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Order 2000-4-17

Served: April 21, 2000



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

Issued by the Department of Transportation
on the 18th day of April, 2000

Essential Air Service at

VERNAL, UTAH

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

Docket OST-97-2706 - 9

**ORDER SELECTING CARRIER
AND SETTING FINAL RATE**

Summary

By this order the Department is selecting Sunrise Airlines, Inc. (Sunrise) to provide subsidized EAS at Vernal, Utah, for the two-year period beginning when the carrier inaugurates service at the community, through May 31, 2002, at an annual subsidy of \$594,706.

Background

By Order 97-7-12, issued July 11, 1997, SkyWest Airlines, Inc. (SkyWest) was selected to provide essential air service at Vernal for an additional two-year period. Subsidy was set at an annual rate of \$280,854 for the period December 28, 1997, through December 27, 1999, for three nonstop round trips each weekday and over each weekend period between Vernal and Salt Lake City, with 30-seat Embraer Brasilia aircraft.



Toward the end of SkyWest's contract expiring December 27, 1999, we received interest from other carriers in providing essential air service at Vernal. As a result, by Orders 99-10-24, issued October 27, 1999, and 99-12-1, issued December 1, 1999, we requested proposals from carriers interested in providing essential air service at Vernal.

In response to our requests, only Sunrise filed a proposal.

Summary of Air Carrier Proposals

Sunrise submitted a proposal with two service options:

Option 1: Sunrise proposes to provide service to Vernal only consisting of eighteen nonstop round trips each week to Salt Lake City. Service would be provided with Jetstream 31 aircraft configured for 13 passengers. Sunrise requests an annual subsidy of \$594,706 for providing this service

Option 2: In the interest of seeking lower-cost alternative service, we explored with Sunrise the possibility of integrating its existing service at Moab, Utah,¹ with its proposed service to Vernal. Under this scenario, Sunrise proposes to provide Vernal with twelve nonstop and six one-stop (at Moab) round trips each week to Salt Lake City. The carrier would provide Moab with five nonstop and 13 one-stop (at Vernal) round trips each week, also to Salt Lake City. As in Option 1, service would be provided with Jetstream 31 aircraft configured for 13 passengers. Sunrise requests an annual subsidy of \$1,033,816 for providing this combined service

Community Comments

On behalf of the Vernal community, comments on the carrier selection decision were submitted by Vernal City and the Uintah County Commission. Comments were also submitted by the City of Moab.

Vernal City strongly suggests that the Department select the direct Vernal-Salt Lake City route (Option 1). It states that directing passengers through Moab would be a significant degradation of air service and very likely would discourage air travel to and from the Vernal area. The City also states that air service to the Vernal Community is essential and that Sunrise Airlines has the capacity to provide that air service. The City specifically notes that Sunrise has experience in providing air service to rural communities in the intermountain area.² The City is concerned that Sunrise will operate at a non-sterile area at the Salt Lake City airport, meaning that passengers will have to go through a security check before boarding connecting flights. Finally, the City states that it is concerned about the limited freight carrying capacity of the Jetstream aircraft operated by Sunrise versus the Brasilia aircraft operated by the incumbent SkyWest Airlines. Freight service, the City states, is essential to the oil and gas industry and many other businesses located in the Vernal area.

The Uintah County Commission also supports the selection of Sunrise's direct service to Salt Lake City. It states that the combined service with Moab would have an extremely detrimental effect on passenger levels. The County further states that air

¹ See Order 99-6-13, issued June 14, 1999, for details of Sunrise's current essential service at Moab.

² Vernal City bases its comments in part on a presentation made to them on March 14, 2000, by the Vice President of Sunrise.

service is important to Uintah County because of its isolation,³ that Vernal is a business and shopping center for much of northeastern Utah and northwestern Colorado, and is the hub for gas and oil fields and mines in the area. The County notes that Dinosaur National Monument, Flaming Gorge National Recreation Area and Flaming Gorge Dam and Reservoir are located near by. The County states that it also has met with a representative of Sunrise Airlines to discuss their proposal, to become acquainted with their operations, and to discuss with them the needs and desires for air service. After concluding discussions with Sunrise, the County states that they believe that Sunrise will strive to meet the community's needs and that any problems involved with the changeover of service responsibility can be worked out as smoothly as possible.⁴

The Mayor of Moab filed comments on behalf of the City of Moab, and after consulting with the Grand County Council. The Mayor states that, although it might be interesting to be able to fly to Vernal, the delay in arrival in Salt Lake which would result from the addition of that stop to the scheduled flight would make it a less popular choice with area residents.

Selection Decision

After careful consideration of the two options presented by Sunrise, and upon review of the comments submitted by the civic parties of Vernal and Moab, we have decided to select Sunrise to provide subsidized essential air service at Vernal, for a two-year period beginning when the carrier inaugurates service at the community, on or about June 1, 2000, through May 31, 2002. Service will be operated in accordance with the carrier's Option 1, set forth above. We will set a final rate of \$ \$594,706 per year for this service.

While combining service with Moab under Sunrise's Option 2 may realize some small savings in subsidy,⁵ it nevertheless would represent a considerable degradation of service for both communities over what they are currently receiving from SkyWest. Without strong support from the communities for such combined service, we are not disposed to select Option 2.

Comments from officials of those communities where Sunrise currently operates have been mostly favorable toward the carrier's service. Thus, we are confident that Sunrise has the ability to provide reliable air service at Vernal. We have been assured by officials at Sunrise that the carrier is working on establishing a baggage handling agreement with Delta and this agreement should be in place with a few weeks.

³ The County states that Vernal has no rail service or major freeway and is located approximately 180 miles from Salt Lake City and 330 miles from Denver.

⁴ According to the County, some of these problems include their concerns about baggage handling, freight, and passenger connections for continued flights. The County believes that the answer to these problems will only come with experience.

⁵ Selection of Option 2 would result in a yearly savings of approximately \$156,000.

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 JCMD, Inc., a holding company wholly owned by Cliff Langness, and the name was changed to Sunrise Airlines on April 2, 1999.

Sunrise currently provides subsidized essential air service at communities in Utah, Nevada and Arizona. It was most recently found fit by the Department in Order 2000-2-9, issued February 7, 2000, to provide reliable essential air service at Page, Arizona. 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.

Carrier Transition

We expect both carriers to work together to arrange an orderly transition of service at Vernal, including notifying all passengers holding reservations on affected flights that SkyWest's service will be suspended, informing them of the availability of replacement service by Sunrise, and assisting them in making alternative reservations.

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

ACCORDINGLY,

1. We select Sunrise Airlines, Inc., to provide essential air service at Vernal, Utah, as described in Appendix A, for the period beginning when Sunrise inaugurates service at the community, through May 31, 2002;
2. We set the final rate of compensation for Sunrise Airlines, Inc., for the provision of essential air service at Vernal, Utah, as described in Appendix A, for the period beginning when Sunrise inaugurates service at the community, through May 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 A, and shall be determined by multiplying the subsidy-eligible arrivals and departures completed during the month by \$324.09;⁶

⁶ See Appendix B 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.

3. 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;
4. We find that Sunrise Airlines, Inc., continues to be fit, willing and able to operate as a commuter air carrier and capable of providing reliable essential air service at Vernal, Utah;
5. Docket OST 97-2706 shall remain open until further order of the Department; and
6. We will serve copies of this order on the mayors and airport managers of Vernal and Moab, Utah, the Utah Department of Transportation, the Governor of Utah; Sunrise Airlines, SkyWest Airlines, and the parties listed in Appendix C.

By:

A. BRADLEY MIMS
Deputy Assistant Secretary for Aviation
and International Affairs

(SEAI.)

*An electric 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.*

**SUNRISE AIRLINES, INC.
ESSENTIAL AIR SERVICE TO BE PROVIDED AT
VERNAL, UTAH**

Effective Period: Inauguration of service, through May 31, 2002

Service: Eighteen nonstop round trips each weekday and over each weekend period to Salt Lake City

Aircraft: Jetstream 31, configured for 13 passengers

Timing of Flights: Flights must be well timed and well spaced to ensure full compensation.

Subsidy Rate: Per year - \$594,706
Per arrival or departure: - \$324.09 ¹

Weekly

Compensation Ceiling: \$11,667.24 ²

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.

¹ Annual compensation of \$594,706, divided by the number of arrivals and departures estimated to be performed annually (1,835), calculated by multiplying 36 arrivals and departures each week by 52 weeks, and multiplying further by 98 percent completion. (36 Departures/arrivals x 52 x .98 = 1,835)

² The subsidy rate for each arrival/departure (\$324.09) multiplied by the number of scheduled subsidy-eligible flights per week (36).

**SUBSIDY CALCULATION
SUNRISE AIRLINES
VERNAL, UTAH**

Passengers	6,200
Avg. Fare	\$89.00
Pax. Revenue	\$551,800
Frnt.Rev. @ 1%	<u>\$5,518</u>
Total Revenue	\$557,318
Blk. Hours @ 97%	1,453
SLC Ldg. @ 97%	908
Flight Crew @ \$85/hr.	\$123,505
Dispatch, Training @ \$30/hr.	\$43,590
Insurance @ \$46.36/hr.	\$67,360
Fuel & Oil @ \$112.50/hr.	\$163,463
Maintenance @ \$178/hr.	\$258,634
Lease @ \$86.07/hr.	<u>\$125,060</u>
Total Directs	\$781,612
Wages	\$92,250
SLC Ldg. Fees @ \$15.72/l dg.	\$14,274
SLC Rent	\$24,856
EAS Ldg Fees	\$2,170
EAS Community Rent	\$10,440
Comm. & related @ 7% of Rev.	\$38,626
Advertising @ \$5,000/communit	\$5,000
Adm. @ 13.2% of Other Exp.	<u>\$127,938</u>
Total Indirects	\$315,554
Total Operating	\$1,097,166
Profit @ 5%	<u>\$54,858</u>
Total Economic Cost	\$1,152,024
Annual Subsidy	\$594,706

1/ 36 flights/week x 52 weeks x .8 hours/flight x 97% completion = 1,453 block hours

2/ 36 flights/week x 52 weeks x 97% completion x .5 = 908 SLC landings

SERVICE LIST

Air L.A., Inc.
Air Nevada Airlines, Inc.
Air Vegas, Inc.
Alpine Aviation, Inc.
America Aviation
Amerijet International, Inc.
Arizona Airways, Inc.
Arizona Pacific Airlines, Inc.
Aspen Airways, Inc.
Aviation Services West, Inc.
Barken International, Inc.
Big Sky Transportation Co.
Blue Ridge Airlines
Delta Connection
Empire Airlines, Inc.
Grand Airways, Inc.
Grand Canyon Airlines, Inc.
Martin Aviation, Inc.
Mesa Airlines, Inc.
Metroflight, Inc.
Midway Airlines, Inc.
Midwest Express Airlines, Inc.
Northern Tier Airlines, Inc.
Northwest AirlinK

Pacific Air West, Inc.
Redtail Aviation
Rocky Mountain Helicopters, Inc.
Sierra Nevada Airways, Inc.
Wings West Airlines, Inc.

Ken Bannon
E.B. Freeman
Ben Harrison
A. Edward Jenner
John McFarlane
Andy Pike
Richard A. Raymer
Kevin Thomas
Gary L. White