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Order 2002-5-15
Served: May 15, 2002



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

Issued by the Department of Transportation
on the 14th day of May, 2002

Essential Air Service at:

PORT ALEXANDER, ALASKA

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

Docket OST 1999-6244 - 16

**ORDER TENTATIVELY RESELECTING CARRIER
AND SETTING FINAL RATES**

SUMMARY

By this order we are tentatively reselecting Harris Aircraft Services, Inc. (Harris) to provide subsidized essential air service (EAS) at Port Alexander, Alaska, for the two-year period ending February 29, 2004, at an annual rate of \$20,735. (See Appendix A for a map.) We are also re-establishing the rate set by Order 2000-2-19, selecting Harris, as the final rate from October 1, 2001, through February 28, 2002.

BACKGROUND

Harris was first selected to provide subsidized service to Port Alexander by Order 2000-2-19. The carrier was selected to provide two nonstop round trips a week to Sitka, with a final annual subsidy rate of \$24,583 through February 28, 2002. Although the rate expired on February 28, 2002, Harris has continued providing the service at the agreed levels.

EAS for Port Alexander was defined by Order 81-8-45 as requiring two round trips a week with up to two intermediate stops to Sitka with small (10-seat or fewer) aircraft.

Under our normal procedures when nearing the end of a rate term, we contact the incumbent carrier to determine whether it is interested in continuing service and whether it will continue to require subsidy. If the carrier wishes to continue service with subsidy, we usually negotiate a new subsidy rate with the carrier, issue an order tentatively reselecting the carrier for a new rate term at the agreed rate, and direct other parties to show cause why we should not finalize our tentative decision. Other carriers wishing to submit competing proposals are invited to do

so in response to the show-cause order. If any such proposals are filed, we process them as a competitive case. Consistent with this practice, we invited Harris to submit a proposal for continuation of essential air service at Port Alexander.

CARRIER SERVICE PROPOSALS

In response to our inquiry, Harris submitted and negotiated a renewal proposal for an additional two-year rate term. (See Appendix B to this order for a summary of the subsidy computations for Harris.) Harris proposed the historical level of service: two nonstop round trips each week between Port Alexander and Sitka, with service to be provided with Cessna 185 equipment. Harris requests \$20,735 annual subsidy at Port Alexander -- a slight decrease from the prior rate of \$24,583.

DECISION

We will tentatively reselect Harris to provide essential air service at Port Alexander as detailed in Appendix C, for an additional two-year period, through February 29, 2004. This level of service has been provided for over two years, and we have heard from the community informally that it is happy with the service provided by Harris.

OBJECTIONS OR PROPOSALS

As is our usual program practice, we will allow interested parties 20 days to object to our decision and/or to file competing proposals. If no timely objections or competing proposals are filed, this order will automatically become final. We expect persons objecting to our tentative decision to support their objections with relevant and material facts. We will not entertain general, vague, or unsupported objections.

Carriers interested in filing competing proposals, with or without subsidy requests, should file them within the 20-day period set for objections. At the end of that period, our staff will docket any competing proposals, thereby making them public, and direct each carrier to serve a copy of its proposal on the civic parties and other applicants. Each applicant, including the incumbent, will then have an opportunity to finalize its proposal in rate discussions with Department staff before we seek final community comments. We will give full consideration to all proposals that are timely filed.

We request proposals that would provide sufficient capacity to accommodate the recent historical traffic at Port Alexander, with a minimum of two scheduled round trips per week to Sitka. If larger aircraft are proposed, reduced frequencies might be able to accommodate historical traffic. Of course, as always, we will formally solicit the community's views on any service options we receive before making a long-term carrier selection decision.

PROCEDURES FOR FILING PROPOSALS

For interested air carriers that are not familiar with our procedures and recommended form for supplying the necessary information, we have prepared two explanatory documents that we will make available upon request. The first describes the process for handling carrier replacement cases under 49 U.S.C. 41734(f) and discusses in detail the process of seeking

proposals, conducting financial and operational audits of the applicant carriers and selecting a replacement carrier. The second is an evidence request containing an explanatory statement and a copy of section 14 CFR 204.4 of the Department's regulations which deals with the information required of all applicants for authority to provide basic essential air service, and provides schedules giving our recommended form for submitting data required for determining the financial and operational ability of applicants to provide dependable air service.¹

COMMUNITY AND STATE COMMENTS

If we receive competing proposals, the community and State are welcome to submit comments on the proposals at any time.² Early in the proceeding, comments on the perceived strengths and weaknesses of the proposals would be particularly helpful to the Department, although the civic parties may also express a preference for a particular carrier or proposal option at that time, if they choose. In any event, after we conclude rate conferences with all applicants, we would provide a summary of the conference results to the civic parties and ask them to file their final comments.³

OTHER CARRIER REQUIREMENTS

The Department is responsible for implementing various Federal statutes governing lobbying activities, drug-free workplaces, and nondiscrimination.⁴ Consequently, all carriers receiving Federal subsidy to support essential air service must certify that they are in compliance with Department regulations regarding drug-free workplaces and nondiscrimination, and those carriers whose subsidies exceed \$100,000 over the life of the rate term must also certify that they are in compliance with regulations governing lobbying activities. All carriers that plan to submit proposals involving subsidy should submit the required certifications along with their proposals. Interested carriers requiring more detailed information regarding these requirements, as well as copies of the certifications, should contact the Office of Aviation Analysis at (202) 366-1053. The Department is prohibited from paying subsidy to carriers that do not submit these documents.

¹ Copies of these documents can be obtained from: EAS & Domestic Analysis Division, X-53, Office of Aviation Analysis, Room 6401, Department of Transportation, 400 7th Street, S.W., Washington, DC 20590. Telephone requests for these documents are accepted at (202) 366-1053.

² Civic parties should file an original and five copies of their comments in Docket OST-1999-6244. Comments should be addressed to: Dockets Operations and Media Management, SVC 124, Office of the Secretary, U.S. Department of Transportation, Room PL 401, 400 Seventh Street, S.W., Washington D.C. 20590.

³ In cases where a carrier proposes to provide full essential air service without subsidy and we determine that service can be reliably provided without such compensation, we do not normally hold rate conferences. Instead, we rely on the carrier's subsidy-free service.

⁴ The regulations applicable to these areas are: (1) 49 CFR Part 20 - New restrictions on lobbying; (2) 49 CFR Part 21 - Nondiscrimination in federally-assisted programs of the Department of Transportation - Effectuation of title VI of the Civil Rights Act of 1964; 49 CFR Part 27 - Nondiscrimination on the basis of disability in programs and activities receiving or benefiting from Federal financial assistance; and 14 CFR Part 382 - Nondiscrimination on the basis of disability in air travel; and (3) 49 CFR Part 29 - Government-wide debarment and suspension (non-procurement) and government-wide requirements for drug-free workplace (grants).

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 Harris remains fit. Harris has experience providing essential air service at Port Alexander 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.

PAST-PERIOD ADJUSTMENT

Harris's rates at Port Alexander expired on February 28, 2002, and it has continued providing service to the community since then. However, the terrorist attacks of September 11 changed the aviation industry and our standard procedures in many ways. In the case of carriers that provide subsidized EAS, they are paid on a pre-agreed, fixed rate per flight. Since September 11, most carriers' expenses are higher and revenues are down, meaning that the carriers have generally incurred substantial losses to the point of jeopardizing service to small, rural communities across the country. As a result, the Department issued Order 2002-2-13, February 15, 2002, authorizing emergency subsidy to carriers, effective retroactive to October 1, 2001, through the end of the normal contract period.⁵ That order granted immediate rate relief to carriers in order to get them much-needed cash as soon as possible, and also stated our intention of renegotiating all essential air service contracts, retroactive to October 1. While many rates we have negotiated with carriers have reflected increased subsidy need, Harris's proposal reflects a small decrease, largely because actual revenues were higher than those originally projected. Therefore, we will leave the original rate established by Order 2002-2-19 in place through February 28, 2002, the end of that two-year contract.

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

ACCORDINGLY,

1. The Department re-establishes the rate set by Order 2000-2-19 as the final rate for the period October 1, 2001, through February 28, 2002;
2. The Department tentatively reselects Harris Aircraft Services, Inc., to provide essential air service at Port Alexander, Alaska, for the period from March 1, 2002, through February 29, 2004;
3. The Department tentatively sets the final rate of compensation for Harris Aircraft Services, Inc., for the provision of essential air service at Port Alexander, Alaska, for the period from March 1, 2002, through February 29, 2004, at \$20,735 per year, as described in Appendix C.

⁵ See Order 2002-2-13 for a full discussion.

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 to or from the hub completed during the month by \$99.69;⁶

4. These rates are in lieu of, and not in addition to those set by Order 2002-2-13;

5. We direct interested parties having objections to the selection of Harris Aircraft Services, Inc., to provide essential air service as described in ordering paragraph 2 above, at the rate set forth in ordering paragraph 3 above, to file such objections or competing service proposals no later than 20 days from the date of service of this order;⁷

6. In the event objections or competing proposals are received, the rate in ordering paragraph 3 above will be effective as a final rate on March 1, 2002, until all objections are resolved;

7. We will afford full consideration to the matters and issues raised in any timely and properly filed objections and service proposals before we take further action.⁸ If no objections or competing service proposals are filed, all further procedural steps will be deemed waived and this order shall become effective on the twenty-first day after its service date;

8. We find that Harris Aircraft Services, Inc., continues to be fit, willing, and able to operate as a certificated air carrier and is capable of providing reliable air service at Port Alexander, Alaska;

9. We direct Harris Aircraft Services, Inc., 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;

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

⁶ See Appendix C for calculation.

⁷ Objections should be filed with the Dockets Operations and Media Management Division, SVC-124, Room PL401, Department of Transportation, 400 7th Street, S.W., Washington, DC 20590. Proposals to provide essential air service should be filed with the Chief, EAS & Domestic Analysis Division, X-53, Office of Aviation Analysis, Room 6401, Department of Transportation, at the same address. Questions regarding filings in response to this order may be directed to John McCamant at (202) 366-1060.

⁸ Since we are providing for the filing of objections to this order, we will not entertain petitions for reconsideration.

11. We will serve a copy of this order on the civic officials of Port Alexander, the Alaska Department of Transportation and Public Facilities, Harris Aircraft Services, Inc., and the carriers listed in Appendix D.

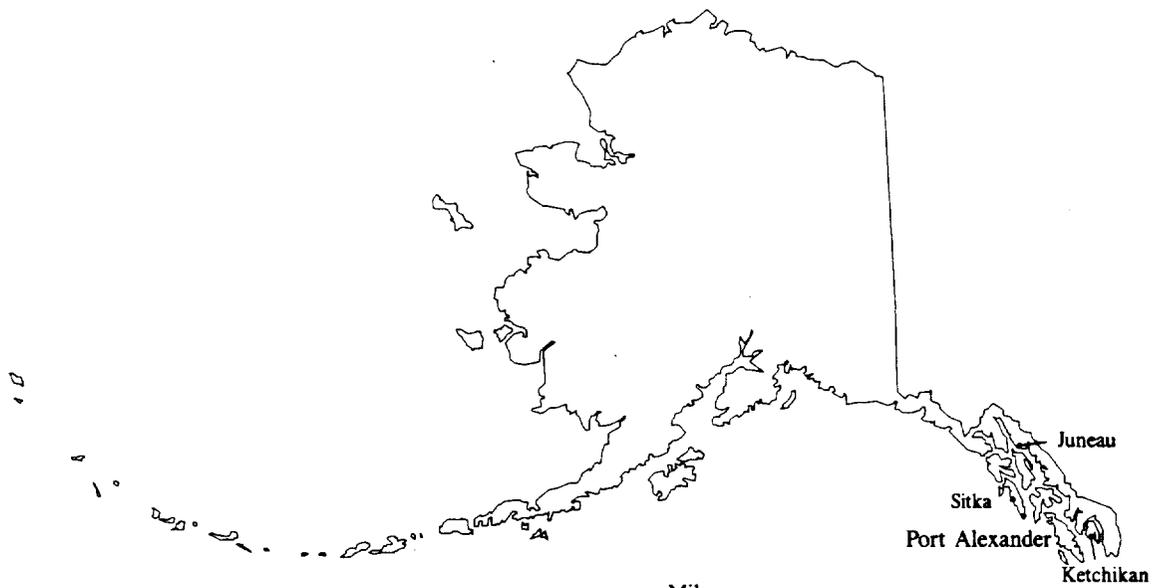
By:

READ C. VAN DE WATER
Assistant Secretary for Aviation
and International Affairs

(SEAL)

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

AREA MAP PORT ALEXANDER AND HYDABURG



Mileages

PTD - KTN	130
PTD - JNU	146
PTD - SIT	62

**ANNUAL SUBSIDY NEED FOR HARRIS AIR
AT PORT ALEXANDER, ALASKA**

Aircraft Type	Cessna 185
Block Hours	153 ^{1/}
Passengers	\$28,500 ^{2/}
Mail	\$0 ^{3/}
Cargo	\$1,500 ^{4/}
Total Revenue	\$30,000
Flying Operations @ \$72.00/hr.	\$11,016 ^{5/}
Fuel & Oil @ \$38.40/hr.	\$5,875 ^{6/}
Insurance @ \$26.86/hr.	\$4,110 ^{7/}
Maintenance @ \$40.71/hr.	\$6,229
Depreciation @ \$32.57/hr.	\$4,983 ^{8/}
Direct Expense	\$32,213
Indirects @ 50% of direct	\$16,106
Total Operating Expense	\$48,319
Return at 5%	\$2,416
Total Economic Cost	\$50,735
Annual Subsidy Need at 100% completion	\$20,735

^{1/} 40 minutes per flight x 4 flights/week x 52 weeks x 1.1 weather turnaround = 153 hours

^{2/} 300 passengers x \$75/passenger = \$22,500.

^{3/} No mail, it is presumed that the Eyak will carry all of the mail.

^{4/} Minimal freight, it is presumed that the Eyak will carry the bulk of the freight.

^{5/} \$50,400 per year divided by 700 hours = \$72.00/hr.

^{6/} 16 gph x \$2.40/gallon plus fuel = \$38.40/hr.

^{7/} \$1,900/seat x 4 (3 seats plus 3rd party) + 7% of \$160,000 Hull Insurance, divided by by 700 hours = \$26.86/hr.

^{8/} \$22,800 per year divided by 700 hours = \$32.57/hr.

**Harris Aircraft Services, Inc., Essential Air Service to be Provided to Port
Alexander, Alaska, Docket OST-99-6244**

Effective Period: March 1, 2002, through February 29, 2004.

Scheduled Service: 2 nonstop round trips each week to Sitka.

Aircraft: Cessna 185

Annual Subsidy: \$20,735

Rate per Departure/Arrival: \$99.69 ¹

Weekly Ceiling: \$398.76 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 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 Annual compensation of \$20,735 divided by the estimated annual completed flights:
4 flights x 52 weeks = 208 total.

² Subsidy rate per flight of \$99.69 multiplied by 4 subsidy-eligible flights each week.

SERVICE LIST FOR THE STATE OF ALASKA

Aaron Air	Hageland Aviation Services, Inc.	Scenic Mountain Air, Inc.
Aero Tech Flight Service, Inc.	Haines Airways, Inc.	Seaside Air Service
Air Excursions	Heli-Lift, Inc.	Security Aviation, Inc.
Air Lift Alaska	Homer Air	Seward Flying Service, Inc.
Air Madura	Hudson Air Service, Inc.	Silver Bay Logging, Inc.
Alaska Airlines, Inc.	Iliamna Air Taxi, Inc.	Skagway Air Service, Inc.
Alaska Bush Carrier, Inc.	Island Air Service	Soloy Helicopters, Inc.
Alaska Central Express, Inc.	Island Wings Air Service	Southcentral Air, Inc.
Alaska Coastal Airlines, Inc.	Jim Air, Inc.	Specialized Air Service
Alaska Fly'N Fish Charters	K2 Aviation	Spemak Airways
Alaska Flyers	Kachemak Air Service, Inc.	Sunrise Aviation, Inc.
Alaska Helicopters, Inc.	Kachemak Bay Flying Service, Inc.	Tamarack Air, Ltd.
Alaska Island Air, Inc.	Katmai Air	Tanana Air Service
Alaska Seair Adventures	Kenai Air Alaska, Inc.	Taquan Air Service, Inc.
Alaska West Air, Inc.	Kenai Fjords Outfitters, Inc.	Tatonduk Outfitters, Inc.
Aleutian Air, Ltd.	Kenair	Temsco Helicopters, Inc.
Aleutian Specialty Aviation	Ketchikan Air Service, Inc.	Totem Air
Allegheny Commuter airlines, Inc.	Ketchum Air Service, Inc.	Trans-Alaska Helicopters, Inc.
Amerijet International, Inc.	Kodiak Air Service	Trans-Porter Alaska, Inc.
Arctic Air Alaska, Inc.	Koyukon Air, Inc.	Tundra Copters, Inc.
Arctic Circle Air Service, Inc.	Kupreanof Flying Service	Umiat Enterprises, Inc.
Baker Aviation, Inc.	Kusko Aviation, Inc.	Uyak Air Service
Bellair, inc.	L.A.B. Flying Service, Inc.	Vemair
Beluga Lake Float Plane Service	Larry's Flying Service, Inc.	Warbelow's Air Ventures, Inc.
Bering Air, Inc.	Loken Aviation, Inc.	Ward Air
Bran-Air & Branham Adventures	Lone Star Airlines, Inc.	Wings of Alaska
Camai Air	Lone Wolf Aero Services, Inc.	Woods Air Service, Inc.
Canning Air Service	Maritime Helicopters, Inc.	Wrangell Mountain Air, Inc.
Cape Smythe Air Service, Inc.	MarkAir, Inc.	Wright Air Service, Inc.
Cassaron Turbo Helicopters	Metroflight, Inc.	Yukon Helicopters
Chugiak Aviation	Midway Airlines, Inc.	Yutana Airlines, Inc.
Clearwater Air, Inc.	Midwest Express Airlines, Inc.	Yute Air Alaska, Inc.
Coastal Helicopters, Inc.	Misty Fjords Air & Outfitting	
Cordova Air Service, Inc.	Mountain Aviation	
CPA Air Service	Mountain Helicopters	Alaska Juneau Aeronautics, Inc.
Customized Alaskan Adventures	Nash West Aviation, Ltd.	Ken Bannon
Delta Connection	Natron Air	E. B. Freeman
Denali air	Nordic Air	A. Edward Jenner
Egli Air Haul, Inc.	North Star Air Cargo, Inc.	John McFarlane
Ellis Air Taxi, Inc.	Northern Air Cargo, Inc.	Kevin Thomas
Ellison Air, Inc.	Northwest Airlink	Pat Dempsey
ERA Aviation, Inc.	Olson Air Service, Inc.	P. Richard Steinman III
F.S. Air Service, Inc.	Pacific Wing, Inc.	
Fishing and Flying	Peninsula Airways, Inc.	
Fiskehawk Aero Service	Precision Valley Aviation, Inc.	
Forty (40)-Mile Air, Ltd.	Promech, Inc.	
Frontier Flying Service, Inc.	Ram Air, Inc.	
Golden Plover Air	Ray Atkins Registered Guide	
Grant Aviation, Inc.	Rediske Air, Inc.	
Great Northern Air Guides	Reeve Aleutian Airways, Inc.	
Gulf Air Taxi, Inc.	Regal Air	
Gulf Aviation, Inc.	Reid Air	
Gulkana Air Service, Inc.	Rust's Flying Service, Inc.	
	Ryan Air Service, Inc.	