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Order 2000-3-4
Served: March 15,



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

Issued by the Department of Transportation
on the 13th Day of March, 2000

Essential Air Service at

KODIAK BUSH, ALASKA

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

Docket OST-00-6945-3

ORDER SETTING FINAL RATE UNTIL FURTHER DEPARTMENT ACTION

SUMMARY

By this order we are setting a final annual rate for Peninsula Airways' essential air service at Amook Bay, Kitoi Bay, Moser Bay, Olga Bay, Port Williams, Seal Bay, West Point, and Zachar Bay, Alaska, until further Department action. ¹ The carrier's most recent rate expired January 31, and on February 15, 2000, it filed notice to suspend service at all of the Kodiak Bush communities.

DISCUSSION

By Order 98-3-5 the Department selected Peninsula to provide essential air service at Kodiak Bush, Alaska, and set an annual subsidy rate of \$144,084 for Peninsula for the two-year period ending January 31, 2000. Service was to be provided as follows:

<u>Community</u>	<u>Round Trips per Week</u>	
	<u>Peak Frequency</u>	<u>Off-peak Frequency</u>
1. Olga Bay	Three	One
2. Moser Bay	Three	One
3. Amook Bay	Two	One
4. West Point	Two	One
5. Kitoi Bay	Two	One
6. Seal Bay	Two	One
7. Port William	Two	One
8. Zachar Bay	Two	One

¹ Peninsula has agreed to provide subsidy-free essential air service at three communities where it has filed notice--Alitak/Lazy Bay, Port Bailey, and San Juan/Uganik--until it is replaced.

We have reached agreement with Peninsula on the level of subsidy it would require to provide the Kodiak Bush service while we process a carrier replacement case due to its having filed notices to suspend service. Because the carrier no longer has the Grumman G-44 Widgeon, the aircraft previously selected, we have agreed to pay Peninsula for the cost of operating its more expensive Grumman G-21 Goose. In view of the larger capacity of the Goose, the carrier has proposed to provide only two round trips a week at Olga Bay and Moser Bay in the peak period. Otherwise the service level proposed corresponds to the level previously selected. We find that the proposed subsidy level is reasonable and appropriate for the service proposed.

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

ACCORDINGLY,

1. The Department sets the final rate of compensation for Peninsula Airways, Inc., for the provision of essential air service at Amook Bay, Kitoi Bay, Moser Bay, Olga Bay, Port Williams, Scal Bay, West Point, and Zachar Bay, Alaska, 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 weekly ceiling and shall be determined by multiplying the subsidy-eligible flights each way completed during the month between the hub of Kodiak and each eligible community by \$200.74;²
2. We direct Peninsula 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
3. The Department will serve copies of this order on the Governor and Department of Transportation of the State of Alaska, and Peninsula Airways, Inc.

By:

A. Bradley Mims
Deputy 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>*

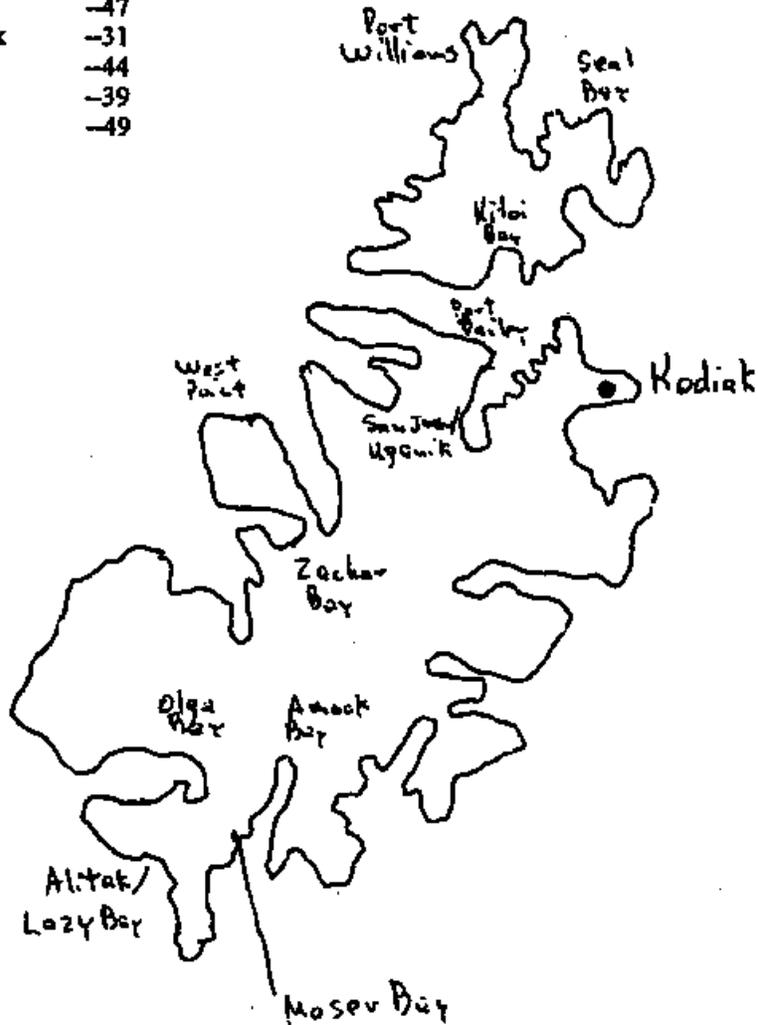
The electronic version may not include all of the appendices

² See Appendix C for calculation.

Communities Requiring Service with Amphibious Aircraft on Kodiak Island

Nonstop Mileages to Kodiak:

1. Alitak/Lazy Bay	--89
2. Amook Bay	--54
3. Kitoi Bay	--31
4. Moser Bay	--80
5. Olga Bay	--77
6. Port Bailey	--24
7. Port Williams	--47
8. San Juan/Uganik	--31
9. Seal Bay	--44
10. West Point	--39
11. Zachar Bay	--49



Peninsula Airways' Annual Subsidy Need at 8 Kodiak Bush Points, Docket 42908

Aircraft Type	G-21 Goose
Block Hours 1/	292
Passengers	\$71,427
Cargo	\$7,132
Mail	\$24,740
Total Revenue 2/	\$103,299
Flying Operations @ \$137.50/hr.	\$40,150
Fuel & Oil @ \$124.59/hr.	\$36,380
Other @ \$57.61/hr.	\$16,822
Maintenance @ \$240.33/hr.	\$70,176
<u>Depreciation @ \$88.01/hr.</u>	<u>\$25,699</u>
Direct Expense	\$189,227
Traffic related @ 12.46% of revenue	\$12,871
Departure related @ \$20.35/wtd.dep.	\$68,173
<u>Capacity related @ 11.69%</u>	<u>\$31,595</u>
Indirect Expense 3/	\$112,639
Total Operating Expense	\$301,866
Return at 5%	\$15,093
<u>Interest @ 3.7%</u>	<u>\$11,169</u>
Total Economic Cost	\$328,128
Annual Subsidy Need	\$224,829

1/ Off-peak, 34 weeks		Hours	Deps.						
ADQ-KOY-KMY-ADQ; (40+10+40)min. x 1x 34week		51	102						
ADQ-KKB-SYB-KPR-ADQ; (15+10+10+40) x 1 x 34		43	136						
ADQ-KWP-KZB-AOS-ADQ; (25+15+10+35) x 1 x 34		48	136						
Peak, 18 weeks		142	374						
ADQ-KOY-KMY-ADQ; (40+10+40)min. x 2 x 18wee		54	108						
ADQ-KKB-SYB-KPR-ADQ; (15+10+10+40) x 2 x 18		45	144						
ADQ-KWP-KZB-AOS-ADQ; (25+15+10+35) x 2 x 18		51	144						
		150	396						
		Totals:	292	770 x 4.35 wt.	3,350 wtd. departure				
2/	Pax.	Rate	Revenue	Cargo Lbs.	Rate	Revenue	Mail Lbs.	Rate	Reven
AOS	42	\$68.20	\$2,864	3,613	\$.40	\$1,445	4,230	\$.6248	\$2.6
KKB	44	\$54.55	\$2,400	426	\$.35	\$149	4,817	\$.5137	\$2.4
KMY	193	\$109.12	\$21,060	4,149	\$.45	\$1,867	3,854	\$.7581	\$2.9
KOY	159	\$109.12	\$17,350	1,114	\$.45	\$501	0	\$.7431	
KPR	67	\$72.75	\$4,874	1,788	\$.40	\$715	7,609	\$.5935	\$4.5
SYB	119	\$63.65	\$7,574	2,538	\$.35	\$888	5,667	\$.5785	\$3.2
KWP	117	\$55.15	\$6,453	177	\$.35	\$62	12,882	\$.5536	\$7.1
KZB	127	\$69.70	\$8,852	3,762	\$.40	\$1,505	2,943	\$.6035	\$1.7
	868		<u>\$71,427</u>	17,567		<u>\$7,132</u>	42,002		<u>\$24.7</u>

**Peninsula Airways, Inc., Essential Air Service to be Provided to
8 Kodiak Island Bush Communities**

Effective Period: February 1, 2000, until further Department action

Scheduled Service:

Kodiak-Olga Bay-Moser Bay-Kodiak--Two round trips per week peak and one round trip per week off-peak; Kodiak-Kitoi Bay-Seal Bay-Port Williams-Kodiak--Two round trips per week peak and 1 round trip per week off-peak; Kodiak-West Point-Zachar Bay-Amook Bay-Kodiak--Two round trips per week peak and 1 round trip per week off-peak.

Aircraft: Grumman G-21 Goose

Weekly Ceilings and Hub Arrivals/Departures for each Point¹

<u>Communities</u>	<u>18-Week Peak Period</u>	<u>34-week Off-Peak Period</u>
Moser Bay	4, \$802.96	2, \$401.48
Olga Bay	4, \$802.96	2, \$401.48
Port Williams	4, \$802.96	2, \$401.48
Seal Bay	4, \$802.96	2, \$401.48
West Point	4, \$802.96	2, \$401.48
Zachar Bay	4, \$802.96	2, \$401.48
Amook Bay	4, \$802.96	2, \$401.48
Kitoi Bay	4, \$802.96	2, \$401.48

Rate per Departure/Arrival that can be ascribed to each point from Hub: \$200.74

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 \$224,829 annual compensation, divided by 1,120 annual one-way flights at Kodiak that can be ascribed to each community, calculated as follows:

$$(4+4+4+4+4+4+4) \times 18 \text{ weeks} = 576$$

$$(2+2+2+2+2+2+2) \times 34 \text{ weeks} = 544$$