

Order: 2002-12-21
Served: January 3, 2003



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

Issued by the Department of Transportation
on the **30th day of December, 2002**

Essential Air Service at

MUSCLE SHOALS, ALABAMA

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

Docket OST-2000-7856

ORDER SELECTING CARRIER

Summary

By this order, the Department is selecting Mesaba Aviation, Inc. d/b/a Northwest AirlinK (Mesaba), an affiliate of Northwest Airlines (Northwest), to provide subsidized essential air service (EAS) for a two-year period at Muscle Shoals, Alabama, at an annual rate of \$1,284,408. (See Appendix A for a map.)

Background

After Express I filed a notice to suspend service at Muscle Shoals in August 2000, the Department issued an order requiring the carrier to continue to serve Muscle Shoals, and requested proposals for replacement service.¹ On July 30, 2002, the Department issued Order 2002-7-38 that set a hold-in subsidy rate for Express I (now, Pinnacle Airlines) to continue serving Muscle Shoals pending a long-term carrier-selection decision. In September 2002, Mesaba replaced Pinnacle Airlines as the EAS carrier at Muscle Shoals, as Northwest adjusted the routes and aircraft of both its affiliate carriers.

¹ See Order 2000-10-3, October 6, 2000.

In response to our earlier request for proposals, we received proposals from Northwest for Mesaba, and from Corporate Airlines, Inc. (Corporate), an American Connection code-share affiliate of American Airlines. Mesaba agreed to provide two nonstop round trips on weekdays and three on weekends to the Northwest hub at Memphis with 34-seat Saab 340 aircraft, for an annual subsidy of \$1,284,408, the same as the “hold-in” subsidy rate set by Order 2002-7-38. Corporate, a TWA Express carrier affiliate prior to the merger of American Airlines and TWA, submitted and subsequently withdrew a number of proposals during the proceeding. Its sole remaining proposal now calls for three nonstop weekday and weekend round trips to serve the American Airlines’ hub at St. Louis for an annual subsidy of \$1,582,504, using 19-seat Jetstream 32 aircraft.

Community Comments

The Board of Directors of the Northwest Alabama Regional Airport and the Shoals Chamber of Commerce indicated, by letter dated December 5, 2002, their support for Corporate’s three-round-trip-per-day proposal to serve St. Louis. While Corporate would serve Muscle Shoals with smaller, 19-seat aircraft, rather than the larger, 34-seat aircraft offered by Mesaba, the community indicated that the more frequent service proposed by Corporate would “provide additional travel flexibility and...make more markets available to local travelers.” In addition, the community indicated that the St. Louis hub would provide a “significant increase in destinations and departures” for local travelers. Finally, the community determined that the selection of Corporate would be better for local travelers because Corporate had expressed a willingness “to assist the community in marketing its services.”

Decision

We have decided to select Mesaba to provide subsidized EAS at Muscle Shoals for a new two-year period, commencing on the first day of the month following the service date of this order. While we have taken into consideration the community’s preference for Corporate, the core purpose of the EAS program, since its inception in 1978 with the passage of the Airline Deregulation Act, is to ensure that each eligible community receives access to the nation’s air transportation system. In this case, we find that both carriers are fully capable of providing reliable EAS. Each carrier has a code-sharing relationship with a major carrier at its hub, each would serve a major hub airport, and each has an excellent record of serving small communities. Mesaba would offer larger, 34-seat aircraft while Corporate would offer an additional round trip, but with 19-seaters. Given the fact that each carrier would afford significant service benefits to passengers at Muscle Shoals, we believe that the almost \$300,000 difference in subsidy cost weighs decisively in favor of the selection of Mesaba. While the community would prefer higher frequency service to St Louis, albeit with smaller aircraft, we do not believe that the difference between the applicants’ proposed service justifies the expenditure that would be required to select Corporate’s proposal. We will therefore select Mesaba to serve Muscle Shoals for a two-year period at the proposed subsidy rate of \$1,284,408 per year. Service will consist of two round trips on weekdays and three on weekends to Memphis with 34-seat, Saab 340 aircraft.

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 subsidize it to provide essential air service. Mesaba was most recently found fit to provide scheduled passenger service as a Part 121 air carrier by the Department in 1997. 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. The FAA 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 Mesaba is fit. Based on the above, we find that Mesaba is 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 Mesaba Aviation, Inc. d/b/a Northwest AirlinK, to provide essential air service at Muscle Shoals, Alabama, as described in Appendix B for the two-year period beginning on the first day of the month following the service date of this order;
2. The Department sets the final rate of compensation for Mesaba Aviation, Inc. d/b/a Mesaba Airlines, for the provision of essential air service at Muscle Shoals, Alabama, as described in Appendix B for the two-year period described above, 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 by Appendix B and shall be determined by multiplying the subsidy-eligible flights each way completed during the month by \$979.72;²
3. The Department directs Mesaba Aviation, Inc. d/b/a Mesaba 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 carriers may forfeit its compensation for any claim that is not supported under the terms of this order;
4. We find that Mesaba Aviation, Inc. d/b/a Mesaba Airlines continues to be fit, willing and able to operate as a certificated air carrier and capable of providing reliable essential air service at Muscle Shoals, Alabama;

² See Appendix B 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.

5. This Docket will remain open until further order of the Department; and
6. We will serve copies of this order on the Chairmen of the Colbert County and Lauderdale County Commissions, the manager of the Northwest Alabama Regional Airport, the Governor of Alabama, the Alabama Department of Aeronautics, Corporate Airlines, Inc., and Mesaba Aviation, Inc. d/b/a Mesaba Airlines.

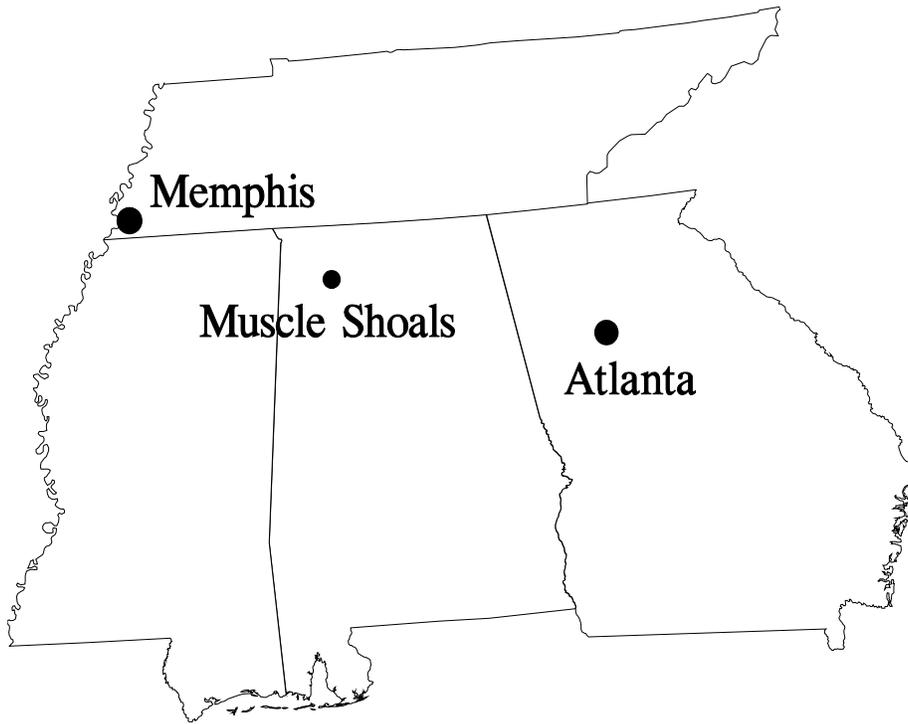
By:

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/>*

AREA MAP



MESABA AVIATION, INC.
ESSENTIAL AIR SERVICE TO BE PROVIDED AT
MUSCLE SHOALS, ALABAMA

Effective period: Two-year period beginning on the first day of the month following the service date of this order.
Service: 13 nonstop round trips per week to Memphis, Tennessee.
Timing of Flights: Flights must be well-timed and well-spaced to ensure full compensation
Aircraft type: Saab 340 (34 passenger seats).
Subsidy Rate per Flight: \$979.72¹

Weekly Compensation Ceiling: \$25,472.72²

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 \$1,284,408 compensation, divided by 1,311 one-way flights at Muscle Shoals calculated as follows: 13 RTs/week * 52 weeks * .97 completion factor x 2 = 1,311 flights.

² 26 flights per week x \$979.72 = \$25,472.72.

**Mesaba Aviation, Inc, d/b/a Northwest Airlink
Proposal to Provide Subsidized EAS at Muscle Shoals, Alabama
Calculation of Subsidy Requirement**

Service Factors:

Nonstop Miles	136
Weekly Service	13-Nonstop Round Trips
Block Hours ^{1/}	1,355
Weighted Departures ^{1/}	1,311
Turns at Hub ^{1/}	656
Revenue Passenger Miles	1,538,694
Passengers	11,314

Revenue:

Net Fare ^{2/}	\$41.00
Passenger Revenue	\$463,871
<u>Other Revenue @ 0.04% of Passenger Revenue</u>	<u>\$18,555</u>
Total Revenue	\$482,426

Direct Costs:

Pilots and flight attendant @ \$237.64 per hour	\$322,009
Fuel @ \$133.28 per hour ^{3/}	\$180,598
Hull insurance @ \$5.39 per hour	\$7,304
Flight Maintenance @ \$215.05 per hour	\$291,399
Lease @ \$184.89 per hour	\$250,531
<u>Depreciation @ \$44.83 per hour</u>	<u>\$60,746</u>
Total Direct Costs	\$1,112,586

Indirect Costs:

Station Rent @ MSL per year	\$24,168
Landing fee per turn @ MSL	\$8,140
Deicing per turn	\$5,392
Station agents	\$123,735
Communications	\$4,012
<u>Passenger Screening \$15.99 per turn</u>	<u>\$10,489</u>
Total MSL Station Costs	\$175,936
Landing fee per turn @ MEM	\$29,356
<u>Handling Fees per turn</u>	<u>\$98,400</u>
Total MEM Station Costs	\$127,756
Passenger Fees @ \$5.85/passenger	\$66,186
Credit Card Fees @ 2% of Passenger Revenue	\$9,277
Commissions & Marketing @ 2.04% of Passenger Revenue	\$9,463
Insurance	\$1,965
Ground Maintenance @ \$44.70/weighted departure	\$58,602
<u>General & Administration @ \$71.55/block hour</u>	<u>\$96,952</u>
Total Indirect Costs	\$570,113
Total Operating Expenses ^{4/}	<u>\$1,682,699</u>
<u>Return @ 5% of Operating Expenses</u>	<u>\$84,135</u>
Economic Cost	\$1,766,834
Annual Subsidy @ 97% Completion Factor	<u>\$1,284,408</u>
Subsidy per Weighted Departure	\$979.72
Maximum Subsidy per Week	\$25,472.72

1/ 26 flights per week x 62 minutes x 52 weeks x .97/60 = 1,355 Block Hours; 1,311 Departures, 656 turns

2/ Beyond revenue allocated to EAS based on published Y-Fares, crosschecked to block time.

3/ 136 gph @ \$.98/gallon, including oil. Note: \$.98/gallon reflects actual price, not fixed price guaranteed by Northwest to Mesaba reflected in the Form 41.

4/ Unit costs in general based on those agreed to at Laurel/Hattiesburg (Order 2002-5-28, May 29, 2002, in Docket OST-2001-10685).