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Order 2001-3-21

Served: March 26, 2001

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

Issued by the Department of Transportation
on the 21st day of March, 2001

Essential Air Service at **Owensboro, Kentucky** under 49 U.S.C. 41731 *et seq.*	**Docket OST-2000-7855** – 26

Essential Air Service at **Jackson, Tennessee** under 49 U.S.C. 41731 *et seq.*	**Docket OST-2000-7857** – 46

ORDER SELECTING CARRIER AND SETTING FINAL RATE

SUMMARY

By this order, the Department is selecting Corporate Airlines, Inc., to provide essential air service at Owensboro, Kentucky, and Jackson, Tennessee, for a two-year period beginning when the carrier inaugurates service at annual subsidy rates of $888,863 and $1,077,812, respectively. Appendix A shows a map of Owensboro and Jackson together with their current and proposed hubs of Memphis and St. Louis respectively.

BACKGROUND

On August 24, 2000, Express Airlines I, d/b/a Northwest Airlink (Express Airlines), filed 90-day notices of its intent to terminate scheduled air service at Owensboro, Kentucky, and Jackson, Tennessee, as well as at Muscle Shoals, Alabama. On October 2, 2000, the Department issued Order 2000-10-3 that (a) prohibited Corporate Airlines from terminating scheduled air service at all three communities; (b) required the carrier to maintain its current service at all three communities for 30 days beyond the end of the 90-day notice period, through December 22, 2000; and (c) requested proposals from any carrier interested in providing replacement service at any or all three communities, with

subsidy if necessary.[1] As required by 49 U.S.C. 41731 *et seq.*, we have continued to require Northwest Airlink to continue serving these communities by a series of 30-day hold-in orders. Express Airlines serves all three communities with 34-passenger, Saab 340 aircraft.[2]

At Owensboro, Express Airlines' current service consists of two weekday round trips to Memphis via Paducah. One flight from Memphis to Owensboro is provided on a non-stop basis. Two round trips are also provided each weekend. Jackson currently receives three nonstop round trips each weekday to Memphis with reduced service each weekend (Northwest Airlink serves Muscle Shoals on the same flights that also serve Jackson).

Until recent increases in operating costs (fuel, labor, training, safety, security, and others), that have impacted all commuter and regional airlines, Express Airlines had been able to provide service to both communities, as well as to Muscle Shoals, without the need for subsidy.

CARRIER PROPOSALS

In response to our request for proposals, Corporate Airlines, d/b/a Trans World Express (Corporate or Corporate Airlines) filed service options to serve both Owensboro and Jackson. Corporate was the only airline to respond to our request for proposals. Express Airlines I, the incumbent carrier, did not submit a long-term proposal for either community.

Corporate Airlines has submitted three options for Jackson, all providing nonstop service to St. Louis with 19-seat Jetstream 32 aircraft. Option A would provide 24 weekly round trip flights at an annual subsidy cost of $2,139,438; Option B, 18 weekly round trips at a cost of $1,651,858; and Option C, 12 weekly round trips at a cost of $1,151,993.

We also asked Corporate to consider tying its proposed service in the Jackson – St. Louis market over an intermediate point to reduce its subsidy requirement. To that end we asked the airline to consider offering an option that would have provided one-stop service over Marion, Illinois, another community for which Corporate was recently selected to provide subsidized service under the essential air service (EAS) program.[3] In response, Corporate elected not to submit a proposal, stating that it believed one-stop service could have detrimental impacts, especially in terms of reliability, on the service both communities would receive.

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[1] To date, we have not received a proposal to provide replacement service at Muscle Shoals. Therefore, while the community is not included in this order and Express Airlines I will continue to serve there until another carrier actually begins service, it is mentioned at several points in this order because its service is currently linked to Jackson.

[2] Source: OAG Flight Guide, March 2001.

[3] Order 2000-12-27, January 3, 2001.

For Owensboro, Corporate Airlines has also proposed three options, again all with 19-seat Jetstream 32's providing nonstop service to St. Louis. Option A would provide 24 weekly round trip flights at an annual subsidy cost of $1,522,557; Option B, 18 weekly round trips at a cost of $1,188,108; and Option C, 12 weekly round trips at a cost of $888,863.

COMMUNITY COMMENTS

By telephone and letter, the airport manager and the Chair of the Owensboro – Daviess County Regional Airport Board serving Owensboro have advised the Department that the local communities are very supportive of the proposals submitted by Corporate Airlines and fully endorse the Corporate's proposed service option of 24 weekly nonstop round trips in the Owensboro – St. Louis market. In their letter they mention that until Express Airlines reduced its service to two round trips per day, the community was well on its way to returning to the time when it averaged 15,000 enplanements per year.

We also received correspondence and phone calls from the airport manager and various officials at Jackson in support of the service proposed by Corporate Airlines. The airport manager also submitted additional information that addressed the service and the fares offered by Express Airlines. He indicated that the community had raised the issue of high fares and the lack of local promotional activities with the airline. To support the community's effort to try to resolve the apparent fare disparity between Jackson and Memphis, he provided a copy of a December 27, 1999 letter he had addressed to Express Airlines regarding the matter, together with some past and current fare information in a number of Jackson and Memphis markets. We will place this information in the correspondence section of the docket in this case.

A variety of business and other local leaders in both communities submitted correspondence that also addressed various issues related to the service to their community, both current and proposed. In general, commenters were uniform in their support of the services proposed by Corporate Airlines, especially for the four round-trip-a-day options.

DECISION

We have decided to select Corporate's two-round-trip-a-day option for both communities.

Express Airlines served both Owensboro and Jackson for years on a subsidy-free basis. It has depended entirely on local passenger and freight revenue to enable it to earn a profit and continue to serve these and other communities. Even with a robust economy nationally and, in the case of both Owensboro and Jackson, year-over-year traffic growth at least through 1999, regional airlines across the country, including Express Airlines and Corporate Airlines, have recently experienced tremendous increases in operating costs. These increases are due to a number of factors including a huge increase in the cost of aviation fuel, the cost of implementing a number of new safety requirements imposed on the regional airlines by the Federal Aviation Administration (Commuter Airline Safety Rule), and the increased cost of training new pilots, as a record number of more experienced pilots are being lured away from the regional airlines by the major airlines. These and other increased costs are forcing carriers across the country to reevaluate each

market they serve. Markets such as Owensboro and Jackson, which heretofore have been profitable to serve may no longer be profitable without either an increase in local ridership, an increase in ticket prices, or, as a last resort, either cost sharing between the community and the carrier and/or federal subsidy.

Both Jackson and Owensboro are relatively close to several medium and/or large hubs. For example, Owensboro is 201 highway miles from the large hub at Cincinnati, 181 miles from the medium hub at Indianapolis; 142 miles from the medium hub at Nashville; and 118 miles from the medium hub at Louisville. Likewise, Jackson is 140 highway miles from the medium hub at Nashville and 89 miles from the medium hub at Memphis. In addition to a variety of other services at each of these hubs, low-fare service is available to Owensboro and Jackson consumers via AirTran Airways at Memphis and via Southwest Airlines at Louisville, Nashville, and Indianapolis.

The proximity of low-fare service can have serious detrimental effects on the local traffic generating capability of communities that can only be served with smaller aircraft. As a result, it has become extremely difficult to provide frequent, reasonable priced service to those small communities located within a 1 hour to a 2-½ hour drive of low-fare service. As more and more travelers drive to take advantage of low-fare service, local passenger traffic at many small communities has declined at the same time that airline costs have been rising sharply, with the result that communities in many areas of the country are facing the loss of local air service all together.

Express Airlines I (Express Airlines) currently provides Owensboro with two round trip flights each weekday and two round trips each weekend period, for a total of 12 round trips per week to the Northwest Airlines hub at Memphis with 34-seat, Saab 340 aircraft. Thus, Express Airlines currently provides 816 seats in the Owensboro – Memphis market each week. However, the Owensboro flights also serve either Evansville, Indiana, or Paducah, Kentucky, so the capacity is shared among the three communities. Therefore, approximately one-half of the 816 seats, or 408, are available to serve Owensboro passengers each week. In comparison, Corporate Airlines proposes to serve the community to the Trans World Airlines' hub at St. Louis with 24, 18 or 12 weekly round trips in 19-seat Jetstream 32 aircraft, depending on the option selected. Option C, offering 12 weekly round trips would provide Owensboro with a total of 456 weekly seats, resulting in a slight increase (12%) in seat capacity, albeit in a smaller aircraft, and the added benefit of dedicated service that would not share capacity with another community.

Option B, offering 18 weekly round trips, would provide Owensboro with a total of 684 weekly seats in the Owensboro – St. Louis market, a significant increase in the seat capacity serving the community of 68%. The third option, Option A, proposing 24 weekly round trips, would double the number of flights and increase the seat capacity by 124%.

A similar comparison of the existing service at Jackson compared to the three options proposed by Corporate Airlines provides similar results because seats and flights in the Jackson-Memphis market are now shared with Muscle Shoals. Corporate's 19-seat

aircraft, compared to the 34-seat aircraft currently used by Express Airlines, would result in an increase in weekly seat capacity even under Option C, the 12-round-trip option, because the capacity would not be shared with another community.

In reviewing the historical passenger traffic history at Jackson we note that an average of over 12,200 passengers annually have used Express Airlines I's service in the calendar years from 1997 through the 12-month period ended June 30, 2000. Corporate's two-round-trip-a-day option would provide sufficient capacity to accommodate Jackson's historical traffic at reasonable load factors. It would provide a total of 24,414 scheduled seats a year (based on 313 days a year to account for reduced service on weekends) for the 12,500 passengers estimated in the most recent year, an average load factor of just over 50 percent. We appreciate that the community would prefer the four-round-trip-a-day option. The total subsidy for that option ($2,139,438) divided by the most recent year's passenger traffic of 12,500 passengers equals a subsidy-per-passenger of about $170.[4] We must caution the community that it would be precariously close to the statutory $200 subsidy-per-passenger cap that would make the community ineligible for further subsidized air service.[5]

At Owensboro, Corporate has proposed three service options – for two, three and four nonstop round trips a day to St Louis As in the case of Jackson, the flights would be provided in 19-seat, Jetstream 32 turboprop aircraft. From 1997-1999, Owensboro averaged between 18 and 21 enplanements per day. Corporate's two-round-trip-a-day option (12 round trips per week) would provide sufficient capacity to accommodate recent traffic at load factors in the 47-55 percent range, which should be at or near self sufficiency. This capacity is also slightly greater than the community now receives. Northwest Airlink currently serves either Paducah or Evansville on the same itinerary that also serves Owensboro. Assuming half of the seats are available for each community, Owensboro essentially receives 17 seats on each of Airlink's two round trips a day compared to all 19 seats per flight under Corporate's proposal, about a 12 percent increase in capacity.

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. Corporate Airlines was found by the Department to be fit, willing and able to engage in scheduled passenger operations as a commuter air carrier by Order 95-8-2, issued August 2, 1995. Most recently, in Order 2000-12-27, the Department found that Corporate Airlines continues to be fit to operate as a commuter air carrier and is capable of providing reliable essential air service at Marion, Illinois. Since that time, no information has come to our attention that would lead us to question the carrier's ability to operate in a reliable manner. While preparing that Order, the Department discussed the operational fitness of Corporate Airlines with the FAA's Flight

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[4]Calendar Year 2000 passengers are not yet available.

[5] Public Law 106-69, the Department of Transportation and Related Agencies Appropriations Act, 2000, prevents the Department from paying subsidy for service to any community where the cost exceeds $200 per passenger.

Standards District Office in Nashville. The FAA advised us at the time that the carrier continued to conduct its operations in accordance with all regulations, and that it knew of no reason why we should not find that Corporate Airlines remains fit and can continue to be relied on to provide reliable essential air service. Based on the above, we find that Corporate Airlines is fit to provide the essential air transportation at issue in this case.

We expect both carriers to work toward a smooth transition from the service provided by Express Airlines to the service provided by Corporate Airlines. We also expect Express Airlines to contact all passengers holding reservations on its flights, to notify them of the change in service pattern from Memphis to St. Louis and in carriers to Corporate Airlines, and to assist them in making alternate travel arrangements as necessary.

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

ACCORDINGLY

1. The Department amends the essential air service determinations for Owensboro, Kentucky, and Jackson, Tennessee, to include St. Louis as a designated EAS hub for each community;

2. The Department selects Corporate Airlines, Inc., to provide essential air service at Owensboro, Kentucky, and Jackson, Tennessee, as described in Appendix B, for the two-year period beginning on or about May 1, 2001;

3. The Department sets the final rate of compensation for Corporate Airlines, Inc., for the provision of essential air service at Owensboro, Kentucky, and Jackson, Tennessee, as described in Appendix A, for the two-year period beginning on or about May 1, 2001, 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 set forth in Appendix A, and shall be determined by multiplying the subsidy-eligible flights each way completed during the month by $730.37 for Owensboro and by $946.58 for Jackson;[6]

4. We direct Corporate Airlines, Inc., 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;

[6] 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.

5. We find that Corporate Airlines, Inc., continues to be fit, willing and able to operate as a certificated air carrier and capable of providing reliable essential air service at Owensboro, Kentucky and Jackson, Tennessee;

6. This docket will remain open until further order of the Department; and

7. We will serve a copy of this order on the Mayors of Owensboro, Kentucky, and Jackson, Tennessee, the Airport Manager of the airports serving Owensboro, Kentucky, and Jackson, Tennessee, the Governors of Kentucky, and Tennessee, the Division of Aeronautics of the Kentucky Transportation Cabinet, and the Aeronautics Division of the Tennessee Department of Transportation.

By:

SUSAN MCDERMOTT
Deputy Assistant Secretary for Aviation and International Affairs

(SEAL)

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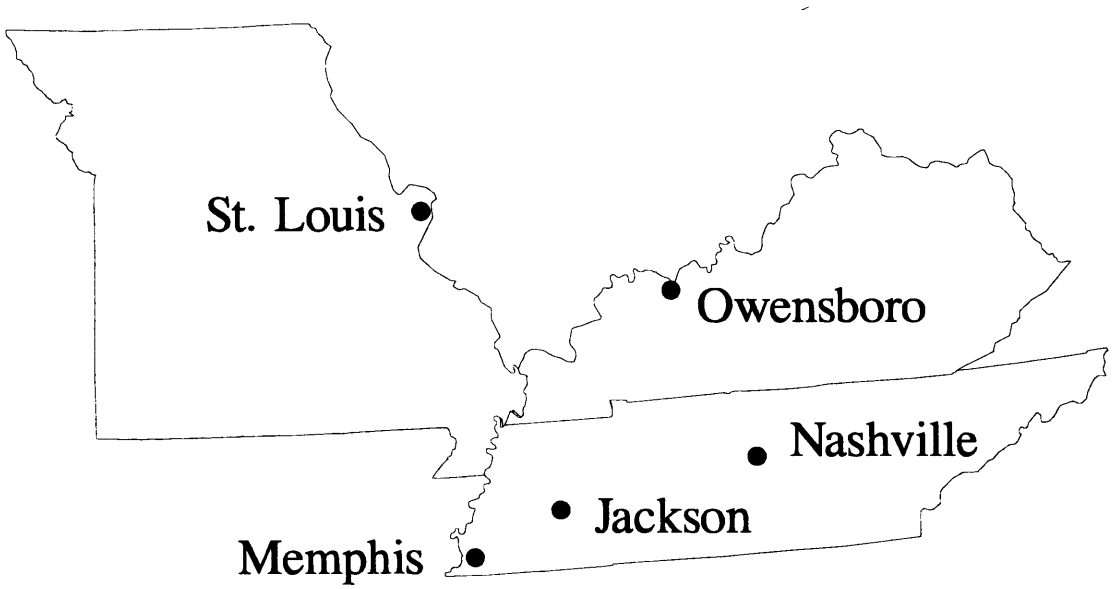
Appendix A

AREA MAP



SUBSIDY CALCULATION FOR CORPORATE AIRLINES, INC. AT JACKSON, TENNESSEE

Aircraft Type	Jetstream 32
Block Hours 1/	1,521.3
Passengers	5,781
Average Net Fare	$91
Passenger Revenue	$526,071
Freight Revenue @ 0.5%	2,630
Total Revenues	$528,701
Flight Crew @ $89.32/hr.	$135,883
Fuel, Oil & Into Plane fees @ $205.70/hr.	312,931
Insurance @ $25.73/hr.	39,143
Maintenance @ $211.21/hr.	321,314
Lease @ $72.13/hr.	109,731
Total Direct Costs 2/	$919,002
MKL Station Costs	$136,608
STL Station Costs @ $85.47/turn 3/	30,997
MKL Landing Fees @ $5.93/turn 3/	3,608
STL Landing Fees @ $33.40/turn 3/	20,324
Commissions @ 6.81% of rev.	35,433
Reservations & CRS Fees @ $6.51/pax	35,655
Liability Insurance @ $2.52/pax	14,568
Advertising	15,000
General & Admin. @ $.0588/ASM 4/	314,075
Total Indirect Costs	$681,659
Total Operating Expenses	$1,600,661
Return @ 5% of Expenses	$80,033
Total Economic Cost	$1,680,694
Annual subsidy need at a 97.5% completion factor	$1,151,993

1/ **24** flights/week x 52 weeks x .975 completion factor x 1.25 hr. (75 min./60 min.) = 1,521.3 hours.
2/ Unit costs based on system experience for 10 months ended 10/31/00, except fuel, which is based on a combination of the most recent month's costs at STL averaged with fuel quoted at MKL, 110 gph & $1.87 per gallon.
3/ 12 landings/week x 52 weeks x .975 (completion factor) = 608.5 turns or landings
4/ Unit costs based on system experience for 10 months ended 10/31/00 increased for projected MKL ASM's to take into account the trend in reduced unit cost over the year as Corporate Airlines has grown. 24 flights/week x 52 weeks x .975 x 231 miles x 19 seats = 5,341,413 ASM's.

SUBSIDY CALCULATION FOR CORPORATE AIRLINES, INC. AT OWENSBORO, KENTUCKY

Aircraft Type	Jetstream 32
Block Hours 1/	1,521.3
Passengers	5,781
Average Net Fare	$100
Passenger Revenue	$578,100
Freight Revenue @ 0.5%	2,891
Total Revenues	$580,991
Flight Crew @ $89.32/hr.	$135,883
Fuel, Oil & Into Plane fees @ $194.70/hr.	312,931
Insurance @ $25.73/hr.	39,143
Maintenance @ $211.21/hr.	321,314
Lease @ $72.13/hr.	109,731
Total Direct Costs 2/	$919,002
OWB Station Costs	$145,539
STL Station Costs	98,285
OWB Ldg. Fees @ $8.12/turn 3/	4,941
STL Ldg. Fees @ $33.40/turn 3/	20,324
Commissions @ 6.81% of rev.	39,369
Reservation & CRS Fees @ $6.51/pax	37,634
Liability Ins. @ $2.52/pax	14,568
Advertising	15,000
Gen. & Admin. @ $.0588/ASM 4/	214,251
Total Indirect Costs	$629,911
Total Operating Expenses	$1,399,861
Return @ 5%	$69,993
Total Economic Cost	$1,469,854
Annual subsidy need at a 97.5% completion factor	$888,863

1/ **24** flights/week x 52 weeks x .975 completion factor x 1.0667 hr. (64 min./60 min.) = 1,298.2 hours.
2/ Unit costs based on system experience for 10 months ended 10/31/00, except fuel, which is based on a combination of the most recent month's costs at STL averaged with fuel quoted at OWB, 110 gph & $1.87 per gallon.
3/ 12 landings/week x 52 weeks x .975 (completion factor) = 608.5 turns or landings
4/ Unit costs based on system experience for 10 months ended 10/31/00 increased for projected OWB ASM's to take into account the trend in reduced unit cost over the year as Corporate Airlines has grown. 24 flights/week x 52 weeks x .975 x 187 miles x 19 seats = 4,324,001 ASM's.

CORPORATE AIRLINES, INC.
ESSENTIAL AIR SERVICE TO BE PROVIDED AT JACKSON, TENNESSEE

Effective Period: Two-year period beginning on May 1, 2001

Service: Twelve nonstop round trips each week to St. Louis

Aircraft: Jetstream 32 (19-seat)

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

Subsidy Rate: Per year - $1,151,993
Per flight - $946.58 [1]

Weekly Compensation Ceiling: $22,717.92 [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] Annual compensation of $1,151,993, divided by the estimated number of annual completed flights (1,217), calculated as follows: number of flights per week (24) x 52 weeks = 1,248 x's .975 (completion factor) = 1,217

[2] The subsidy rate per flight ($946.58) multiplied by the number of scheduled subsidy-eligible flights per week (24).

CORPORATE AIRLINES, INC.
ESSENTIAL AIR SERVICE TO BE PROVIDED AT OWENSBORO, KENTUCKY

Effective Period:	Two-year period beginning on May 1, 2001
Service:	Twelve nonstop round trips each week to St. Louis
Aircraft:	Jetstream 32 (19-seat)
Timing of Flights:	Flights must be well timed and well spaced to ensure full compensation.
Subsidy Rate:	Per year - $888,863 Per flight - $730.37 [3]

Weekly Compensation Ceiling: $17,528.88 [4]

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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[3] Annual compensation of $888,863, divided by the estimated number of annual completed flights (1,217), calculated as follows: number of flights per week (24) x 52 weeks = 1,248 x's .975 (completion factor) = 1,217

[4] The subsidy rate per flight ($730.37) multiplied by the number of scheduled subsidy-eligible flights per week (24).