Order 2001-2-9

Served: February 14, 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 **PRESQUE ISLE/HOULTON, MAINE** under 49 U.S.C. 41731 *et seq.*

Docket OST-2000-8012 - 13

ORDER SELECTING CARRIER AND SETTING FINAL RATE

Summary

By this order, the Department is selecting Colgan Air, Inc., d/b/a US Airways Express, (Colgan Air) to provide essential air service at Presque Isle/Houlton, Maine, for a two-year period, at an annual subsidy of $1,082,408.

Background

On September 19, 2000, Business Express Airlines, Inc., operating as American Eagle, filed a 90-day notice of its intent to terminate all scheduled air service at Presque Isle/Houlton, Maine, effective December 18, 2000, and requested to be allowed to suspend service early, on December 1. Business Express provided Presque Isle with twenty-six nonstop round trips to Boston each week with 34-seat Saab 340 aircraft.

Six days later, on September 25, 2000, CommutAir, the only other carrier serving Presque Isle/Houlton, then operating as a US Airways Express carrier but now, as of December 3, operating as Continental Connection, filed a 90-day notice of its intent to terminate all of its scheduled air service at Presque Isle/Houlton, effective December 26, 2000. CommutAir currently provides Presque Isle/Houlton with one one-stop and two nonstop round trips a day to Boston with 19-seat Beech 1900D aircraft.

By Order 2000-11-17, issued November 15, 2000, the Department permitted Business Express to terminate service at Presque Isle/Houlton on December 1, 2000,[1] prohibited CommutAir from terminating its service, and requested proposals from carriers interested in providing replacement essential air service.[2]

Carrier Proposals
In response to our request, two carriers—Colgan Air and CommutAir—filed proposals.

Colgan Air, a US Airways Express code-share carrier, proposes two options:

Option 1: Three nonstop round trips each weekday and four each weekend to Boston with 19-seat Beech 1900D aircraft at an annual subsidy of $1,082,408. If selected under this option, the carrier states that it will inaugurate service with its larger Saab aircraft and will continue using the Saab as long as passenger demand warrants.

Option 2: Three nonstop round trips each weekday and four each weekend to Boston with 34-seat Saab aircraft at an annual subsidy of $1,460,917.

CommutAir, a Continental Connection code-share carrier, also proposes two options:

Option 1: PQI-BOS - Four nonstop flights each weekday, and six each weekend
BOS-PQI – Three nonstop flights each weekday and four each weekend, plus one one-stop flight (at Portland) each day, seven days a week. Service would be provided with 19-seat Beech 1900D aircraft. The carrier requests a subsidy for this service of $979,611 per year.

Option 2: Service identical to Option 1. CommutAir proposes a revenue sharing arrangement with the Department with an annual subsidy of $979,787 as the target. For each enplaned or deplaned passenger at PQI below the forecast level of 28,860 yearly passengers, down to a minimum level of 20,000, the subsidy would rise $40; for each enplaned or deplaned passenger at PQI above the forecast level of 28,860 yearly passengers, up to a maximum level of 35,536, the subsidy would fall $40. Thus, the range of subsidy would be from as low as $712,747 if CommutAir carried 35,536 passengers or more, or as high as $1,334,187 if CommutAir carried 20,000 or fewer passengers.

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[1] Based on the concurrence of the Presque Isle/Houlton community, Order 2000-11-17 also granted to Business Express an exemption from the requirements of 49 U.S.C. 41734(a) to the extent necessary to permit it to terminate service at Presque Isle/Houlton on less than 90-days' notice.

[2] See Appendix A for a map.

Community Comments
Comments on the carrier selection decision have been submitted by the City of Presque Isle, the Northern Maine Development Commission, Maine Public Service, Surprise Advertising and Loring Commerce Centre.

The City of Presque Isle strongly supports the selection of Colgan Air to replace CommutAir at the community. Further, the City states that the assurance of consistent airline service with cabin class aircraft, i.e. the Saab 340 aircraft, is critical to its ability to generate total market potential, and urges the selection of Colgan Air's Option 2. The City states that the significant traffic decrease following the departure of Business Express and the change of CommutAir's code-share partner from US Airways to Continental have had a devastating impact on the quality of air service at the Northern Maine Regional Airport and jeopardizes the economic well-being and continued development of Northern Maine.[3] It states that CommutAir, operating as a Continental Connection, has had difficulty accommodating the current requirements of the existing Presque Isle/Houlton market. They cite specifically that CommutAir's passenger levels fell from 2,545 in December 1999, when it operated as US Airways Express in competition with Business Express, to less than 1,000 in December 2000, when it operated as Continental Connection against no competition.

The City also states that under either carrier's Beech 1900 proposal, there are not enough seats to accommodate current demand. Colgan Air's Option 2, with service by 34-seat Saab aircraft, according to the City, would provide a "minimum number of available seats to reasonably accommodate today's traffic."

Comments filed by the Northern Maine Development Commission, Maine Public Service, Surprise Advertising and Loring Commerce Centre also support the selection of Colgan Air to replace CommutAir at Presque Isle/Houlton, and further support Colgan Air's Saab 340 option..

Selection Decision
After careful consideration of this matter, including the comments from the Presque Isle/Houlton community, we have decided to select Colgan Air to provide Presque Isle/Houlton's essential air service in accordance with it's Option 1, for a two-year period at the agreed-to subsidy rate of $1,082,408 a year.[4] As we discuss fully below, our first decision was to decide between the relative strengths of each carrier's code-share relationship at the Boston hub. In this regard, we find that US Airways' presence at Boston far exceeds that of Continental. As to which of Colgan Air's options to select, we choose Colgan Air's Option 1 because the subsidy requested is significantly lower than Option 2, and because of the carrier's willingness to commit to startup operations with its larger Saab aircraft.

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3 The City states that it has committed more than $140,000 to an aggressive marketing campaign to promote regional airline service and to rebuild the market to the sustainable level that existed prior to the recent service upheaval.

4 See Appendix C for a details of Colgan Air's subsidy calculation.

Our primary consideration as to which carrier to select in this case lies with the relative strengths of their code-share relationship at the Boston hub. While passengers are of course able to interline connect, that is connect to a different carrier, there are significant consumer benefits in staying on the same airline for the entire passenger trip, such as frequent flyer miles, optimum connecting times at the hub, favorable fares, etc. We have examined the so-called "on-line" connecting opportunities at Boston that each carrier could offer. As we have stated, CommutAir operates as a Continental Connection while Colgan Air operates as a US Airways Express. Continental Airlines serves a total of three markets from Boston: Newark, Cleveland and Houston. Thus, Presque Isle/Houlton passengers bound for any destination other that Newark, Cleveland or Houston would have to make connections at Boston and then again at one of those three hubs in order to stay on Continental's system. Alternatively, they could connect onto another carrier at Boston (other than Continental) to get to their ultimate destination.

US Airways, on the other hand, serves eight major east coast markets with nonstop jet service from Boston, including its hub cities of Pittsburgh, Philadelphia and Charlotte, and also Baltimore, Miami, New York-La Guardia, Tampa, and Washington-Reagan National. Connecting service is available at US Airways hubs to Chicago, Cleveland, Dallas/Ft. Worth, Denver, Detroit, Kansas City, San Francisco, Seattle, Phoenix and Los Angeles, plus dozens more. In terms of total departures at Boston, Continental operates an average of 24 departures a day, while US Airways operates an average of 74 a day.

The relative passenger-generating ability of the two different codes for Presque Isle/Houlton passengers can be seen vividly in recent passenger data. As we stated, as of December 3, 2000, CommutAir switched from operating as a US Airways Express carrier to a Continental Connection. While only one-month's data are available, they are revealing. In December 1999, operating as US Airways Express, CommutAir generated 2,458 Presque Isle/Houlton passengers. In December 2000, CommutAir, operating similar schedules with the same equipment type, generated only 999 passengers. The results are all the more remarkable for two reasons. First, in December 1999, CommutAir was competing against Business Express, an American Eagle carrier that was operating the much larger 34-seat Saab-340 aircraft with three well-timed round trips a day to Boston. Conversely, in December 2000, operating as Continental Connection, CommutAir was the only carrier serving Presque Isle/Houlton and still couldn't generate even one-half as much traffic as when it was competing against Business Express. Second, CommutAir's December 2000 passenger count is actually artificially inflated in that many of the passengers it carried were passengers originally booked on Business Express but reaccommodated on CommutAir after Business Express suspended Presque Isle/Houlton service on December 1.

Under the Department's governing statutes, 49 U.S.C. 41733(c), we are required to consider, among other things, the applicants' operating experience, their marketing arrangements to ensure service beyond the hub, and the community's views. Colgan Air has been operating for several years, it has the full support of the community, and it operates as a US Airways code-share partner with the afore-stated advantages over that of

Compensation for Required Service by CommutAir
Order 2000-11-17 prohibited CommutAir from terminating its scheduled air service at Presque Isle/Houlton, and required the carrier to maintain service at the community for an initial 30-day period following the end of the 90-day notice period, effective January 26, 2001. Thus, CommutAir is eligible to receive compensation for losses that it incurs by virtue of our requiring the carrier to continue to serve Presque Isle/Houlton beyond the 90-day notice period. The Department will continue to require the carrier to maintain its service at Presque Isle/Houlton until Colgan Air's service is fully in place. By this order we will set a final annual rate or $979,611 for CommutAir's service, beginning January 26, 2001, and ending when Colgan Air actually begins service in accordance with this order.

Carrier Transition
As a final matter, we expect both CommutAir and Colgan Air to work together to arrange an orderly transition of service at Presque Isle/Houlton. This includes notifying all passengers holding reservations on affected flights that CommutAir's service will be suspended, informing them of the availability of replacement service by Colgan Air, and assisting them in making alternative reservations.

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

ACCORDINGLY
1. The Department selects Colgan Air, Inc., to provide essential air service at Presque Isle/Houlton, Maine, as described in Appendix B, for the two-year period beginning when the carrier commences service;

2. The Department sets the final rate of compensation for Colgan Air, Inc., for the provision of essential air service at Presque Isle/Houlton, Maine, as described in Appendix B, for the two-year period beginning when the carrier commences service, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling set forth in Appendix B, and shall be determined by multiplying the subsidy-eligible flights each way completed during the month by $564.64;[6]

3. The Department sets the final rate of compensation for Champlain Enterprises, Inc., d/b/a CommutAir, for the provision of essential air service at Presque Isle/Houlton, Maine, as described in Appendix D, for the period January 26, 2001, until Colgan Air, Inc., inaugurates service at the community in accordance with this order, payable as follows: for each month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling set forth in Appendix C, and shall be determined by

[6] See Appendix B for the calculation of this rate, which assumes the use of the aircraft designated. If the carrier reports a significant number of aircraft substitutions, revision of this rate may be required.

multiplying the subsidy-eligible arrivals and departures completed during the month by $250.94;[7]

4. We direct Colgan Air and CommutAir 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 its 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. We find that Colgan Air, Inc., continues to be fit, willing and able to operate as a commuter air carrier and capable of providing reliable essential air service at Presque Isle/Houlton, Maine;

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

7. We will serve a copy of this order on the mayors of Presque Isle and Houlton, the manager of the Northern Maine Regional Airport, the Governor of Maine, the Maine Department of Transportation, Colgan Air, and CommutAir.

By:

SUSAN MCDERMOTT
Deputy Assistant Secretary for Aviation
and International Affairs

(SEAL)

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7 See Appendix D for the calculation of this rate, which assumes the use of the aircraft designated. If the carrier reports a significant number of aircraft substitutions, revision of this rate may be required.

Appendix A

Appendix B

COLGAN AIR, INC.
ESSENTIAL AIR SERVICE AT
PRESQUE ISLE/HOULTON, MAINE

Effective Period:	Two-year period beginning upon inauguration of service
Service:	3 nonstop round trips each weekday and 4 on weekends between Presque Isle and Boston
Aircraft:	Beech 1900D (19-seat)
Timing of Flights:	Flights must be well timed and well spaced to ensure full compensation.
Subsidy Rate:	Per year - $1,082,408 Per flight - $564.64 [1]

Weekly Compensation Ceiling: $21,456.32 [2]

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 parities 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.

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1 Annual compensation of $1,082,408, divided by the estimated number of annual completed flights (1,917), calculated as follows: number of flights per week (38) x 52 weeks x .97 = 1,917

2 The subsidy rate per flight ($564.64) multiplied by the number of scheduled subsidy-eligible flights per week (38).

Appendix C

Colgan Air
Essential Air Service At
Presque Isle/Houlton, Maine

Aircraft	Beech 1900
Passengers	24,000
Average Fare	$98
Total Revenue	$2,352,000
Flight Hours 1/	2,875
Landings 1/	985
Fly. Ops @ $107.18/hr.	$308,143
Fuel @ $193.75/hr. 2/	$557,031
Maint. @ $289.40/hr.	$832,025
Lease @ $35,500/month/plane	$426,000
Ins. @ $6,691/month/plane	$80,292
Total Direct Expenses	$2,203,491
BOS Grd. Hdlg. @ $8.60/enpl. pax.	$103,200
PQI Station	$147,000
BOS Ldg. Fee @ $37.57/ldg.	$37,006
PQI Ldg. Fee @ $9.15/ldg.	$9,013
PQI Rent	$18,000
USAir per pax. charge @ $10/pax.	$240,000
Rev-related @ 6.3%	$148,176
Marketing & Promotion	$24,000
Crew Training @ $16.21/hr.	$46,604
G&A @ 9.89% of Other Exp.	$294,375
Total Indirect Expenses	$1,067,374
Total Operating Expenses	$3,270,865
Profit Element @ 5%	$163,543
Economic Cost	$3,434,408
Annual Compensation @ 97% Completion	$1,082,408

1/ PQI-BOS, 38 flts./week x 1.5 hrs. x 52 weeks x .97 = 2,875 hrs., 1,916 flts.

2/ 155 gallons per hour x $1.25/gallon.

COMMUTAIR, INC.
ESSENTIAL AIR SERVICE AT
PRESQUE ISLE/HOULTON, MAINE

Effective Period:	January 26, 2001, until Colgan Air inaugurates service
Service:	PQI-BOS -- 4 nonstop flights each weekday and 6 on weekends BOS-PQI – 3 nonstop flights each weekday and 4 on weekends, and 1 one-stop flight 7 days a week
Aircraft:	Beech 1900D (19-seat)
Timing of Flights:	Flights must be well timed and well spaced to ensure full compensation.
Subsidy Rate:	Per year - $979,611 Per flight - $329.17 [1]
Weekly Compensation Ceiling:	$19,421.03 [2]

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 parities 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.

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1 Annual compensation of $979,611, divided by the estimated number of annual completed flights (2,976), calculated as follows: number of flights per week (59) x 52 weeks x .97 = 2,976

2 The subsidy rate per flight ($329.17) multiplied by the number of scheduled subsidy-eligible flights per week (59).

Appendix E

CommutAir
Essential Air Service At
Presque Isle/Houlton, Maine

Passengers	28,860	
Average Fare	$99.07	
Passenger Revenue	$2,859,272	1/
Freight Revenue @ 1%	$28,593	
Total Revenue	$2,887,865	
Blk. Hours @ 97%	4,082	2/
Flights @ 97%	2,976	2/
RPMs	9,252,828	
Crew & Training @ $124.30 hr.	$507,393	
Hull Ins.@ $8.68/hr.	$35,432	
Fuel & Oil @ $140.76/hr.	$574,582	
Supplies & Dispatch @ $7.27/hr.	$29,676	
Maintenance @ $130.70/hr.	$533,517	
Depreciation @ $117.32/hr.	$478,900	
Total Direct Expenses	$2,159,500	
Station 3/	$337,663	
Ldg. & A/C svc., per ldg.	$103,280	
Res. @ $15.77/pax.	$455,122	
Pax. Liab. Ins. @ $.005031/RPM	$46,551	
Administrative @ 2.98%	$92,443	
Total Indirect Expenses	$1,035,059	
Total Operating Expenses	$3,194,559	
Interest Exp. @ $125.72/hr.	$513,189	
Profit Element @ 5%	$159,728	
Economic Cost	$3,867,476	
Annual Compensation @ 97% Completion	$979,611	

1/ PQI-PWM, 728 @ $89.84; PQI-BOS, 27,040 @ $98.71; PWM-BOS, 1,092 @ $114.24.

2/ BOS-PQI: 45 flts./week x 90 min. x 52 weeks x .97/60 = 3,405 hrs.; 2,270 flights.
PQI-PWM: 7 flts./week x 70 min. x 52 weeks x .97/60 = 412 hrs.; 353 flights.
BOS-PWM: 7 flts./week x 45 min. x 52 weeks x .97/60 = 265 hrs.; 353 flights.

3/ Includes promotion