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Order 2000-10-5

Served: October 6, 2000



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

Issued by the Department of Transportation  
on the 3rd day of October, 2000

Essential Air Service at  
**CENTRAL, ALASKA  
CIRCLE, ALASKA**  
under 49 U.S.C. 41731 *et seq.*

**Docket OST-1998-3621 - 7**

**ORDER SELECTING CARRIER  
AND SETTING FINAL RATE**

**Summary**

By this order, the Department is reselecting Warbelow's Air Ventures, Inc., (Warbelow's) to continue providing essential air service at Central and Circle, Alaska, for the period beginning July 1, 2000, and ending June 30, 2002, at an annual subsidy of \$35,951.

**Background**

By Order 98-6-35, issued June 29, 1998, Warbelow's Air Ventures, Inc. (Warbelow) was reselected to continue providing essential air service at Central and Circle, Alaska for an additional two-year period. Subsidy was set at an annual rate of \$21,908 for the two-year period through June 30, 2000, for five round trips a week, four with Cessna equipment and one with Piper equipment, over the routing Fairbanks-Circle-Central-Fairbanks.<sup>1</sup>



<sup>1</sup> Warbelow was permitted to operate service via intermediate points provided such service did not result in more than two stops in either the Central-Fairbanks market or the Circle-Fairbanks market.

Warbelow's two-year rate term expired on June 30, and, by Order 2000-5-7, issued May 9, 2000, the Department requested proposals from all carriers interested in providing essential air service at these two communities.<sup>2</sup> In response to that order, two carriers--Warbelow's and Tatonduk Flying Service--submitted proposals. However, Tatonduk later withdrew its proposal leaving Warbelow's as the only applicant.

### **Carrier Proposal**

Warbelow's submitted two options with its proposal. Both proposals contemplate five round trips each week over a Fairbanks-Central-Circle-Fairbanks routing. Option A would provide four of the five round trips with 8-seat Piper Navajo aircraft, and the fifth round trip would be operated with 5-seat Cessna 206/207 aircraft. The carrier requests an annual subsidy of \$35,951 if selected for Option A. Option B is similar in all respects to Option A except that the Cessna would operate four round trips per week and the Piper would operate the fifth flight. The carrier requests an annual subsidy of \$22,423 if selected for Option B.

In submitting its proposal, Warbelow's noted that during the previous five quarters, including all of calendar year 1999 and the first quarter of 2000, approximately 85 percent of its flights were operated with the larger Piper aircraft and the remaining flights were operated with the single-engine Cessna 206/207 aircraft. That level of service is reflected in its Option A and the carrier states that the weather and load conditions historically have required that level of service. It states that if it were to fly the route principally with the smaller, single-engine aircraft (Option B), the total traffic on the route would drop off significantly over time as its customers reacted to the higher cancellation rate, reduced available capacity, and lower perceived safety level.

### **Community Comments**

The Circle Village Council submitted comments on two occasions supporting the selection of Warbelow's. The first comments, submitted shortly after both carriers' original proposals had been filed with the Department, supported the selection of Warbelow's Option A, because it was pleased with Warbelow's previous service and because it favored the mix of different aircraft as best meeting the community's needs. The second submission, submitted on September 4 after having reviewed our letter summarizing Warbelow's final proposal (Tatonduk had withdrawn its proposal by that date), stated that the Department and the carrier may wish to consider a third option. The Council suggested that Warbelow provide the higher level of service (Option A) during the peak season--May 1 through September 30, and the lower level of service (Option B) during the off-peak season--October 1 through April 30.

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<sup>2</sup> Under normal circumstances, we would have issued a "show cause" order tentatively rescinding Warbelow's for a new two-year rate term. Any carrier objecting to the selection could have submitted a competing proposal in response to that order and we would have processed a carrier selection case. However, another carrier had previously indicated to us its desire to serve these communities, and we thus bypassed that step and immediately issued the order requesting proposals.

### **Selection Decision**

After careful review of this matter, including the comments submitted by the Circle Village Council, we have decided to reselect Warbelow's to continue to provide essential air service to Central and Circle in accordance with its Option A. We will set a final subsidy rate of \$35,951 per year for this service for the period beginning July 1, 2000, and ending June 30, 2002. The subsidy requested by Warbelow's appears reasonable for the level of service it will provide.<sup>3</sup>

We have decided to select Warbelow's Option A for several reasons. First, and foremost, that option is favored by the carrier because of its historical experience in serving the communities, and is also strongly supported by the Circle Village Council. Second, for a small increase in subsidy, the communities will receive increased capacity with a majority of the flights operated with the larger Piper aircraft, and an increased level of reliability and safety that operation with a larger multi-engine aircraft provides.

As suggested by the Circle Village Council, we will structure Warbelow's subsidy rate to permit the carrier some flexibility to offer a lower level of service during the winter season when demand is less. We will establish separate rates for flights operated with specific aircraft, subject to a compensation ceiling per week. During the winter period October 1 through April 30, Warbelow's may operate as many as four round trips per week with the smaller Cessna aircraft. Completed flights will be compensated in accordance with the rates set forth below.

### **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. Warbelow's is a certificated air carrier and the Department most recently found the carrier fit in conjunction with its previous selection, in Order 98-6-35, to provide essential air service at Central and Circle. The Department routinely monitors 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. We have recently discussed the fitness of Warbelow's with the FAA's Flight Standards District Office in Fairbanks. The FAA 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 Warbelow's is fit. Based on the above, we find that Warbelow's is fit to provide the essential air transportation at issue in this case.

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

### **ACCORDINGLY**

1. The Department selects Warbelow's Air Ventures, Inc., to provide essential air service at Central and Circle, Alaska, as described in Appendix A, for the period beginning

<sup>3</sup> See Appendix A for a detailed calculation of Warbelow's compensation requirement.

July 1, 2000, and ending June 30, 2002;

2. The Department sets the final rate of compensation for Warbelow's Air Ventures, Inc., for the provision of essential air service at Central and Circle, Alaska, as described in Appendix B, for the period beginning July 1, 2000, and ending June 30, 2002, 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 set forth in Appendix B, and shall be determined by multiplying the subsidy-eligible flights each way completed during the month by \$37.38 for each Piper flight and \$23.33 for each Cessna flight;<sup>4</sup>

3. We direct Warbelow's Air Ventures, 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 Warbelow's Air Ventures, Inc., is fit, willing and able to operate as a certificated air carrier and capable of providing reliable essential air service at Central and Circle, Alaska; and

5. We will serve a copy of this order on the Circle Village Council, the Alaska Department of Transportation and Public Facilities, the Governor of Alaska, Warbelow's Air Ventures and, Tatonduk Flying Service.

By:

**FRANCISCO J. SANCHEZ**  
Assistant Secretary for Aviation  
and International Affairs

(SEA1.)

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<http://dms.dot.gov/>*

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<sup>4</sup> See Appendix B for the calculation of these rates, 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.

**WARBELOW'S AIR VENTURES  
SUBSIDY CALCULATION FOR SERVICE AT  
CIRCLE AND CENTRAL, ALASKA  
(OPTION A)**

Block Hours: 551 (5 round trips per week) 1/  
 Routing: Fairbanks-Central-Circle-Fairbanks  
 Aircraft type: Piper Navajo (8 seats), 442 allocated block hours  
 Cessna 206/207 (5 seats), 101 allocated block hours

<b>Passenger Revenue</b>	<b><u>Passengers</u></b>	<b><u>Fare</u></b>	
Central	75	\$75	\$ 5,625
Circle	595	\$77	<u>45,815</u>
			\$51,440

<b>Cargo Revenue</b>	<b><u>Pounds</u></b>	<b><u>Rate</u></b>	
Central	15,976	0.29	\$ 4,633
Circle	15,269	0.35	<u>5,344</u>
			\$ 9,977

<b>Mail Revenue <u>2/</u></b>	
Central	\$ 61,255
Circle	<u>50,451</u>
	\$111,706

**Total Revenue** **\$173,123**

**Direct Expense**

	<b>Piper rate/BL</b>	<b>Cessna rate/BL</b>	
Pilot & Co-pilot	\$53.83	\$50.63	\$28,906
Fuel & Oil	74.05	32.84	36,047
Other	5.65	7.41	3,246
Maintenance	127.11	94.46	65,723
Depreciation/Rental	18.79	0	<u>8,305</u>
<b>Total Direct Expense</b>			<b>\$142,227</b>

**Indirect Expense 3/** **\$56,891**

**Total Operating Cost** **\$199,118**  
**Profit Element (5% of T.O.C.)** **9,956**  
**Total Economic Cost** **\$209,074**

**Compensation Requirement** **\$35,951**

**WARBELOW'S AIR VENTURES, INC.  
PROVISION OF ESSENTIAL AIR SERVICE  
AT CENTRAL AND CIRCLE, ALASKA  
SUMMARY OF ESSENTIAL AIR SERVICE TO BE PROVIDED**

**OPTION A**

<b>EFFECTIVE PERIOD</b>	July 1, 2000, through June 30, 2002
<b>SERVICE</b>	Fairbanks-Central-Circle-Fairbanks
<b>MINIMUM FREQUENCY</b>	5 round trips each week, four with the Piper equipment and one with the Cessna equipment.
<b>AIRCRAFT TYPES</b>	Piper Navajo (8-seat) Cessna 206/207 (5-seat)
<b>TIMING OF FLIGHTS</b>	Flights must be well timed and well spaced to ensure full compensation.
<b>SUBSIDY RATE</b>	Per year - \$35,951 Per arrival at or departure from Central or Circle Piper: \$37.38 <sup>1/</sup> Cessna: \$23.33 <sup>2/</sup>
<b>WEEKLY COMPENSATION CEILING</b>	\$691.40 <sup>3/</sup>

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 inactivate 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.

Footnotes

- 1 Annual subsidy of \$35,951 x (64 wkly seats / 74 total wkly seats) = \$31,097.62  
\$31,097.62 / 832 annual arrivals and departures with Piper aircraft = \$37.38 per arrival or departure
- 2 Annual subsidy of \$35,951 x (10 wkly seats/74 total wkly seats) = \$4,853.39  
\$4,853.39 / 208 annual arrivals and departures with Cessna aircraft = \$23.33 per arrival or departure
- 3 Weekly ceiling calculated as follows:  
16 weekly Piper arrivals and departures x \$37.38 = \$ 598.08  
4 weekly Cessna arrivals and departures x \$23.33 = 93.32  
\$ 691.40