



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

Issued by the Department of Transportation  
on the 29th day of March, 2002

Served: April 3, 2002

Essential Air Service at

**PIERRE, SOUTH DAKOTA**

Docket OST-2001-10128 -4

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

**ORDER SETTING SUBSIDY RATES**

**Summary**

By this order, the Department is establishing a subsidy rate for Great Lakes Aviation, Ltd., d/b/a United Express, to provide essential air service in the Pierre-Denver market at annual subsidy rates of \$677,495 for the period October 10, 2001, through April 30, 2002, and \$318,861 for the period May 1, 2002, through October 31, 2003. (See Appendix A for map.)

**Background**

On July 11, 2001, Great Lakes Aviation, Ltd., filed a 90-day notice of its intent to suspend service at Pierre, South Dakota, effective October 9, 2001. While the Department did not prohibit the suspension, the carrier decided to continue service through the hunting season. Great Lakes currently operates two weekday and three weekend nonstop round trips to Denver using 19-seat Beech 1900D aircraft. Pierre also receives service from Mesaba Aviation, d/b/a Northwest Airlink, which operates three round trips a day on weekdays (one nonstop and two one-stop) and four round trips over the weekend to Minneapolis/St. Paul, using 34-seat Saab 340 aircraft.

**Carrier Proposal**

Great Lakes filed a proposal to continue to provide two nonstop round trips a day (three over the weekend) in the Pierre-Denver market.

**Community Response**

The South Dakota Aeronautics Commission filed an objection to Great Lakes' notice of intent to suspend its service at Pierre, the state capital. The commission contends that the loss of Great Lakes' service between Pierre and Denver will negatively impact the community. The commission also states that Pierre's remaining service, provided by Northwest Airlink to Minneapolis, would add a considerable amount of travel time for state government employees relying on Great Lakes' nonstop service as a means to and from work at the state capital. Finally, the commission noted that Pierre

has a good record of enplanements to Denver due to both state government employees traveling for work, and flights taken by the general public.

### **Decision**

Our last review of Pierre's essential air service determination was conducted in 1988 (Order 88-1-42, January 20, 1988) and specified service to both Denver and Minneapolis/St. Paul. The Department's policy over the past decade has been to terminate subsidy for service to second hubs as the program's resources have been stretched thinner and thinner. And we continue to believe that to be a sound policy. Many of the dual-hub designations were established two decades ago, well before the carriers developed sophisticated hub-and-spoke systems. These well-developed hubs provide access to the national air transportation system. However, Pierre is unique in a couple of respects. First, of course, it is the state capital of South Dakota. As such, the loss of Great Lakes' service between Pierre and Denver would add a considerable amount of travel time for state government employees relying on Great Lakes' nonstop service as a means to and from work at the state capital. Second, the distances are very long. For example, the nonstop air miles to Denver and Minneapolis are 385 and 350, respectively, while one provides eastbound connections and the other westbound. If Denver-bound passengers had to travel via Minneapolis, they would first travel 350 miles to Minneapolis, then 680 miles from Minneapolis to Denver, for a total in excess of 1000 miles for what is a 385-mile nonstop flight. Put another way, westbound passengers would have to travel about 700 extra miles – roughly 350 east to Minneapolis and 350 back west just to get back where they started.

Our previous attempts to request proposals for the Midwestern part of the country seldom have yielded competing proposals. Considering that fact, and due to the emergency nature of this situation, we have foregone our normal procedure of requesting proposals. The staff and carrier have agreed to a subsidy rate that we find reasonable for the service to be provided. Specifically, Great Lakes will continue to provide two nonstop round trips a day between Pierre and Denver with 19-seat Beech 1900 aircraft. In order to reflect the decreased passenger levels since September 11, we will set an annual rate of \$677,495 for the first six months, from October 10, 2001 through April 30, 2002, and an annual rate of \$318,861 for the final 18-month period from May 1, 2002, through October 31, 2003. We will approve this two-year rate term while examining the situation. We fully expect the community to work earnestly with the carrier to increase boardings so that subsidy will no longer be required.

### **Carrier Fitness**

Pursuant to 49 U.S.C. 41737(b) and 41738, the Department must find an air carrier fit, willing and able to provide reliable service before we compensate it for providing essential air service. We last reviewed Great Lakes' fitness by Order 2001-9-11, September 17, 2001, in connection with its subsidized air service at Devils and Jamestown, North Dakota, and Brookings, South Dakota. Since then, the Department has routinely monitored the carrier's continuing fitness, and no information has come to our attention that would lead us to question its ability to operate in a reliable manner. Based on our review of its most recent submissions, we find that Great Lakes continues to have available adequate financial and managerial resources to maintain reliable service at Pierre, and that it continues to possess a favorable compliance disposition. The Federal Aviation Administration has advised us that the carrier is conducting its operations in accordance with 14 CFR Part 121, and knows of no reason why we should not find that Great Lakes remains fit.

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

**ACCORDINGLY,**

1. The Department sets the final rate of compensation for Great Lakes Aviation, Ltd., d/b/a United Express, for the provision of essential air service at Pierre, South Dakota, as described in Appendix C, for the period from October 10, 2001, through September 30, 2003, 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 C, and shall be determined by multiplying the subsidy-eligible arrivals and departures flown during the month by \$569.80 for the period October 10, 2001, through April 30, 2002, and by \$268.18 for the period May 1, 2002, through October 31, 2003;<sup>1</sup>
2. The Department finds that Great Lakes continues to be fit, willing and able to operate as a commuter air carrier and capable of providing reliable essential air service at Pierre, South Dakota;
3. We direct Great Lakes 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; and
4. The Department will serve a copy of this order on the Mayor and Airport Manager of Pierre, the Governor of South Dakota, and Great Lakes Aviation, Ltd., d/b/a United Express.

By:

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

(SEAL)

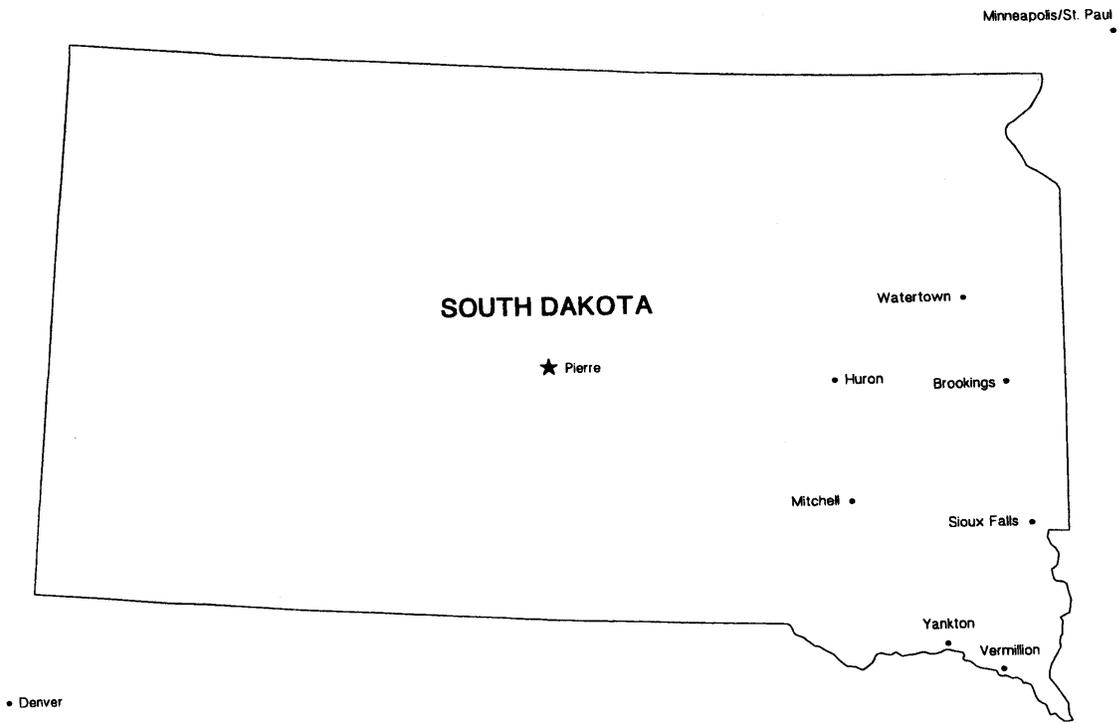
*An electronic version of this document is available on the World Wide Web at  
<http://dms.dot.gov>*

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<sup>1</sup> 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, a revision of this rate may be required.

APPENDIX A

PIERRE, SOUTH DAKOTA  
AND SURROUNDING COMMUNITIES



GREAT LAKES AVIATION, LTD., d/b/a UNITED EXPRESS  
ANNUAL COMPENSATION REQUIREMENT FOR ESSENTIAL AIR SERVICE AT  
PIERRE, SOUTH DAKOTA  
(October 10, 2001, through April 30, 2002)

Departures:	PIR-DEN	1,189	Mileages:	PIR-DEN	385
Block hours		2,052	Available seat-miles		8,700,461
			Revenue passenger-miles		4,193,420
Operating revenue:					
Passenger	10,892		PIR-DEN passengers @ \$123.08 average fare		\$1,340,587
Other	0.0062		of passenger revenue of \$1,340,587		<u>8,312</u>
Total operating revenue					\$1,348,899
Operating expense:					
Direct operating expense:					
Flying operations	\$149.05	per block hour	2,052		\$305,808
Hull insurance	\$7.50	per departure	1,189		8,921
Fuel & oil	\$1.2854	per gallon	232,347		298,659
Maintenance (a)	\$109.26	per departure	1,189		129,954
Maintenance (b)	\$97.28	per block hour	2,052		199,591
Aircraft lease	\$170.00	per block hour	2,052		<u>348,792</u>
Total direct operating expense					\$1,291,725
Indirect operating expense:					
Passenger-related	\$10.25	10,892	total passengers		\$111,643
War risk liability insurance	\$1.25	10,892	total passengers		13,615
Liability insurance	\$0.00790	4,193,420	revenue pass.-miles		33,128
General and administrative	\$0.01710	8,700,461	available seat-miles		148,778
Local marketing	\$5,000	1	community		5,000
Denver station expense	\$318	595	departures		189,210
Pierre station expense	\$11,400	12	months		<u>136,800</u>
Total indirect operating expense					<u>\$638,174</u>
Total operating expense					\$1,929,899
Operating loss					\$581,000
Profit element	0.05	\$1,929,899	Total operating expense		<u>96,495</u>
Compensation requirement					<u>\$677,495</u>

GREAT LAKES AVIATION, LTD., d/b/a UNITED EXPRESS  
ANNUAL COMPENSATION REQUIREMENT FOR ESSENTIAL AIR SERVICE AT  
PIERRE, SOUTH DAKOTA  
(May 1, 2002 through October 31, 2003)

Departures:	PIR-DEN	1,189	Mileages:	PIR-DEN	385
				Available seat-miles	8,700,461
Block hours		2,052		Revenue passenger-miles	5,005,000
Operating revenue:					
Passenger	13,000		PIR-DEN passengers @ \$133 average fare		\$1,729,000
Other	0.0062		of passenger revenue of \$1,729,000		<u>10,720</u>
Total operating revenue					\$1,739,720
Operating expense:					
Direct operating expense:					
Flying operations	\$149.05	per block hour	2,052		\$305,808
Hull insurance	\$7.50	per departure	1,189		8,921
Fuel & oil	\$1.2854	per gallon	232,347		298,659
Maintenance (a)	\$109.26	per departure	1,189		129,954
Maintenance (b)	\$97.28	per block hour	2,052		199,591
Aircraft lease	\$170.00	per block hour	2,052		<u>348,792</u>
Total direct operating expense					\$1,291,725
Indirect operating expense:					
Passenger-related	\$10.25	13,000	total passengers		\$133,250
War risk liability insurance	\$1.25	13,000	total passengers		16,250
Liability insurance	\$0.00790	5,005,000	revenue pass.-miles		39,540
General and administrative	\$0.01710	8,700,461	available seat-miles		148,778
Local marketing	\$5,000	1	community		5,000
Denver station expense	\$318	595	departures		189,210
Pierre station expense	\$8,200	12	months		<u>136,800</u>
Total indirect operating expense					<u>\$668,828</u>
Total operating expense					<u>\$1,960,553</u>
Operating loss					\$220,833
Profit element	0.05	\$1,960,553	Total operating expense		<u>98,028</u>
Compensation requirement					<u>\$318,861</u>

GREAT LAKES AVIATION, LTD., d/b/a UNITED EXPRESS,  
ESSENTIAL AIR SERVICE AT  
PIERRE, SOUTH DAKOTA

Effective period: October 10, 2001 through April 30, 2002

Service: 12 round trips per week to Denver.

Intermediate stops and upline service: Nonstop; no upline service permitted without prior Department approval.

Aircraft type: Beech 1900D (19 passenger seats).

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

Annual compensation: \$677,495<sup>1</sup>

Subsidy Rate Per  
Arrival/Departure: \$569.80<sup>2</sup>

Weekly Compensation  
Ceiling: \$13,675.20<sup>3</sup>

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<sup>1</sup> This rate assumes an annual completion factor of 98 percent. A compensation ceiling is to be applied per calendar week such that service above that ceiling in one week cannot make up for service shortfalls in another week.

<sup>2</sup> Annual compensation of \$677,495 divided by 1,189 annual arrivals and departures as shown in Appendix B.

<sup>3</sup> Subsidy rate per arrival/departure of \$569.80 multiplied by 24 eligible arrivals and departures each week.

GREAT LAKES AVIATION, LTD., d/b/a UNITED EXPRESS,  
ESSENTIAL AIR SERVICE AT  
PIERRE, SOUTH DAKOTA

Effective period: May 1, 2002 through October 31, 2003

Service: 12 round trips per week to Denver.

Intermediate stops and upline service: Nonstop; no upline service permitted without prior Department approval.

Aircraft type: Beech 1900D (19 passenger seats).

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

Annual compensation: \$318,861<sup>1</sup>

Subsidy Rate Per  
Arrival/Departure: \$268.18<sup>2</sup>

Weekly Compensation  
Ceiling: \$6,436.32<sup>3</sup>

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<sup>1</sup> This rate assumes an annual completion factor of 98 percent. A compensation ceiling is to be applied per calendar week such that service above that ceiling in one week cannot make up for service shortfalls in another week.

<sup>2</sup> Annual compensation of \$318,861 divided by 1,189 annual arrivals and departures as shown in Appendix B.

<sup>3</sup> Subsidy rate per arrival/departure of \$268.18 multiplied by 24 eligible arrivals and departures each week.

**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.

SERVICE LIST FOR THE STATE OF SOUTH DAKOTA

Air Casino, Inc.  
Air Wisconsin, Inc.  
AirVantage, Inc.  
Alpine Aviation, Inc.  
Amerijet International, Inc.  
Bemidji Airlines  
Big Sky Transportation Co.  
Corporate Air  
Delta Connection  
Dwyer Aircraft Sales, Inc.  
Falcon Aviation, Inc.  
Great Lakes Aviation, Ltd.  
Ground Air Link  
Heartland Aviation, Inc.  
Imperial International, Inc.  
Mesa Airlines, Inc.  
Mesaba Aviation, Inc.  
Metroflight, Inc.  
Midway Airlines, Inc.  
Midwest Aviation  
Midwest Express Airlines, Inc.  
Northwest Airlink  
Renown Aviation, Inc.  
Rocky Mountain Airways, Inc.  
Thunderbird Aviation, Inc.  
Westward Airways, Inc.

Ken Bannon  
Brad Elstad  
Doug Franklin  
E.B. Freeman  
Douglas Gumula  
Ben Harrison  
A. Edward Jenner  
Bob Karns  
William Kostel  
Gene Mallette  
Lee Mason  
John McFarlane  
Gary L. White