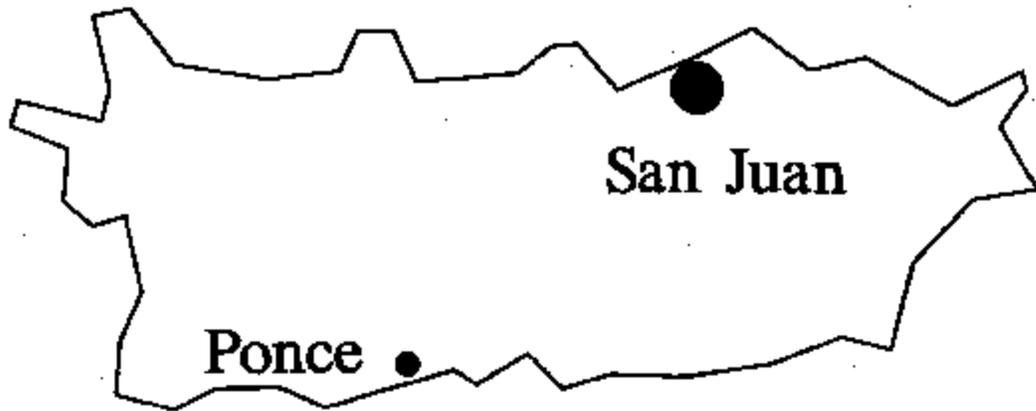
6. We will serve a copy of this order on the Puerto Rico Port Authority, the Mayor of Ponce, American Eagle, and Cape Air.

Francisco J. Sanchez
Assistant Secretary for Aviation
and International Affairs

(SEAL)

An electronic version of this document is available on the World Wide Web at
<http://dms.dor.gov>

PUERTO RICO



PSE-SJU Air Miles - 47

Appendix B

Cape Air, Annual Subsidy Need at Ponce, Puerto Rico
Docket 6592

	<u>Year 1</u>	<u>Year 2</u>
Flt. Time	0.4	0.4
Total Flight Hours 1/	1,445	1,445
Passengers	6,570	8,213
Pax. Revenue @ \$70	\$459,900	\$574,910
<u>Other Rev. @ 1%</u>	<u>\$4,599</u>	<u>\$5,749</u>
Total Rev.	\$464,499	\$580,659
Crew @ \$66.67/hr.	\$96,338	\$96,338
Fuel: \$2.85/gall. @ 44 gph	\$181,203	\$181,203
Maintenance @ \$110.83/hr.	\$160,149	\$160,149
Hull Insurance (1 aircraft)	\$6,000	\$6,000
<u>Lease (1 aircraft)</u>	<u>\$54,000</u>	<u>\$54,000</u>
Total Direct Exp.	\$497,690	\$497,690
Indirect Operating Exp.	\$396,985	\$376,796
Total Operating Expense	\$894,675	\$874,486
<u> Profit @ 5%</u>	<u>\$44,734</u>	<u>\$43,724</u>
Total Economic Cost	\$939,409	\$918,210
Subsidy @ 99% Completion	\$474,910	\$337,551

1/ .4 hours/flight x 10 flts./day x 365 days x .99 = 1,445.

**CAPE AIR, INC., ESSENTIAL AIR SERVICE AT
PONCE, PUERTO RICO, DOCKET 99-6592**

EFFECTIVE PERIOD: Start of service for a two-year period. ¹

SCHEDULED PASSENGER SERVICE: 35 nonstop round trips each week to San Juan.

AIRCRAFT TYPE: Cessna 402, 9-seats.

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

SUBSIDY RATE PER FLIGHT: \$131.77 the first year and \$93.66 the second year ²

COMPENSATION CEILING EACH WEEK:

\$9,223.90 the first year and \$6,556.20 the second year ³

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 We expect Cape Air and American Eagle to coordinate their transition, which we expect to occur within 60 days of the issuance of this order.

² Annual compensation of \$474,910 the first year and \$337,551 the second year divided by the estimated annual completed departures and arrivals at a 99 percent completion factor: 70 flights x 52 weeks x .99 = 3,604 total.

³ Subsidy rate per arrival/departure of \$131.77 the first year and \$93.66 the second year multiplied by 70 subsidy-eligible flights each week.