

170114

Order 2002-5-20

Served: May 29, 2002

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



Issued by the Department of Transportation
on the 23rd day of May, 2002

Essential Air Service at

MERCED, CALIFORNIA

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

Docket OST-98-3521-12

ORDER SETTING FINAL RATES

Summary

By this order we are setting a final subsidy rate, retroactive to November 1, 2001, for Eagle Jet Charter, Inc., d/b/a Scenic Airlines (Scenic), for its provision of essential air service (EAS) at Merced, California, for the period November 1, 2001, through the end of the current contract, October 31, 2003.

Discussion

Under our normal procedures when nearing the end of a subsidy rate term, we contact the incumbent carrier to determine whether it is interested in continuing service and whether it will continue to require subsidy. We would usually negotiate a new subsidy rate with the carrier, issue an order tentatively reselecting it for a new rate term at the agreed-to rate, and direct other parties to show cause why we should not finalize our tentative decision. Other carriers wishing to submit competing proposals are then invited to do so in response to the show-cause order; if any such proposals are filed, we process them as a competitive case. 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, carriers' expenses are significantly higher and revenues are down meaning that the carriers have 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.¹ 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. In response to that order, Great Lakes submitted a proposal for Alliance and Chadron based on post-September 11 operating results

Scenic was selected by Order 2001-10-9 to provide 14 nonstop round trips per week between Merced and Las Vegas with Beech 1900 aircraft. The first year rate was set at \$949,458 and the second year at \$749,433, and Scenic began service on November 1, 2001. By this order we are revising the final rates for Scenic to \$1,031,224 the first year and \$844,479 the second year. The only adjustment made to the rate (other than G&A and return element which were set as a percentage of expenses) was for increased hull and liability insurance.

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

ACCORDINGLY,

1. The Department sets the final subsidy rate for Eagle Jet Charter Airlines, Inc., d/b/a Scenic Airlines, Inc., for the provision of essential air service at Merced, California, 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 ceiling and shall be determined by multiplying the subsidy-eligible flights completed during the month to Las Vegas by \$722.65 the first year and \$591.79 the second year;²

2. These rates are in lieu of, and not in addition to, those set by Orders 2000-8-16, 2001-2-9, 2001-1-22, and 2002-2-13;

3. We direct Scenic 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

¹ See Order 2002-2-13 for a full discussion.

² See Appendix C for calculation.

4. The Department will serve copies of this order on the Mayor and Airport Manager of Merced, California, and Scenic Airlines.

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 at
<http://dms.dot.gov>

Area Map



Appendix B

Scenic Airlines Essential Air Service at Merced, California, Docket OST-3521

	First Year	Revised	Second Year	Revised
	14 Round Trips/Week	14 Round Trips/Week	14 Round Trips/Week	14 Round Trips/Week
Flight Hours 1/	1,998	1,998	1,998	1,998
MCE-LAS: 7,600 pax. @ \$100	\$760,000	\$760,000	\$760,000	\$760,000
Yosemite Tours: Pax. @ \$225 (1,696 & 2,585)	\$381,600	\$381,600	\$581,625	\$581,625
<u>Freight</u>	<u>\$6,000</u>	<u>\$6,000</u>	<u>\$6,000</u>	<u>\$6,000</u>
Total Revenue	\$1,147,600	\$1,147,600	\$1,347,625	\$1,347,625
Aircraft Lease, 1 full Aircraft	\$360,000	\$360,000	\$360,000	\$360,000
Hull Ins. @ 1.45% of A/C Value	\$33,350	\$56,500 2/	\$33,350	\$60,260
<u>Liability Insurance</u>	<u>\$43,913</u>	<u>\$93,951</u> 2/	<u>\$43,913</u>	<u>\$102,078</u>
Total Fixed Expense	\$437,263	\$510,451	\$437,263	\$522,338
Captains @ \$50,000 each	\$100,000	\$100,000	\$100,000	\$100,000
First Officer @ \$35,000 each	\$70,000	\$70,000	\$70,000	\$70,000
Mechanics @ \$45,000 each	\$67,500	\$67,500	\$67,500	\$67,500
Station Agents	\$91,000	\$91,000	\$91,000	\$91,000
<u>Benefits & Taxes (18%)</u>	<u>\$59,130</u>	<u>\$59,130</u>	<u>\$59,130</u>	<u>\$59,130</u>
Total Wages and Benefits	\$387,630	\$387,630	\$387,630	\$387,630
Reservations Agents @ \$2.50	\$19,000	\$19,000	\$19,000	\$19,000
CRS @ \$8.35/pax.	\$63,460	\$63,460	\$63,460	\$63,460
Passenger Inconvenience @ \$2.50/pax.	\$19,000	\$19,000	\$19,000	\$19,000
<u>Commissions @ 7%</u>	<u>\$53,200</u>	<u>\$53,200</u>	<u>\$53,200</u>	<u>\$53,200</u>
Total Rev. and Psgr. Related	\$154,660	\$154,660	\$154,660	\$154,660
Counter Rental @ Merced	\$13,200	\$13,200	\$13,200	\$13,200
Counter Rental @ LAS @ \$1.25/pax.	\$9,500	\$9,500	\$9,500	\$9,500
Advertising & Promotion	\$25,000	\$25,000	\$25,000	\$25,000
Landing Fees	\$8,913	\$8,913	\$8,913	\$8,913
Misc / Depreciation	\$87,031	\$87,031	\$87,031	\$87,031
<u>Crew Training</u>	<u>\$23,100</u>	<u>\$23,100</u>	<u>\$23,100</u>	<u>\$23,100</u>
Misc. Operating Expense	\$166,744	\$166,744	\$166,744	\$166,744
Fuel @ \$166.75/hr. (115 gph @ \$1.45/gallon)	\$333,167	\$333,167	\$333,167	\$333,167
Airframe & Avionics Parts (\$89/FH)	\$177,822	\$177,822	\$177,822	\$177,822
<u>Engine MX & Reserves (\$110/FH)</u>	<u>\$219,780</u>	<u>\$219,780</u>	<u>\$219,780</u>	<u>\$219,780</u>
Variable Directs	\$730,769	\$730,769	\$730,769	\$730,769
TOTAL EXPENSES Before Profit and G&A	\$1,877,066	\$1,950,254	\$1,877,066	\$1,962,141
G&A at 6.4%	\$120,132	\$124,816	\$120,132	\$125,577
<u>Profit at 5%</u>	<u>\$99,860</u>	<u>\$103,754</u>	<u>\$99,860</u>	<u>\$104,386</u>
Total Economic Cost	\$2,097,058	\$2,178,824	\$2,097,058	\$2,192,104
Subsidy @ 98% Completion	\$949,458	\$1,031,224	\$749,433	\$844,479

1/ MCE-LAS: 28 nonstop flights/week 1.4 hrs. x 52 weeks x .98 = 1,998 flt. hrs.

2/ \$60,260*314/365 days = \$51,840; \$33,350*51/365 days = \$4,660.

3/ \$102,078*314/365 days = \$87,815; \$43,913*51/365 days = \$6,136.

**Scenic Airlines, Inc., Essential Air Service to be Provided to
Merced, California, Docket 3521**

Effective Period: November 1, 2001, through October 31, 2003.

Scheduled Service:

14 nonstop stop round trips each week to Las Vegas.

Aircraft: 19-seat Beech 1900

Subsidy Rate per Las Vegas Flight: First Year, \$722.65; Second Year, \$591.79 ¹

Weekly Compensation Ceilings: First Year, \$20,234.20; Second Year, \$16,570.12 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 \$1,031,224 the first year and \$844,479 the second year, divided by 2,235 annual one-way flights calculated as follows: 28 flights/week*52 weeks*.98 completion = 1,427 flts.

² 28 flights per week x \$722.65 the first year and \$591.79 the second year.