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Order 2001-6-15

Served: June 20, 2001

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



Issued by the Department of Transportation
on the 20th day of June, 2001

Essential Air Service at

ADAK, ALASKA

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

Docket OST-00-8556 - 28

ORDER SETTING FINAL RATE UNTIL FURTHER DEPARTMENT ACTION

Summary

By this order we are revising the short-term service and subsidy levels for Peninsula Airways' essential air service at Adak, Alaska, until further Department action.

Discussion

On December 5, 2000, Reeve Aleutian Airways, Inc., (Reeve) ceased operating scheduled service, leaving Adak with no air service. By Order 2000-12-11 the Department set an annual subsidy rate for Peninsula Airways of \$291,247 (\$5,600.90 per week) to provide emergency replacement service at Adak, Alaska, for six nonstop round trips a week to Dutch Harbor with an 8-seat Cessna Conquest.

By Order 2001-2-15, February 16, 2001, the Department requested long-term, carrier-replacement proposals for Adak. We received proposals from five carriers: Eagle Canyon, Evergreen International, Northern Air Cargo, Security Aviation, and Peninsula.¹ Under Peninsula's proposal, the carrier would provide four round trips a week in the peak and three in the off-peak for \$564,043 annually. On June 8 the State of Alaska requested an extension to June 18 to respond to our request for comments on

¹ The request for proposals specified Cold Bay, Dutch Harbor, and Anchorage, as possible hubs for Adak. No carrier chose to submit a long-term option with Dutch Harbor as the hub, even though at 445 miles distant, it is significantly closer than the 1,192 miles to Anchorage.

each carrier's proposal for the long-term carrier selection decision. After we receive the State's comments we will issue a final carrier selection decision.

By letter dated June 13, Peninsula states that it would provide the service it proposed in the long-term carrier-selection case on an interim basis until the long-term proceeding is concluded. Its service would provide a more direct and convenient routing for Adak passengers using aircraft far better tailored to the needs of Adak than the current service pattern. Peninsula's service to Adak has not been reliable because the carrier has made a great effort to provide at least some level of service throughout the Aleutians to backfill for Reeve's cessation of service, and that has severely strained its resources. The carrier recently acquired new aircraft, the same aircraft type it proposed in the long-term carrier selection case, permitting it now to serve Adak more reliably with larger Metro 23 aircraft² through Cold Bay rather than Dutch Harbor.³ Peninsula would be willing to upgrade its service to Adak to the level it proposed in the long-term carrier selection proceeding--\$564,043 annually for four one-stop round trips a week to Anchorage over Cold Bay in the peak and three in the off-peak during the processing of the carrier selection proceeding. Peninsula indicates it could implement this new service pattern on about 10-days' notice. In its letter dated June 13, the carrier

“acknowledges that this request [for a different service pattern] and any revision by the Department to the interim service provided by PenAir under the short-term subsidy rate is without prejudice to the Department's determination in the pending carrier-selection proceeding.”

Decision

Based on the unique needs of Adak, we have decided to increase the amount of subsidy to Peninsula to allow the carrier to upgrade its aircraft to the larger Metro 23 aircraft as reflected in its long-term proposal. This will provide the community with more reliable service until we can select a carrier and they can implement the selected service. By letter dated June 13 the community endorsed this temporary service. Also, Peninsula has indicated that the current emergency service it provides Adak has impinged on the reliability of its subsidized service to Atka and Nikolski.

The situation is unique in the essential air service program in that the hub, Anchorage, is 1,192 air miles distant. The situation is exacerbated by some of the worst and most unpredictable weather in the world. While we applaud Peninsula for starting up service on an emergency basis, even the carrier would be the first to state that its current service to Dutch Harbor (445 miles away) in an eight seat aircraft is not adequate for Adak's needs. Because of weather and operational reasons, among other things,

² The Metro 23 is a 19-seat aircraft that Peninsula will configure to 14-seats to allow for a lavatory, given the long stage lengths involved.

³ The community prefers service to Anchorage through Cold Bay rather than Dutch Harbor, the current hub, because it believes that Cold Bay service would be more reliable.

Adak's passengers connecting at Dutch Harbor have often had to wait several days at Dutch Harbor to make a connection to Anchorage and because of the unreliability of service the community states that there are now passenger waiting lists.

Peninsula is now in a position to upgrade to the larger Metro 23 aircraft. Peninsula would operate the service one-stop to Anchorage (at Cold Bay), thus overcoming the connecting problems currently encountered at Dutch Harbor. We find the increased subsidy cost from \$291,247 to \$564,043 a year is fully justified for Adak's needs.

Given the community's preference for this temporary service,⁴ and the less than reliable service to Dutch Harbor, we will upgrade Adak's service to that Peninsula has offered to provide in the short term. We find that the service and subsidy levels Peninsula has proposed are reasonable.

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

ACCORDINGLY,

1. The Department sets a final subsidy rate for Peninsula Airways, Inc., for the provision of essential air service at Adak, Alaska, 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 flights each way completed during the month between Adak and Anchorage by \$12,396.56 in the peak and \$9,297.42 in the off-peak;⁵
2. We terminate the rate set by Order 2000-2-11 effective when Peninsula inaugurates the service in ordering paragraph one;
3. 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 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; and

⁴ The community has emphasized that on a long-term basis they still preferred Evergreen's proposal.

⁵ See Appendix C for calculation.

4. The Department will serve copies of this order on the Governor and Department of Transportation of the State of Alaska, the community of Adak, and Peninsula Airways, Inc.

By:

Susan McDermott
Deputy Assistant Secretary for Aviation
And International Affairs

(SEAL)

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

Appendix B

Peninsula Airways' Annual Subsidy Need at Adak, Alaska, Docket 8556

	<u>Option 1</u>	<u>Option 2</u>
Aircraft Type	Metro 23	Metro 23
Block Hours	2,038 4/	1,783 9/
Wtd. Deps.	6,656 5/	5,824 10/
Passenger	\$1,426,382 6/	\$1,291,556 11/
Cargo	\$17,244 7/	\$15,089 12/
<u>Mail</u>	<u>\$129,689 8/</u>	<u>\$113,478 12/</u>
Total Revenue	\$1,573,315	\$1,420,123
Flying Ops. @ \$117.07/hr.	\$238,589	\$208,736
Fuel & Oil 1/	\$348,566	\$304,995 12/
Other @ \$33.74/hr.	\$68,762	\$60,158
Maintenance @ 199.15/hr.	\$405,868	\$355,084
<u>Aircraft 2/</u>	<u>\$360,000</u>	<u>\$360,000</u>
Direct Expense	\$1,421,785	\$1,288,973
Tff. Rel. @ 11.49% of rev.	\$180,774	\$163,172
Dep. Rel. @ \$38.87/wtd.dep. 3/	\$258,719	\$226,379
<u>Capacity related @ 12.58%</u>	<u>\$234,149</u>	<u>\$211,158</u>
Indirect Expense	\$673,642	\$600,709
Total Operating Expense	\$2,095,427	\$1,889,682
<u>Return at 5%</u>	<u>\$104,771</u>	<u>\$94,484</u>
Total Economic Cost	\$2,200,198	\$1,984,166
Annual Subsidy Need	\$626,883	\$564,043

1/ \$1.96/gallon, computed as follows: ANC, 350 galls/trip @ \$1.04; CDB, 355 Galls/trip @ \$2.81; ADK, 150 galls/trip @ \$2.10. 855 gallons/trip x 208 trips/year x \$1.96/gall. = \$348,566.

2/ Metro 23 @ \$360,000 lease per year.

3/ \$5,396,269 dep. Exp. X 81% (505/623 system employees Part 121 related) /112,462 (9,268 SA-227 x 8 + 2,737 SF-340 x 14) Part 121 related weighted deps = \$38.87/wtd. dep.

4/ 26 weeks x 5 r.t./week x 9.8 hrs. = 1,274 hrs. (ANC-CDB-ADK-CDB-ANC)

26 weeks x 3 r.t./week x 9.8 hrs. = 764 hrs. (ANC-CDB-ADK-CDB-ANC)

5/ 26 weeks x 5 r.t./week x 4 deps./trip x 8 = 4,160 wtd. deps.

26 weeks x 3 r.t./week x 4 deps/trip x 8 = 2,496 wtd. deps.

6/ ANC-ADK, 2,542 x \$461 = \$1,171,862

ANC-CDB, 808 x \$315 = \$254,520

7/ ANC-ADK, 8,622 lbs. x \$2 = \$17,244

8/ ANC-ADK, 16,181 lbs. x \$6.86 = \$111,002

ADK-ANC, 2,724 lbs. x \$6.86 = \$18,687

9/ 26 weeks x 4 r.t./week x 9.8 hrs. = 1,019 hrs. (ANC-CDB-ADK-CDB-ANC)

26 weeks x 3 r.t./week x 9.8 hrs. = 764 hrs. (ANC-CDB-ADK-CDB-ANC)

10/ 26 weeks x 4 r.t./week x 4 deps./trip x 8 = 3,328 wtd. deps.

26 weeks x 3 r.t./week x 4 deps/trip x 8 = 2,496 wtd. deps.

11/ ANC-ADK, 2,296 x \$461 = \$1,058,456

ANC-CDB, 740 x \$315 = \$233,100

12/ At 87.5% of Option 1.

Peninsula Airways, Inc., Essential Air Service to be Provided to AdakEffective Period: Start of service until further Department action.Scheduled Service: ¹

Peak: 4 one-stop round trips per week to Anchorage;

Off-Peak: 3 one-stop round trips per week to Anchorage.

Aircraft: 14-seat Metro 23 aircraft equipped with lavatory.Subsidy Rate per Flight: \$1,549.57 ²

	<u>Peak</u>	<u>Off-Peak</u>
<u>Weekly Compensation Ceilings</u> :	\$12,396.56 ³	\$9,297.42 ⁴

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 It is contemplated that the intermediate stop will be Cold Bay.

² \$564,043 annual compensation, divided by 364 annual one-way flights at Adak, computed as follows:
peak: 8 flights/week x 26 weeks = 208; off-peak, 6 flights/week x 26 weeks.

³ 8 flights per week x \$1,549.57 = \$12,396.56.

⁴ 6 flights per week x \$1,549.57 = \$9,297.42.