

164999



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

Issued by the Department of Transportation
 on the 25th day of April, 2002

Essential Air Service at

SHOW LOW, ARIZONA

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

Docket OST-98-4409 -14

SERVED: April 30, 2002

ORDER SELECTING CARRIER
 AND SETTING FINAL SUBSIDY RATE

Summary

By this order we are (1) selecting Arizona Express to provide subsidized scheduled air service at Show Low, Arizona, under the Essential Air Service program, for a one-year period, and (2) setting a subsidy rate of \$538,432 for the carrier's service. ¹

Background

By Order 99-5-16, issued May 28, 1999, Express Air, Inc., d/b/a Sunrise Airlines (Express Air) was selected to provide scheduled air service at Show Low, Arizona, for a two-year period. Subsidy was set at an annual rate of \$410,080 for the period June 1, 1999, through May 30, 2001, for fourteen nonstop round trips each week between Show Low and Phoenix with 9-seat Beech Catpass 250 aircraft.

Early in 2001, we had inquiries from other carriers interested in submitting competing proposals to provide service at Show Low when Express Air's contract came up for renewal. As a result of these inquiries, the Department issued Order 2001-3-14 (issue date March 13, 2001), requesting proposals from carriers interested in providing scheduled air service at the community, with or without subsidy.

¹ See Appendix A for a map.

Subsequently, in April of 2001, Express Air filed for bankruptcy protection under Chapter 11 and shortly thereafter ceased all operations, leaving Show Low without scheduled air service.

Carrier Proposals

In response to Order 2001-3-14, five carriers submitted proposals for replacement air service at Show Low—Mesa Airlines, Air West, Arizona Express, AEX Airlines, and Great Lakes Aviation. The proposals of four of these carriers are summarized below. Great Lakes Aviation did not reach an agreement with the Department on a final proposal.

Mesa Airlines: Mesa proposes to provide two nonstop round trips a day, seven days a week, between Show Low and Phoenix Sky Harbor Airport, with 19-seat Beech 1900D, twin-engine, turboprop aircraft. The carrier requests a first-year subsidy for this service of \$883,851; a second-year subsidy would be negotiated toward the end of the first year, based on the first-year's experience.

Air West: Air West proposes to provide two nonstop round trips a day, seven days a week, between Show Low and Phoenix Sky Harbor Airport, with 9-seat Cessna Caravan, single-engine, turboprop aircraft. The carrier requests a subsidy for this service of \$513,550 per year for each of two years.

Arizona Express: Arizona Express proposes two separate options. Under the first option, the carrier proposes to provide fourteen nonstop round trips per week between Show Low and Phoenix Sky Harbor Airport with 9-seat Beech King Air, twin-engine, turboprop aircraft. The carrier requests a subsidy for this service of \$538,432 per year for each of two years.

The second option is for service between Show Low and Phoenix, and between Gallup and Phoenix. Under this option, the carrier proposes to provide fourteen nonstop round trips per week between Show Low and Phoenix Sky Harbor Airport, and twelve nonstop round trips per week between Gallup and Phoenix Sky Harbor Airport, with 9-seat Beech King Air, twin-engine, turboprop aircraft. The carrier requests a combined subsidy rate (both Show Low and Gallup) for this service of \$1,237,499 per year for each of two years.²

AEX Airlines: AEX proposes three separate options. Under the first option, the carrier proposes to provide fourteen nonstop round trips per week between Show Low and Phoenix Sky Harbor Airport, half with 9-seat Beech King Air aircraft, and half with 9-seat Piper Navajo Chieftain aircraft. The carrier requests a subsidy for this service of

² Arizona Express has indicated to the Department that it may provide service under either option with Beech 1900 aircraft, configured for 9 seats, at the same subsidy cost as for the Beech King Air.

\$869,360 for the first year of service; a second-year subsidy would be negotiated toward the end of the first year, based on the first-year's experience.

The second option contemplates service between Gallup and Phoenix, with an intermediate stop at Show Low. AEX would provide 18 round trips each week routed Gallup-Show Low-Phoenix-Show Low-Gallup. Six of these round trips each week would be operated with 9-seat Piper Navajo Chieftain aircraft, and twelve round trips each week would be operated with 9-seat Beech King Air aircraft. The carrier requests a subsidy for this service of \$2,031,420 for the first year of service; a second-year subsidy would be negotiated toward the end of the first year, based on the first-year's experience.

AEX's third option would provide 14 round trips each week routed Gallup-Show Low-Phoenix-Show Low-Gallup. Seven of these round trips each week would be operated with 9-seat Piper Navajo Chieftain aircraft, and seven round trips each week would be operated with 9-seat Beech King Air aircraft. The carrier requests a subsidy for this service of \$1,415,041 for the first year of service; a second-year subsidy would be negotiated toward the end of the first year, based on the first-year's experience.

Mesa is a certificated air carrier and holds the requisite authority from the Department and the Federal Aviation Administration to operate its proposed service. Air West, AEX, Inc., and Arizona Express are air taxi operators. In order for any of these three carriers to operate their proposed service, if selected, they would need to be found fit by the Department to operate as a commuter air carrier and would need to obtain all necessary operating authority from the FAA.

Community Comments

In a letter to the community dated February 20, 2002, we summarized the results of our negotiations with the four applicants and requested that it submit any comments on the proposals before we submitted our recommendation to the Assistant Secretary for a final decision.

The Mayor of Show Low submitted comments to the Department on March 8. He stated that all five applicant carriers (including Great Lakes) made presentations to the Show Low City Council the first week of March and, during the presentations and subsequent interviews, the amounts of subsidy requested did not influence the Council's considerations. At the conclusion of the presentations, and after much discussion, the Council ranked the applicants in the following order: Mesa, Arizona Express, AEX Airlines, Air West, and Great Lakes. The Mayor stated that Mesa and Arizona Express were very close with Mesa having an edge because of its code-share agreement with America West Airlines.

Carrier Selection

Under the Department's governing statutes, 49 U.S.C. 41733(c), we are required to consider, among other things, the applicants' operating experience, their marketing arrangements to ensure service beyond the hub, and the community's views. Although not required by statute, the Department, and the Civil Aeronautics Board before it, has always given great weight to the amount of subsidy required by each applicant. After careful consideration, we have decided to select Arizona Express to provide scheduled service in accordance with its Show Low-only option for a one-year period at the agreed-to annual subsidy rate of \$538,432. Although Mesa has the advantage over Arizona Express in terms of aircraft size, experience and code-share arrangements, the difference in requested subsidy (Mesa's proposal is \$345,419 higher) is substantial and far outweighs those other considerations.

As we indicated above, the community ranked Arizona Express second behind Mesa, but stated that Arizona Express was a very close second. In addition to the community's written filings, upon which we predominantly rely, various civic officials from Show Low met in Washington with the EAS staff during which they confirmed that Mesa did come in first under a scoring system that they developed, but indeed that Arizona Express was a very close second. They further stated that the community would be pleased with the selection of either Mesa or Arizona Express.

Arizona Express's 14 nonstop round trips a week will provide the community with a total of 18 seats in each direction each day. This level appears to be sufficient to meet the community's air service demand. In the most recent 12-month period prior to the service hiatus (YE June 2000), a total of 7,947 O & D passengers were carried in the Show Low-Phoenix market, or an average of 11 enplanements per day based on a 365-day service year.³ With the long break in service that the community has experienced, we expect initial traffic levels to be significantly lower than that.

We also note that while Arizona Express is not operating as a scheduled commuter carrier, it nonetheless has familiarity with the Show Low market. First, the carrier is based locally in Show Low. Second, it has provided charter service between Show Low and Phoenix for the last several months, and has been generally pleased with the Show Low market. However, because Arizona Express will be a newly-authorized commuter air carrier, we have decided to limit our selection of the carrier to a one-year period. Reselection of the carrier for a second year of service would be based in part on its performance during the initial year.

Based on all of the above, we cannot justify the expenditure of about \$345,000 in additional subsidy to select Mesa.

³ See Appendix B for historical traffic data for Show Low.

Carrier Fitness

49 U.S.C. 41737(b) and 41738 requires that we find an air carrier fit, willing and able to provide reliable service before we may compensate it for essential air service. Arizona Express is an air taxi operator currently providing limited service at Show Low and has filed an application with the Department to be found fit as a commuter air carrier. As we previously stated, the carrier needs to be found fit by the Department to operate as a commuter air carrier and to obtain all of the necessary operating authority from the FAA to provide the service for which we are selecting it here. Once found fit, the carrier would remain subject to the Department's continuing fitness monitoring.

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

ACCORDINGLY,

1. We select Arizona Express, Inc., to provide scheduled air service under the Essential Air Service program at Show Low, Arizona, as described in Appendix C, for the period beginning on the date the carrier inaugurates service at the community, through the end of the 12th month thereafter, subject to its receiving all of the necessary authority to perform the service from the Department and from the Federal Aviation Administration;
2. We set the final rate of compensation for Arizona Express, Inc., for the provision of scheduled air service at Show Low, Arizona, as described in Appendix C, for the for the period beginning on the date the carrier inaugurates service at the community, through the end of the 12th month thereafter, payable as follows: for each month during which scheduled air service is provided, the amount of compensation shall be subject to the weekly ceiling set forth in Appendix C, and shall be determined by multiplying the subsidy-eligible arrivals and departures completed during the month by \$377.32;⁴
3. We direct Arizona Express 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. Docket OST 98-4409 shall remain open until further order of the Department; and

⁴ See Appendix D 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.

5. We will serve copies of this order on the civic officials of Show Low, the manager of the Show Low Airport, the Arizona Department of Transportation, the Governor of Arizona; Arizona Express, Mesa Airlines, AEX Airlines, Air West, and Great Lakes Aviation.

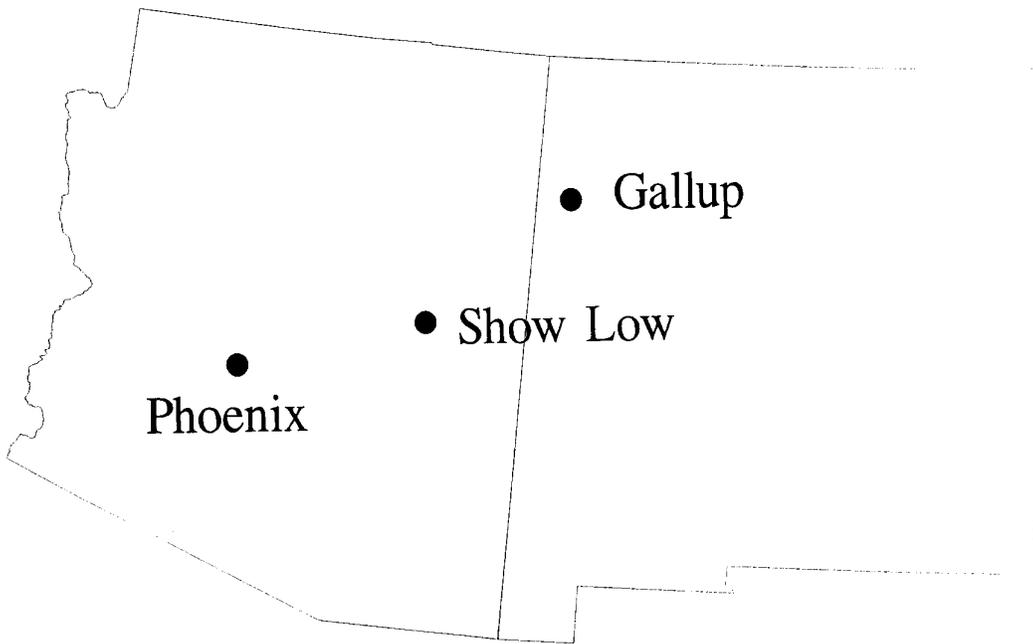
By:

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

AREA MAP



**HISTORICAL TRAFFIC
AT SHOW LOW, ARIZONA**

		<u>SOW-PHX</u>	<u>PHX-SOW</u>	<u>TOTAL</u>	<u>O&D Per Day 1/</u>
1998	1	241	207	448	
	2	785	780	1,565	
	3	<u>594</u>	<u>564</u>	<u>1,258</u>	
	4	1,620	1,551	3,171	13.5
1999		673	598	1,271	
	1	933	884	1,817	
	2	1,222	1,134	2,356	
	3	<u>918</u>	<u>847</u>	<u>1,765</u>	
4	3,746	3,463	7,209	23.0	
2000		835	754	1,589	
	1	1,092	997	2,089	
	2	1,289	1,215	2,504	
	3				
4					

Source: Sunrise Airlines Form 298C.

**ARIZONA EXPRESS
SCHEDULED AIR SERVICE TO BE PROVIDED AT
SHOW LOW, ARIZONA**

Effective Period: When carrier inaugurates service, through the end of the 12th month thereafter

Service: Fourteen nonstop round trips each week to Phoenix

Aircraft: Beech King Air (9 passenger seats)

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

Subsidy Rate: Per year - \$538,432
Per arrival from or departure to Phoenix - \$377.32 ¹

Weekly
Compensation Ceiling: \$10,564.96 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

¹ Annual compensation of \$538,432, divided by the number of arrivals and departures estimated to be performed annually (1,427), calculated by multiplying 28 arrivals and departures each week x 52 weeks x 98 percent completion.

² The subsidy rate for each arrival/departure (\$377.32) multiplied by the number of scheduled subsidy-eligible flights per week (28).

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.

**ARIZONA EXPRESS
SCHEDULED AIR SERVICE TO BE PROVIDED AT
SHOW LOW, ARIZONA
SUBSIDY CALCULATION**

Block Hours	1,192 <u>1/</u>
<u>Revenue</u>	
5,800 passengers @ \$104.99	\$608,942
Freight @ 1%	<u>6,089</u>
Total	\$615,031
<u>Direct Expenses</u>	
Pilot & Co-pilot	\$102,480
Other (overnights, training, etc.)	20,385
Fuel & Oil: \$1.10/gal. X 100gph + \$1 oil	132,312
Maintenance @ \$218/hr.	259,856
Hull & Liab. Ins.	37,498
Aircraft Lease	<u>213,000</u>
Total	\$765,531
Indirects	\$333,006
Total Expenses	\$1,098,537
Profit @ 5%	<u>\$54,927</u>
Total Economic Cost	\$1,153,464
Subsidy @ 98% completion	\$538,432

1/ 365 days x 4 flights x 50 minutes x .98/60 = 1,192 block hours.