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Order 2001-3-19
Served: March 16, 2001



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

Issued by the Department of Transportation
on the 16th day of March, 2001

Essential Air Service at:

ILIAMNA , ALASKA

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

Docket OST 00-8488 -21

ORDER SELECTING CARRIER

SUMMARY

By this order we are selecting Era Aviation, Inc., to provide subsidized essential air service at Iliamna, Alaska, for the period March 8, 2001, when Era was first eligible for compensation, through March 31, 2003, at an annual subsidy rate of \$126,777.

Background

On December 7, 2000, Era filed a 90-day notice to terminate all of its subsidy-free service at Iliamna, effective March 8, 2001. The carrier stated that it could no longer operate to Iliamna without subsidy support because of declining traffic in the face of increased insurance and fuel costs and the economic difficulties associated with the local fishing industry. Era provided three nonstop round trips a week to Anchorage with 37-seat DeHavilland Dash 8 equipment at the time of its notice. By Order 2001-1-18, dated January 24, 2000, the Department prohibited Era from suspending its service and requested proposals for replacement service. That order also stated that we would review the essential air service (EAS) definition for Iliamna established in Order 80-1-167 requiring seven round trips per week in the peak and four round trips per week during the off-peak with intermediate-size equipment. When we prohibited Era from suspending service we noted that Era was at the time providing only three round trips per week in the off-peak, but noted that other carriers were providing all-cargo service on a subsidy-free basis meeting most of the community's need for mail and freight service and so we would not require additional service. We also noted that three round trips a week in the off-peak with a Dash 8 comfortably accommodated recent historical traffic. That order required Era to continue to provide three round trips a week to Anchorage.

Community Comments

As noted in the Order requiring Era to maintain EAS, we received a number of comments from local government, businesses, and individuals to Era's notice to suspend. The letters generally favored selecting Era, the only applicant, because of the size of the carrier's Dash 8 equipment, especially useful for transporting people on stretchers, and the ability to accommodate local sports teams.

Carrier Proposals

In response to our request, Era was the only carrier to submit a service and subsidy proposal. The carrier proposes to provide eight round trips per week in the 18-week peak period and three round trips a week in the off-peak for \$126,777 annually. The proposal contemplates nonstop service to Anchorage with 37-seat DeHavilland Dash 8 aircraft. This level of service is consistent with that required by the community's EAS determination, especially in light of the great deal of all-cargo service provided by Northern Air Cargo and Air Cargo Express.

Decision

We have decided to select Era. Iliamna has had subsidy-free essential air service for a number of years. The only proposal was from the incumbent, and its proposed service reflects a continuation of the existing service in the off-peak. During the peak period, the eight round trips a week required are above that specified in the community's EAS definition, but are required to accommodate recent traffic at a reasonable load factor.

The community of Iliamna serves as the regional hub for a number of small communities. As discussed in Order 2001-1-18 requesting replacement service, Anchorage appears to be the only logical hub for Iliamna and, given the distance and need to fly over a mountain range, pressurized aircraft appears to be required. Era's proposal meets those conditions. The proposed level of subsidy is reasonable for the service provided. We have informally discussed Era's proposal with community officials who are supportive of the carrier's service.

We have reviewed Iliamna's EAS definition and will not change it at this time. It is our usual procedure to amend EAS definitions when we are reasonably certain that that service level will remain the standard. In the next two years we will gain a better understanding for the service level the community requires. In the meantime, the community will receive a level of service in the peak that exceeds its definition of seven round trips a week but is consistent with its recent traffic.¹

¹ Northern Air Cargo and Air Cargo Express provide a great deal of all-cargo service to Iliamna. We expect that service to continue, but if it does not, we will reevaluate the level of service that Era should provide.

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. The Department has routinely monitored the carrier's continuing fitness. The Federal Aviation Administration has advised us that the carrier is conducting its operations in accordance with its regulations, and knows of no reason why we should not find that Era remains fit. Era has experience providing essential air service at Iliamna, and, based on its operating record, we find that the carrier continues to be fit to provide the essential air transportation at issue in this case.

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

ACCORDINGLY,

1. The Department selects Era Aviation, Inc., to provide essential air service at Iliamna, Alaska, through March 31, 2003;
2. The Department sets the final rate of compensation for Era for the provision of essential air service at Iliamna, Alaska, as described in Appendix C, 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 each month between Iliamna and Anchorage by \$257.68;²
3. We find that Era Aviation, Inc., continues to be fit, willing, and able to provide reliable air service at Iliamna, Alaska;
4. We direct Era 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;
5. This docket will remain open until further order of the Department; and

² See Appendix C for calculations.

6. We will serve a copy of this order on the Mayor, City Administrator, President of the Native Village, of Iliamna, and on the Alaska Department of Transportation and Public Affairs, the United States Postal Service, and Era Aviation, Inc.

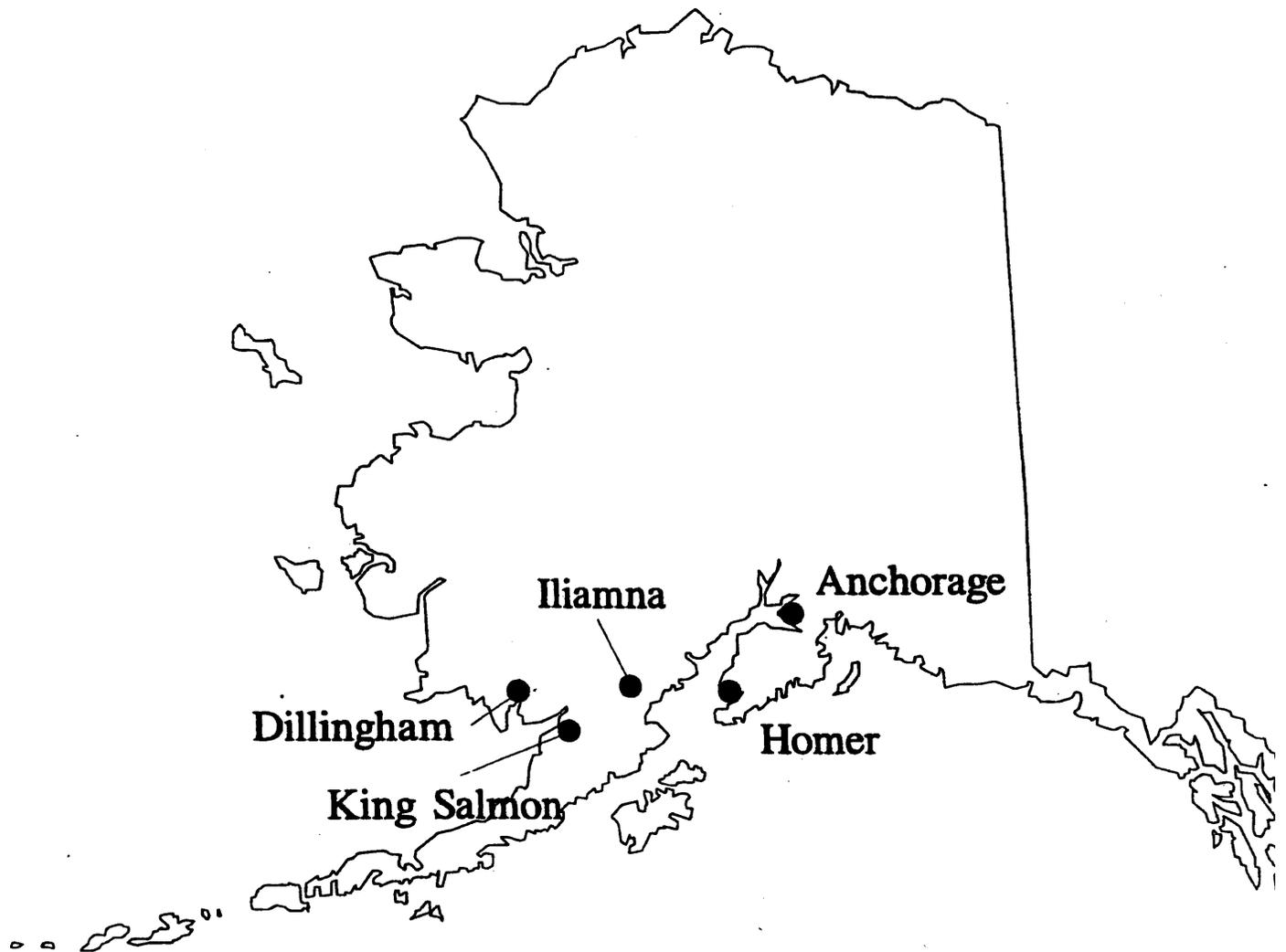
By:

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>*

Appendix A



Mileages

Iliamna - Anchorage	195
- King Salmon	97
- Dillingham	136
- Homer	120

Appendix B

Era Aviation, Inc., Essential Air Service at Iliamna, Alaska, Docket 8488

Passenger Revenue @ \$112.21	\$652,726
Freight Revenue @ \$.30/lb.	\$5,726
Mail Revenue @ \$.39/lb.	\$82,489
<u>Other</u>	<u>\$8,505</u>
Total Revenue 1/	\$749,446
Block Hours 2/	492
DH8-Deps. 2/	492
Wtd. Deps. 3/	1,383
Eligible Pax.	5,817
Eligible Frt.	19,085
Eligible Mail	211,511
Eligible PEQ 4/	6,970
Fly. Ops @ \$213.50/hr.	\$105,042
Fuel @ \$232.90/hr.	\$114,587
Hull Ins. (Other) @ \$17.50/hr.	\$8,610
Maint. @ \$381.36/hr.	\$187,629
<u>Depreciation @ \$149.88/hr.</u>	<u>\$73,741</u>
Total Direct Expenses	\$489,609
Flt. Attendant @ \$72.11	\$35,478
Tff. Related @ \$11.67/PEQ	\$81,340
Wtd. Departure @ \$40.59	\$56,136
<u>Capacity Related @ 25.95%</u>	<u>\$171,935</u>
Total Indirect Expenses	\$344,889
Total Operating Expenses 5/	\$834,498
<u>Profit Element @ 5%</u>	<u>\$41,725</u>
Economic Cost	\$876,223
Annual Compensation @ 100% Completion	\$126,777

1/ Revenue forecast is based on the most recent historical traffic, adjusted for the closing of the Iliamna Fishery in July 2000, and drop-offs in traffic since then.

2/ Off-Peak: 34 weeks x 6 flights/week x 1 hr./flt. = 204 hrs., 204 deps.

Peak: 18 weeks x 16 flights/week x 1 hr./flt. = 288 hrs., 288 deps.

3/ Wtd. Deps. based on GTOW, as follows: Twin Otter @ 12,500 (1); Convair 580 @ 54,600 (4.37); DH-8 @ 35,133 (2.81); and DC-3 @ 26,675 (2.13)

4/ 200 lbs. of mail or freight is 1 passenger equivalent (PEQ).

5/ Unit costs are based on ERA's Schedule F-2, YE 12/31/00.

**ERA AIR, INC., ESSENTIAL AIR SERVICE AT
ILIAMNA, ALASKA, DOCKET 00-8488**

EFFECTIVE PERIOD: March 8, 2001, through March 31, 2003

SCHEDULED PASSENGER SERVICE:

18-Week Peak: 8 nonstop round trips each week to Anchorage

34-Week Off-Peak: 3 nonstop round trips each week to Anchorage

AIRCRAFT TYPE: DeHavilland Dash 8, 37-seats.

TIMING OF FLIGHTS Flights must be well-timed and well-spaced to ensure full compensation

SUBSIDY RATE PER FLIGHT: \$257.68 ¹

COMPENSATION CEILING EACH WEEK: ² Peak: \$4,122.88
Off-Peak: \$1,546.08

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.

¹ Annual compensation of \$126,777 divided by the estimated annual completed departures and arrivals at a 100 percent completion factor:

Peak: 18 weeks x 16 flights = 288 total; Off-Peak: 34 weeks x 6 flights = 204; 492 flights each way.

² Subsidy rate per flight of \$257.68 multiplied by 16 subsidy-eligible flights each week in the peak period and 6 subsidy-eligible flights each week in the off-peak period.