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Order 2003-1-14

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

Served: January 23, 2003 -17

Issued by the Department of Transportation
on the 17th day of January, 2003

Essential air service at **STAUNTON, VIRGINIA** under 49 U.S.C. 41731 *et seq.*	**Docket OST-2002-11378**

ORDER SELECTING CARRIER AND ESTABLISHING FINAL SUBSIDY RATES

Summary

By this order, the Department is (a) selecting Colgan Air, Inc., d/b/a US Airways Express, to provide essential air service at Staunton, Virginia, at a subsidy rate of $623,667 for the first year, with an extension for a second year subject to the mutual agreement of the carrier and the Department, and (b) establishing a subsidy rate of $514,211 annually for the hold-in service being operated at Staunton by Air Midwest, Inc., d/b/a US Airways Express, from April 23, 2002, until Colgan begins service.

Background

By Order 2002-3-19, March 20, 2002, the Department requested proposals from carriers interested in providing essential air service at Staunton after Air Midwest filed a 90-day notice of intent to suspend its unsubsidized service at the community as of April 23, 2002. That order also required Air Midwest to maintain service at Staunton for 30 days beyond the end of the 90-day notice period, and the Department has subsequently extended Air Midwest's service obligation for additional 30-day periods pending completion of the carrier selection case.[1]

Carrier Proposals

Two carriers filed proposals in response to Order 2002-3-19. Mesa Air Group, Inc., filed a proposal on behalf of its subsidiary and the incumbent, Air Midwest. Mesa proposes that Air Midwest continue operating 19 nonstop round trips a week to Pittsburgh with 19-seat Beech 1900 aircraft. Mesa's subsidy request of $514,211 annually would apply to the prospective two-year rate term as well as to Air Midwest's ongoing hold-in service at Staunton, which became eligible for subsidy beginning April 23, 2002. The other proposal was filed by Colgan, which similarly proposes operating 19 nonstop round trips a week to Pittsburgh with

[1] See Appendix A for a map. The Shenandoah Valley Regional Airport serves the nearby communities of Harrisonburg and Waynesboro, Virginia, as well as Staunton.

Beech 1900 aircraft, but at a subsidy rate of $623,667 annually. Both proposals contemplate two-year rate periods.

Community Comments

In a letter dated November 22, 2002, the Chairman of the Shenandoah Valley Regional Airport Commission notes that the community's service had not required subsidy since 1996, and that the community's objective is to return its service to profitability.[2] After evaluating the merits of both carriers, the community has concluded that Colgan would be more committed to redeveloping the market and returning Staunton's service to self-sufficiency. The Virginia Department of Aviation also submitted a letter endorsing Colgan.

Decision

After careful consideration of the carriers' proposals and the community's views, we have decided to select Colgan to provide essential air service at Staunton for a one-year period at its proposed annual subsidy rate of $623,667, with an extension for an additional year subject to the mutual agreement of the carrier and the Department.

Reaching a decision in this case was difficult, particularly in view of the continued strain on program resources. In some respects, Colgan's and Air Midwest's proposals are identical: both carriers propose 19 nonstop round trips a week to Pittsburgh with 19-seat Beech 1900 aircraft, and both have code-share alliances with US Airways, Inc., the dominant carrier at Pittsburgh. The choice therefore lies between Air Midwest's lower subsidy requirement versus the community's strong preference for Colgan, which it believes is more likely to return Staunton's service to self-sufficiency in the long term. Given Staunton's history of nearly always being self-sufficient, we believe that the community's return to self-sufficiency is a realistic prospect, and we will not gainsay the community's opinion as to which carrier is more likely to achieve that objective. The difference in subsidy between the two proposals -- about $109,000 -- is not substantial in comparison with the long-term program savings that self-sufficiency would realize. We have therefore decided to give Colgan an opportunity to work with the Staunton community to rebuild the market.

However, in view of Colgan's higher subsidy requirement and the community's history of self-sufficiency, we are not prepared to authorize Colgan's higher subsidy rate for the full two-year period, as Colgan has proposed. Instead, we will authorize the rate for a one-year period, through the 12th month following Colgan's commencement of service, with an extension for an additional year subject to the mutually satisfactory agreement between Colgan and the Department.

As noted earlier, Air Midwest's service at Staunton became eligible for subsidy as of April 23, 2002, by virtue of Air Midwest's being required to continue service at the community pending completion of the carrier selection case. We will therefore establish a subsidy rate of

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[2] In fact, service at Staunton had previously required subsidy *only* from May 1994 until July 1996. See Orders 94-5-7, May 6, 1994, which initiated subsidy at Staunton, and 96-6-8, June 5, 1996, which terminated it.

$514,211 annually for Air Midwest's hold-in service, effective from April 23, 2002, until Colgan begins service.[3]

Carrier Transition

Colgan has informed us that it will be able to inaugurate service at Staunton roughly 60 to 90 days following our decision here, at which time we will end our reliance on Air Midwest to provide essential air service there. We expect Colgan and Air Midwest to coordinate the transition in essential air service responsibilities; our staff is prepared to assist in that effort. In particular, we expect Air Midwest to contact all travelers holding reservations for flights that it intends to suspend, to inform them of the suspension and the availability of Colgan's service, and to assist them in arranging alternate transportation.

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 compensate it for providing essential air service. We last found Colgan fit by Order 2002-9-23, September 26, 2002, where we selected it to provide subsidized essential air service at Altoona and Johnston, Pennsylvania. 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 Colgan continues to have available adequate financial and managerial resources to provide quality service at the communities at issue here, 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 Colgan remains fit.

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

ACCORDINGLY,

1. We select Colgan Air, Inc., d/b/a US Airways Express, to provide essential air service at Staunton, Virginia, as described in Appendix D, from the date on which the carrier begins service through the 12th month following the commencement of service, with an extension for an additional year subject to the mutual agreement of the carrier and the Department;

2. We set the final rate of compensation for Colgan Air, Inc., d/b/a US Airways Express, for the provision of essential air service at Staunton, Virginia, as described in Appendix D, from the date on which the carrier begins service through the 12th month following the commencement of service, payable as follows: for each month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling set forth in Appendix D, and shall be determined by multiplying the subsidy-eligible arrivals and departures completed during the month by $325.33;[4]

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[3] See Appendix B for details of Colgan's subsidy requirement for the prospective two-year rate term, and Appendix C for details of Air Midwest's subsidy requirement for its ongoing hold-in service.

[4] See Appendix D 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.

3. We direct Colgan Air, Inc., d/b/a US Airways Express, 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;

4. We find that Colgan Air, Inc., d/b/a US Airways Express, continues to be fit, willing and able to operate as a commuter air carrier and capable of providing reliable essential air service at Staunton, Virginia;

5. We set the final rate of compensation for Air Midwest, Inc., d/b/a US Airways Express, for the provision of essential air service at Staunton, Virginia, as described in Appendix E, from April 23, 2002, until the date on which Colgan begins service, payable as follows: for each month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling set forth in Appendix E, and shall be determined by multiplying the subsidy-eligible arrivals and departures completed during the month by $265.60;[5]

6. We direct Air Midwest, Inc., d/b/a US Airways Express, 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;

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

8. We will serve copies of this order on the mayor and airport manager of Staunton, Virginia; the Shenandoah Valley Regional Airport Commission; Air Midwest, Inc., d/b/a US Airways Express; and Colgan Air, Inc., d/b/a US Airways Express.

By:

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

(SEAL)

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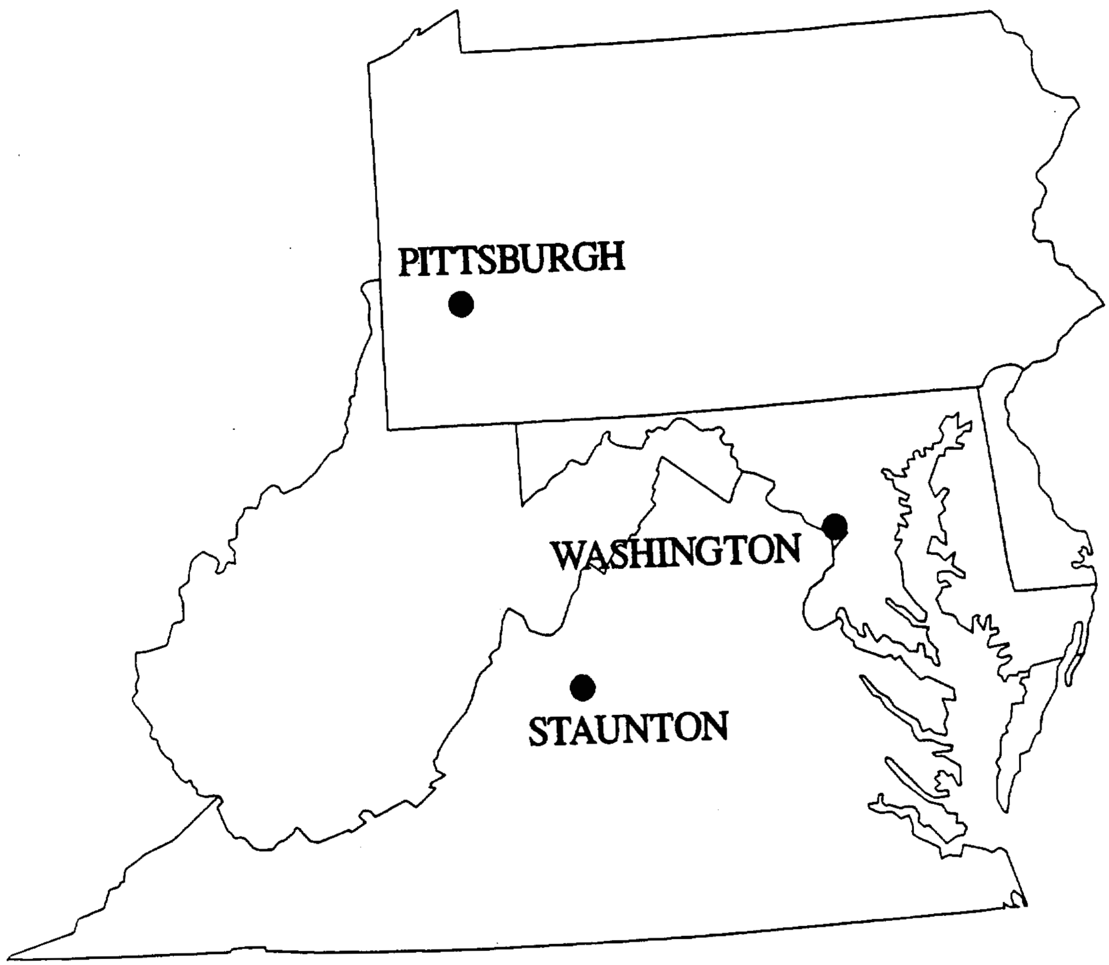
[5] See Appendix E for the calculation of this rate, which assumes the use of the aircraft designated. If the carrier reports a significant number of aircraft substitutions, revision of this rate may be required.

MAP



COLGAN AIR, INC., d/b/a US AIRWAYS EXPRESS
ANNUAL COMPENSATION REQUIREMENT FOR ESSENTIAL AIR SERVICE AT STAUNTON, VIRGINIA
(at 97 percent completion)

Departures		1,917*
Flight Hours		1,374*
Operating Revenues:		
Passenger: 17,298 psgrs at $75.00	$1,297,350	
Total Operating Revenues		$1,297,136
Operating Expenses:		
Direct: Flying Operations ($137.98/flt hr)	189,585	
Fuel ($154.98/flt hr)	212,943	
Maintenance ($343.94/flt hr)	472,574	
Aircraft Lease	175,500	
Aircraft Insurance	180,000	
Total Direct Expenses		1,230,602
Indirect: Station Salaries & Security	99,081	
Ground Handling at PIT ($4.30/psgr)	74,381	
Landing Fees: at PIT	19,506	
at SHD	15,334	
Rent at SHD	10,020	
Psgr-related fees ($12.12/psgr)	209,652	
Rev-related fees (5.3% of psgr rev)	68,760	
Marketing & Promotions	12,000	
Crew Training	15,000	
G&A	75,000	
Total Indirect Expenses		598,734
Total Operating Expenses		$1,829,336
Operating Loss		$ 532,200
Profit Element at 5.0% of Total Operating Expenses		$ 91,467
Annual Compensation Requirement		$ 623,667

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* 6 dpts x 5 weekdays x 52 weeks x .97 completion = 1,513
8 dpts x 52 weekends x .97 completion = 404
1,917

1,917 dpts x 43 min/60 = 1,374

APPENDIX C

AIR MIDWEST, INC., d/b/a USAIRWAYS EXPRESS
ANNUAL COMPENSATION REQUIREMENTS FOR ESSENTIAL AIR SERVICE AT STAUNTON, VIRGINIA

(at 98 percent completion)

Departures		1,936*
Block Hours		1,781*
Revenue passenger-miles		2,448,000*
Available seat-miles		6,253,280*
Revenues:		
Passenger	14,400 psgrs at $92.50	$1,332,000
Freight	1.0% of psgr rev	13,320
Total Revenues		$1,345,320
Direct Expenses:		
Crew & Training	$135.00 per block hour	$ 240,435
Fuel & Oil	$107.02 per block hour	190,603
Hull Insurance	$13.30 per block hour	23,687
Maintenance	$251.27 per block hour	447,512
Aircraft Rent	$82.09 per block hour	146,202
Total Direct Expenses		$1,048,439
Indirect Expenses:		
Traffic-related	$0.069 per RPM	$ 168,912
Marketing		5,000
Departure-related	$117.59 per departure	227,654
Capacity-related	$0.01 per ASM	62,533
US Airways Program Fees	$12.12 per psgr	174,528
US Airways Rev-related Fees	$6.3% of psgr rev	$ 83,916
Total Indirect Expenses		$ 722,543
Total Operating Expenses		$1,770,982
Operating Loss		$ 425,662
Profit Element at 5% of Total Operating Expenses		$ 88,549
Compensation Requirement		$ 514,211

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* 38 dpts x 52 weeks x .98 comp = 1,936 dpts
1,936 dpts x 55.2/60 min = 1,781 block hours
14,400 psgrs x 170 mi = 2,448,000 RPMs
1,936 dpts x 19 seats x 170 mi = 6,253,280 ASMs

COLGAN AIR, INC., d/b/a US AIRWAYS EXPRESS
ESSENTIAL AIR SERVICE AT
STAUNTON, VIRGINIA

EFFECTIVE PERIOD	One year, beginning on the date that the carrier begins service through the 12th month following the commencement of service, with an extension for an additional year subject to the mutual agreement of the carrier and the Department
SERVICE	19 nonstop round trips to Pittsburgh each week
AIRCRAFT TYPE	Beech 1900 (19 seats)
TIMING OF FLIGHTS	Flights must be well-timed and well-spaced to ensure full compensation
SUBSIDY RATE PER ARRIVAL/DEPARTURE	$325.33 1/
COMPENSATION CEILING EACH WEEK	$12,362.54 2/

1/ Annual compensation of $623,667 divided by 1,917 annual arrivals and departures at a 97 percent completion factor, as calculated in Appendix B.
2/ Subsidy rate per arrival/departure of $325.33 multiplied by 38 subsidy-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 the 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 the 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 the specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amount or at the agreed service level, 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 level of subsidy and/or service that are mutually agreed to in writing by the parties to this order 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.

AIR MIDWEST, INC., d/b/a US AIRWAYS EXPRESS
ESSENTIAL AIR SERVICE AT
STAUNTON, VIRGINIA

EFFECTIVE PERIOD	April 23, 2002, until Colgan begins service.
SERVICE	19 nonstop round trips to Pittsburgh each week
AIRCRAFT TYPE	Beech 1900 (19 seats)
TIMING OF FLIGHTS	Flights must be well-timed and well-spaced to ensure full compensation
SUBSIDY RATE PER ARRIVAL/DEPARTURE	$265.60 1/
COMPENSATION CEILING EACH WEEK	$10,092.80 2/

1/ Annual compensation of $514,211 divided by 1,936 annual arrivals and departures at a 98 percent completion factor, as calculated in Appendix B.
2/ Subsidy rate per arrival/departure of $265.60 multiplied by 38 subsidy-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 the 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 the 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.

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