Order 2002-8-8

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

Issued by the Department of Transportation
on the 12th day of August, 2002

Served: August 15, 2002

Essential Air Service at ADAK AND AKUTAN, ALASKA under 49 U.S.C. 41731 *et seq.*	**Dockets OST-2000-8556 and 2000-7068**

ORDER SETTING FINAL RATES

Summary
By this order, we are setting short-term final subsidy rates, retroactive to October 1, 2001, for Peninsula Airways (Peninsula) for its essential air service (EAS) at Adak and Akutan, Alaska. The rate for Akutan will be effective through August 31, 2002, and for Adak until further Department action.

Discussion
The terrorist attacks of September 11 changed the aviation industry and our standard procedures in many ways. In the case of carriers that provide subsidized EAS, they are paid on a pre-agreed, fixed rate per flight. 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.[1] That order granted immediate rate relief to carriers 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. In response to that order, Peninsula submitted proposals for Adak and Akutan based on their post-September 11 operating results.

Peninsula was selected by Order 2000-8-4 to provide 13 nonstop round trips per week between Akutan and Dutch Harbor with 9-seat Grumman Goose aircraft. The rate was set at $343,246 per year through August 31, 2002. Likewise, Peninsula was selected by Order 2001-6-15 to

[1] See Order 2002-2-13 for a full discussion.

provide four one-stop round trips per week in the peak period and three in the off-peak period between Adak and Anchorage with Metro 23 aircraft. The rate was set at $564,043 per year until further Department action.[2]

Traffic and revenue for these communities have been consistent with those forecast in the current subsidy contracts. The only adjustments made to the rates are for insurance increases. For Akutan the annual subsidy rate increases from $343,246 to $393,050. At Adak we have agreed to a two-tiered rate to reflect the change in premiums for war risk insurance that took effect in late June 2002.[3] From October 1, 2001-June 30, 2002, we have agreed to an annual subsidy rate of $648,499. From July 1, 2002, until further notice, the annual subsidy rate is $631,999.

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

ACCORDINGLY,

1. The Department sets the final subsidy rate for Peninsula Airways, Inc., for the provision of essential air service at Adak, Alaska, as described in Appendix B, to be payable as follows: from October 1, 2001, through June 30, 2002, for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling and shall be determined by multiplying the subsidy-eligible flights completed during the month to Anchorage by $1,781.59; from July 1, 2002, until further Department action, for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling and shall be determined by multiplying the subsidy-eligible flights completed during the month to Anchorage by $1,736.26[4]

2. The Department sets the final subsidy rate for Peninsula Airways, Inc., for the provision of essential air service at Akutan, Alaska, as described in Appendix B, to be 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 and shall be determined by multiplying the subsidy-eligible flights completed during the month to Dutch Harbor by $290.72; [5]

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[2] We did not select Peninsula for a long-term period. We anticipated that the rate would be in effect for 120 days, until Evergreen International inaugurated combination passenger service. Because Evergreen has not inaugurated passenger service, at least in part because the Postal Service did not initially tender mail to Evergreen as anticipated, we have continued subsidizing both Evergreen all-cargo and Peninsula passenger service at Adak. The combination of these carriers' service was the lowest price option before the Department at the time it made the carrier selection decision.

[3] Peninsula's service at Akutan is provided with smaller Grumman Goose aircraft and is not affected by war risk insurance.

[4] See Appendix B for calculation.

[5] See Appendix B for calculation.

3. These rates are in lieu of, and not in addition to, those set by Orders 2000-8-4, 2001-6-15, or 2002-2-13;

4. We direct Peninsula 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 thereof 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; and

5. The Department will serve copies of this order on the Mayors of Adak and Akutan, Alaska, the Alaska Department of Transportation and Public Facilities, and Peninsula Airways, Inc.

By:

Read C. Van de Water
Assistant Secretary for Aviation
and International Affairs

(SEAL)

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Peninsula Airways' Annual Subsidy Need at Adak, Alaska, Docket 8556

	Annual Rate Order 2001-6-15	Annual Rate Oct 1, 2001 thru June 30, 2002		Annual Rate June 30, 2002 until Further Dept Action	
Aircraft Type	Metro 23	Metro 23		Metro 23	
Block Hours	1,783	1,783		1,783	
Weighted Departures	5,824	5,824		5,824	
Passengers	$1,291,556	$1,291,556		$1,291,556	
Mail	$15,089	$15,089		$15,089	
Cargo	$113,478	$113,478		$113,478	
Total Revenue	$1,420,123	$1,420,123		$1,420,123	
Flying Operations	$208,736	$217,651	1/	$217,651	1/
Fuel & Oil	$304,995	$304,995		$304,995	
Insurance	$60,158	$184,505	2/	$168,791	4/
Maintenance	$355,084	$355,084		$355,084	
Depreciation	$360,000	$360,000		$360,000	
Direct Expense	$1,288,973	$1,422,235		$1,406,521	
Traffic related	$163,172	$110,344	3/	$110,344	3/
Departure related	$226,379	$226,379		$226,379	
Capacity related	$211,158	$211,158		$211,158	
Indirect Expense	$600,709	$547,881		$547,881	
Total Operating Expense	$1,889,682	$1,970,116		$1,954,402	
Return at 5%	$94,484	$98,506		$97,720	
Total Economic Cost	$1,984,166	$2,068,622		$2,052,122	
Annual Subsidy Need @ 100% completion	$564,043	$648,499		$631,999	

1/ Additional expense to reflect higher employee insurance.
2/ Hull, Liab. and 3rd party liab. insurance is $135,307 + $98,352 for a Metro.
$233,659 divided by 2,258 hours/aircraft (based on 6 aircraft in CY 2001) = $103.48/hr.
3/ Order 2001-6-15 adjusted to net out liability insurance, which is now picked up separately above under insurance. The remaining portion of traffic-related expense (7.77% of revenue) is based on that in Order 2002-4-12.
4/ Efffective June 19, 2002, war risk insurance premiums were changed from a a per-flight basis to being based on RPMs and passengers, resulting in a $110,000 savings for Peninsula system-wide over seven aircraft. The allocable portion for the Adak rate is one-seventh of $110,000.

Peninsula Airways' Annual Subsidy Need at Akutan Alaska, Docket 7068

	Annual Basis Order 2000-8-4 Akutan	Annual Basis 10/1/01--8/31/02 Akutan	
Aircraft Type	G-21 Goose	G-21 Goose	
Block Hours	541	541	
Weighted Departures	5,881	5,881	
Passengers	$367,542	$367,542	
Mail	$27,238	$27,238	
Cargo	$60,902	$60,902	
Total Revenue	$455,682	$455,682	
Flying Operations	$89,265	$93,077	1/
Fuel & Oil	$67,490	$67,490	
Insurance	$51,524	$114,901	2/
Maintenance	$235,720	$235,720	
Depreciation	$79,494	$79,494	
Direct Expense	$523,493	$590,682	
Traffic related	$56,778	$35,406	3/
Departure related	$119,678	$119,678	
Capacity related @ $19.94/wtd.hr.	$35,036	$35,036	
Indirect Expense	$211,492	$190,120	
Total Operating Expense	$734,985	$780,802	
Return at 5%	$36,749	$39,040	
Interest	$27,194	$28,890	
Total Economic Cost	$798,928	$848,732	
Annual Subsidy Need @ 100%	$343,246	$393,050	

1/ Increased by 4.027% for employee insurance.
2/ 3 Gooses, one of which is down continually, one of which is backup.
Hull: $425,000*3*.0771=$98,303
Liab: $34,677*2= $69,354
3rd. Party: $11,427*2= $22,854
$190,511 x 541/897 hours = $114,901.
Note: Hull insurance is paid year-round on all three aircraft. Liability and third party insurance are paid only while the aircraft is active, so the rate reflects only 2 aircraft.
3/ Order 2000-8-4 adjusted to net out liability insurance, which is now picked up separately above under insurance. The remaining portion of traffic-related expense (7.77% of revenue) is based on that in Order 2002-4-12.

Peninsula Airways, Inc., Essential Air Service to be Provided to Adak, Alaska, Docket 8556

Effective Period: October 1, 2001, through June 30, 2002.

Scheduled Service: Four one-stop round trips each week in the peak and three in the off-peak period to Anchorage.

Aircraft: 14-seat Metro 23 aircraft with lavatory.

Subsidy Rate per Anchorage Flight: $1,781.59 [1]

Weekly Compensation Ceiling: $14,252.72 peak and $10,689.54 off-peak [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 parities 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.

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[1] $648,499 per year, divided by 364 annual one-way flights calculated as follows:
Peak, 8 flights/week*26 weeks = 208 flts.; Off-peak, 6 flights/week*26 weeks = 156 flts.;

[2] 8 flights per week peak period and 6 flights per week off-peak x $1,781.59.

Peninsula Airways, Inc., Essential Air Service to be Provided to Adak, Alaska, Docket 8556

Effective Period: July 1, 2002, until further Department action.

Scheduled Service: Four one-stop round trips each week in the peak and three in the off-peak period to Anchorage.

Aircraft: 14-seat Metro 23 aircraft with lavatory.

Subsidy Rate per Anchorage Flight: $1,736.26 [1]

Weekly Compensation Ceiling: $13,890.08 peak and $10,417.56 off-peak [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.

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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.

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[1] $631,999 per year, divided by 364 annual one-way flights calculated as follows:
Peak, 8 flights/week*26 weeks = 208 flts.; Off-peak, 6 flights/week*26 weeks = 156 flts.;

[2] 8 flights per week peak period and 6 flights per week off-peak x $1,736.26.

Peninsula Airways, Inc., Essential Air Service to be Provided to Akutan, Alaska, Docket 7068

<u>Effective Period</u>: November 1, 2001, through August 31, 2002.

<u>Scheduled Service</u>: 13 nonstop stop round trips each week to Dutch Harbor.

<u>Aircraft</u>: 9-seat Grumman Goose (G-21)

<u>Subsidy Rate per Dutch Harbor Flight</u>: $290.72 [1]

<u>Weekly Compensation Ceilings</u>: $7,558.72 [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.

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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.

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[1] $393,050 annually divided by 1,352 annual one-way flights calculated as follows:
26 flights/week*52 weeks = 1,352 flts.

[2] 26 flights per week x $290.72/flight.