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Order 2001-2-7

Served: February 13, 2001

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

Issued by the Department of Transportation
on the 9th day of February, 2001

Essential Air Service at
Yankton, South Dakota
under 49 U.S.C. 41731 *et seq.*

Docket OST-00-8321-5

ORDER TO SHOW CAUSE

Summary
By this order, the Department is tentatively terminating the subsidy eligibility of Yankton, South Dakota, because the cost of subsidizing each passenger using the local airport exceeds the $200 per passenger statutory ceiling.

Background
By Order 99-4-7, April 12, 1999, the Department authorized an annual subsidy rate of $640,976 for Great Lakes Aviation, Ltd, d/b/a United Express, to provide essential air service at Yankton, South Dakota, consisting of 12 nonstop or one-stop round trip flights a week to Denver with 19-seat Beech 1900 aircraft. Currently, Great Lakes operates the trips over a Yankton – Grand Island, Nebraska – Denver routing.

Under statutory eligibility criteria the Department is prohibited from subsidizing service at communities where subsidy amounts to more than $200 per passenger, unless they are more than 210 highway miles from the nearest large or medium hub airport.[1] For the most recent 12-month period, i.e., the year ended September 30, 2000, the annual subsidy Great Lakes receives to serve Yankton, when divided by the number of annual passengers, exceeds $200 per passenger. Moreover, the community is less than 210 miles from a medium hub airport (Omaha). In addition, on November 15, 2000, Great Lakes

[1] P.L. 106-69, the Department of Transportation and Related Agencies Appropriations Act, 2000, made this a permanent restriction.

filed a 90-day notice of its intent to terminate all scheduled air service at Yankton effective February 14, 2001, stating that its existing subsidy rate is inadequate. Great Lakes is the only air carrier providing scheduled service at the community.

Subsidy Cost, Traffic History

Yankton, South Dakota, is approximately 160 highway miles northwest of the medium hub airport at Omaha, Nebraska. From Omaha, passengers have access to multiple daily nonstop flights to such destinations as Dallas/Ft.Worth, Chicago, Denver, Minneapolis/ St. Paul, Cincinnati, St. Louis, Phoenix and Washington, D.C. Importantly, Omaha is also served by Southwest Airlines providing low-fare jet service to a number of destinations. Also, convenient air service is available at both Sioux Falls, South Dakota, about 80 highway miles away, and Sioux City, Iowa, about 65 miles away. Sioux Falls has jet service to several hubs, including St. Louis, Denver, Chicago and Minneapolis, while Sioux City has mostly turboprop service to both St. Louis and Minneapolis.

With multiple airports to choose from, Yankton's traffic-generating ability appears to be affected by its proximity to nearby service, including the low-fare service offered by Southwest Airlines at Omaha. For the year ended September 30, 2000, Yankton generated 2,096 passengers (1,039 enplanements), or averages of 3.3 enplanements per day and 1.7 passengers per flight.[2] (See Appendix A for historical traffic levels.) At the current annual subsidy rate of $640,976, the subsidy per passenger is about $305. The community is not generating sufficient traffic to push the subsidy rate per passenger below the statutory ceiling of $200.

Community Response

The City of Yankton, by letter and formal resolution of the Board of Commissioners, and the Yankton Area Chamber of Commerce have filed copies of correspondence with the Department that they originally sent to Great Lakes. In this correspondence they strongly object to the suspension notice filed by Great Lakes, citing a number of issues. They maintain that Great Lakes implemented a series of schedule changes that made the service less convenient to local users and that the airline steadily reduced its promotional activities in the community over the period from 1993 to 1998. They then note that Great Lakes ceased all operations for two months in 1997 because the carrier did "not meet Federal Aviation Administration (FAA) aircraft maintenance requirements."

Among other arguments cited by Yankton in opposition to the suspension notice filed by Great Lakes are allegations that the service provided by the carrier has been poorly timed to make connections at Denver ever since the carrier switched hubs from Minneapolis in May 1999 – a switch that was made with the promise of better connections and lower fares to attract greater numbers of discretionary travelers. The community also notes that until very recently its flights to Denver made an intermediate stop at Kearney, Nebraska,

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[2] Based on 313 service days a year to account for the equivalent of six-day-a-week service.

and alleges that there were so many Kearney-Denver passengers that it was "difficult to obtain a through connection from Yankton to Denver." Finally, the community alleges that the September 2000 schedule change eliminated early morning departure service from Yankton further reducing local ridership.

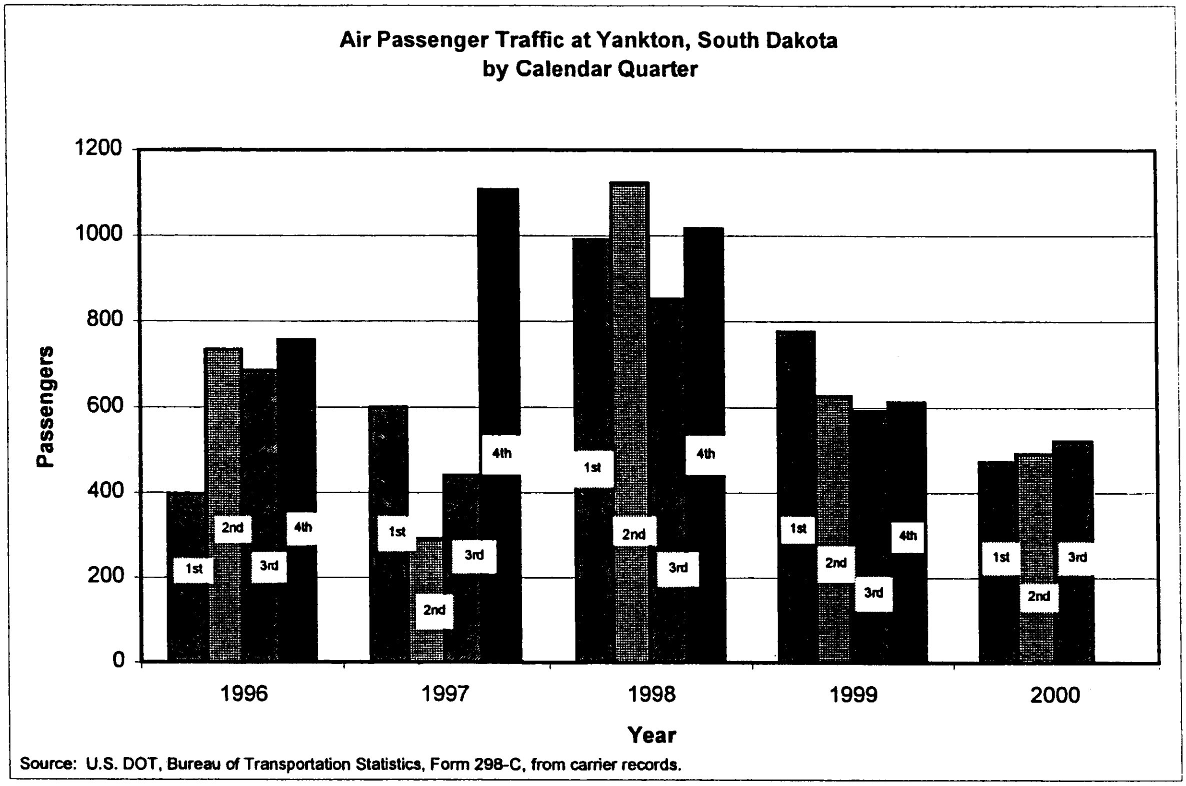
Service Review

As correctly stated in the Yankton community's correspondence, Great Lakes voluntarily suspended service on May 16, 1997 following a review of the carrier's maintenance practices and procedures by the FAA. After temporarily shutting down the airline, the FAA allowed Great Lakes to resume service one community at a time over the next several months. During that time, both the Department and the FAA reviewed the continued fitness of Great Lakes. For example, by Order 97-8-9, August 6, 1997, the Department found that the carrier had "available adequate financial and managerial resources to maintain quality service" at Yankton and five other communities and that it continued, "to possess a favorable compliance disposition." That order was issued after the FAA had agreed with the department's findings. With a favorable review of Great Lakes' operational fitness, the Department reselected the carrier to provide subsidized service to Yankton and the other communities.

There is no doubt the service hiatus affected consumer demand at Yankton; however, the long-term impact is difficult to measure due to all the other factors that can impact local market demand. Moreover, we acknowledge that it takes some time before a community's confidence in a carrier's reliability can be restored, and the proximity of nearby service may affect the period of time it takes to restore the public's confidence. However, we note that the service hiatus occurred well over three years ago.

In reviewing the traffic history at Yankton on a quarter by quarter basis for 1996 through the third quarter of 2000, the most recent period for which we have data, we found that the impact of the 1997 service hiatus and the impact of the switch in hub flying from Minneapolis to Denver, 2nd-3rd quarter of 1999, may be substantially less than it appears at first blush. Unquestionably, it is extremely difficult to rely on trends in passenger traffic when the data are composed of relatively few passengers. Nevertheless, the historical passenger data are illustrative of several important points from which it is possible to draw several reasonable conclusions.

The following bar graph depicts the reported passenger traffic at Yankton for the years from 1996 through the third quarter of 2000. The passenger traffic during the 2nd quarter of 1997 is substantially below the traffic during the 2nd quarter of 1996 – exactly what would be expected given the service hiatus that occurred during the 2nd and 3rd quarters. On the other hand, the graph shows that the negative impact of the service disruption on local passenger demand appears to have completely disappeared after the 3rd quarter of 1997 as demand in the 4th quarter was at its highest level during the almost 5 years of traffic history we reviewed.



Also, the switch in hubs from Minneapolis to Denver in the 2nd -- 3rd quarters of 1999 may have had a detrimental effect on local passenger demand. Undoubtedly, the schedules Great Lakes provided to serve the community showed some significant changes when the switch was made from serving the hub at Minneapolis to the hub at Denver. The most significant change however, may not have been the destination, but rather the number of flights. Prior to the end of May 1999, Great Lakes provided Yankton with three daily round trip flights to Minneapolis even though it was required to provide only two. Two of the Minneapolis flights were subsidized, while the third was not. In addition, Great Lakes provided Yankton with two round trips a day to Denver apart from its EAS contract. When Great Lakes began serving Denver, it reduced its pattern of service to Yankton to the two-round-trip-a-day level it was required and subsidized to provide. Thus, comparing Great Lakes' subsidy rate for two round trips a day with passengers generated on five round trips per day is not a valid comparison.

The community also mentions that after the change in hubs that occurred in June 1999, local passengers encountered a booking problem because the Kearney to Denver service provided by Great Lakes was so highly utilized that it blocked seats making it difficult for passengers in Yankton to reserve seats to Denver. On flights operated from Yankton to Denver and then back again, Great Lakes' Beech 1900s would provide 19 seats from the trip's origination point to its destination. If a flight involves one-stop service, then each community must share a portion of the seats. If a flight involves more than one stop or if the flight originates at an "up line" community, then all communities that receive service share a portion of the seats. Unless seats are specifically blocked or made unavailable by the carrier, passengers in each community have an equal opportunity to purchase tickets on a particular flight.

In an effort to further review the community's allegation concerning a booking problem, we looked at traffic and service during the third quarter of 1999. Because of a schedule change that subsequently occurred in December of 1999, and because of the way passenger traffic data are filed by the airlines on a quarterly basis, rather than on a monthly basis, we could only focus our analysis on the third quarter of 1999. On May 8, 2000, the department issued order 2000-5-5, which among other things determined a rate of subsidy for Great Lakes to provide three round trips per day, 18 per week, between Kearney and Denver during the period from July 1, 1999, through March 31, 2000. That order calculated the subsidy amount using a passenger projection of 16,000 passengers per year in the Kearney – Denver market. The rate was also based on using a Beech 1900 aircraft with 19 seats.

Using the three flight-per-day service level and the number of forecast annual passengers, the department had projected that an average of 8.5 Kearney – Denver passengers per flight would use Great Lakes service each service day, leaving the difference (19 – 8.5 =), 10.5 seats available on each of the four daily flights (2 round trips) that also served Yankton. As shown on the chart below, Kearney actually generated an average of 8.1 Denver passengers during the 3rd quarter of 1999, leaving almost 11 seats (19 - 8.1 = 10.9) available for Yankton passengers.

We further recognize that a number of Spencer – Denver passengers used the Yankton – Denver service until it was discontinued after November 30, 1999. Assuming all the Spencer – Denver passengers (897 or 2.9 per flight) flew on those flights that served Yankton during the 3rd quarter, this would still leave an average of 7.6 seats per flight to serve Yankton. Finally, looking at the actual number of Yankton passengers in the 3rd quarter (517), just 1.7 passengers per flight availed themselves of the scheduled service, leaving an average of 6.3 empty seats on each flight.

The chart below summarizes the above mentioned passenger traffic that traveled on the scheduled service that served Yankton during the third quarter of 1999.

Total 3rd Quarter 1999 Passengers in Selected Denver Markets	Passengers
Kearney	2,527[3]
Spencer	897
Yankton	517
Selected Traffic and Service Information – 3rd Quarter 1999	
Scheduled Yankton Flights	312
Scheduled seats in the Denver – Kearney – Yankton – Spencer market	5,928
Number of Aircraft Seats, Beech 1900	19.0
Average Kearney Passengers per Flight	8.1
Average Spencer Passengers per Flight	2.9
Average Number of Seats Available for Yankton Passengers	8.0
Less Average Yankton Passengers per Flight	1.7
Average Number of Empty Seats After Accommodating all Passengers	6.3

Finally, we do not dispute the community's contention that occasionally Yankton passengers may not be able to make a reservation all the way to Denver because the aircraft is "sold out" with passengers from other communities served on the same itinerary. In the short term, most airlines cannot adjust their capacity in a market to accommodate day-to-day or flight-by-flight fluctuations in demand. Even in the very largest of markets, flights are occasionally "sold out."

REPLY COMMENTS OF GREAT LAKES

On January 25, 2001, Great Lakes responded directly to the letter and resolution of the City of Yankton, as well as to the correspondence submitted by the Yankton Area Chamber of Commerce. In general, Great Lakes disputes most, but not all of the allegations made by the City of Yankton and the Yankton Area Chamber of Commerce. Importantly, and as our analysis has showed, Great Lakes argues that Yankton area passengers have convenient access to a variety of service options through Sioux Falls and Omaha, including the low-fare service provided at Omaha by Southwest Airlines.

In its response, Great Lakes explains how it attempted to adjust its services over the years to respond to the community's requests. It also acknowledges that while Yankton's highest passenger levels were achieved during the period when the community had service to both Minneapolis and Denver, levels of service well above the community's

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[3] The total passengers flying between Kearney and Denver in the third quarter of 1999 were 3,791. However, as we stated above, we assumed that two-thirds of the Kearney – Denver passengers flew on the two round trips that also served Yankton, while the other one-third of the Kearney – Denver passengers flew on the third round trip that did not serve Yankton.

essential air service requirements, the airline was losing money and the community was not generating sufficient numbers of passengers to maintain service above the subsidized levels provided by the department under the EAS program.

Great Lakes also mentions in its reply that the utilization of Yankton's air service was negatively impacted as jet service at Sioux Falls has improved over time. Regarding the advance cancellation of Yankton flights because of anticipated weather events at Denver, Great Lakes states that when cancellations seem inevitable because of impending weather conditions, it attempts to make the cancellations as far in advance as possible to give passengers maximum lead-time to make other travel arrangements. Great Lakes says that it would have helped reroute any inconvenienced passengers without penalty through Sioux Falls or Omaha if it had been made aware of a specific problem.

Finally, Great Lakes mentions various promotional efforts it had conducted in conjunction with Yankton to boost ridership to counter a contention of the Yankton Area Chamber that the carrier had engaged in little promotional activities in the community.

DECISION

Based on all of the above, we have tentatively decided to terminate the subsidy eligibility of Yankton. We take this action with reluctance. In addition to the recent period of less than exemplary service, the proximity of superior air service at Sioux Falls and at Omaha in particular has undoubtedly been a very significant contributing factor to the reduced local utilization of the Yankton airport. Even if Great Lakes had consistently provided extraordinary service to Yankton it has been our experience that the close proximity of better service -- more frequent service with larger aircraft to more destinations -- is very difficult for a commuter carrier to compete against.

We also note that as with most communities across the country, traffic and service levels have fluctuated in response to various factors affecting both the national and local economies. In addition, the cost of providing service to communities served with 19-seat aircraft in particular has increased dramatically due to such factors as the increased safety requirements included in the Commuter Safety Rule. Other factors that have increased the costs of providing commuter service in recent months include the high cost of pilot training, due to the unprecedented demand for trained pilots by the major airlines, and the well-documented industry-wide increases in the cost of aviation fuel. These costs and others have risen so dramatically that many carriers have abandoned the 19-seat aircraft altogether, making it highly unlikely that another carrier would provide the service at less cost.

On the revenue side, we note that Great Lakes is a code-share partner of United Air Lines and as such is in an advantageous position to generate local passengers to Denver, or another nearby hub, as well as passengers connecting to destinations beyond United's hub at Denver. This is another reason why it is doubtful that another carrier could generate significantly more traffic than Great Lakes, or operate at costs substantially below those incurred by that carrier. Thus, we find that it is also highly unlikely that another carrier could serve Yankton at a subsidy-per-passenger of less than the $200 cap.

Even at the existing subsidy rate of $640,976, Yankton would have to generate 3,205 passengers a year to dip below the $200 per passenger cap. Except for a portion of 1998, during which Great Lakes attempted to stimulate the market by providing a total of five round trips a day to both Minneapolis and Denver, Yankton has not generated that many passengers since 1995. Moreover, since Great Lakes is losing money with the existing subsidy rate, it filed its 90-day notice to trigger even a higher rate that would further increase the subsidy-per-passenger amount.

Consistent with program practice, we will give the community 20 days after the service date of this order to object if it finds that we have made a mistake in any of our calculations. If we receive no objections, Great Lakes is permitted to suspend service after the end of the 20-day period. If we receive properly filed objections within the 20-day period, we will require Great Lakes to continue to serve Yankton until we issue a final order dealing with those objections. Interested carriers, including Great Lakes, may of course provide scheduled service at Yankton on their own initiative. Our action here simply makes the community ineligible to receive subsidized air service.

Before Great Lakes terminates service, we expect it to contact all passengers holding reservations for travel after the suspension date, to notify them of the suspension of service and the availability of nearby air services, and to assist them in making alternate travel arrangements.

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

ACCORDINGLY,

1. We direct all interested persons to 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 in paragraph 2 below.[4] If no objections are filed, all procedural steps will be deemed waived, and this order shall become effective on the 21st day following the date of service; [5]

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[4] Since we are providing for the filing of objections to this order, we will not entertain petitions for reconsideration.

[5] Objections should be filed with Dockets Operations and Media Management, SVC-124, Room Pl-401, 400 7th Street, S.W., Washington, D.C. 20590

2. We tentatively terminate the subsidy eligibility of Yankton, South Dakota, effective 21 days after the date of service of this order, and allow Great Lakes Aviation to terminate service on that date;

3. If we receive objections, we will require Great Lakes to continue its Yankton service until we issue a final order dealing with the objections. We will afford full consideration to the matters and issues raised in any timely and properly filed objection to this order;

4. This docket will remain open until further order of the department; and

5. We will serve a copy of this order on the Mayor and airport manager of Yankton, South Dakota, the Governor of South Dakota, the Office of Air, Rail and Transit of the South Dakota Department of Transportation, United Air Lines, Inc., and Great Lakes Aviation, Ltd., d/b/a United Express.

By:

SUSAN MCDERMOTT
Deputy Assistant Secretary for Aviation and International Affairs

(SEAL)

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Revenuè Passengers at Yankton, South Dakota

Year	Number	Average per Day
1994	5,890	18.8
1995	5,433	17.4
1996	2,572	8.2
1997	2,437	7.8
1998	3,981	12.7
1999	1,828	5.8
*2000	2,096	6.7

* Year Ending September 30, 2000

Source: Bureau of Transportation Statistics, Form 298-C, Schedule T-1. Averages refer to passengers per service day, based on 313 service days each year.