

163274

Order 2002-4-12

Served: April 17, 2002



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

Issued by the Department of Transportation
on the 17th day of April, 2002

Essential Air Service at:

ATKA AND NIKOLSKI, ALASKA

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

Docket OST 95-363-24

ORDER TENTATIVELY RESELECTING CARRIER AND SETTING FINAL RATES

SUMMARY

By this order we are tentatively reselecting Peninsula Airways, Inc. (Peninsula) to provide subsidized essential air service (EAS) at Atka and Nikolski, Alaska, for the two-year period ending March 31, 2004, at annual rates of \$255,221 at Atka and \$85,538 at Nikolski. (See Appendix A for a map.) We are also setting new rates for Peninsula's past-period service, from October 1, 2001, until it inaugurates the new levels of service.

BACKGROUND

Peninsula has provided subsidized service to Atka and Nikolski for many years. Order 2000-3-9 last selected Peninsula to serve Atka (five round trips a week to Dutch Harbor) and Nikolski (two round trips a week to Dutch Harbor) and set final annual rates through November 30, 2001, in the amount of \$156,299 at Atka and \$45,033 at Nikolski. Although the rates expired on November 30, 2001, Peninsula has continued providing the service at the agreed levels.

EAS for Atka was defined by Order 91-1-21 as requiring one round trip a week with up to two intermediate stops to Adak, Dutch Harbor, or Cold Bay with small (10-seat or fewer) aircraft. We have consistently subsidized more service to Atka than the EAS guarantee to reflect the need to accommodate all the traffic—passengers, freight, and mail—and the directional imbalance of mail and freight. EAS for Nikolski (Umnak Island) was defined by Order 87-11-14 to require one scheduled and one flagstop round trip a week to either Dutch Harbor or Cold Bay with small aircraft and up to two intermediate stops.

Under our normal procedures when nearing the end of a rate term, we contact the incumbent carrier to determine whether it is interested in continuing service 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 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 Peninsula to submit a proposal for continuation of essential air service at Atka and Nikolski.

CARRIER SERVICE PROPOSALS

In response to our inquiry Peninsula submitted and negotiated a renewal proposal for an additional two-year rate term. (See Appendix B to this order for a summary of the subsidy computations for Peninsula.) Peninsula proposed the historical level of service at each community: five nonstop round trips each week between Atka and Dutch Harbor and two nonstop round trips each week between Nikolski and Dutch Harbor, service to be provided with Piper T-1040 equipment. Peninsula requests \$373,017 annual subsidy at Atka and \$20,530 annual subsidy at Nikolski for this level of service--a significant increase at Atka, and a significant decrease at Nikolski from the prior rates.

At the staff's request, Peninsula also proposed reduced service at Atka, from five round trips a week to four, and increased service at Nikolski, from two round trips a week to three. Based on informal rate discussions held between the carrier and the Department staff, annual subsidy rates of \$255,221 at Atka and \$85,538 were agreed upon.

COMMENT BY STATE OF ALASKA

In response to a request from the Department, by letter dated March 21, 2002, the State of Alaska indicated that it preferred the five-round-trip option at Atka and the three-round-trip option at Nikolski. The State indicated that

“...there are many days that flights cannot be flown, and there appears to be sufficient historical data to demonstrate that a significant number of flights are not successfully completed. Therefore it is our preference for the more frequent schedule in hopes that a sufficient number of flights could be completed to move the people, freight, and mail with a higher probability of being completed. Regarding the Nikolski options, the DOT&PF (Department of Transportation and Public Facilities) prefers the option for the three-days-per-week schedule to the option for two days per week. The increase in passenger traffic, freight, and mail appears to justify the increase in frequency.”

DECISION

We will tentatively reselect Peninsula to provide essential air service at Atka and Nikolski as detailed in Appendix C, for an additional two-year period, through March 31, 2004. We will select the four-round-trip-per-week option (reduced service) at Atka and the three-round-trip-per-

week option (increased service) at Nikolski. The staff negotiated increased service at Nikolski because that level of service was required to accommodate historical traffic at reasonable load factors, taking into account the directional imbalance of mail and freight. Traffic has steadily grown over the years at Nikolski, and the service should respond accordingly.

For the same reason, staff negotiated decreased service at Atka. Atka traffic for all three categories—passengers, freight, and mail—is off by a third from the projected levels in Order 2000-3-9, and this is not a result of the terrorist attacks of September 11, 2001, because traffic decreased before those attacks. The state maintains we should select the higher service option because a significant number of flights are not successfully completed. Atka is located far out on the Aleutian chain, and is confronted with very difficult and quickly changing weather conditions, and so it is to be expected that any operator will not complete all of its flights. Also, the weather and the carrier, Peninsula, have been the same at Atka for a number of years, yet the traffic has still declined. The weekly compensation ceiling allows the carrier to make up all canceled flights within the calendar week and be fully compensated. We note that if traffic reverses its downward trend and begins to grow at Atka, we would consider adjusting upward the level of service in the next carrier selection proceeding.

OBJECTIONS OR PROPOSALS

As is our usual program practice, we will allow interested parties 20 days to object to our decision and/or to file competing proposals. If no timely objections or competing proposals are filed this order will automatically become final. 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 carrier to serve a copy of its proposal on the civic parties and other applicants. Each applicant, including the incumbent, will then have an opportunity to finalize its proposal in rate discussions with Department staff before we seek final community comments. We will give full consideration to all proposals that are timely filed.

We request proposals that would provide sufficient capacity to accommodate the recent historical traffic at Atka and Nikolski, with service to either Dutch Harbor or Cold Bay, with a minimum of one scheduled round trip per week at Atka and one scheduled and one flagstop round trip per week at Nikolski. We request proposals for four round trips a week for Atka and three round trips a week for Nikolski if aircraft with comparable payloads to Peninsula's are proposed. If larger aircraft are proposed, reduced frequencies might be able to accommodate historical traffic. Of course, as always, we will formally solicit the community's views on any service options we receive before making a long-term carrier selection decision.

SERVICE HISTORY AND TRAFFIC DATA

Peninsula Airways has served Atka and Nikolski for a number of years. In order to assist potential applicant carriers in making their passenger and revenue forecasts, we have included historical passenger levels for the last several years in Appendix D.

PROCEDURES FOR FILING PROPOSALS

For interested air carriers that are not familiar 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 seeking proposals, conducting financial and operational audits of the applicant carriers and selecting a replacement carrier. The second is an evidence request containing an explanatory statement and a copy of section 14 CFR 204.4 of the Department's regulations which deals with the information required of all applicants for authority to provide basic essential air service, and provides schedules giving our recommended form for submitting data required for determining the financial and operational ability of applicants to provide dependable air service.¹

COMMUNITY AND STATE COMMENTS

If we receive competing proposals the communities and State are welcome to submit comments on the proposals at any time.² Early in the proceeding, comments on the perceived strengths and weaknesses of the proposals would be particularly helpful to the Department, although the civic parties may also express a preference for a particular carrier or proposal option at that time, if they choose. In any event, after we conclude rate conferences with all applicants, we would provide a summary of the conference results to the civic parties and ask them to file their final comments.³

OTHER CARRIER REQUIREMENTS

The Department is responsible for implementing various Federal statutes governing lobbying activities, drug-free workplaces, and nondiscrimination.⁴ Consequently, all carriers receiving

¹ Copies of these documents can be obtained from: EAS & Domestic Analysis Division, X-53, Office of Aviation Analysis, Room 6401, Department of Transportation, 400 7th Street, S.W., Washington, DC 20590. Telephone requests for these documents are accepted at (202) 366-1053.

² Civic parties should file an original and five copies of their comments in Docket OST-95-363. Comments should be addressed to: Documentary Services Division, Docket Section, SVC 124.1, Office of the Secretary, U.S. Department of Transportation, Room PL 401, 400 Seventh Street, S.W., Washington D.C. 20590.

³ In cases where a carrier proposes to provide full 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.

⁴ The regulations applicable to these areas are: (1) 49 CFR Part 20 - New restrictions on lobbying; (2) 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

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 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.

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. The Department has routinely monitored the carrier's continuing fitness. The Federal Aviation Administration 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 Peninsula remains fit. Peninsula has experience providing essential air service at Atka and Nikolski, and, based on its operating record, we find that the carrier continues to be fit to provide the essential air transportation at issue in this case.

PAST PERIOD ADJUSTMENT

Peninsula's rates at Atka and Nikolski expired on November 30, 2001, and it has continued providing service to the communities since then. In addition, the Department authorized emergency EAS payments, as discussed fully in Order 2002-2-13, to subsidized carriers because of the losses suffered by them in the face of generally lower revenue and higher costs suffered by all carriers after the terrorist attack combined with the inability subsidized carriers to respond with reduced service. The order provided for immediate increases to the final rates then in place on an *ad hoc*, interim basis, along with authority to re-negotiate on a final basis rates from October 1 until the end of the carriers' selection term as provided in the order.

Consistent with that order we have negotiated new subsidy rates retroactive to October 1 for the carrier's current service until it adjusts its schedules at both communities. These rates reflect the same unit costs and revenues as for the prospective periods.

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

disability in programs and activities receiving or benefiting from Federal financial assistance; and 14 CFR Part 382 - Nondiscrimination on the basis of disability in air travel; and (3) 49 CFR Part 29 - Government-wide debarment and suspension (non-procurement) and government-wide requirements for drug-free workplace (grants).

ACCORDINGLY,

1. The Department tentatively reselects Peninsula Airways, Inc., to provide essential air service at Atka and Nikolski, Alaska, for the period from December 1, 2001, through March 31, 2004;
2. The Department sets the final rate of compensation for Peninsula Airways, Inc., for the provision of essential air service at Atka, Alaska, for the period from October 1, 2001, until it inaugurates the decreased level of service at \$373,017 per year, as described in Appendix C-1, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceilings and shall be determined by multiplying the subsidy-eligible flights to or from the hub completed during the month by \$717.34;⁵
3. The Department sets the final rate of compensation for Peninsula Airways, Inc., for the provision of essential air service at Atka, Alaska, for the period from the inauguration of its reduced service, through March 31, 2004, at \$255,221 per year, as described in Appendix C-2, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceilings and shall be determined by multiplying the subsidy-eligible flights to or from the hub completed during the month by \$613.51;⁶
4. The Department sets the final rate of compensation for Peninsula Airways, Inc., for the provision of essential air service at Nikolski, Alaska, for the period from October 1, 2001, until it inaugurates the increased level of service at \$20,530 per year, as described in Appendix C-3, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceilings and shall be determined by multiplying the subsidy-eligible flights to or from the hub completed during the month by \$98.70;⁷
5. The Department sets the final rate of compensation for Peninsula Airways, Inc., for the provision of essential air service at Nikolski, Alaska, for the period from the inauguration of its increased service, through March 31, 2004, at \$85,538 per year, as described in Appendix C-4, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceilings and shall be determined by multiplying the subsidy-eligible flights to or from the hub completed during the month by \$274.16;⁸
6. These rates are in lieu of, and not in addition to those set by Order 2000-3-9;

⁵ See Appendix C-1 for calculation.

⁶ See Appendix C-2 for calculation.

⁷ See Appendix C-3 for calculation.

⁸ See Appendix C-4 for calculation.

7. In the event objections or competing proposals are received, the rates in ordering paragraphs (3) and (5) above will be effective as final rates when Peninsula inaugurates the new service pattern, which we expect to occur within 30 days of issuance of this order;

8. We find that Peninsula Airways, Inc., continues to be fit, willing, and able to operate as a certificated air carrier and is capable of providing reliable air service at Atka and Nikolski, Alaska;

9. We direct Peninsula Airways, 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 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;

10. This docket will remain open until further order of the Department; and

11. We will serve a copy of this order on the civic officials of Atka and Nikolski, the Alaska Department of Transportation, Peninsula Airways, Inc., and the carriers listed in Appendix E.

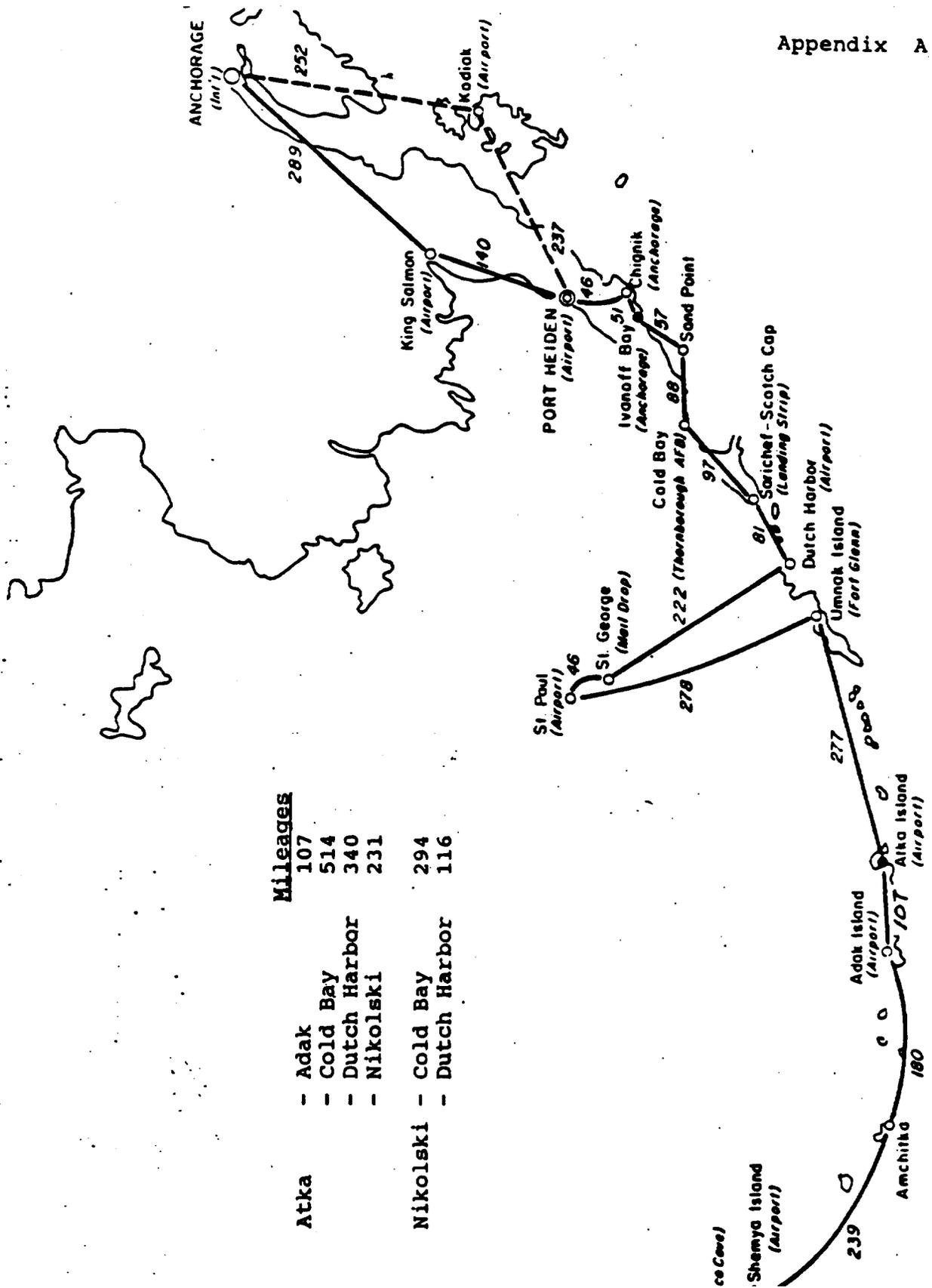
By:

READ C. VAN DE WATER
Assistant Secretary for Aviation
and International Affairs

(SEAL)

*An electronic version of this document is available on the World Wide Web
http://dms.dot.gov/reports/reports_aviation.asp*

Atka and Umnak Island (Nikolski), Alaska



	Mileages
Atka - Adak	107
- Cold Bay	514
- Dutch Harbor	340
- Nikolski	231
Nikolski - Cold Bay	294
- Dutch Harbor	116

Peninsula Airways' Annual Subsidy Need at Atka and Nikolski, Alaska, Docket OST-95-363

Aircraft Type	5 r.t./week	4 r.t./week	2 r.t./week	3 r.t./week
	<u>Atka</u>	<u>Atka</u>	<u>Nikolski</u>	<u>Nikolski</u>
	Piper T-1040	Piper T-1040	Piper T-1040	Piper T-1040
Block Hours	832 1/	666 3/	166 5/	250 7/
Weighted Departures	1,950 2/	1,560 4/	780 6/	1,170 8/
Passengers	\$121,974 9/	\$102,975 12/	\$55,482 13/	\$74,432 16/
Mail	\$272,804 10/	\$272,804	\$71,781 14/	\$71,781
<u>Cargo</u>	<u>\$12,590 11/</u>	<u>\$12,590</u>	<u>\$19,113 15/</u>	<u>\$19,113</u>
Total Revenue	\$407,368	\$388,369	\$146,376	\$165,326
Flying Operations @ \$146.35/hr. 17/	\$121,763	\$97,469	\$24,294	\$36,588
Fuel & Oil @ \$146.86/hr.	\$122,188	\$97,809	\$24,379	\$36,715
Insurance @ \$92,964/aircraft. 18/	\$77,502	\$67,592	\$15,462	\$25,372
Maintenance @ \$227.57/hr.	\$189,338	\$151,562	\$37,777	\$56,893
<u>Depreciation @ \$82,001 per aircraft</u>	<u>\$68,362</u>	<u>\$59,621</u>	<u>\$13,639</u>	<u>\$22,380</u>
Direct Expense	\$579,153	\$474,053	\$115,551	\$177,948
Traffic related @ 7.77% of revenue 19/	\$31,652	\$30,176	\$11,373	\$12,846
Departure related @ \$10.23/wtd.dep. 20/	\$19,949	\$15,959	\$7,979	\$11,969
<u>Capacity related @ 14.03%</u>	<u>\$88,495</u>	<u>\$72,982</u>	<u>\$18,927</u>	<u>\$28,448</u>
Indirect Expense	\$140,096	\$119,117	\$38,279	\$53,263
Total Operating Expense	\$719,249	\$593,170	\$153,830	\$231,211
Return at 5%	\$35,962	\$29,659	\$7,692	\$11,561
<u>Interest @ 3.5% 21/</u>	<u>\$25,174</u>	<u>\$20,761</u>	<u>\$5,384</u>	<u>\$8,092</u>
Total Economic Cost	\$780,385	\$643,590	\$166,906	\$250,864
Annual Subsidy Need	\$373,017	\$255,221	\$20,530	\$85,538

1/ AKB-DUT: 1.6 hrs./flt. x 10 flts/week x 52 weeks = 832 hours.

2/ AKB-DUT: 10 flts/week x 3.75 wt./flt. x 52 weeks = 1,950 wtd. depts.

3/ AKB-DUT: 1.6 hrs./flt. x 8 flts/week x 52 weeks = 666 hours.

4/ AKB-DUT: 8 flts/week x 3.75 wt./flt. x 52 weeks = 1,560 wtd. depts.

5/ IKO-DUT: 4 flts/week x .8 hour/flight x 52 weeks = 166 hours.

6/ IKO-DUT: 4 flts/week x 3.75 wt./flt. x 52 weeks = 780 wtd. depts.

7/ IKO-DUT: 6 flts/week x .8 hour/flight x 52 weeks = 250 hours.

8/ IKO-DUT: 6 flts/week x 3.75 wt./flt. x 52 weeks = 1,170 wtd. depts.

9/ 642 passengers x \$189.99 = \$121,974.

10/ \$2.1951/pound x 124,279 pounds = \$272,804.

11/ \$.85/pound x 14,812 pounds = \$12,590.

12/ 542 passengers x \$189.99 = \$102,975.

13/ 568 passengers x \$97.68 = \$55,482.

14/ \$.9936/pound x 72,243 = \$71,781.

15/ 27,304 pounds x \$.70 = \$19,113.

16/ 762 passengers x \$97.68 = \$74,432.

17/ \$138.72 historical plus 55% increase on 10% of \$138.72.

18/ Reflects higher charges after terrorist attacks of September 11, 2001.

19/ 11.37% historical less 3.6% associated with liability insurance historically.

20/ \$5,978,739 dep. related exp. x 19% of Part 135 = \$1,135,960 Part 135 related exp.

\$1,135,960 /111,048 wtd. Deps. = \$10.23/wtd. Dep.

21/ \$1,429,084 divided by \$40,580,000 total oper. exp. per Peninsula.

**Peninsula Airways, Inc., Essential Air Service to be Provided to Atka, Alaska,
Docket OST-95-363**

Effective Period: October 1, 2001, through inauguration of alternative service.

Scheduled Service: 5 nonstop round trips each week to Dutch Harbor.

Aircraft: Piper T-1040 or Grumman Goose.

Rate per Departure/Arrival: \$717.34 ¹

Weekly Ceiling: \$7,173.40 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 \$373,017 divided by the estimated annual completed flights:
10 flights x 52 weeks = 520 total.

² Subsidy rate per flight of \$717.34 multiplied by 10 subsidy-eligible flights each week.

**Peninsula Airways, Inc., Essential Air Service to be Provided to Atka, Alaska,
Docket OST-95-363**

Effective Period: Inauguration of service through March 31, 2004.

Scheduled Service: 4 nonstop round trips each week to Dutch Harbor.

Aircraft: Piper T-1040 or Grumman Goose.

Rate per Departure/Arrival: \$613.51 ¹

Weekly Ceiling: \$4,908.08 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 \$255,221 divided by the estimated annual completed flights:
8 flights x 52 weeks = 416 total.

² Subsidy rate per eligible flight of \$613.51 multiplied by 8 subsidy-eligible flights each week.

**Peninsula Airways, Inc., Essential Air Service to be Provided to Nikolski, Alaska,
Docket OST-95-363**

Effective Period: October 1, 2001, through inauguration of alternative service.

Scheduled Service: 2 nonstop round trips each week to Dutch Harbor.

Aircraft: Piper T-1040 or Grumman Goose.

Rate per Departure/Arrival: \$98.70 ¹

Weekly Ceiling: \$394.80 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 \$20,530 divided by the estimated annual completed flights:
4 flights x 52 weeks = 208 total.

² Subsidy rate per flight of \$98.70 multiplied by 4 subsidy-eligible flights each week.

**Peninsula Airways, Inc., Essential Air Service to be Provided to Nikolski, Alaska,
Docket OST-95-363**

Effective Period: Inauguration of service through March 31, 2004.

Scheduled Service: 6 nonstop round trips each week to Dutch Harbor.

Aircraft: Piper T-1040 or Grumman Goose.

Rate per Departure/Arrival: \$274.16 ¹

Weekly Ceiling: \$1,644.96 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 \$85,538 divided by the estimated annual completed flights:
6 flights x 52 weeks = 312 total.

² Subsidy rate per eligible flight of \$274.16 multiplied by 6 subsidy-eligible flights each week.

Historical Traffic

	Atka to Dutch Harbor			Dutch Harbor to Atka			Total, Both Directions		
	Psgs.	Freight Pounds	Mail Pounds	Psgs.	Freight Pounds	Mail Pounds	Psgs.	Freight Pounds	Mail Pounds
QE 12/31/96	66	0	2,476	65	1,955	48,861	131	1,955	51,337
QE 3/31/97	113	55	2,195	121	5,501	42,163	234	5,556	44,358
QE 6/30/97	116	375	5,280	114	5,787	33,031	230	6,162	38,311
<u>QE 9/30/97</u>	<u>123</u>	<u>60</u>	<u>3,900</u>	<u>134</u>	<u>15,179</u>	<u>56,659</u>	<u>257</u>	<u>15,239</u>	<u>60,559</u>
YE 9/30/97	418	490	13,851	434	28,422	180,714	852	28,912	194,565
QE 12/31/97	100	210	2,811	93	6,725	43,609	193	6,935	46,420
QE 3/31/98	112	15	2,149	101	4,661	39,103	213	4,676	41,252
QE 6/30/98	122	100	2,089	133	8,368	38,797	255	8,468	40,886
<u>QE 9/30/98</u>	<u>103</u>	<u>670</u>	<u>3,719</u>	<u>107</u>	<u>7,437</u>	<u>45,113</u>	<u>210</u>	<u>8,107</u>	<u>48,832</u>
YE 9/30/98	437	995	10,768	434	27,191	166,622	871	28,186	177,390
QE 12/31/98	95	218	1,950	90	5,995	35,475	185	6,213	37,425
QE 3/31/99	60	111	2,140	58	3,844	29,259	118	3,955	31,399
QE 6/30/99	110	0	2,912	104	4,328	36,200	214	4,328	39,112
<u>QE 9/30/99</u>	<u>124</u>	<u>150</u>	<u>3,441</u>	<u>124</u>	<u>6,574</u>	<u>51,138</u>	<u>248</u>	<u>6,724</u>	<u>54,579</u>
YE 9/30/99	389	479	10,443	376	20,741	152,072	765	21,220	162,515
QE 12/31/99	98	93	2,448	77	2,962	29,579	175	3,055	32,027
QE 3/31/00	60	111	2,244	66	3,181	31,937	126	3,292	34,181
QE 6/30/00	78	0	4,188	96	5,632	33,260	174	5,632	37,448
<u>QE 9/30/00</u>	<u>63</u>	<u>0</u>	<u>3,982</u>	<u>81</u>	<u>3,466</u>	<u>35,671</u>	<u>144</u>	<u>3,466</u>	<u>39,653</u>
YE 9/30/00	299	204	12,862	320	15,241	130,447	619	15,445	143,309
QE 12/31/00	92	0	2,631	75	3,436	36,858	167	3,436	39,489
QE 3/31/01	59	1,680	852	54	4,468	13,444	113	6,148	14,296
QE 6/30/01	81	251	2,523	147	2,334	34,013	228	2,585	36,536
<u>QE 9/30/01</u>	<u>59</u>	<u>0</u>	<u>1,495</u>	<u>75</u>	<u>2,643</u>	<u>32,463</u>	<u>134</u>	<u>2,643</u>	<u>33,958</u>
YE 9/30/01	291	1,931	7,501	351	12,881	116,778	642	14,812	124,279

Source: Form 298-C, Schedule T-1

← Historical Traffic

	Nikolski to Dutch Harbor			Dutch Harbor to Nikolski			Total, Both Directions		
	Psgs.	Freight Pounds	Mail Pounds	Psgs.	Freight Pounds	Mail Pounds	Psgs.	Freight Pounds	Mail Pounds
QE 12/31/96	33	0	1,743	36	2,372	14,765	69	2,372	16,508
QE 3/31/97	25	149	1,007	27	1,324	13,522	52	1,473	14,529
QE 6/30/97	50	0	8,380	30	2,574	9,758	80	2,574	18,138
<u>QE 9/30/97</u>	<u>40</u>	<u>430</u>	<u>963</u>	<u>56</u>	<u>4,803</u>	<u>13,117</u>	<u>96</u>	<u>5,233</u>	<u>14,080</u>
YE 9/30/97	148	579	12,093	149	11,073	51,162	297	11,652	63,255
QE 12/31/97	37	80	739	32	5,532	12,959	69	5,612	13,698
QE 3/31/98	25	60	860	30	4,472	1,185	55	4,532	2,045
QE 6/30/98	66	0	2,712	67	4,408	14,948	133	4,408	17,660
<u>QE 9/30/98</u>	<u>79</u>	<u>70</u>	<u>6,844</u>	<u>65</u>	<u>5,849</u>	<u>19,882</u>	<u>144</u>	<u>5,919</u>	<u>26,726</u>
YE 9/30/98	207	210	11,155	194	20,261	48,974	401	20,471	60,129
QE 12/31/98	52	0	960	57	4,396	16,676	109	4,396	17,636
QE 3/31/99	28	0	918	26	5,972	18,627	54	5,972	19,545
QE 6/30/99	80	0	5,174	81	2,948	8,600	161	2,948	13,774
<u>QE 9/30/99</u>	<u>47</u>	<u>0</u>	<u>821</u>	<u>54</u>	<u>8,227</u>	<u>11,030</u>	<u>101</u>	<u>8,227</u>	<u>11,851</u>
YE 9/30/99	207	0	7,873	218	21,543	54,933	425	21,543	62,806
QE 12/31/99	53	0	1,612	56	10,717	12,812	109	10,717	14,424
QE 3/31/00	48	240	1,530	40	7,457	10,971	88	7,697	12,501
QE 6/30/00	108	450	1,671	91	8,625	17,988	199	9,075	19,659
<u>QE 9/30/00</u>	<u>74</u>	<u>0</u>	<u>1,088</u>	<u>71</u>	<u>3,229</u>	<u>10,779</u>	<u>145</u>	<u>3,229</u>	<u>11,867</u>
YE 9/30/00	283	690	5,901	258	30,028	52,550	541	30,718	58,451
QE 12/31/00	51	0	950	58	6,173	12,075	109	6,173	13,025
QE 3/31/01	47	0	399	48	4,656	9,912	95	4,656	10,311
QE 6/30/01	102	906	3,209	93	10,343	16,693	195	11,249	19,902
<u>QE 9/30/01</u>	<u>90</u>	<u>432</u>	<u>3,129</u>	<u>79</u>	<u>4,794</u>	<u>25,876</u>	<u>169</u>	<u>5,226</u>	<u>29,005</u>
YE 9/30/01	290	1,338	7,687	278	25,966	64,556	568	27,304	72,243

Source: Form 298-C, Schedule T-1

_SERVICE LIST FOR THE STATE OF ALASKA

Appendix E
Page 1 of 2

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.
Golden Plover Air
Grant Aviation, Inc.
Great Northern Air Guides
Gulf Air Taxi, Inc.
Gulf Aviation, Inc.
Gulkana 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

Frontier Flying Service, Inc.
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.

North Star Air Cargo, 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
E.B. Freeman
A. Edward Jenner
John McFarlane
Bill Oakes
Kevin Thomas
Pat Dempsey