

Order 97-9-34
Served: October 2, 1997



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

Issued by the Department of Transportation
on the 26th day of September, 1997

Essential Air Service at

SEWARD, ALASKA

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

Dockets OST 97-2942

ORDER TENTATIVELY RESELECTING CARRIER

Summary

By this order we are tentatively reselecting F. S. Air Service, Inc. to provide subsidized essential air service at Seward, Alaska, for the two-year period beginning October 1, 1997, through September 30, 1999, at an annual subsidy rate of \$77,918. (See Appendix A for a map.)

Background

F. S. Air Service, Inc. was last selected to provide essential air service at Seward, Alaska, pursuant to Order 95-11-7, issued November 3, 1995. The annual subsidy rate of \$77,519 established by that order will expire September 30, 1997.

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 F. S. Air Service, Inc. to submit a proposal for continuation of essential air service at Seward.

Carrier Service Proposal

In response to our inquiry F. S. Air Service indicated its desire to continue to provide the historical level of service at Seward for a new two-year rate term: ten nonstop round trips a week to Anchorage during the peak period and three nonstop round trips a week during the off-peak period with 9-seat Piper Navajo aircraft. Based on informal rate discussions held between the carrier and the Department staff an annual subsidy rate of \$77,918 has been agreed upon for each year of the new rate term. (See Appendix B to this order for a summary of the subsidy computation for the F. S. Air Service proposal.)

Essential Air Service Determination Amendment

The essential air service definition for Seward requires one round trip per weekday and weekend to Anchorage during the peak period and two round trips per week to Anchorage during the off-peak period with small aircraft

(10 or fewer seats) and no more than two intermediate stops.¹ Acting on our own motion we will take this opportunity to amend this determination. We will continue to designate Anchorage as the service hub for Seward but will adjust the number of peak period round trips from six per week to ten per week and increase the number of off-peak round trips from two per week to three per week. This level of service corresponds with the level that has historically been provided by F. S. Air Service and is responsive to the market's demand. We note that Seward is one of the largest subsidized bush communities in Alaska and that the Seward-Anchorage market is characterized by a directional imbalance of cargo movement in addition to a pronounced seasonal peaking of both cargo and passenger traffic. We find that the additional service in both the peak and off-peak periods is required to accommodate all of Seward's traffic at reasonable load factors, and it is simply a continuation of the recent service levels.

Tentative Decision

We will tentatively reselect F. S. Air Service to provide essential air service at Seward as detailed in Appendix C, for an additional two-year period, from October 1, 1997, through September 30, 1999, at an annual subsidy rate of \$77,918. We find both the service and the subsidy aspects of its proposal to be reasonable.

Objections or Proposals

As usual, we will allow interested parties 20 days to object to our decision and/or to file competing proposals.² 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.

Procedures for Filing Replacement Proposals

For interested carriers unfamiliar 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 requesting proposals, conducting reviews of applicants, and selecting a replacement carrier. The second is an evidence request containing an explanatory statement, a copy of Part 204 of our regulations (14 CFR 204), and schedules setting forth our recommended form for submitting data required for calculating compensation and determining the financial and operational ability of applicants to provide reliable essential air service. (Section 204.4 describes the fitness information required of all applicants for authority to provide essential air service.) Applicant carriers that have already submitted this information in another case need only resubmit it if a substantial change has occurred. However, if there are more recent data or if there have been any changes to the information on file, carriers should provide updates of those information elements. Interested carriers that need to obtain copies of these documents may contact the Office of Aviation Analysis at (202) 366-1053.

Other Carrier Requirements

The Department is responsible for implementing various Federal statutes governing lobbying activities, drug-free workplaces, and nondiscrimination.³ Consequently, all carriers receiving

¹ See Order 85-5-39.

² See Appendix D for historical passenger and cargo traffic.

³ The regulations applicable to each of these areas are (1) 49 CFR Part 20, New Restrictions on Lobbying, Implementing title 31, United States Code, section 1352, entitled "Limitation on use of appropriated funds to influence certain Federal contracting and financial transactions"; (2) 49 CFR Part 29, Subpart F, Drug-Free Workplace Requirements (Grants) implementing the Drug-Free Workplace Act of 1988; (3) 49 CFR Part 21, Nondiscrimination in Federally-Assisted Programs of the Department of Transportation--Effectuation of Title VI of the Civic Rights Act of 1964; 49 CFR Part 27, Nondiscrimination on the Basis of Handicap in Programs and Activities Receiving or Benefiting from Federal Financial Assistance; and 14 CFR Part 382, Nondiscrimination on the Basis of Handicap in Air Travel.

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 the 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.

Community and State Comments

If we receive competing proposals the community and State are welcome to submit comments on the proposals at any time.⁴ 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 conferences results to the civic parties and ask them to file their final comments.⁵

Carrier Fitness

49 U.S.C. 41738 requires that we find a carrier fit, willing, and able to provide service before we pay it compensation for essential air service. In that regard, we last found F. S. Air Service fit by Order 95-11-7, November 3, 1995. The carrier has operated successfully for a number of years, and the Federal Aviation Administration has advised us that the carrier continues to possess a favorable compliance disposition. The FAA knows of no reason why we should not find the carrier fit. In addition, F. S. Air Service remains subject to the Department's continuing fitness monitoring. Since no information has come to our attention that would lead us to question the fitness of F. S. Air Service we conclude that the carrier remains fit to conduct the operations proposed here.

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

ACCORDINGLY,

1. The Department amends the essential air service definition for Seward, Alaska, to require at least ten round trips each week during the peak season and three round trips per week during the off-peak season, with small aircraft and with no more than two intermediate stops;
2. The Department tentatively reselects F. S. Air Service, Inc., to provide essential air service at Seward, Alaska, as described in Appendix C, for the period beginning October 1, 1997, through September 30, 1999;

⁴ Civic parties should file an original and five copies of their comments in Docket OST-97-2942. Comments should be addressed to: Documentary Services Division, Docket Section, SVC121.30, Office of the Secretary, U.S. Department of Transportation, Room PL 401, 400 Seventh Street, S.W., Washington, D.C. 20590.

⁵ 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.

3. The Department tentatively sets the final rate of compensation for F. S. Air Service, Inc., for the provision of essential air service at Seward, Alaska, at \$77,918 per year, 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 ceilings per week of \$2,305.20 in the peak period and \$691.56 in the off-peak period and shall be determined by multiplying the number of subsidy eligible arrivals and departures operated during the month by \$57.63⁶;

4. The Department finds F. S. Air Service, Inc. fit, willing, and able to operate as a commuter air carrier and capable of providing reliable essential air service at Seward, Alaska;

5. The Department requests that carriers interested parties 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 above. Objections should be filed with the Documentary Services Division, SVC-121.30 Room PL-401, 400 7th Street, S.W., Washington, D.C. 20590. Carriers interested in filing competing proposals to serve Seward, Alaska, should submit their proposals, with subsidy requests if necessary, within 20 days of the date of service of this order. Proposals should include all the data required by section 204.4 of our Regulations (14 CFR 204.4). An original and five copies of the proposal should be sent to the EAS & Domestic Analysis Division, X-53, Office of Aviation Analysis, Room 6401, Department of Transportation, 400 7th Street, S.W., Washington, D.C. 20590, with the title, "Proposal to Provide Essential Air Service at Seward, Alaska, Docket OST-97-2942;

6. The Department directs F. S. Air Service, Inc. to retain all books, records, and other source and summary documentation to support subsidy 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;

7. In the event timely objections or competing proposals are filed, the rate tentatively established in ordering paragraph (2) above, shall be effective as a final rate until further Department action;

8. If no objections or competing proposals are filed, all further procedural steps will be deemed to have been waived, and the carrier selection tentatively made by this order shall become effective on the twenty-first day after the date of service of this order; and

9. The Department will serve a copy of this order on the civic officials of Seward, Alaska, the Governor of Alaska, the Alaska Department of Transportation and Public Facilities, F. S. Air Service, Inc. and the carriers listed in Appendix E.

By:

⁶ The annual compensation of \$77,918 divided by 676 annual arrivals and departures at 100% completion.

CHARLES A. HUNNICUTT
Assistant Secretary for Aviation
and International Affairs

(SEAL)

EAS Map Will Be Supplied
On Request (202) 366-1055

Annual Compensation Projection For F. S. Air Service's
Provision of Essential Air Service At Seward, Alaska

Aircraft Type	Piper Navajo
Annual Block Hours <u>1/</u>	338
Annual Seward Arrivals/Departures <u>2/</u>	676

Revenue Forecast

Passenger (1,592 psgrs @ 65.00)	\$103,480
Freight (32,000 lbs @ \$.35/lb)	<u>11,200</u>
Total	\$114,680

<u>Direct Costs</u>	Block Hour <u>Unit Cost</u> (\$)	
Flying Operations	79.11	\$26,739
Fuel & Oil	70.45	23,812
Maintenance	118.09	39,914
Depreciation	39.29	13,280
Insurance	50.02	<u>16,907</u>
Total Direct Costs		\$120,652
Indirect Costs		\$62,775
Total Operating Costs		\$183,427
Return (AT 5% of TOC)		<u>9,171</u>
Total Economic Cost		\$192,598
Annual Subsidy At 100% Completion		\$ 77,918

1/ Block Hours

Peak (20 flts/week x 26 weeks x 30 min/ft)/60 =	260
Off-peak (6 flts/week x 26 weeks x 30 min/ft)/60 =	<u>78</u>
Total Block Hours	338

2/ Seward Arrivals/Departures:

	<u>Deps</u>
Peak (20/week x 26 weeks)	520
Off-peak (6/week x 26 weeks)	<u>156</u>
Total Seward Arrivals/Departures	676

**ESSENTIAL AIR SERVICE AT
TO BE PROVIDED AT SEWARD, ALASKA**

EFFECTIVE PERIOD: For the two-year period from October 1, 1997,
through September 30, 1999

SERVICE: Peak Period: ten nonstop round trips each week
in the Seward-Anchorage market
Off-peak: three nonstop round trips each week
in the Seward-Anchorage market

AIRCRAFT TYPE: Piper Navajo (9 passenger seats)

TIMING OF FLIGHTS: Flights must be well-timed and well-spaced to
ensure full compensation.

RATE PER SEWARD

ARRIVAL/DEPARTURE:¹ \$115.26

WEEKLY

COMPENSATION Peak:² (April-Sept.) \$2,305.20

CEILING:³ Off-peak:⁴ (Oct.-March) \$691.56

See Note on next page

¹ Annual subsidy \$77,918 divided by 676 annual arrivals and departures.

² Rate of \$115.26 times 20 arrivals at and departures from Seward each week.

³ Calendar weeks that fall into separate calendar months will be treated as part of the later month for the purpose of calculating both calendar weeks per month and the monthly compensation.

⁴ Rate of \$115.26 times 6 arrivals at and departures from Seward each week.

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.

F. S. Air Service
Origin-Destination Traffic
At Seward, Alaska

	<u>1stQ 95</u>	<u>2ndQ 95</u>	<u>3rdQ 95</u>	<u>4thQ 95</u>	<u>Total</u>
<u>Passengers</u>					
Anchorage-Seward	26	307	473	52	858
Seward-Anchorage	<u>18</u>	<u>292</u>	<u>202</u>	<u>53</u>	<u>565</u>
Total	44	599	675	105	1,423
<u>Cargo (lbs)</u>					
Anchorage-Seward	417	3,819	2,990	481	7,707
Seward-Anchorage	<u>27</u>	<u>818</u>	<u>319</u>	<u>175</u>	<u>1,339</u>
Total	444	4,637	3,309	656	9,046
	<u>1stQ 96</u>	<u>2ndQ 96</u>	<u>3rdQ 96</u>	<u>4thQ 96</u>	<u>Total</u>
<u>Passengers</u>					
Anchorage-Seward	52	275	363	12	702
Seward-Anchorage	<u>52</u>	<u>250</u>	<u>353</u>	<u>22</u>	<u>677</u>
Total	104	525	716	34	1,379
<u>Cargo (lbs)</u>					
Anchorage-Seward	481	1,913	2,534	343	5,271
Seward-Anchorage	<u>175</u>	<u>270</u>	<u>494</u>	<u>4</u>	<u>943</u>
Total	656	2,183	3,028	347	6,214

	<u>1stQ 97</u>	<u>2ndQ 97</u>	<u>3rdQ 97</u>	<u>4thQ 97</u>	<u>Total</u>
<u>Passengers</u>					
Anchorage-Seward	18	230			248
Seward-Anchorage	<u>19</u>	<u>254</u>			<u>273</u>
Total	37	484			521
 <u>Cargo (lbs)</u>					
Anchorage-Seward	279	752			1,031
Seward-Anchorage	<u>0</u>	<u>120</u>			<u>120</u>
Total	279	872			1,1519

ERA Aviation
Origin-Destination Traffic
At Seward, Alaska

	<u>1stQ 97</u>	<u>2ndQ 97</u>	<u>3rdQ 97</u>	<u>4thQ 97</u>	<u>Total</u>
<u>Passengers</u>					
Anchorage-Seward	107				107
Seward-Anchorage	<u>111</u>				<u>111</u>
Total	218				218
<u>Cargo (lbs)</u>					
Anchorage-Seward	207				207
Seward-Anchorage	<u>1</u>				<u>1</u>
Total	208				208

Service List To This Order
Will Be Supplied On Request (202) 366-1055