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Order 2003-1-27

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

Served: January 31, 2003

Issued by the Department of Transportation
on the 28th day of January, 2003

Essential Air Service at **ELFIN COVE, ALASKA** **PELICAN, ALASKA** Under 49 U.S.C. 41731 *et seq.*	**DOCKET OST-2002-11586**-13

ORDER SELECTING CARRIER AND ESTABLISHING SUBSIDY RATE

Summary

By this order, the Department selects Alaska Seaplane Service, LLC (Alaska Seaplane), to provide subsidized essential air service at Elfin Cove and Pelican, Alaska, at an annual subsidy rate of $177,681 for a two-year rate term from February 1, 2003, through January 31, 2005.[1] This rate also serves as a past-period rate retroactive to May 15, 2002, when we required the carrier to continue to serve these communities.

Background

On February 13, 2002, Alaska Seaplane filed a 90-day notice of its intent to suspend its unsubsidized service at Elfin Cove and Pelican, effective on or about May 13, 2002. By Order 2002-5-13, May 14, 2002, the Department prohibited the carrier from suspending service at the communities for an initial 30-day period, and requested proposals, with subsidy if necessary, from carriers interested in providing replacement service. The Department has maintained Alaska Seaplane's service obligation at the communities by a series of 30-day hold-in orders, requiring the carrier to continue to provide service. In accordance with 49 U.S.C 41734, the carrier became eligible to receive compensation for such service at the end of its 90-day notice period, beginning May 15, 2002. By Order 2002-7-33, July 25, 2002, the Department set an interim subsidy rate of $59,066 for the carrier's "hold-in" service.

Carrier Proposal

Alaska Seaplane was the only carrier to submit a proposal in response to our request. As a result of discussions with Department staff, the carrier has agreed to continue to provide

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[1] See Appendix A for a map of the service area.

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[1] See Appendix A for a map of the service area.

service to the communities for a prospective two-year rate term, as follows: Pelican -- six round trips a week to Juneau, peak and off-peak; Elfin Cove -- one round trip a week and five flagstops a week to Juneau in the peak season and five flagstops a week to Juneau in the off-peak season. The service will be provided with 6-seat DeHavilland DHC-2 Beaver aircraft at an annual subsidy rate of $177,681.[2]

Decision

After a thorough review of the proposal and Alaska Seaplane's service history, we have decided to select the carrier to continue to provide essential air service at Elfin Cove and Pelican. The proposed rate appears reasonable for the service at issue and the carrier's performance continues to be satisfactory. In addition, we have informally contacted the Alaska Department of Transportation & Public Facilities, which supports our decision. The state emphasized the importance of essential air service support to these communities, as well as to other isolated communities within the state, as their only access to the national air transportation system is via subsidized air service.

Carrier Fitness

According 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 Alaska Seaplane's fitness by Order 97-7-22, July 29, 1997. Since then, 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 Alaska Seaplane continues to have available adequate financial and managerial resources to maintain reliable service at Elfin Cove and Pelican, 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 135, and knows of no reason why we should not find that Alaska Seaplane remains fit.

Past-period Rate

The annual subsidy rate of $177,681 will also serve as a past-period rate of compensation for Alaska Seaplane's "hold-in" service for the period beginning May 15, 2002, through January 31, 2003.

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

ACCORDINGLY,

1. The Department selects Alaska Seaplane Service, LLC, to provide essential air service at Elfin Cove and Pelican, Alaska, as described in Appendix C, for the two-year period from February 1, 2003, through January 31, 2005;

2. The Department sets the final rate of compensation for Alaska Seaplane Service, for the provision of essential air service at Elfin Cove and Pelican, Alaska, as described in

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[2] See Appendix B for the subsidy calculation summary.

Appendix C, for the period beginning May 15, 2002, through January 31, 2005, 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 $195.25;[3]

3. The subsidy rate of $177,681 established in paragraph 2 above is in lieu of and not in addition to the interim subsidy rate set forth in Order 2002-7-33;

4. The Department finds that Alaska Seaplane Service, continues to be fit, willing and able to operate as a commuter air carrier and capable of providing reliable essential air service at Elfin Cove and Pelican, Alaska;

5. We direct Alaska Seaplane Service 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

6. The Department will serve a copy of this order on the Alaska Department of Transportation and Public Facilities, and Alaska Seaplane Service, LLC.

By:

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

(SEAL)

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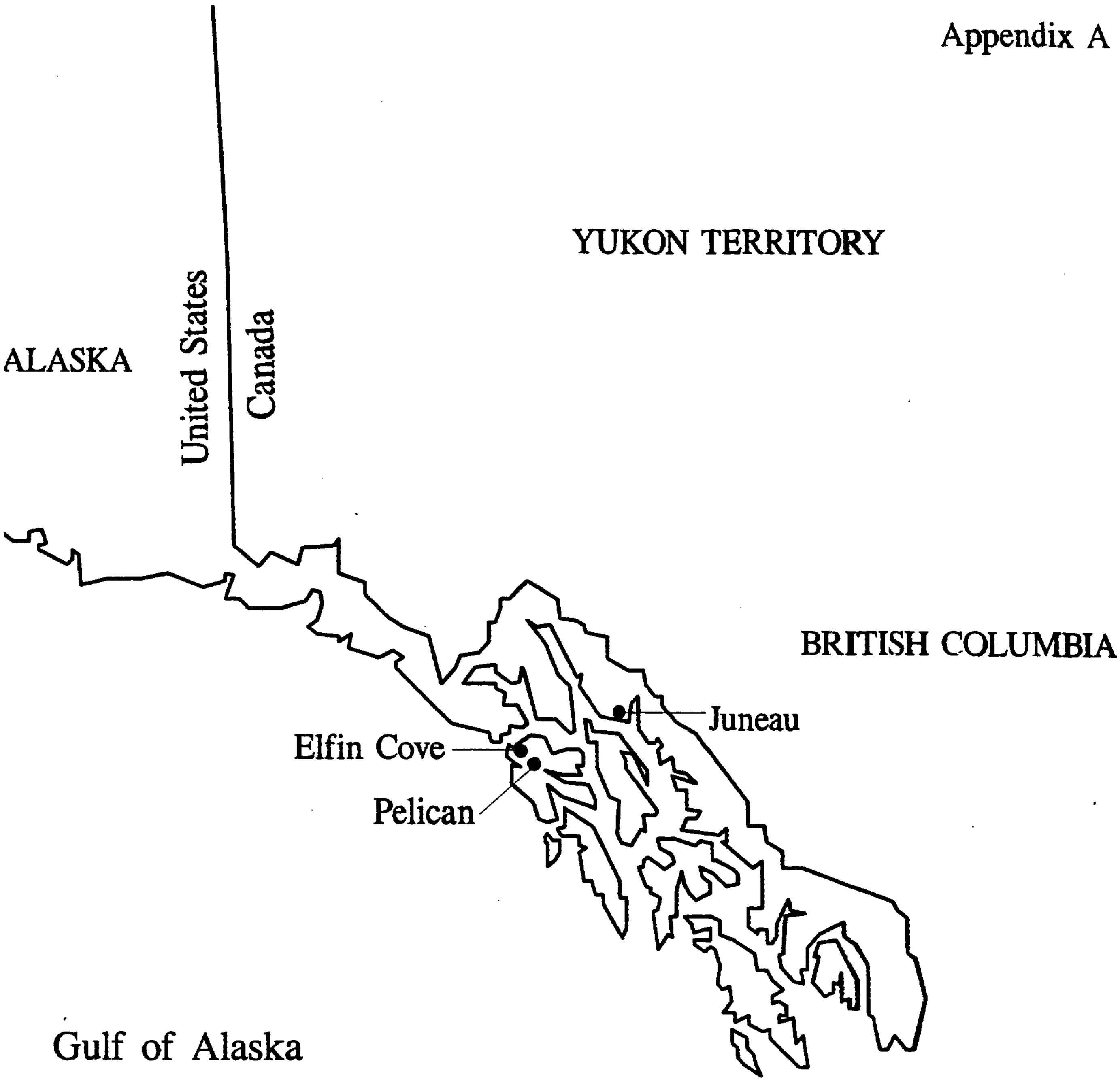
[3] See Appendix C for the calculation of this rate, which assumes the use of the aircraft designated. If the carrier reports a significant number of aircraft substitutions, a revision of this rate may be required.

Appendix A


YUKON TERRITORY
ALASKA
United States
Canada
BRITISH COLUMBIA
Juneau
Elfin Cove
Pelican
Gulf of Alaska

Appendix B

ALASKA SEAPLANE SERVICE, LLC
ANNUAL COMPENSATION REQUIREMENT FOR ESSENTIAL AIR SERVICE AT ELFIN COVE AND PELICAN, ALASKA

Route: JNU-PEC and JNU-ELV
Subsidy-eligible ceiling total block hours: 591.5
Subsidy-eligible total number of departures: 910
Aircraft Type: DeHavilland Beaver DHC-2 (6 available passenger seats)

Operating Revenue	Rate	Amt./Lbs.	Revenue
PEC psgr.	$99.04	1,879	$186,096
ELV psgr.	$99.04	540	53,482
PEC cargo	0.38	88,535	33,643
ELV cargo	0.42	18,630	7,825
PEC mail	0.72253	93,196	67,337
ELV mail	0.70636	50,198	35,458
Total operating revenue			$383,840
Total Block Hours – JNU-ELV/PEC service (10/1/01 – 9/30/02)			1,108
Average Revenue per Block Hour			$346.43
Revenue Assuming 591.5 Block Hours			$204,911

Operating expense:

Direct operating expense:	Unit Cost per BH:	Block Hr.	Expense
Pilot & Co-pilot	$75.21	591.5	$44,487
Fuel & Oil	$52.81	591.5	31,237
Maintenance	$122.43	591.5	72,417
Depreciation & Rental	$66.88	591.5	39,560
Other	$54.32	591.5	32,130
Total direct operating expense	$371.65		$219,831

Indirect operating expense:	Cost per departure:	Departures	
Traffic Related	$27.12	910	$24,679
Departure Related	$68.42	910	62,262
Capacity Related	7.4% of F-2 expenses		22,701
General & Administrative	$60.33	910	** 34,900
Total indirect operating expense		** (total G&A less $20K)	$144,543

Total operating expense	$364,374
Operating loss	$159,463
Profit element @ 5% of total operating expenses	$18,219
Compensation Requirement:	$177,681
Subsidy Rate Per Departure:	$195.25

Block hours calculated as follows:

		Departures	Block Hours
Pelican			
Peak Season	6 round trips/week	312	260.0
Off-Peak	6 round trips/week	312	260.0
Elfin Cove			
Peak Season	1 PEC-ELV rt/wk	26	6.5
	5 flagstops/week	130	32.5
Off-Peak	5 flagstops/week	130	32.5
TOTAL:		**910**	**591.5**

ALASKA SEAPLANE SERVICE, LLC
ANNUAL COMPENSATION REQUIREMENT FOR ESSENTIAL AIR SERVICE AT
ELFIN COVE AND PELICAN, ALASKA

Effective periods:	May 15, 2002, through January 31, 2003 February 1, 2003, through January 31, 2005
Service:	Peak: Five trips each week routed JNU-PEC-JNU One trip each week routed JNU-PEC-ELV-JNU Five flagstops at ELV each week* Off-Peak: Six round trip each week routed JNU-PEC-JNU Five flagstops at ELV each week* *Flagstop service is defined as an unscheduled stop, if necessary, at ELV on a regularly scheduled JNU-PEC-JNU flight. Flights may be operated either JNU-PEC-ELV-JNU or JNU-ELV-PEC-JNU.
Intermediate stops and upline service:	Flights between Elfin Cove and Juneau may stop at Pelican. Flights between Pelican and Juneau may stop at Elfin Cove. No other upline or intermediate service is permitted without prior Department approval.
Aircraft type:	DeHavilland Beaver DHC-2 (6 available passenger seats)
Timing of flights:	Flights must be well-timed and well-spaced in order to ensure full compensation.
Annual compensation:	$177,681
Subsidy Rate Per Arrival/Departure:	$195.25[1]
Weekly Compensation Ceiling:[2]	$3,514.50 (peak)[3]; $3,319.25 (off-peak)[4]

[1] Annual compensation of $177,681 divided by 910 annual arrivals and departures as shown in Appendix B.

[2] 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.

[3] Peak period weekly ceiling calculated as follows: arv/dep rate of $195.25 x 18 deps/wk.

[4] Off-peak period weekly ceiling calculated as follows: arv/dep rate of $195.25 x 17 deps/wk.

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.