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

Issued by the Department of Transportation
on the 8th day of May, 2000

Served: May 11, 2000

Essential Air Service at

HEALY LAKE, ALASKA

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

DOCKET OST-98-3546 - 7

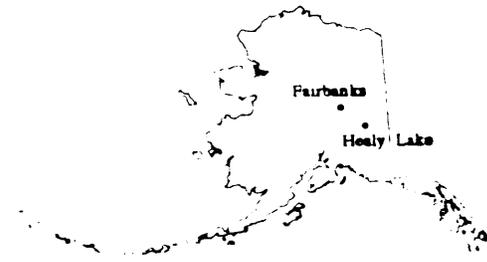
**ORDER TENTATIVELY SELECTING CARRIER
AND SETTING SUBSIDY RATE**

Summary

By this order, the Department is tentatively reselecting 40-Mile Air, Ltd., to provide essential air service at Healy Lake, Alaska, for a two-year period, at an annual subsidy of \$38,605.

Background

By Order 98-5-23, May 14, 1998, the Department selected 40-Mile Air to provide essential air service at Healy Lake, Alaska. 40-Mile Air was selected to provide service to Fairbanks consisting of two nonstop round trips per week with 5-seat Cessna 206 or 207 aircraft, at an annual subsidy rate of \$37,256. The carrier's rate term expires May 31, 2000.



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 40-Mile Air to submit a proposal for continuation of essential air service at Healy Lake.

Carrier Proposal

40-Mile submitted a proposal to provide essential air service at Healy Lake for a new two-year rate term. The carrier proposes to continue to provide the community with its historical service of two round trips to Fairbanks each week with 5-seat Cessna 206 or 207 aircraft. 40-Mile Air has agreed to an annual subsidy of \$38,605 for this service.

Tentative Reselection

40-Mile Air continues to provide Healy Lake with reliable essential air service and we find that both the service and subsidy levels are reasonable. We note that, in the short period of time that 40-Mile Air has been providing air service to Healy Lake, the number of passengers and amount of cargo carried have increased. In view of the above, we will tentatively reselect 40-Mile Air to provide two round trips to Fairbanks each week, for an additional two-year period beginning June 1, 2000, and ending May 31, 2002. As set forth in Appendix B, service is to be provided with 5-seat Cessna 206 or 207 aircraft at an annual subsidy of \$38,605.

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 40-Mile Air to provide essential air service at Healy Lake, at the service and subsidy level 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 Fairbanks or any other appropriate hub city. Service should consist of at least two round trips each week to the hub. 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 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

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, 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.

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. 40-Mile Air is a certificated air carrier and has operated successfully for a number of years. We last reviewed the fitness of 40-Mile Air when we selected it to provide essential air service at Healy Lake in Order 98-5-23. 40-Mile Air remains subject to the Department's continuing fitness monitoring. No information has come to our attention that would lead us to conclude that 40-Mile Air does not continue to be fit. The Federal Aviation Administration states that it knows of no reason to question 40-Mile Air's fitness. We therefore conclude that the carrier remains fit to conduct the operations proposed here.

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

ACCORDINGLY,

1. We tentatively reselect 40-Mile Air, Ltd., to provide essential air service at Healy Lake, Alaska, as described in Appendix B, for the period beginning June 1, 2000, through May 31, 2002;
2. We tentatively set the final rate of compensation for 40-Mile Air, Ltd., for the provision of essential air service at Healy Lake, Alaska, as described in Appendix B, for the period from June 1, 2000, 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 B, and shall be determined by multiplying the subsidy-eligible arrivals and departures completed during the month by \$185.60;³
3. We direct 40-Mile Air, Ltd., 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 40-Mile Air, Ltd., continues to be fit, willing and able to operate as a certificated air carrier and capable of providing reliable essential air service at Healy Lake, Alaska;
5. We direct interested parties having objections to the selection of 40-Mile Air, Ltd., to provide essential air service as described in ordering paragraph 1 above, at the rate

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.

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

6. If we receive objections or competing proposals within the 20-day period, 40-Mile Air, Ltd., will be compensated at the subsidy rate set forth in ordering paragraph 2 above as a final rate, effective June 1, 2000, until all objections are resolved;

7. 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;

8. Docket OST 98-3546 shall remain open until further order of the Department; and

9. We will serve copies of this order on the Healy Lake Village Council, the Alaska State Department of Transportation and Public Facilities, the Governor of Alaska, 40-Mile Air, and the parties listed in Appendix D.

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](http://dms.dot.gov)*

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.

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

Appendix A

Healy Lake O&D Traffic

Passengers	1stQ 97	2ndQ 97	3rdQ 97	4thQ 97	Total
Healy Lake-Fairbanks	10	3	4	32	49
Fairbanks-Healy Lake	17	6	12	25	60
Total	27	9	16	57	109

Cargo (lbs.)					
Healy Lake-Fairbanks	2,531	53	435	84	3,103
Fairbanks-Healy Lake	1,465	795	118	3,255	5,633
Total	3,996	848	553	3,339	8,736

Mail (lbs.)					
Healy Lake-Fairbanks	76	43	395	443	957
Fairbanks-Healy Lake	2,531	1,034	2,358	5,312	11,235
Total	2,607	1,077	2,753	5,755	12,192

Passengers	1stQ 98	2ndQ 98	3rdQ 98	4thQ 98	Total
Healy Lake-Fairbanks	6	17	25	24	72
Fairbanks-Healy Lake	5	12	29	37	83
Total	11	29	54	61	155

Cargo (lbs.)					
Healy Lake-Fairbanks	11	13	44	1,042	1,110
Fairbanks-Healy Lake	1,621	947	1,707	3,894	8,169
Total	1,632	960	1,751	4,936	9,279

Mail (lbs.)					
Healy Lake-Fairbanks	65	0	44	163	272
Fairbanks-Healy Lake	1,035	973	2,000	4,037	8,045
Total	1,100	973	2,044	4,200	8,317

Passengers	1stQ 99	2ndQ 99	3rdQ 99	4thQ 99	Total
Healy Lake-Fairbanks	20	52	25	33	130
Fairbanks-Healy Lake	13	30	20	32	95
Total	33	82	45	65	225

Cargo (lbs.)					
Healy Lake-Fairbanks	112	959	697	1,179	2,947
Fairbanks-Healy Lake	555	3,526	5,157	8,657	17,895
Total	667	4,485	5,854	9,836	20,842

Mail (lbs.)					
Healy Lake-Fairbanks	33	280	53	311	677
Fairbanks-Healy Lake	1,675	2,347	1,532	4,359	9,913
Total	1,708	2,627	1,585	4,670	10,590

Source: Frontier Flying Service and 40-Mile Air Form 298-C, Schedule T-1

**40-MILE AIR, LTD.
ESSENTIAL AIR SERVICE TO BE PROVIDED AT
HEALY LAKE, ALASKA**

<u>Effective Period:</u>	June 1, 2000, through May 31, 2002
<u>Service:</u>	Two round trips each week to Fairbanks ¹
<u>Aircraft:</u>	Cessna 206 or 207 (5 passenger seats)
<u>Subsidy Rate:</u>	Per year - \$514,311 Per arrival from or departure to Seattle - \$185.60 ²
<u>Weekly Compensation Ceiling</u>	\$742.40 ³

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 Up to two intermediate stops permitted.

² Annual compensation of \$38,605, divided by the number of arrivals and departures estimated to be performed annually (208).

³ The subsidy rate for each arrival/departure (\$185.60) multiplied by the number of scheduled subsidy-eligible flights per week (4).

**40-Mile Air, Ltd.
Calculation of Subsidy Requirement
at Healy Lake, Alaska**

Route: FAI-HKB-FAI

Total block hours: 208 1/

Frequency: 2 round trips per week

Aircraft Type: Cessna 206/207 (5-seats)

<u>Revenue</u>	Distance	Rate	Amt./lbs.	Revenue
Passenger	110	\$85.00	105	\$8,925
Cargo		0.3	7,500	\$2,250
Mail		0.68221	8,500	\$5,799
Total operating revenue				<u>\$16,974</u>
 <u>Direct operating expense</u>		Unit cost		Expense
Pilot & Copilot		\$48.17	per BH	\$10,019
Fuel & Oil		\$35.00	per BH	\$7,280
Maintenance		\$56.00	per BH	\$11,648
Depreciation		\$20.77	per BH	\$4,320
Insurance		\$37.80	per BH	\$7,862
Agent Fee at Healy Lake		\$20.00	per HKB departure	\$2,080
Total Direct Operating Expenses				<u>\$43,210</u>
 <u>Indirect Operating Expenses</u>				
@ 25% of Direct Operating Expenses net Depreciation				\$9,722
 Total Operating Expenses				 \$52,932
 Operating loss				 \$35,959
 Profit element @ 5 percent of Total Operating Expense				 \$2,647
 Compensation requirement				 \$38,605

1/ Block hours = (FAI-HBK, 1 hr.) x 4 flights a week x 52 = 208 hours.

SERVICE LIST FOR THE STATE OF ALASKA

Aaron Air
Aero Tech Flight Service, Inc.
Air Excursions
Air Lift Alaska
Air Madura
Alaska Air Carriers Association
Alaska Airlines, Inc.
Alaska Bush Carrier, Inc.
Alaska Central Express, Inc.
Alaska Coastal Airlines, Inc.
Alaska Fly'N Fish Charters
Alaska Flyers
Alaska Helicopters, Inc.
Alaska Island Air, Inc.
Alaska Seair Adventures
Alaska West Air, Inc.
Aleutian Air, Ltd.
Aleutian Specialty Aviation
Amerijet International, Inc.
Arctic Air Alaska, Inc.
Arctic Circle Air Service, Inc.
Baker Aviation, Inc.
Bellair, Inc.
Beluga Lake Float Plane Service
Bering Air, Inc.
Bran-Air & Branham Adventures
Camai Air
Canning Air Service
Cape Smythe Air Service, Inc.
Cassaron Turbo Helicopters
Chugiak Aviation
Clearwater Air, Inc.
Coastal Helicopters, Inc.
Cordova Air Service, Inc.
CPA Air Service
Customized Alaskan Adventures
Delta Connection
Denali Air
Egli Air Haul, Inc.
Ellis Air Taxi, Inc.
Ellison Air, Inc.
ERA Aviation, Inc.
F.S. Air Service, Inc.
Fishing and Flying
Fiskehawk Aero Services
Forty (40) Mile Air, Ltd.
Frontier Flying Service, Inc.
Golden Plover Air
Grant Aviation, Inc.
Great Northern Air Guides
Gulf Air Taxi, Inc.
Gulf Aviation, Inc.
Guikana Air Service, Inc.
Hageland Aviation Services, Inc.
Haines Airways, Inc.
Heli-Lift, Inc.
Homer Air
Hudson Air Service, Inc.
Iliamna Air Taxi, Inc.
Island Air Service
Island Wings Air Service
Jim Air, Inc.
K2 Aviation
Kachemak Air Service, Inc.
Kachemak Bay Flying Service, Inc.
Katmai Air
Kenai Air Alaska, Inc.
Kenai Aviation
Kenai Fjords Outfitters, Inc.
Kenair
Ketchikan Air Service, Inc.
Ketchum Air Service, Inc.
Kodiak Air Service
Koyukon Air, Inc.
Kupreanof Flying Service
Kusko Aviation, Inc.
L.A.B. Flying Service, Inc.
Larry's Flying Service
Loken Aviation, Inc.
Lone Star Airlines, Inc.
Lone Wolf Aero Services, Inc.
Maritime Helicopters, Inc.
MarkAir Express, Inc.
MarkAir, Inc.
Metroflight, Inc.
Midway Airlines, Inc.
Midwest Express Airlines, Inc.
Misty Fjords Air & Outfitting
Mountain Aviation
Mountain Helicopters
Nash West Aviation, Ltd.
Natron Air
Nordic Air
North Star Air Cargo, Inc.

SERVICE LIST FOR THE STATE OF ALASKA

Northern Air Cargo, Inc.
Northwest Airlink
Olson Air Service, Inc.
Pacific Wing, Inc.
Peninsula Airways, Inc.
Promech, Inc.
Ram Air, Inc.
Ray Atkins Registered Guide
Rediske Air, Inc.
Reeve Aleutian Airways, Inc.
Regal Air
Reid Air
Rust's Flying Service, Inc.
Ryan Air Service, Inc.
Scenic Mountain Air, Inc.
Seaside Air Service
Security Aviation, Inc.
Seward Flying Service, Inc.
Silver Bay Logging, Inc.
Skagway Air Service, Inc.
Soloy Helicopters, Inc.
Southcentral Air, Inc.
Specialized Air Service
Spernak Airways, Inc.
Sunrise Aviation, Inc.
Tamarack Air, Ltd.
Tanana Air Service
Taquan Air Service, Inc.
Tatonduk Outfitters, Ltd.
Temsco Helicopters, Inc.
Totem Air
Trans-Alaska Helicopters, Inc.
Trans-Porter Alaska, Inc.
Tundra Copters, Inc.

Umiat Enterprises, Inc.
Umiat Enterprises, Inc.
Uyak Air Service, Inc.
Vernair
Warbelow's Air Ventures, Inc.
Ward Air
Wings of Alaska
Woods Air Service, Inc.
Wrangell Mountain Air, Inc.
Wright Air Service, Inc.
Yukon Helicopters
Yutana Airlines, Inc.
Yute Air Alaska, Inc.

Alaska Juneau Aeronautics, Inc.
Ken Bannon
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