



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

Issued by the Department of Transportation
on the 16th day of December, 1998

Ninety-day Notice of

40-MILE AIR, LTD.

under 49 U.S.C. 41731 *et seq.* to terminate service
at Chisana, Alaska

Docket OST-1998-4574

**ORDER SELECTING CARRIER AND
SETTING SUBSIDY RATE**

Summary

By this order, the Department is selecting 40-Mile Air, Ltd. to provide subsidized essential air service Chisana, Alaska, for a two-year period beginning January 12, 1999, through December 31, 2000, at an annual subsidy rate of \$12,428 (see Appendix A for a map).

Background

On October 15, 1998, 40-Mile Air, Ltd. filed a 90-day notice of its intention to suspend its subsidy-free service at Chisana, Alaska, effective January 12, 1999. The carrier accompanied its notice with a service proposal projecting an operating loss and indicating a subsidy need to maintain service at Chisana. In response to 40-Mile Air's notice, the Department issued order 98-11-3, prohibiting the suspension of service at Chisana and seeking service proposals from interested carriers. The 40-Mile Air submission is the only proposal in the case.

Carrier Service Proposal

40-Mile Air has historically provided two round trips a week in the Chisana-Tok market and has proposed to continue operating that service pattern for a two-year period. Based on informal rate discussions held between the carrier and the Department staff, an annual subsidy rate of \$12,428 has been agreed upon for two round trips per week with either Cessna 206 or 207 aircraft.

Essential Air Service Determination

Chisana's essential air service definition, as set forth in Order 80-1-167, January 25, 1980, requires at least one scheduled round trip a week to Cordova year round. Service may not exceed a maximum of three intermediate stops and may be provided with small equipment, i.e., 10 seats or smaller. With the approval of the community, 40-Mile Air has historically provided Chisana with service to and from Tok as an alternative to Cordova service.

Decision

We find that 40-Mile Air's proposed service will meet Chisana's essential air service requirements and that its subsidy proposal is reasonable. Because Chisana's traffic is directionally imbalanced, we find that the proposed two-round-trip service pattern is necessary to meet Chisana's essential air service needs. For example, inbound Chisana traffic (passengers, freight and mail) during the 12 months ended June 1998 averaged 1,322 pounds per week -- a volume about equal to the maximum revenue lift capacity of a single Cessna departure. Further, given the general reliance of the community on the two round trips a week operated by 40-Mile Air we find that continuance of this level of service at Chisana is warranted.

Carrier Fitness

49 U.S.C. 41737(b) and 41738 require that we find a carrier fit, willing, and able to provide reliable service before we may compensate it for essential air service. We last found 40-Mile Air fit to provide limited scheduled passenger service as a certificated air carrier by Order 98-5-23, May 14, 1998, in conjunction with the carrier's selection to provide essential air service at Healy Lake, Alaska. 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 40-Mile Air remains fit. Based on our review of its most recent submissions, we find that 40-Mile Air continues to have available adequate financial and managerial resources to maintain reliable service at Chisana, and that it continues to possess a favorable compliance disposition.

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

ACCORDINGLY,

1. The Department selects 40-Mile Air, Ltd. to provide essential air service at Chisana, Alaska, as described in Appendix C, for the period beginning January 1, 1999, through December 31, 2000;
2. The Department sets the final rate of compensation for 40-Mile Air, Ltd. for the provision of essential air service at, Chisana, Alaska, at \$12,428 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 ceiling per week of \$239.00 and shall be determined by multiplying the number of subsidy eligible arrivals at Chisana and departures from Chisana during the month by \$59.75;¹
3. The Department finds 40-Mile Air, Ltd. fit, willing, and able to operate as a certificated air carrier, and capable of providing reliable essential air service at Chisana, Alaska;
4. The Department directs 40-Mile Air, Ltd. 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;
5. This docket will remain open until further order of the Department; and

¹ See Appendix C for calculations.

6. The Department will serve a copy of this order on the community of Chisana, Alaska, the Governor of Alaska, the Alaska Department of Transportation and Public Facilities, and 40-Mile Air, Ltd.

By:

CHARLES A. HUNNICUTT
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>
The electronic version may not include all of the appendices*

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

Annual Compensation Projection
For Essential Air Service At
Chisana, Alaska

Block Hours: 1/ 190.7

<u>Revenue Estimate</u>		<u>Fare</u>	<u>Totals</u>
		(\$)	(\$)
Passengers	48	75.00	3,600
Cargo (pounds)	6,000	.30	1,800
Mail (trips)	104	313.50	<u>32,604</u>
Total Revenue			38,004

	<u>Block Hours</u>	<u>Rate per Block Hr.</u>	<u>Totals</u>
		(\$)	(\$)
<u>Direct Expense</u>			
Pilot & Copilot	190.7	55.00	10,489
Fuel & Oil	190.7	33.85	6,455
Insurance	190.7	29.50	5,626
Maintenance	190.7	60.00	11,442
Depreciation	190.7	20.00	<u>3,814</u>
Subtotal			37,826

<u>Indirect Expense</u>			
At 30% of Direct Co			
less Depreciation			10,204

Total Operating Expens			48,030
Return (at 5% of TOC)			<u>2,402</u>
Total Economic Cost			50,432

Annual subsidy need			
At 100% completion			12,428

1/ 1.83hrs per Tok-Chisana-Tok flight.

EFFECTIVE PERIOD: For a two-year period from January 1, 1999 through December 31, 2000

SERVICE: ² Two round trip flights a week between Tok and Chisana

AIRCRAFT TYPE: Cessna 206 or Cessna 207

RATE PER DEPARTURE: ³ \$59.75

WEEKLY COMPENSATION
CEILING: ⁴ \$239.00⁵

² 40-Mile Air would be allowed to operate service via intermediate points provided such service does not result in more than three stops in Chisana-Tok market.

³ Annual subsidy \$12,428 divided by 208 departures (104 annual EAS arrivals at Chisana + 104 EAS departures from Chisana)

⁴ 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.

⁵ Rate per arrival or departure \$59.75 x (2 Chisana arrivals + 2 Chisana departures) = \$239.00

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 this rate, 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 agreement, 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.