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

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on the 7th day of February, 2000

Served: February 10, 2000

Essential Air Service at
PAGE, ARIZONA
under 49 U.S.C. 41731, *et seq.*

DOCKET OST-97-2694 - 9

**ORDER TENTATIVELY SELECTING CARRIER
AND SETTING SUBSIDY RATE**

Summary

By this order, the Department is tentatively reselecting Sunrise Airlines, Inc. (Sunrise), to provide essential air service at Page, Arizona, for a two-year period, at an annual subsidy of \$686,014. (See Appendix D for a map.)

Background

By Order 97-10-21, October 28, 1997, the Department selected Scenic Airlines to provide essential air service at Page, Arizona. Scenic was selected to provide service consisting of three nonstop round trips to Phoenix each weekday and over each weekend period, with 19-seat Beech 1900 aircraft. Annual subsidy for the first year of service was set at \$758,575, and for the second year of service at \$595,470. At the end of 1998, the nonscheduled operating assets of Scenic Airlines were sold to Eagle Canyon Airlines and the essential air service operations (including the Page operations, the contract for Ely service, and a hangar at Page) were renamed "SunAir Express, Inc." SunAir was subsequently sold to JCMI, Inc., a holding company wholly owned by Mr. Clifford Langness, and the carrier's name was changed to Sunrise Airlines. Sunrise now operates its Page service with 13-seat Jetstream aircraft. The carrier's rate term expired December 31, 1999.

As is our normal custom when nearing the end of a carrier's rate term, we contact the carrier to determine whether it is interested in continuing service at the community 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 two-year 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 Sunrise to submit a proposal for continuation of essential air service at Page.

Carrier Proposal

Sunrise submitted a proposal to provide essential air service at Page, with 13-seat Jetstream aircraft, for a new two-year rate term. The carrier proposes to provide the community with seasonal service to Phoenix as follows:

<u>Peak</u>	(The six-month period beginning on or about May 1) Three nonstop round trips per day
<u>Off-Peak</u>	(The six-month period beginning on or about November 1) Sun/Tues/Wed/Thu – Two nonstop round trips Mon/Fri – Three nonstop round trips Sat – One nonstop round trip

Sunrise states that the proposed seasonal service would be the equivalent of three round trips per day on an annual basis but should better serve the needs of the Page market. Sunrise and the staff have agreed to an annual subsidy of \$686,014 for this service.

Sunrise and the staff have further agreed to extend the annual rate of \$595,470, set by Order 97-10-21, for the period beginning January 1, 2000, through March 31, 2000. The new two-year rate term would then be effective starting April 1, 2000.

By letter dated December 16, 1999, the City of Page and the Page Airport Board fully support the proposal of Sunrise to provide seasonal service for a new two-year period. They state that air service is absolutely essential to the City of Page, and without Sunrise's service, the quality of life in Page would suffer because of the community's extreme isolation.

Tentative Reselection

Sunrise continues to provide Page with reliable essential air service and enjoys the full support of the Page community. The amount of subsidy that the carrier is requesting for this service appears reasonable. In view of the above, we will tentatively reselect Sunrise to provide essential air service at Page, in accordance with the service levels outlined in its proposal, for an additional two-year period beginning April 1, 2000, and ending March 31, 2002. As set forth in Appendix B, service is to be provided with 13-seat Jetstream aircraft at an annual subsidy of \$686,014.

Also, we will extend as a final rate, Sunrise's annual subsidy of \$595,470, for three nonstop round trips a day to Phoenix, established by ordering paragraph 2 of Order 97-10-21, from January 1, 2000, through March 31, 2000.

Responses to Tentative Decision and Competing Proposals

We will give interested persons 20 days from the date of service of this order to show cause why we should not make final our tentative decision to reselect Sunrise to provide essential air service at Page, at the service and subsidy levels discussed above. 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 applicant to serve a copy of its proposal on the civic parties and other applicants. We will give full consideration to all proposals that are timely filed.

Competing proposals may contemplate service to Salt Lake City, Phoenix, Las Vegas, or any other appropriate hub city. Service should consist of at least three round trips each service day to the hub with 15- to 19-seat aircraft, or two round trips a day if provided with larger aircraft. In order to help carriers in their passenger and revenue forecasts, we have included historical traffic data in Appendix A.

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.¹ Consequently, all

¹ The regulations applicable to each of these three areas are (1) 49 CFR Part 20, New Restrictions of 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,

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 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. Early in the proceeding, comments on the proposals' strengths and weaknesses would be particularly helpful, and the civic parties may also express a preference for a particular carrier, if they choose. In any event, after conducting rate conferences with all applicants, we will provide a summary of the conference results to the civic parties and ask them to file their final comments.²

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. Sunrise is a commuter air carrier and has operated successfully for a number of years. It was originally found fit by Order 91-12-45 as Aviation Services West, Inc., and was a subsidiary of SkyWest Airlines. In December 1993, the carrier changed its name to Scenic Airlines, Inc. In late 1998, SkyWest sold the nonscheduled assets of Scenic to Eagle Canyon Airlines. The remaining entity changed its name to SunAir Express on December 30, 1998. SunAir Express was then purchased by JCMI, Inc., a holding company wholly owned by Cliff Langness, and the name was changed to Sunrise Airlines on April 2, 1999. Sunrise remains subject to the Department's continuing fitness monitoring. No information has come to our attention that would lead us to conclude that Sunrise does not continue to be fit. The Federal Aviation Administration states that it knows of no reason to question Sunrise's fitness. We therefore conclude that the carrier remains fit to conduct the operations proposed here.

Subpart F, Drug-Free Workplace Requirements (Grants), implementing the Drug-Free Workplace Act of 1988; and (3) 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 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.

² In cases where a carrier proposes to provide 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 as proposed.

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

ACCORDINGLY,

1. We tentatively reselect Sunrise Airlines, Inc., to provide essential air service at Page, Arizona, as described in Appendix B, for the period beginning April 1, 2000, through March 31, 2000;
2. We tentatively set the final rate of compensation for Sunrise Airlines, Inc., for the provision of essential air service at Page, Arizona, as described in Appendix B, for the period from April 1, 2000, through March 31, 2002, payable as follows: for each month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling set forth in Appendix B, and shall be determined by multiplying the subsidy-eligible arrivals and departures completed during the month by \$377.76;³
3. We extend the rate of \$595,470 for Sunrise Airlines, Inc., as set by ordering paragraph 2 of Order 97-10-21, for the provision of essential air service at Page, Arizona, for the period beginning January 1, 2000, through March 31, 2000;
4. We direct Sunrise Airlines, 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 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. We find that Sunrise Airlines, Inc., continues to be fit, willing and able to operate as a commuter air carrier and capable of providing essential air service at Page, Arizona;
6. We direct Sunrise Airlines, Inc., and any other interested persons having objections to the selection of Sunrise Airlines, Inc., to provide essential air service as described in ordering paragraph 1 above, at the rate set forth in ordering paragraph 2 above, to file such objections or competing service proposals no later than 20 days from the date of service of this order;⁴

³ 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, revision of this rate may be required.

⁴ Objections should be filed with the Documentary Services Division, SVC-121.30, 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.

7. If we receive objections or competing proposals within the 20-day period, Sunrise Airlines, Inc., will be compensated at the subsidy rate set forth in ordering paragraph 2 above as a final rate, effective April 1, 2000, until all objections are resolved;
8. 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.⁵ 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;
9. Docket OST 97-2694 shall remain open until further order of the Department; and
10. We will serve copies of this order on the mayor of Page, the Page Airport Board, the Arizona State Department of Transportation, the Governor of Arizona; Sunrise Airlines, and the parties listed in Appendix E.

By:

A. BRADLEY MIMS
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.*

⁵ Since we are providing for the filing of objections to this order, we will not entertain petitions for reconsideration.

Appendix A

PAGE, ARIZONA

Historical O & D Passengers

<u>Quarter</u>	<u>PGA-PHX</u>	<u>PHX-PGA</u>	<u>Total</u>
1/95	1,193	1,211	2,404
2/95	1,709	1,956	3,665
3/95	1,735	1,983	3,718
4/95	<u>1,275</u>	<u>1,197</u>	<u>2,472</u>
	5,912	6,347	12,259
1/96	763	930	1,693
2/96	1,576	1,726	3,302
3/96	2,140	2,267	4,407
4/96	<u>1,666</u>	<u>1,674</u>	<u>3,340</u>
	6,145	6,597	12,742
1/97	1,226	1,276	2,502
2/97	746	762	1,508
3/97	532	492	1,024
4/97	<u>703</u>	<u>714</u>	<u>1,417</u>
	3,207	3,224	6,451
1/98	517	527	1,044
2/98	1,182	1,172	2,354
3/98	1,674	1,630	3,304
4/98	<u>782</u>	<u>827</u>	<u>1,609</u>
	4,155	4,156	8,311
1/99	688	618	1,306
2/99	1,042	1,011	2,053
3/99	1,230	1,320	2,550
4/99	<u>856</u>	<u>793</u>	<u>1,649</u>
	3,816	3,742	7,558

Source: RSPA Form 298-C, Schedule A-1

APPENDIX B

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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.

Sunrise Airlines
Small Community Air Service to be Provided at
Page, Arizona
Calculation of Compensation Requirement

Total block hours		2,397 ^{1/}
<u>Revenue</u>		
Route: PGA-PHX		
Passengers	<u>Fare</u>	<u># Passengers</u>
Freight @ 1%	\$95.00	8,800
Total operating revenue		\$836,000
		\$8,360
		\$844,360
<u>Direct Operating Expense</u>		
Aircraft lease	<u>Unit Cost</u>	
Hull insurance		\$126,000
Flying operations		\$68,400
Fuel & oil	\$85.00 per BH	\$203,745
Reserves	\$90.00 per BH	\$215,730
Maintenance	\$57.00 per BH	\$136,629
Other	\$121.00 per BH	\$290,037
Total direct operating expenses	\$30.00 per BH	\$71,910
		\$1,112,451
<u>Indirect operating expense:</u>		
Landing Fees		
Wages	\$16.00 per PHX arr	\$14,528
Rent	\$10,250.00 per month	\$123,000
Commissions @ 7%	\$2,000.00 per month	\$24,000
Advertising		\$58,520
Administration		\$5,000
Total indirect operating expense	\$10,000.00 per month	\$120,000
		\$345,048
Total Operating Expense		\$1,457,499
Operating Loss		\$613,139
Profit @ 5%		\$72,875
Compenstation Requirement		\$686,014

^{1/} Total block hours calculated as follows:

Peak: (26 weeks X 1.32 hours per flight X 42 flights per week X .97) = 1398 hours

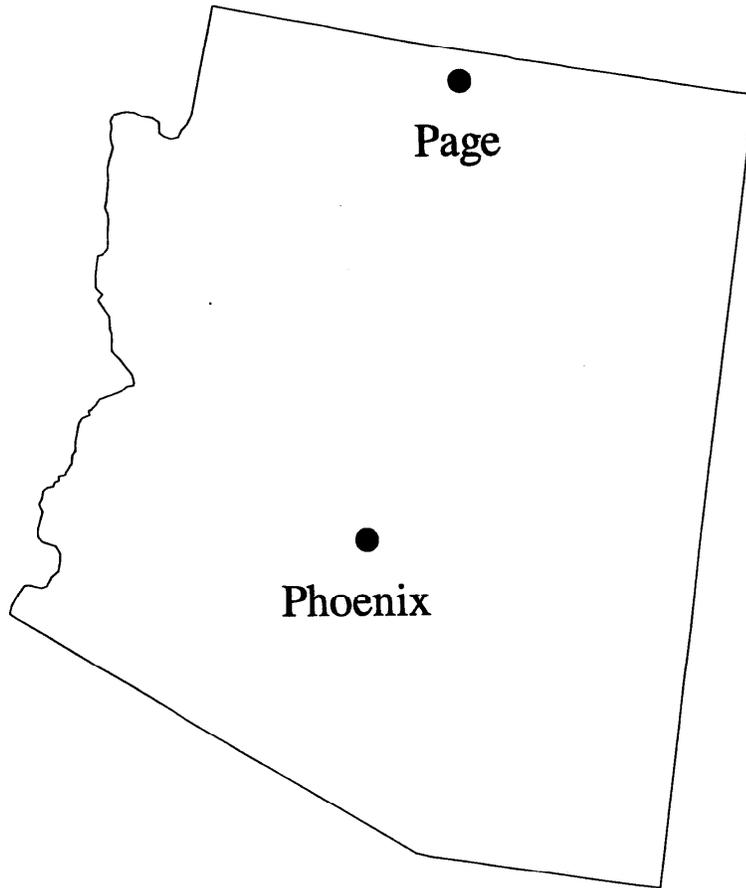
Off-Peak: (26 weeks X 1.32 hours per flight X 30 flights per week X .97) = 999 hours

^{2/} Total number of flights calculated as follows:

Peak: (26 weeks X 42 flights per week X .97) = 1,059 flights.

Off-Peak: (26 weeks X 30 flights per week X .97) = 757 flights.

ARIZONA



SERVICE LIST FOR THE STATE OF ARIZONA

Air L.A., Inc.	Redtail Aviation
Air Midwest, Inc.	Renown Aviation, Inc.
Air Nevada Airlines, Inc.	Sierra Nevada Airways, Inc.
Air Transport, Inc.	Skywest Airlines, Inc.
Air Vegas, Inc.	WestAir Commuter Airlines, Inc.
Alpha Air	Wings West Airlines, Inc.
Alpine Aviation, Inc.	World Airways, Inc.
Amerijet International, Inc.	
Arizona Airways, Inc.	Ken Bannon
Arizona Pacific Airlines, Inc.	E.B. Freeman
Aviation Services West, Inc.	Ben Harrison
Balter Worldwide Corporation	A. Edward Jenner
Barken International, Inc.	John McFarlane
Delta Connection	Andy Pike
Grand Canyon Airlines, Inc.	Kevin Thomas
Great Lakes Aviation, Ltd.	
Martin Aviation, Inc.	
Mesa Airlines, Inc.	
Metroflight, Inc.	
Midway Airlines, Inc.	
Midwest Express Airlines, Inc.	
Northwest Airlink	
Pacific Air West, Inc.	