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Order 2001-7-14
Served: July 24, 2001



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

Issued by the Department of Transportation
on the 24th day of July, 2001

Essential Air Service at

ELY, NEVADA

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

DOCKET OST-1995-361- 40

**ORDER SELECTING CARRIER
AND SETTING SUBSIDY RATE**

Summary

By this order the Department is selecting Scenic Airlines to provide essential air service at Ely, Nevada, for a two-year period at an annual subsidy of \$976,533.

On November 3, 2000, Sunrise Airlines shut down leaving Ely, Nevada, Page, Arizona, and Moab and Vernal, Utah, with no scheduled air service. By Order 2000-11-4, issued November 7, 2000, the Department requested proposals on an emergency basis from carriers interested in providing replacement essential air service at those communities.

In response to that request, we received service proposals from five carriers. Sunrise and Casino Airlines submitted proposals for service to all four communities; Great Lakes Aviation submitted proposals for Vernal, Page and Moab; Arrow West submitted a proposal for Moab only; and Classic Aviation submitted a proposal for Page only.

However, because neither carrier with proposals for Ely--Sunrise or Casino--was then operating, nor had the requisite operating authority from the Department to provide the service, we decided to separate the Ely proceeding from the others and re-advertise for proposals for that community.

We issued Order 2001-1-20 on January 26, 2001, requesting proposals from all carriers interested in providing replacement essential air service at Ely. In response to that second order, we received proposals from Mountain Bird, Inc., d/b/a Salmon Air, Eagle Canyon Airlines, Inc., d/b/a Scenic Airlines, and SkyVantage, Inc. Below is a description of the carriers' proposals.

Salmon Air Proposal

Option A: Salmon Air proposes to provide Ely with twelve nonstop round trips each week to Salt Lake City, with 8-seat, two-pilot, Piper Navajo Chieftain aircraft. For this level of service, the carrier requests a subsidy of \$697,529 per year.

Option B: Salmon Air proposes to provide Ely with fourteen nonstop round trips each week to Salt Lake City, with 8-seat, single-pilot, Piper Navajo Chieftain aircraft. For this level of service, the carrier requests a subsidy of \$707,529 per year.

Scenic Airlines Proposal

Option A: Scenic Airlines proposes to provide Ely with six nonstop round trips each week to Las Vegas, with 19-seat, two-pilot, DeHavilland Twin Otter aircraft. For this level of service, the carrier requests a subsidy of \$976,533 per year.¹

Option B: Scenic Airlines proposes to provide Ely with twelve nonstop round trips each week to Las Vegas, with 19-seat, two-pilot, DeHavilland Twin Otter aircraft. For this level of service, the carrier requests a subsidy of \$1,446,710 per year.

SkyVantage Proposal

SkyVantage proposes to provide Ely with twelve nonstop round trips each week to Salt Lake City, with 9-seat, two-pilot, Cessna Caravan aircraft. For this level of service, the carrier requests a subsidy of \$1,082,363 per year.

Community Comments

On June 12, 2001, we sent a letter to the Mayor of Ely and to the White Pine County Board of County Commissioners, summarizing all of the carrier proposals and asked for their comments on the carrier selection decision.

The City of Ely and the White Pine County Board of County Commissioners strongly support the selection of Scenic Airlines to provide essential air service at their community. The parties have advised the Department that they prefer service to Las Vegas, either one round trip a day or two round trips a day, over any service to Salt Lake City. Furthermore, the parties state that Las Vegas service is so much more attractive than Salt Lake City service that they are willing to waive the requirement for two round trips per day in favor of one round trip a day to Las Vegas.

Carrier Selection

After careful consideration of the proposals submitted by all three carriers, and the comments submitted by the City of Ely and the White Pine County Board of County Commissioners, we have decided to select Scenic Airlines' Option A, for a two-year period at the agreed-to annual subsidy rate of \$976,533, for six nonstop round trips a

¹ Scenic Airlines' Option A does not meet the community's minimum guaranteed level of essential air service of at least two round trips a day to a hub. In order for this option to be selected, the community would have to waive its right to receive two round trips.

week in the Ely-Las Vegas market. This rate appears reasonable for the service proposed and will be effective beginning with the inauguration of service by Scenic Airlines, through the end of the twenty-fourth month thereafter.

In support of Scenic Airlines' Option A, the community has a strong preference for service to Las Vegas and, to secure such service, is willing to waive its statutory guarantee of two round trips a day to a hub--in this case two round trips to Salt Lake City on either Salmon Air or SkyVantage. We have received written waiver notices from both the City of Ely and the White Pine County Board of County Commissioners. Las Vegas offers excellent connecting service to the nation's transportation system, including access to several low-cost airlines, and has become in the last few years Ely's primary community of interest.

Under the Department's governing statutes, 49 U.S.C. 41733(c), we are required to consider, among other things, the applicant's operating experience, their marketing arrangements to ensure service beyond the hub, and the community's views. Scenic Airlines has been providing scheduled service and scenic tours in Nevada, Arizona and Utah for a number of years. The carrier has the full support of the community. We find that the agreed-to service and subsidy levels are reasonable.

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. Eagle Canyon Airlines, Inc., d/b/a Scenic Airlines, is a certificated air carrier and has operated successfully for a number of years. The carrier remains subject to the Department's continuing fitness monitoring. No information has come to our attention that would lead us to conclude that Scenic Airlines does not continue to be fit. The Federal Aviation Administration states that it knows of no reason to question Scenic Airlines' 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. We select Eagle Canyon Airlines, Inc., d/b/a Scenic Airlines, to provide essential air service at Ely, Nevada, as described in Appendix B, for a two-year period beginning on the date the carrier inaugurates service at Ely, and ending on the last day of the twenty-fourth month thereafter;
2. We set the final rate of compensation for Eagle Canyon Airlines, Inc., d/b/a Scenic Airlines, for the provision of essential air service at Ely, Nevada, as described in Appendix B, for the period beginning on the date the carrier inaugurates service at Ely, and ending on the last day of the twenty-fourth month thereafter, 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 arrivals and departures completed during the month by \$1,595.64;²

3. We direct Eagle Canyon Airlines, Inc., d/b/a Scenic Airlines, 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. We find that Eagle Canyon Airlines, Inc., d/b/a Scenic Airlines, continues to be fit, willing and able to operate as a certificated air carrier and capable of providing reliable essential air service at Ely, Nevada;

5. Docket OST 1995-316 shall remain open until further order of the Department; and

6. We will serve copies of this order on the civic officials of Ely, the White Pine County Board of County Commissioners, the Nevada State Department of Transportation, the Governor of Nevada, Scenic Airlines, Salmon Air and SkyVantage.

By:

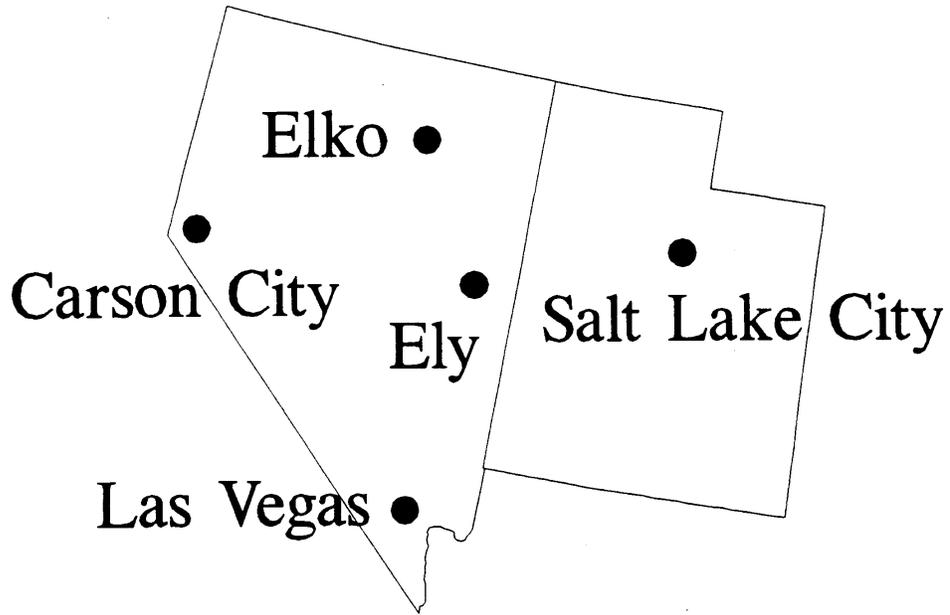
SUSAN MCDERMOTT
Deputy Assistant Secretary for Aviation
and International Affairs

(SEAL)

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

² 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.

AREA MAP



**SCENIC AIRLINES
ESSENTIAL AIR SERVICE TO BE PROVIDED AT
ELY, NEVADA**

Effective Period: Inauguration of service through the end of the twenty-fourth month thereafter

Service: Six nonstop round trips each week to Las Vegas

Aircraft: DeHavilland DH-6 Twin Otter (19 passenger seats)

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

Subsidy Rate: Per year - \$976,533
Per arrival from or departure to Seattle - \$1,595.64 ¹

Weekly
Compensation Ceiling: \$19,147.68 ²

¹ Annual compensation of \$976,533, divided by the number of arrivals and departures estimated to be performed annually (612), calculated by multiplying 12 arrivals and departures each week x 52 weeks x 98 percent completion.

² The subsidy rate for each arrival/departure (\$1,595.64) multiplied by the number of scheduled subsidy-eligible flights per week (12).

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.

**SCENIC AIRLINES
ESSENTIAL AIR SERVICE AT ELY, NEVADA
SUBSIDY CALCULATION**

	<u>1 Round Trip</u>
Flight Hours	1,223 1/2
ELY-LAS Pax.	1,300
ELY-LAS Pax. Rev. @ \$74	\$96,200
<u>Freight</u>	<u>\$1,000</u>
Total Revenue	\$97,200
Aircraft Lease, 1 full Aircraft \$16,000/mo	\$192,000
Hull Insurance (1.45% x \$1.2m)	\$17,400
<u>Pax and Liability Insurance (392,600 RPM x \$.018)</u>	<u>\$7,067</u>
Total Fixed Expense	\$216,467
Captain @ \$50,000 ea.	\$75,000
First Officer @ \$35,000 ea.	\$35,000
Mechanics @ \$45,000 ea.	\$45,000
Ticket Agent - MCN, Ely (\$25K ea.)	\$50,000
<u>Benefits & Taxes (18%)</u>	<u>\$36,900</u>
Total Wages and Benefits	\$241,900
Reservations Agents @ \$2.50/pax.	\$3,250
CRS per Pax. @ \$8.35/pax.	\$10,855
Passenger Inconvenience @ \$2.50/pax.	\$3,250
<u>Commissions @ 7%</u>	<u>\$6,804</u>
Total Rev. and Psgr. Related	\$24,159
Crew Car at Ely	\$6,000
Busing at Las Vegas	\$6,000
Housing / Per Diem (A/C based ELY)	\$49,920
Counter Rental - Ely \$500/mo	\$6,000
Counter Rental @ LAS @ \$1.25/O&D pax.	\$1,625
Advertising & Promotion	\$7,500
Deicing Expense	\$30,000
GPU Cost	\$4,200
Uniforms - Cost & Maintenance	\$2,400
Landing Fees	\$1,836
Misc / Depreciation	\$23,726
<u>Crew Training</u>	<u>\$18,200</u>
Misc. Operating Expense	\$157,407
Fuel (\$127.60/hr) (88 gph @ \$1.45 per gallon)	\$156,055
Airframe & Avionics Parts (\$75/FH)	\$91,725
<u>Engine MX & Reserves (\$60/FH)</u>	<u>\$73,380</u>
Variable Directs	\$321,160

Total Expenses Before Profit and G&A	\$961,093
G&A at 6.4%	\$61,510
<u>Profit at 5%</u>	<u>\$51,130</u>
Total Economic Cost	\$1,073,733
Subsidy @ 98% Completion	\$976,533

1/ ELY-LAS: 12 flts./week x 2 hrs. x 52 weeks x .98 = 1,223 flight hours.
2/ ELY-LAS: 24 flts./week x 2 hrs. x 52 weeks x .98 = 2,446 flight hours.