Order 98-7--8

Served Jul 20, 1998

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 July, 1998

Essential air service at **MT. VERNON, ILLINOIS** under 49 U.S.C. 41731 *et seq*.	**Docket OST-1996-1265**

ORDER SETTING SUBSIDY RATE
UNTIL FURTHER DEPARTMENT ACTION

Summary
By this order, the Department is setting a final annual subsidy rate of $479,699 for Great Lakes Aviation, Ltd., d/b/a United Express (Great Lakes), to provide subsidized essential air service (EAS) at Mt. Vernon, Illinois, from May 17, 1998, until further Department action.[1]

Background
Great Lakes has been providing two round trips a day, six days per week, in the Mt. Vernon-Chicago O'Hare market at an annual subsidy rate of $249,919.[2] On November 18, 1997, Great Lakes filed a 90-day notice of its intent to suspend Mt. Vernon's subsidized service, effective February 16, 1998, stating that its subsidy was not compensable.[3] Since it was the only carrier providing scheduled air service at Mt. Vernon, by Order 98-1-26, January 26, 1998, we prohibited Great Lakes' service suspension and requested replacement proposals. Great Lakes' current rate term expired June 30, 1998.

The current essential air service determination for Mt. Vernon requires at least two round trips each service day to St. Louis (nonstop), or to Chicago (one-stop), with 15-seat or larger aircraft.

Carrier Proposals

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1 See Appendix A for a map.
2 Orders 96-8-23 and 97-8-14.
3 In cases such as this, where a subsidized carrier files a suspension notice during the rate term, 49 U.S.C. 41734(d) provides that the carrier continue to receive the same subsidy rate for the earlier of 180 days, or until the regularly scheduled end of the rate term. May 17, 1998, is the 181st day and, thus, the carrier was eligible for a new subsidy rate on that date.

In response to our request for proposals, Great Lakes was the only applicant. For the near-term, Great Lakes proposes to continue to provide Mt. Vernon with two round trips a day, six days per week, over a Mt. Vernon-Springfield-O'Hare routing with 19-seat Beech 1900 aircraft. We have agreed to an annual subsidy rate of $479,699 for continuation of that level of service.[4]

Mt. Vernon civic officials have informed us that on a number of occasions Mt. Vernon passengers have been unable to purchase seats on Great Lakes flights because they were preempted by Springfield-O'Hare passengers. The staff is working with the community and Great Lakes in an attempt to devise an improved service pattern that will provide Mt. Vernon with better seat availability. In the meantime, we will set the annual subsidy rate of $479,699 for continuation of the current service pattern, to be effective from May 17, 1998, until the Department takes further action. We find that the subsidy rate authorized here is reasonable for the service being provided.

Carrier Fitness

Before we may pay a carrier for the provision of essential air service, 49 U.S.C. 41737(b) and 41738 require that we find an air carrier fit, willing, and able to provide reliable service. We last found Great Lakes Aviation fit to provide scheduled passenger service as a commuter air carrier when we selected it to provide subsidized air service at Dickinson, North Dakota, by Order 98-2-29, February 25, 1998. Since then, the Department has routinely monitored the carrier's continuing fitness, and no information has come to our attention that would lead us to question its ability to operate in a reliable manner. 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 Great Lakes remains fit.

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

ACCORDINGLY,

1. The Department sets the final rate of compensation for Great Lakes Aviation, Ltd., d/b/a United Express for the provision of essential air service at Mt. Vernon, Illinois, as described in Appendix C, from May 17, 1998, until further Department action in this case, 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 C and shall be determined by multiplying the subsidy-eligible departures from and arrivals at the hub completed during the month by $390.95;[5]

2. We direct Great Lakes Aviation, Ltd., d/b/a United Express 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

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[4] See Appendix B for the details of the subsidy rate.

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

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;

3. The annual subsidy rate we are authorizing in ordering paragraph 1 above is in lieu of and not in addition to the rate set in Orders 96-8-23 and 97-8-14;

4. We find that Great Lakes Aviation, Ltd., d/b/a United Express, continues to be fit, willing, and able to operate as a commuter air carrier and capable of providing reliable essential air service at Mt. Vernon;

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

6. We will serve a copy of this order on the Mayor and airport manager of Mt. Vernon, Illinois, the Governor of Illinois, the Illinois Department of Transportation, Great Lakes Aviation, Ltd.

By:

CHARLES A. HUNNICUTT
Assistant Secretary for Aviation
and International Affairs

(SEAL)

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Appendix A

Great Lakes Aviation, Ltd., d/b/a United Express
Calculation of Annual Compensation Requirement
at Mt. Vernon, Illinois

Departures/flights	4x 313x.98									1,227
Total ASMs @ 98% completion	19X1227x114		MVN-ORD = 114 mi.							2,657,682
Block Hours @ 98% completion	1227x38.5bh/60									787
Total RPM's 1/	2,000 pax x 288 miles									576,000
Operating revenue										
Passenger revenue	Distance		Passengers	Ave. Fare						Revenue
MVN-ORD	288	1/	2,000	$86.00						$172,000
Freight revenue	0.01		of passenger revenue							$1,720
Total operating revenue										$173,720
Operating expense:										
Direct operating expense:										
Aircraft lease	12		months x	$35,900	per mo.			x	0.25	$107,700
Hull insurance	$4,100,000			$0.006000					0.25	$6,150
Flying operations	102.91	x	787							$80,990
Fuel & oil	2,657,682	x	$0.0117		+	$57.80	x		1,227	$102,015
Maintenance	126.91	x	787		+	$34.25	x		1,227	$141,903
Total direct operating expense										$438,758
Total indirect operating expense 2/										$183,546
Total operating expense										$622,304
Operating loss										$448,584
Profit (@ 5% of total oper. exp.)										$31,115
Compensation requirement										$479,699

1/ Service: Mt. Vernon-Springfield-O'Hare (114 miles, 174 miles) = 288 miles

2/ Details of other indirect expenses on following page.

Great Lakes Aviation, Ltd., d/b/a United Express
Calculation of Annual Compensation Requirement
at Mt. Vernon, Illinois

Indirect operating expense:	Units		Rate		
Mt. Vernon Station:					
Facility lease	12		$750	a month	$9,000
Landing fee	12		$250	a month	$3,000
Local advertising	1		$5,000	a year	$5,000
Station manager	1		$22,600	a year	$22,600
Station agent	1		$17,300	a year	$17,300
Mt. Vernon to SPI De-icing	77	3/	$125.00	per turn	$9,625
Springfield Station:					
Station agent	1		$17,300	a year	$17,300
Landing fee	614		$12.45	per landing	$7,644
SPI to Mt. Vernon De-icing	77	3/	$125.00	per turn	$9,625
Liability Insurance	576,000		$0.00429	per RPM	$2,471
Marketing	2,000		$1.54	per passenger	$3,080
Accounting	2,000		$1.38	per passenger	$2,760
Security	2,000		$1.75	per passenger	$3,500
Communications	2,000		$1.15	per passenger	$2,300
Reservations	2,000		$7.44	per passenger	$14,880
Supplies	2,000		$1.91	per passenger	$3,820
Commissions	$172,000		0.07	of revenue	$12,040
Training Expense	$438,758		0.0257	of direct expenses	$11,276
Administrative	$438,758		0.06	of direct expenses	$26,325
					$183,546

3/ 614 take-offs annually. Deicing season = Nov-Apr: 307 take-offs. 25% estimate of flights needing deicing = 77.

GREAT LAKES AVIATION
ESSENTIAL AIR SERVICE AT MT. VERNON, ILLINOIS

EFFECTIVE PERIOD	May 17, 1998, until further Department action in this case.
SERVICE:	2 nonstop or one-stop round trips each weekday and over the weekend period between Mt. Vernon and Chicago O'Hare Airport
AIRCRAFT TYPE	Beech 1900 -- 19 passenger seats
TIMING OF FLIGHTS	Flights must be well-timed and well-spaced to ensure full compensation.
ANNUAL SUBSIDY RATE	$479,699
SUBSIDY RATE PER ARRIVAL/DEPARTURE	$390.95 1/
COMPENSATION CEILING EACH WEEK	$9,383 2/

FOOTNOTES APPEAR ON THE FOLLOWING PAGE

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.

FOOTNOTES

1/ Annual compensation of $479,699 divided by the estimated annual completed departures and arrivals at a 98 percent completion factor: 4 x 313 x .98 = 1,227.
2/ Subsidy rate per arrival/departure of $390.95 multiplied by 24 subsidy-eligible arrivals and departures each week.