



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

Essential Air Service at

HANA, HAWAII  
KALAUPAPA, HAWAII  
KAMUELA, HAWAII

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

Served: August 15, 2002

DOCKET OST-1999-6502  
DOCKET OST-2000-6773  
DOCKET OST-1997-2833

**ORDER SELECTING CARRIER  
AND SETTING FINAL SUBSIDY RATES**

**Summary**

By this order, we are selecting Pacific Wings, Inc. (Pacific Wings), to continue to provide subsidized EAS at Hana, Kalaupapa and Kamuela, Hawaii, for an additional two-year period, beginning when it inaugurates service with 9-seat Cessna Caravan aircraft. Annual subsidy rates are \$1,048,555 for Hana; \$514,093 for Kalaupapa; and \$781,270 for Kamuela for the first year; the second-year rates are approximately ten percent lower.

**Background**

Pacific Wings was selected to provide subsidized essential air service (EAS) at Hana by Order 2000-5-2, with the annual rate of \$574,500 expiring on March 31, 2002; at Kalaupapa, by Order 2000-2-24, with the annual rate of \$272,807 expiring February 28, 2002; and at Kamuela, by Order 2000-4-26, with the annual rate of \$424,559 expiring April 30, 2002. By Order 2002-5-19, we requested proposals from carriers potentially interested in providing EAS at these three Hawaii communities for a new two-year contract period.<sup>1</sup> In response, Pacific Wings was the only carrier to submit a proposal.

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<sup>1</sup> That order also set new temporary subsidy rates, based on post-September 11 operating results, for Pacific Wings to bridge the gap between when the last contract rates expired and when the new contract begins, at the annual rates of \$746,752 at Hana; \$386,624 at Kalaupapa; and \$594,751 at Kamuela.

### **Carrier Proposal**

Pacific Wings currently operates a fleet of several Cessna 402s that the carrier is phasing out in favor of factory-new Cessna Caravan aircraft. The Caravan is a single-engine, prop-jet aircraft that Pacific Wings would operate with one pilot. The carrier proposes to continue to operate the same service patterns at all three communities that it has operated historically, i.e., Kalaupapa would continue to receive two nonstop round trips a day to Honolulu; Hana would continue to receive two nonstop round trips a day to Honolulu and two nonstop round trips a day to Kahalui; and Kamuela would receive one nonstop round trip a day to Honolulu and one to Kahalui.

### **Community Comments**

We received a letter dated August 2 from the Mayor of the County of Maui on behalf of the Hana and Kalaupapa communities, and another letter dated August 5 from the Mayor of the County of Hawai'i on behalf of the Kamuela community. Both letters fully support the selection of Pacific Wings' proposal. The communities state that the Cessna Caravan prop-jet aircraft proposed by Pacific Wings is roomier and quieter than the Cessna 402s now in service and has improved handicapped access and up-to-date avionics. According to the communities, the Caravan has the potential to serve public interest, convenience, and necessity by promoting economical and sustainable inter-island air service, and they therefore support the carrier's proposal. Further, the communities are aware that the proposed service does not meet the statutory minimums of two engines and two pilots (49 U.S.C. 41732) and have knowingly waived these requirements.

### **Decision**

Pacific Wings has made a corporate decision to upgrade its fleet from its current, piston-engine Cessna 402 aircraft to factory-new, prop-jet Cessna Caravans. The communities are fully supportive of Pacific Wings' service, especially the introduction of its new Cessna Caravan aircraft. In the short term, the Caravans require significantly more subsidy, \$2,323,918 compared to the current rates of \$1,728,127, due largely to the higher ownership costs. We are optimistic that the new aircraft will be well received by the communities, in terms of passenger acceptance and increased operational reliability, both of which should result in more passenger usage and thus lower subsidy. In that regard, we note that the carrier was willing to forecast significantly more passengers in the second year of Caravan service. Based on the above, we find the proposed service and subsidy levels to be reasonable. We strongly encourage all three communities to work closely with Pacific Wings to increase ridership and ultimately to reduce the amount of subsidy required to support the service.

### **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. Pacific Wings is a commuter air carrier and has operated successfully for a number of years. We last reviewed the fitness of Pacific Wings when we selected it to provide essential air service at Hana two years ago in Order 2000-5-2. Pacific Wings remains subject to the Department's continuing fitness monitoring. No information has come to our attention that would lead us to conclude that the carrier does not continue to be fit. The Federal Aviation Administration states that it knows of

no reason to question Pacific Wings' fitness. We therefore conclude that the carrier remains fit to conduct the operations proposed here.

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

**ACCORDINGLY,**

1. The Department selects Pacific Wings to provide subsidized essential air service at Hana, Kalaupapa and Kamuela, Hawaii, for the two-year period beginning when the carrier fully implements its service with Cessna Caravan aircraft as described in the text of this order;
2. The Department sets the final subsidy rate for Pacific Wings, Inc., for the provision of essential air service at Hana, Hawaii, as described in Appendix C, for the two-year period beginning when the carrier fully implements its service with Cessna Caravan aircraft as described in the text of this order 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 the hubs of Honolulu and Kahului by \$361.95 for the first year and \$326.21 for the second year;<sup>2</sup>
3. The Department sets the final subsidy rate for Pacific Wings, Inc., for the provision of essential air service at Kalaupapa, Hawaii, as described in Appendix C, for the two-year period beginning when the carrier fully implements its service with Cessna Caravan aircraft as described in the text of this order 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 the hub of Honolulu by \$413.92 for the first year and \$389.68 for the second year;<sup>3</sup>
4. The Department sets the final subsidy rate for Pacific Wings, Inc., for the provision of essential air service at Kamuela, Hawaii, as described in Appendix C, for the two-year period beginning when the carrier fully implements its service with Cessna Caravan aircraft as described in the text of this order 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 the hubs of Honolulu and Kahului by \$629.04 for the first year and \$600.46 for the second year;<sup>4</sup>
5. The rates in ordering paragraphs 2, 3, and 4, are in lieu of, and not in addition to, those set by Order 2002-5-19;

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<sup>2</sup> See Appendix C, page 1, for calculation.

<sup>3</sup> See Appendix C, page 2, for calculation.

<sup>4</sup> See Appendix C, page 3, for calculation.

6. We find that Pacific Wings continues to be fit, willing and able to operate as a commuter carrier and capable of providing reliable essential air service at Hana, Kalaupapa and Kamuela, Hawaii;

7. We direct Pacific Wings 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; and

8. The Department will serve copies of this order on the Governor of Hawaii, the Hawaii Department of Transportation, the Mayor of the County of Maui, the Mayor of the County of Hawai'i, and Pacific Wings, Inc.

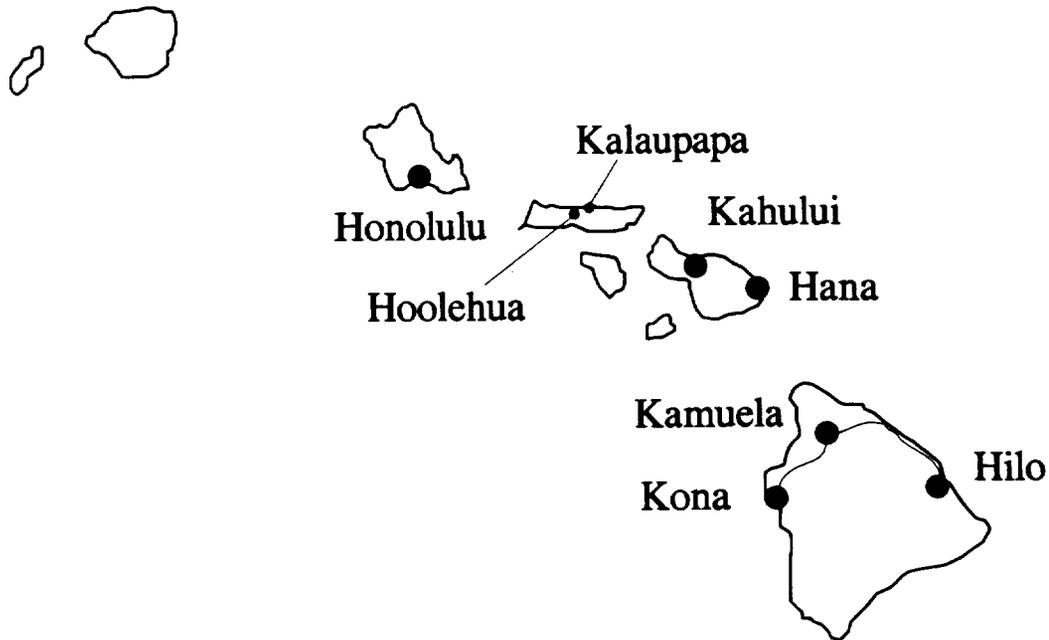
By:

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

(SEAL)

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# HAWAII



## Mileages

Kamuela - Kona	33
Kamuela - Hilo	45
Kamuela - Honolulu	171
Kamuela - Kahului	78
Hana - Kahului	28
Hana - Honolulu	128
Kalaupapa - Hoolehua	9
Kalaupapa - Honolulu	62

## Appendix B

## Pacific Wings' Annual Subsidy Need at Kalaupapa, Kamuela, and Hana, Hawaii, Dockets 6773, 2833, and 6502

	First Year				Second Year			
	<u>Kalaupapa</u>	<u>Kamuela</u>	<u>Hana</u>	<u>Total</u>	<u>Kalaupapa</u>	<u>Kamuela</u>	<u>Hana</u>	<u>Total</u>
Block Hours	7624/	1,1075/	1,8156/	3,684	762	1,107	1,815	3,684
Honolulu Passengers	3,188	2,215	4,106	9,509	3,985	2,769	5,133	11,887
<u>Kahului Passengers</u>	<u>0</u>	<u>1,515</u>	<u>3,547</u>	<u>5,062</u>	<u>0</u>	<u>1,894</u>	<u>4,434</u>	<u>6,328</u>
Total Passengers	3,188	3,730	7,653	14,571	3,985	4,663	9,567	18,215
Honolulu pax. rev.	\$120,443	\$86,584	\$232,605	\$439,632	\$150,554	\$108,230	\$290,756	\$549,540
Kahului pax. rev.	\$0	\$55,404	\$181,500	\$236,904	\$0	\$69,255	\$226,875	\$296,130
<u>Other</u>	<u>\$3,120</u>	<u>\$3,100</u>	<u>\$56,169</u>	<u>\$62,389</u>	<u>\$3,120</u>	<u>\$3,100</u>	<u>\$56,169</u>	<u>\$62,389</u>
Total Revenue	\$123,563	\$145,088	\$470,274	\$738,925	\$153,674	\$180,585	\$573,800	\$908,059
Flying Ops. @ \$74.91/hr.	\$57,081	\$82,925	\$135,962	\$275,968	\$57,081	\$82,925	\$135,962	\$275,968
Fuel & Oil @ \$108.90/hr. 1/	\$82,982	\$120,552	\$197,654	\$401,188	\$82,982	\$120,552	\$197,654	\$401,188
Liab. & Hull Ins @ \$50.90/hr. 2/	\$38,786	\$56,346	\$92,384	\$187,516	\$38,786	\$56,346	\$92,384	\$187,516
Maintenance @ \$113.44/hr.	\$86,441	\$125,578	\$205,894	\$417,913	\$86,441	\$125,578	\$205,894	\$417,913
<u>Lease @ \$127.04/hr. 3/</u>	<u>\$96,804</u>	<u>\$140,633</u>	<u>\$230,578</u>	<u>\$468,015</u>	<u>\$96,804</u>	<u>\$140,633</u>	<u>\$230,578</u>	<u>\$468,015</u>
Direct Expense	\$362,094	\$526,034	\$862,472	\$1,750,600	\$362,094	\$526,034	\$862,472	\$1,750,600
Indirects	\$245,197	\$356,212	\$584,032	\$1,185,441	\$245,197	\$356,212	\$584,032	\$1,185,441
Total Operating Expense	\$607,291	\$882,246	\$1,446,504	\$2,936,041	\$607,291	\$882,246	\$1,446,504	\$2,936,041
<u>Return at 5%</u>	<u>\$30,365</u>	<u>\$44,112</u>	<u>\$72,325</u>	<u>\$146,802</u>	<u>\$30,365</u>	<u>\$44,112</u>	<u>\$72,325</u>	<u>\$146,802</u>
Total Economic Cost	\$637,656	\$926,358	\$1,518,829	\$3,082,843	\$637,656	\$926,358	\$1,518,829	\$3,082,843
Annual Subsidy Need @ 99.5%	\$514,093	\$781,270	\$1,048,555	\$2,343,918	\$483,982	\$745,773	\$945,029	\$2,174,784

1/ \$1.66/gallon x 65 gph + \$1/hr. oil = \$108.90/hr.

2/ (\$22,500 Liab. + \$40,000 Hull)\*3 aircraft/3,684 hrs. = \$50.90/hr.

3/ \$13,000/month\*12 months\*3 aircraft/3,684 hrs. = \$127.04

4/ LUP-HNL: 35 min.\*24 flts/week\*52 weeks\*.995/60 = 724 hrs.

LUP-MKK: 11 min.\*4 flts/week\*52 weeks\*.995/60 = 38 hrs.

5/ MUE-HNL: 69 min.\*12 flts/week\*52 weeks\*.995/60 = 714 hrs.

MUE-OGG: 38 min.\*12 flts/week\*52 weeks\*.995/60 = 393 hrs.

6/ HNM-HNL: 59 min.\*26 flts/week\*52 weeks\*.995/60 = 1,323 hrs.

HNM-OGG: 19 min.\*30 flts/week\*52 weeks\*.995/60 = 492 hrs.

**Pacific Wings, Inc.**  
**Essential Air Service to be Provided to Hana, Hawaii**  
**Docket 6502**

Effective period: Beginning with the inauguration of Cessna Caravan service through the 24<sup>th</sup> month thereafter.

Service: 13 nonstop round trips each week to Honolulu and 15 nonstop round trips each week to Kahului.

Aircraft type: Cessna Caravan, 9-seats

Timing of flights: Flights must be well-timed and well-spaced in order to ensure full compensation.

Annual compensation: \$1,048,555 – 1<sup>st</sup> year  
\$945,029 – 2<sup>nd</sup> year

Subsidy Rate Per Arrival/Departure: \$361.95 – 1<sup>st</sup> year<sup>1</sup>  
\$326.21 – 2<sup>nd</sup> year<sup>2</sup>

Weekly Compensation Ceiling: 1<sup>st</sup> year – Honolulu, \$9,410.70<sup>3</sup>; Kahului, \$10,858.50<sup>4</sup>  
2<sup>nd</sup> year – Honolulu, \$8,481.46<sup>5</sup>; Kahului, \$9,786.30<sup>6</sup>

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<sup>1</sup> \$1,048,752 compensation, divided by 2,897 annual one-way flights, calculated as follows:

HNL: 26 flts/week\*52 weeks\*.995 completion = 1,345 flts.;

OGG: 30 flts/week\*52 weeks\*.995 completion = 1,552 flts.;

<sup>2</sup> \$945,029 compensation, divided by 2,897 annual one-way flights, calculated as follows:

HNL: 26 flts/week\*52 weeks\*.995 completion = 1,345 flts.;

OGG: 30 flts/week\*52 weeks\*.995 completion = 1,552 flts.;

<sup>3</sup> Honolulu – 1<sup>st</sup> year: 26 flts/week\*\$361.95/flight = \$9,410.70.

<sup>4</sup> Kahului – 1<sup>st</sup> year: 30 flts/week\*\$361.95/flight = \$10,858.50.

<sup>5</sup> Honolulu – 2<sup>nd</sup> year: 26 flts/week\*\$326.21/flight = \$8,481.46.

<sup>6</sup> Kahului – 2<sup>nd</sup> year: 30 flts/week\*\$326.21/flight = \$9,786.30.

**Pacific Wings, Inc.**  
**Essential Air Service to be Provided to Kalaupapa, Hawaii**  
**Docket 6773**

Effective period: Beginning with the inauguration of Cessna Caravan service through the 24<sup>th</sup> month thereafter.

Service: 12 nonstop round trips each week to Honolulu.

Aircraft type: Cessna Caravan, 9-seats

Timing of flights: Flights must be well-timed and well-spaced in order to ensure full compensation.

Annual compensation: \$514,093 – 1<sup>st</sup> year  
\$483,982 – 2<sup>nd</sup> year

Subsidy Rate Per Arrival/Departure: 1<sup>st</sup> year – \$413.92<sup>7</sup>  
2<sup>nd</sup> year – \$389.68<sup>8</sup>

Weekly Compensation Ceiling: 1<sup>st</sup> year – \$9,934.08<sup>9</sup>  
2<sup>nd</sup> year – \$9,352.32<sup>10</sup>

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<sup>7</sup> 1<sup>st</sup> year: \$514,093 compensation, divided by 1,242 estimated completed dep/arv at a 99.5% completion factor:  
24 flts/week\*52 weeks\*.995 completion = 1,242.

<sup>8</sup> 2<sup>nd</sup> year: \$483,982 compensation, divided by 1,242 estimated completed dep/arv at a 99.5% completion factor:  
24 flts/week\*52 weeks\*.995 completion = 1,242.

<sup>9</sup> 1<sup>st</sup> year: 24 flts/week\*\$413.92/flight = \$9,934.08.

<sup>10</sup> 2<sup>nd</sup> year: 24 flts/week\*\$389.68/flight = \$9,352.32.

**Pacific Wings, Inc.**  
**Essential Air Service to be Provided to Kamuela, Hawaii**  
**Docket 2833**

Effective period: Beginning with the inauguration of Cessna Caravan service through the 24<sup>th</sup> month thereafter.

Service: 6 nonstop round trips each week to Honolulu and 6 to Kahului.

Aircraft type: Cessna Caravan, 9-seats

Timing of flights: Flights must be well-timed and well-spaced in order to ensure full compensation.

Annual compensation: \$781,270 – 1<sup>st</sup> year  
\$745,773 – 2<sup>nd</sup> year

Subsidy Rate Per Arrival/Departure: \$629.04 – 1<sup>st</sup> year<sup>11</sup>  
\$600.46 – 2<sup>nd</sup> year<sup>12</sup>

Weekly Compensation Ceiling: 1<sup>st</sup> year – \$15,096.96<sup>13</sup>  
2<sup>nd</sup> year – \$14,411.04<sup>14</sup>

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<sup>11</sup> 1<sup>st</sup> year: \$781,270 compensation, divided by 1,242 annual one-way flights, calculated as follows:  
24 flts/week\*52 weeks\*.995 completion = 1,242 flts.;

<sup>12</sup> \$745,773 compensation, divided by 1,242 annual one-way flights, calculated as follows:  
24 flts/week\*52 weeks\*.995 completion = 1,242 flts.;

<sup>13</sup> Honolulu & Kahului – 1<sup>st</sup> year: 24 flts/week\*\$629.04/flight = \$15,096.96.

<sup>14</sup> Honolulu & Kahului – 2<sup>nd</sup> year: 24 flts/week\*\$600.46/flight = \$14,411.04.

**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 this rate, 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 this route. 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.