



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

Issued by the Department of Transportation  
on the 7<sup>th</sup> day of August, 2002

Served: August 12, 2002

Essential Air Service at

AMOOK BAY, ALASKA  
KITOI BAY, ALASKA  
MOSER BAY, ALASKA  
OLGA BAY, ALASKA  
PORT BAILEY, ALASKA  
PORT WILLIAM, ALASKA  
SEAL BAY, ALASKA  
WEST POINT, ALASKA  
ZACHAR BAY, ALASKA

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

Docket OST-2000-6945

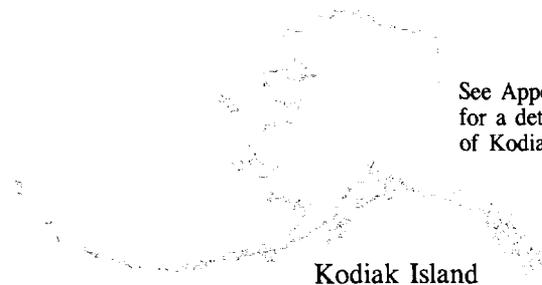
ORDER TENTATIVELY RESELECTING CARRIER  
AND SETTING FINAL SUBSIDY RATE

**Summary**

By this order, the Department is tentatively reselecting Island Air to continue providing essential air service at nine Kodiak Island, Alaska, communities, and setting an annual subsidy rate of \$132,569 for the carrier for such service.

**Background**

By Order 2000-6-10, June 12, 2000, the Department selected Redemption, Inc., d/b/a Island Air Service (Island Air), to provide essential air service at nine communities on Kodiak Island – Amook Bay, Kitoi Bay, Moser Bay, Olga Bay, Port Bailey, Port William, Seal Bay, West Point and Zachar Bay. Island Air was selected to provide each community with service to Kodiak consisting of two or three round trips



See Appendix A  
for a detailed map  
of Kodiak Island

per week during the 18-week peak season, and one round trip per week during the 34-week off-peak season, with 4-seat Cessna 206 float-equipped aircraft. Annual subsidy for that service was set at \$125,774. The carrier's rate term expired July 31, 2002.

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 Island Air to submit a proposal for continuation of essential air service on Kodiak Island.

### **Carrier Proposal**

Island Air submitted a proposal to provide essential air service at all nine Kodiak Island communities for a new two-year rate term. The carrier proposes to continue to provide each community with its historical service of two or three round trips to Kodiak each week during the 18-week peak season, and one round trip per week during the 34-week off-peak season, with 4-seat Cessna 206 float-equipped aircraft. Island Air and the staff have agreed to an annual subsidy of \$132,569 for this service.

### **Tentative Reselection**

Island Air continues to provide the Kodiak Island communities with reliable essential air service and we find that both the service and subsidy levels are reasonable. Therefore, we will tentatively reselect Island Air to provide service to all nine Kodiak Island communities for an additional two-year period beginning August 1, 2002, and ending July 31, 2004, at an annual subsidy rate of \$132,569. The specific service levels for each community are detailed in Appendix B.

### **Retroactive Adjustment**

The terrorist attacks of September 11 changed the aviation industry in many ways. In the case of carriers that provide subsidized EAS, they are paid on a pre-agreed, fixed fee-per-flight basis, with no built-in triggers. Since September 11, carriers' expenses are significantly higher and revenues are down, meaning that the carriers have incurred substantial losses to the point of jeopardizing service to small, rural communities across the country. As a result, the Department issued Order 2002-2-13, February 15, 2002, authorizing emergency subsidy to carriers, effective retroactive to October 1, 2001, through the end of the normal contract period.<sup>1</sup> That order granted immediate rate relief to carriers, including Island Air, in order to get them much-needed cash as soon as possible, and also stated our intention of renegotiating all essential air service contracts, retroactive to October 1. Island Air's latest proposal is based on post-September 11 operating results. In accordance with this policy, therefore, we will make Island Air's new rate effective retroactive to October 1, 2001.

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<sup>1</sup> See Order 2002-2-13 for a full discussion.

### **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 Island Air to provide essential air service at Amook Bay, Kitoi Bay, Moser Bay, Olga Bay, Port Bailey, Port William, Seal Bay, West Point and Zachar Bay, Alaska, at the service and subsidy levels discussed above and set forth in Appendix B. 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 Kodiak or any other appropriate hub city. Service should consist of at least two or three round trips each week (as appropriate) to the hub during the 18-week peak period, and generally one round trip a week in the off-peak period. 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. In order to assist carriers in making their traffic and revenue forecasts, we have included historical traffic data in Appendix D.

### **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.<sup>2</sup> Consequently, all

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<sup>2</sup> 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 –

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 communities 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.<sup>3</sup>

### **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. We last reviewed the fitness of Island Air when we selected it to provide essential air service at the Kodiak Island communities in Order 2000-6-10. The Department has discussed the fitness of Island Air with the Federal Aviation Administration and no information has come to our attention that would lead us to conclude that Island Air does not continue to be fit. The Federal Aviation Administration states that it knows of no reason to question Island Air's fitness. We therefore conclude that the carrier remains fit to conduct the operations proposed here. Island Air remains subject to the Department's continuing fitness monitoring.

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

### **ACCORDINGLY,**

1. We tentatively reselect Redemption, Inc., d/b/a Island Air Service, to provide essential air service at Amook Bay, Kitoi Bay, Moser Bay, Olga Bay, Port Bailey,

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Effectuation of title VI of the Civil Rights Act of 1964; 49 CFR Part 27 – Nondiscrimination on the basis of 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).

<sup>3</sup> 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.

Port William, Seal Bay, West Point and Zachar Bay, Alaska, as described in Appendix B, for the period from October 1, 2001, through July 31, 2004;

2. We tentatively set the final rate of compensation for Redemption, Inc., d/b/a Island Air Service, for the provision of essential air service at Amook Bay, Kitoi Bay, Moser Bay, Olga Bay, Port Bailey, Port William, Seal Bay, West Point and Zachar Bay, Alaska, as described in Appendix B, for the period from October 1, 2001, through July 31, 2004, 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 departures completed during the month by \$137.52;<sup>4</sup>

3. This rate is in lieu of, and not in addition to, that set by Order 2002-2-13;

4. We direct Redemption, Inc., d/b/a Island Air Service, 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;

5. We find that Redemption, Inc., d/b/a Island Air Service, continues to be fit, willing and able to operate as a certificated air carrier and capable of providing reliable essential air service at Amook Bay, Kitoi Bay, Moser Bay, Olga Bay, Port Bailey, Port William, Seal Bay, West Point and Zachar Bay, Alaska Healy Lake, Alaska;

6. We direct interested parties having objections to the selection of Redemption, Inc., d/b/a Island Air Service, to provide essential air service as described in ordering paragraph 1 above, at the rate 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;<sup>5</sup>

7. If we receive objections or competing proposals within the 20-day period, Redemption, Inc., d/b/a Island Air Service, will be compensated at the subsidy rate set forth in ordering paragraph 2 above as a final rate, effective October 1, 2001, until all objections are resolved;

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<sup>4</sup> 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.

<sup>5</sup> Objections should be filed with the Documentary Services Division, SVC-124, 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.

8. 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.<sup>6</sup> 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;

9. Docket OST 2000-6945 shall remain open until further order of the Department; and

10. We will serve copies of this order on the civic officials of Amook Bay, Kitoi Bay, Moser Bay, Olga Bay, Port Bailey, Port William, Seal Bay, West Point and Zachar Bay, the Alaska State Department of Transportation and Public Facilities, the Governor of Alaska, Island Air Service, and the parties listed in Appendix E.

By:

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

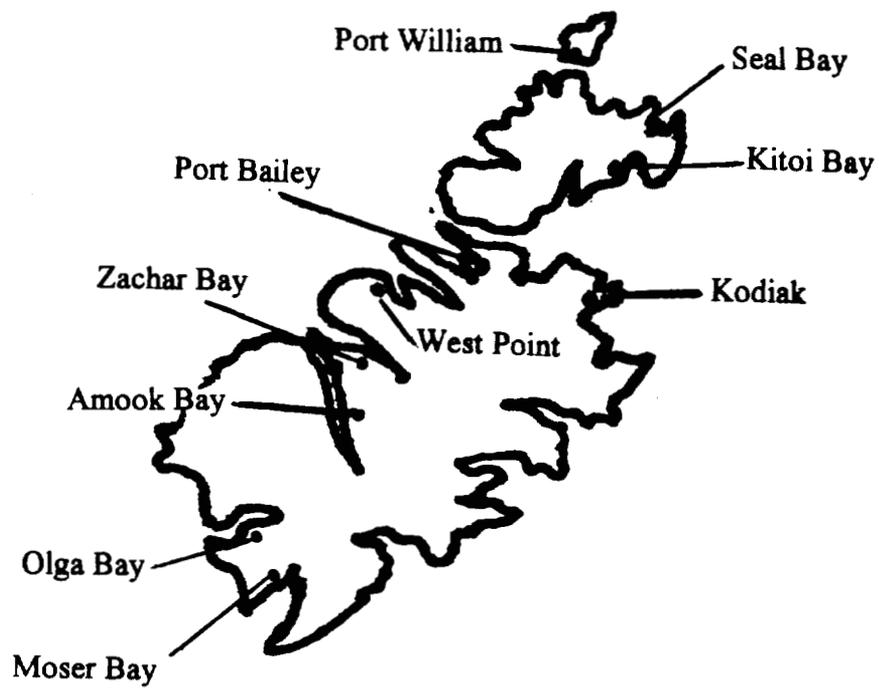
(SEAL)

*An electronic version of this document is available on the World Wide Web at*  
**<http://dms.dot.gov>**

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<sup>6</sup> Since we are providing for the filing of objections to this order, we will not entertain petitions for reconsideration.

# KODIAK ISLAND AREA MAP



**REDEMPTION, INC., D/B/A ISLAND AIR SERVICE  
ESSENTIAL AIR SERVICE TO BE PROVIDED AT  
KODIAK ISLAND, ALASKA**

Effective Period: October 1, 2001, through July 31, 2004

Service: Three round trips per week peak (18 weeks) and one round trip per week off-peak (34 weeks) over the routing Kodiak-Olga Bay-Moser Bay-Kodiak.

Two round trips per week peak (18 weeks) and one round trip per week off-peak (34 weeks) over the routing Kodiak-Kitoi Bay-Seal Bay-Port William-Kodiak.

Two round trips per week peak (18 weeks) and one round trip per week off-peak (34 weeks) over the routing Kodiak-Zachar Bay-Amook Bay-Kodiak.

Two round trips per week peak (18 weeks) and one round trip per week off-peak (34 weeks) over the routing Kodiak-Port Bailey-West Point-Kodiak.

Aircraft: Cessna 206 floatplane, 4 seats

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

Subsidy Rate: Per departure - \$137.52 <sup>1</sup>

Weekly

Compensation Ceiling: <sup>2</sup> Off-peak - \$1,787.76  
Peak - \$3,988.08

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<sup>1</sup> Annual compensation of \$132,569, divided by the number of arrivals and departures at all communities estimated to be performed annually (964).

<sup>2</sup> The subsidy rate for each arrival/departure (\$137.52) multiplied by the number of scheduled subsidy-eligible flights per week off-peak (13) and peak (29).

Note: The carrier understands that it may forfeit its compensation for any flight 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.

**Redemption, Inc., d/b/a Island Air Service  
Calculation of Subsidy Requirement  
Kodiak Island, Alaska**

Total block hours:	4481/	
Aircraft Type: Cessna 206 floatplane		
Departures	964	
<b>Revenue</b>		
<u>Passenger</u>		\$46,829
Cargo		\$11,781
Mail		<u>\$32,268</u>
Total operating revenue		\$90,878
<b><u>Direct operating expense</u></b>		
Pilot & Copilot	100.00per BH	\$44,800
Fuel & Oil	50.10per BH	\$22,445
Maintenance	40.00per BH	\$17,920
Aircraft Lease	68.52per BH	\$30,697
Insurance	50.00per BH	<u>\$22,400</u>
Total Direct Operating Expenses		\$138,262
<b><u>Indirect Operating Expenses</u></b>		
Traffic Related	(28.21 percent of revenue)	\$25,637
Departure Related	(\$16.52 per dep.)	\$31,851
Capacity Related	(18.77 percent of revenue)	<u>\$17,058</u>
Total Indirect Operating Expenses		\$74,545
<b>Total Operating Expenses</b>		<b>\$212,807</b>
<b>Operating loss</b>		<b>\$121,929</b>
<b>Profit element @ 5 percent of Total Operating Expense</b>		<u><b>\$10,640</b></u>
<b>Compensation requirement</b>		<b>\$132,569</b>

**Footnotes**

	<u>Hours</u>	<u>Dep./wk</u>	<u>Total Dep.</u>
<b>1/ Off-peak (34 weeks)</b>			
ADQ-KOY-(alz)-KMY-ADQ; (45+10+45) min. x 1 x 34	57	3	102
ADQ-KKB-SYB-KPR-ADQ; (20+18+12+36) min. x 1 x 34	49	4	136
ADQ-KZB-AOS-ADQ; (30+10+36) min. x 1 x 34	43	3	102
ADQ-KPY-(ugi)-KWP-ADQ; (20+18+22) min. x1 x 34	<u>34</u>	<u>3</u>	<u>102</u>
	183	13	442
<b>Peak (18 weeks)</b>			
ADQ-KOY-(alz)-KMY-ADQ; (45+10+45) min. x 3 x 18	90	9	162
ADQ-KKB-SYB-KPR-ADQ; (20+18+12+36) min. x 2 x 18	52	8	144
ADQ-KZB-AOS-ADQ; (30+10+36) min. x 2 x 18	46	6	108
ADQ-KPY-(ugi)-KWP-ADQ; (20+18+22) min. x 2 x 18	<u>36</u>	<u>6</u>	<u>108</u>
	224	29	522

Note: Stops at San Juan/Uganik and Alitak/Lazy Bay are authorized but associated costs and revenues are not included in the rate. An additional 10 percent has been added to calculated 407 block hours to account for aircraft diversions and groundings due to adverse weather.

## SERVICE LIST FOR ALASKA

Aaron Air	Hageland Aviation Services, Inc.	Scenic Mountain Air, Inc.
Aero Tech Flight Service, Inc.	Haines Airways, Inc.	Seaside Air Service
Air Excursions	Heli-Lift, Inc.	Security Aviation, Inc.
Air Lift Alaska	Homer Air	Seward Flying Service, Inc.
Air Madura	Hudson Air Service, Inc.	Silver Bay Logging, Inc.
Alaska Airlines, Inc.	Iliamna Air Taxi, Inc.	Skagway Air Service, Inc.
Alaska Bush Carrier, Inc.	Island Air Service	Soloy Helicopters, Inc.
Alaska Central Express, Inc.	Island Wings Air Service	Southcentral Air, Inc.
Alaska Coastal Airlines, Inc.	Jim Air, Inc.	Specialized Air Service
Alaska Fly'N Fish Charters	K2 Aviation	Spemak Airways
Alaska Flyers	Kachemak Air Service, Inc.	Sunrise Aviation, Inc.
Alaska Helicopters, Inc.	Kachemak Bay Flying Service, Inc.	Tamarack Air, Ltd.
Alaska Island Air, Inc.	Katmai Air	Tanana Air Service
Alaska Seair Adventures	Kenai Air Alaska, Inc.	Taquan Air Service, Inc.
Alaska West Air, Inc.	Kenai Fjords Outfitters, Inc.	Tatonduk Outfitters, Inc.
Aleutian Air, Ltd.	Kenair	Temco Helicopters, Inc.
Aleutian Specialty Aviation	Ketchikan Air Service, Inc.	Totem Air
Allegheny Commuter airlines, Inc.	Ketchum Air Service, Inc.	Trans-Alaska Helicopters, Inc.
Amerijet International, Inc.	Kodiak Air Service	Trans-Porter Alaska, Inc.
Arctic Air Alaska, Inc.	Koyukon Air, Inc.	Tundra Copters, Inc.
Arctic Circle Air Service, Inc.	Kupreanof Flying Service	Umiat Enterprises, Inc.
Baker Aviation, Inc.	Kusko Aviation, Inc.	Uyak Air Service
Bellair, inc.	L.A.B. Flying Service, Inc.	Vemair
Beluga Lake Float Plane Service	Larry's Flying Service, Inc.	Warbelow's Air Ventures, Inc.
Bering Air, Inc.	Loken Aviation, Inc.	Ward Air
Bran-Air & Branham Adventures	Lone Star Airlines, Inc.	Wings of Alaska
Camai Air	Lone Wolf Aero Services, Inc.	Woods Air Service, Inc.
Canning Air Service	Maritime Helicopters, Inc.	Wrangell Mountain Air, Inc.
Cape Smythe Air Service, Inc.	MarkAir, Inc.	Wright Air Service, Inc.
Cassaron Turbo Helicopters	Metroflight, Inc.	Yukon Helicopters
Chugiak Aviation	Midway Airlines, Inc.	Yutana Airlines, Inc.
Clearwater Air, Inc.	Midwest Express Airlines, Inc.	Yute Air Alaska, Inc.
Coastal Helicopters, Inc.	Misty Fjords Air & Outfitting	
Cordova Air Service, Inc.	Mountain Aviation	
CPA Air Service	Mountain Helicopters	Alaska Juneau Aeronautics, Inc.
Customized Alaskan Adventures	Nash West Aviation, Ltd.	Ken Bannon
Delta Connection	Natron Air	E. B. Freeman
Denali air	Nordic Air	A. Edward Jenner
Egli Air Haul, Inc.	North Star Air Cargo, Inc.	John McFarlane
Ellis Air Taxi, Inc.	Northern Air Cargo, Inc.	Kevin Thomas
Ellison Air, Inc.	Northwest Airlink	Pat Dempsey
ERA Aviation, Inc.	Olson Air Service, Inc.	P. Richard Steinman III
F.S. Air Service, Inc.	Pacific Wing, Inc.	
Fishing and Flying	Peninsula Airways, Inc.	
Fiskehauk Aero Service	Precision Valley Aviation, Inc.	
Forty (40)-Mile Air, Ltd.	Promech, Inc.	
Frontier Flying Service, Inc.	Ram Air, Inc.	
Golden Plover Air	Ray Atkins Registered Guide	
Grant Aviation, Inc.	Rediske Air, Inc.	
Great Northern Air Guides	Reeve Aleutian Airways, Inc.	
Gulf Air Taxi, Inc.	Regal Air	
Gulf Aviation, Inc.	Reid Air	
Gulkana Air Service, Inc.	Rust's Flying Service, Inc.	
	Ryan Air Service, Inc.	

**Historical Traffic Data  
Kodiak Island, Alaska  
12 Months Ended June, 2002**

<u>Community</u>	<u>Passengers</u>	<u>Freight (lbs.)</u>	<u>Mail (lbs.)</u>
Amook Bay	37	7,882	4,354
Kitoi Bay	30	3,395	4,364
Moser Bay	38	3,170	4,778
Olga Bay	51	413	4,023
Port Bailey	23	5,217	3,472
Port William	24	6,292	13,479
Seal Bay	66	6,579	7,704
West Point	57	9,610	22,536
Zachar Bay	19	2,793	4,131
Alitak/Lazy Bay	212	10,955	9,811
San Juan/Uganik	192	7,522	7,593

Source: Island Air Service