



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

**Issued by the Department of Transportation
on the 18th of October, 2001**

Essential Air Service at:

MERCED, CALIFORNIA

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

Docket OST 98-3521 - 9

ORDER SELECTING CARRIER

Summary

By this order we are selecting Eagle Jet Charter, Inc., d/b/a Scenic Airlines, to provide subsidized essential air service at Merced, California, for the two-year period beginning with the start of its service at an annual subsidy rate of \$949,458 the first year and \$749,433 the second year.

Background

SkyWest has provided subsidized service at Merced for a number of years. Its most recent two-year contract established by Order 99-4-8 required eighteen round trips per week with 30-seat aircraft. That rate expired on April 30, 2001. Like so many regional carriers, SkyWest moved up to larger aircraft several years ago and retired all of its 19 seaters. The recent traffic levels at Merced did not justify the continued use of 30-seat aircraft, the smallest aircraft that SkyWest now has in its fleet, much less the eighteen round trip per week frequency level, so rather than reselecting SkyWest for an additional two-year contract, Order 2001-5-15 requested proposals from all interested carriers, reduced service to the statutory minimum of twelve round trips per week, and in the interim set a short-term final subsidy rate of \$1,022,712 a year for SkyWest for that service.¹

Proposal

In response to our request, only one carrier, Scenic Airlines, submitted a proposal. (SkyWest elected not to submit a renewal proposal.) Under its proposal, Scenic Airlines would provide two nonstop round trips a day, seven days per week, to Las Vegas with 19-seat Beech 1900 aircraft. Scenic would require \$949,458 subsidy the first year and

¹ Order 2001-5-15 discusses our reducing Merced's service from three round trips a day to two.

\$749,433 subsidy the second year. This level of service is consistent with that required for Merced, although it involves a change from its historical Los Angeles hub to Las Vegas.

Community Comment

By letter dated October 2, the mayor of Merced expressed full support for Scenic Airlines noting that the Merced Municipal Airport Authority unanimously supported Scenic Airlines and that the City Council likewise approved a motion supporting Scenic's proposal to provide EAS at Merced.

Decision

We have decided to select Scenic Airlines. The service it proposes would accommodate recent traffic at Merced. We note that the carrier estimates that it will need a great deal less subsidy in the second year of service, as a result of the increased traffic the carrier projects. We hope that in several years the need for continued subsidy support at Merced may be reduced.

We have reviewed Merced's EAS definition and will change it to allow air service to any large or medium hub, in view of the proposed service to Las Vegas. We have reviewed Scenic Airlines' proposal at Merced as well as the community's traffic history. For the year ended June 30, 2001, Merced generated 4,580 enplaned passengers, an average of 14.6 enplanements per day. Scenic's two-round-trip-a-day service pattern is sufficient to accommodate that passenger level and still provide ample capacity for growth. Thus, we find that the proposed service and subsidy levels are appropriate.

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 Eagle Jet Charter Inc., d/b/a Scenic Airlines remains fit. Scenic Airlines has a great deal of experience providing air service 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.

As a final matter, before SkyWest suspends service, we expect it to make every effort to ensure an orderly transfer of service at Merced, including notifying all passengers holding reservations on its flights that the service will be suspended, informing them of the availability of replacement service by Scenic Airlines, and assisting them in arranging alternative transportation.

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

ACCORDINGLY,

1. The Department selects Eagle Jet Charter, Inc., d/b/a Scenic Airlines, to provide essential air service at Merced, California, for the two-year period beginning when the carrier inaugurates its proposed service;
2. The Department sets the final rate of compensation for Scenic Airlines for the provision of essential air service at Merced, 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 ceilings and shall be determined by multiplying the subsidy-eligible flights completed each month between Merced and Las Vegas by \$665.35 the first year and \$525.18 the second year;²
3. We terminate the subsidy rate set by Order 2001-5-15 for SkyWest Airlines' provision of essential air service at Merced and allow SkyWest to suspend its Merced service effective with the inauguration of service by Scenic Airlines;
4. We find that Scenic Airlines continues to be fit, willing, and able to provide reliable air service;
5. We amend Merced's essential air service determination to require a minimum of two nonstop or one-stop round trips per service day to any hub with sufficient capacity to accommodate 15 enplanements a day, or 25 seats at a 60% load factor;
6. We direct 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 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;
7. This docket will remain open until further order of the Department; and

² See Appendix C for calculations.

8. We will serve a copy of this order on the California Department of Transportation, the Mayor of Merced, SkyWest, and Scenic Airlines.

9. We are issuing this order on a final basis. Consistent with our rules, parties will have twenty days from the date of service of this order to petition the Department for reconsideration of the amended EAS Determination.

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>

Appendix A



Mileages

MCE-SFO	105
MCE-LAX	259
MCE-FAT	55
MCE-LAS	309

Appendix B

Scenic Airlines Essential Air Service at Merced, California, Docket OST-3521

	First Year	Second Year
	14 Round Trips/Week	14 Round Trips/Week
Flight Hours 1/	1,998	1,998
MCE-LAS: 7,600 pax. @ \$100	\$760,000	\$760,000
Yosemite Tours: Pax. @ \$225 (1,696 & 2,585)	\$381,600	\$581,625
<u>Freight</u>	<u>\$6,000</u>	<u>\$6,000</u>
Total Revenue	\$1,147,600	\$1,347,625
Aircraft Lease, 1 full Aircraft	\$360,000	\$360,000
Hull Ins. @ 1.45% of A/C Value	\$33,350	\$33,350
<u>Liability Insurance</u>	<u>\$43,913</u>	<u>\$43,913</u>
Total Fixed Expense	\$437,263	\$437,263
Captains @ \$50,000 each	\$100,000	\$100,000
First Officer @ \$35,000 each	\$70,000	\$70,000
Mechanics @ \$45,000 each	\$67,500	\$67,500
Station Agents	\$91,000	\$91,000
<u>Benefits & Taxes (18%)</u>	<u>\$59,130</u>	<u>\$59,130</u>
Total Wages and Benefits	\$387,630	\$387,630
Reservations Agents @ \$2.50	\$19,000	\$19,000
CRS @ \$8.35/pax.	\$63,460	\$63,460
Passenger Inconvenience @ \$2.50/pax.	\$19,000	\$19,000
<u>Commissions @ 7%</u>	<u>\$53,200</u>	<u>\$53,200</u>
Total Rev. and Psgr. Related	\$154,660	\$154,660
Counter Rental @ Merced	\$13,200	\$13,200
Counter Rental @ LAS @ \$1.25/pax.	\$9,500	\$9,500
Advertising & Promotion	\$25,000	\$25,000
Landing Fees	\$8,913	\$8,913
Misc / Depreciation	\$87,031	\$87,031
<u>Crew Training</u>	<u>\$23,100</u>	<u>\$23,100</u>
Misc. Operating Expense	\$166,744	\$166,744
Fuel @ \$166.75/hr. (115 gph @ \$1.45/gallon)	\$333,167	\$333,167
Airframe & Avionics Parts (\$89/FH)	\$177,822	\$177,822
<u>Engine MX & Reserves (\$110/FH)</u>	<u>\$219,780</u>	<u>\$219,780</u>
Variable Directs	\$730,769	\$730,769
TOTAL EXPENSES Before Profit and G&A	\$1,877,066	\$1,877,066
G&A at 6.4%	\$120,132	\$120,132
<u>Profit at 5%</u>	<u>\$99,860</u>	<u>\$99,860</u>
Total Economic Cost	\$2,097,058	\$2,097,058
Subsidy @ 98% Completion	\$949,458	\$749,433

1/ MCE-LAS: 28 nonstop flights/week 1.4 hrs. x 52 weeks x .98 = 1,998 flt. hrs.

**SCENIC AIRLINES, INC., ESSENTIAL AIR SERVICE AT
MERCED, CALIFORNIA, DOCKET 98-3521**

EFFECTIVE PERIOD: Start of service for a two-year period. ¹

SCHEDULED PASSENGER SERVICE: 14 nonstop round trips each week to Las Vegas.

AIRCRAFT TYPE: Beech 1900-C, 19-seats.

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

SUBSIDY RATE PER FLIGHT: \$665.35 the first year and \$525.18 the second year ²

COMPENSATION CEILING EACH WEEK:

\$18,629.80 the first year and \$14,705.04 the second year ³

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 We expect Scenic Airlines and SkyWest to coordinate their transition, which we expect to occur within 60 days of the issuance of this order.

² Annual compensation of \$949,458 the first year and \$749,433 the second year divided by the estimated annual completed departures and arrivals: 28 flights x 52 weeks x .98 completion = 1,427 total.

³ Subsidy rate per arrival/departure of \$665.35 the first year and \$525.18 the second year multiplied by 28 subsidy-eligible flights each week.