



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

Issued by the Department of Transportation
on the 26th day of June, 2003

Essential air service at

VICTORIA, TEXAS

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

Served: July 1, 2003

Docket OST-2003-14604

**ORDER SELECTING CARRIER
AND ESTABLISHING FINAL SUBSIDY RATE**

Summary

By this order, the Department is selecting SkyWest Airlines, Inc., d/b/a Continental Connection, to provide essential air service at Victoria, Texas, for a two-year period at a subsidy rate of \$464,869 annually.

Background

By Order 2003-4-2, April 1, 2003, the Department requested proposals from carriers interested in providing essential air service at Victoria after ExpressJet Holdings, Inc., d/b/a Continental Express, filed a 90-day notice of intent to suspend its unsubsidized service between the community and Houston as of May 31.¹ That order also required ExpressJet to maintain service at Victoria for 30 days beyond the end of the 90-day notice period by operating 12 nonstop round trips a week to Houston with 37-seat Embraer ERJ135 regional jets. The Department has subsequently extended ExpressJet's service obligation pending completion of the carrier selection case.²

Essential Air Service Determination

Victoria's essential air service determination, as last established by Order 84-5-77, May 22, 1984, required at least two round trips each weekday and weekend to Houston providing a total of 67 inbound and 67 outbound seats.³

¹ See Appendix A for a map.

² ExpressJet's service to Houston became eligible for subsidy as of June 1 by virtue of the Department's hold-in action. By Order 2003-6-1, June 2, 2003, the Department established a subsidy rate of \$1,269,675 annually for ExpressJet's hold-in service.

³ Order 84-5-77 required capacity sufficient to accommodate 40 inbound and outbound passengers. Under the 60-percent load-factor standard subsequently established by the Airport and Airway Safety and Capacity Expansion Act of 1987, P.L. 100-223, the number of guaranteed seats became 67: $40/0.60 = 66.7$.

Carrier Proposals

Proposals have been filed by two carriers: SkyWest and Mesa Air Group, Inc., on behalf of its subsidiary Air Midwest, Inc.⁴

SkyWest proposes to operate 18 nonstop round trips a week to Houston as Continental Connection with 30-seat Embraer Brasilia aircraft, at a subsidy of \$464,869 annually.

Mesa proposes three different options for Air Midwest's service, which Mesa states would be operated with 19-seat Beech 1900 aircraft as America West Express:

- Option 1: 12 nonstop round trips to Houston and 6 nonstop round trips to Dallas/Ft. Worth each week, at a subsidy of \$676,819 annually.
- Option 2: 12 nonstop round trips to Houston and 10 nonstop round trips to Dallas/Ft. Worth each week, at a subsidy of \$888,185 annually.
- Option 3: 18 nonstop round trips to Houston each week, at a subsidy of \$523,413 annually.

Community Comments

By letter dated June 20 on behalf of the Victoria community, the Manager of the Victoria Regional Airport states that the Airport Commission and Air Service Task Force support the selection of SkyWest.

Decision

After careful consideration of both carriers' proposals and the community's comments, we have decided to select SkyWest's proposal, which offers 18 nonstop round trips a week to Houston with 30-seat Brasilias at an annual subsidy of \$464,869. The proposed subsidy rate appears reasonable for the service to be provided, and SkyWest's performance continues to be satisfactory.⁵

In selecting a carrier to provide subsidized essential air service, 49 U.S.C. 41733(c)(1) directs us to consider four factors: (1) service reliability; (2) contractual and marketing arrangements with a larger carrier at the hub; (3) interline arrangements with a larger carrier at the hub; and (4) community views. In addition, we have always given weight to the applicants' relative subsidy requirements.

In this case, both applicants have considerable experience operating scheduled air service generally and under the essential air service program specifically, both have demonstrated an ability to provide such service reliably, and both have marketing and interline agreements with major carriers. However, SkyWest has the unequivocal support of the Victoria community, and its annual subsidy requirement is lower than any of Mesa/Air Midwest's options. SkyWest is therefore the clear choice.

⁴ A third proposal was filed by Great Lakes Aviation, Ltd., but Great Lakes subsequently withdrew it.

⁵ See Appendix B for details of SkyWest's subsidy requirement.

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 SkyWest fit by Order 2002-5-6, May 8, 2002, in connection with its subsidized essential air service at Cedar City, Utah. 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 SkyWest continues to have available adequate financial and managerial resources to provide quality service at the community 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 SkyWest remains fit.

Carrier Transition

SkyWest has informed us that it expects to be able to begin service at Victoria on August 1, at which time we will end our reliance on ExpressJet to provide essential air service there. We expect SkyWest and ExpressJet to coordinate the transition in essential air service responsibilities; our staff is prepared to assist in that effort. In particular, we expect ExpressJet to contact all travelers holding reservations for flights that it intends to suspend, to inform them of the suspension and the availability of SkyWest's service, and to assist them in arranging alternate transportation.

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

ACCORDINGLY,

1. We select SkyWest Airlines, Inc., d/b/a Continental Connection, to provide essential air service at Victoria, Texas, as described in Appendix C, from the date on which the carrier begins service through the end of the 24th complete month thereafter;
2. We set the final rate of compensation for SkyWest Airlines, Inc., d/b/a Continental Connection, for the provision of essential air service at Victoria, Texas, as described in Appendix C, from the date on which the carrier begins service through the end of the 24th complete month thereafter, 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 C, and shall be determined by multiplying the subsidy-eligible arrivals and departures completed during the month by \$253.33;⁶
3. We direct SkyWest Airlines, Inc., d/b/a Continental Connection, 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

⁶ 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, revision of this rate may be required.

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 SkyWest Airlines, Inc., d/b/a Continental Connection, continues to be fit, willing and able to operate as a commuter air carrier and capable of providing reliable essential air service at Victoria, Texas;

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

6. We will serve copies of this order on the mayor and airport manager of Victoria, Texas; Air Midwest, Inc., d/b/a America West Express; ExpressJet Holdings, Inc., d/b/a Continental Express; Great Lakes Aviation, Ltd.; and SkyWest Airlines, Inc., d/b/a Continental Connection.

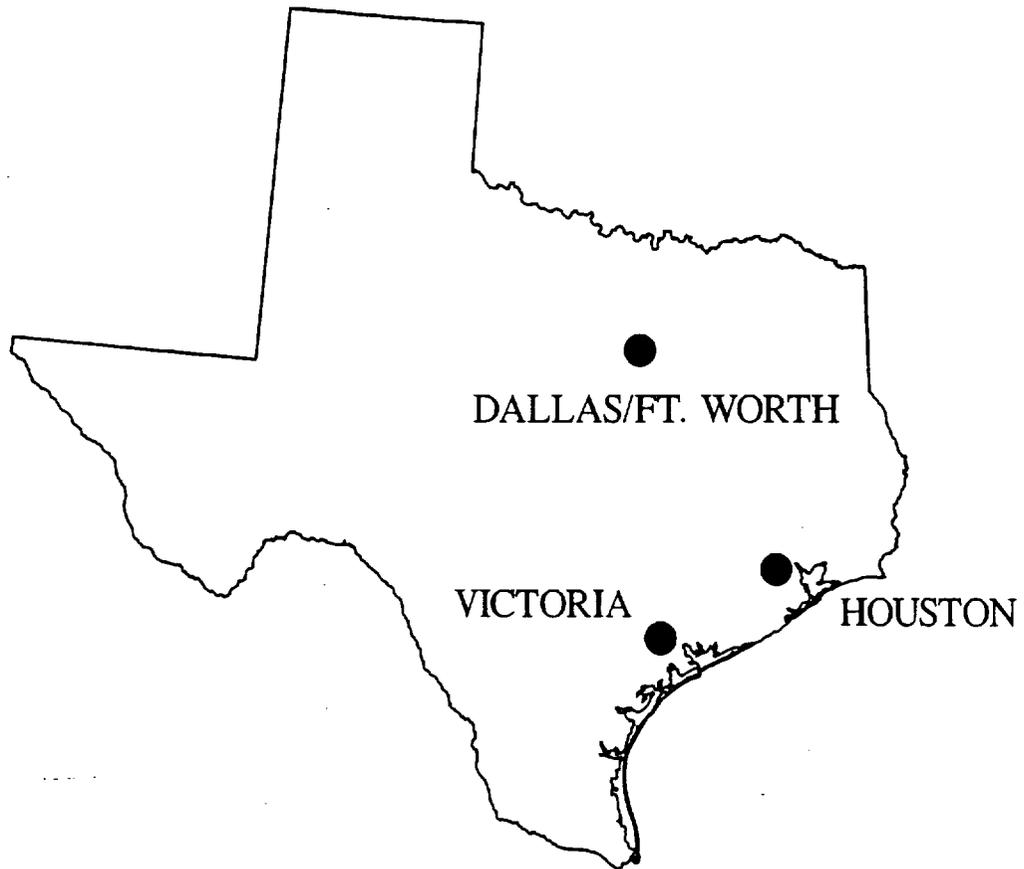
By:

MICHAEL W. REYNOLDS
Acting 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>*

VICTORIA, TEXAS,
AND THE SURROUNDING REGION



APPENDIX B

SKYWEST AIRLINES, INC., d/b/a CONTINENTAL CONNECTION
 ANNUAL COMPENSATION REQUIREMENT FOR
 ESSENTIAL AIR SERVICE AT VICTORIA, TEXAS
 (at 98 percent completion)

Departures		1,835 <u>1/</u>
Block Hours		1,835 <u>2/</u>
Revenue passenger-miles		3,337,236 <u>3/</u>
Available seat-miles		6,771,150 <u>4/</u>
Operating Revenue:		
Passenger Revenue	27,132 psgrs at \$59.87	\$1,624,393
Freight	0.6% of psgr rev	<u>9,746</u>
Total Operating Revenue		\$1,634,139
Operating Expenses:		
Direct Expenses:		
Pilot	\$137.24 per block hour	\$ 251,835
Fuel	\$117.86 per block hour	216,273
Maintenance	\$227.44 per block hour	417,352
Aircraft	\$215.22 per block hour	394,929
Other	\$91.75 per block hour	<u>168,361</u>
Total Direct Expenses		\$1,448,750
Indirect Expenses:		
Flight Att. Related	\$38.25 per block hour	\$ 70,189
RPM Related	\$0.01706 per RPM	56,933
Departure Related	\$47.52 per departure	87,199
ASM Related	\$0.04962 per ASM	<u>335,984</u>
Total Indirect Expenses		\$ 550,305
Total Operating Expenses		\$1,999,055
Return	5.0% of total operating expenses	<u>99,953</u>
Total Economic Cost		\$2,099,008
Annual Compensation Requirement		\$ 464,869

1/ 36 dpts x 52 weeks x .98 comp = 1,835 dpts
2/ 1,835 dpts x 60 min/60 = 1,835 block hours
3/ 27,132 psgrs x 123 mi = 3,337,236 RPMs
4/ 1,835 dpts x 30 seats x 123 mi = 6,771,150 ASMs

SKYWEST AIRLINES, INC., d/b/a CONTINENTAL CONNECTION
ESSENTIAL AIR SERVICE AT VICTORIA, TEXAS

EFFECTIVE PERIOD	Two years, from the date on which the carrier begins service through the end of the 24th complete month thereafter
SERVICE	18 nonstop round trips to Houston each week
AIRCRAFT TYPE	Embraer Brasilia (30 seats)
TIMING OF FLIGHTS	Flights must be well-timed and well-spaced to ensure full compensation
SUBSIDY RATE PER ARRIVAL/DEPARTURE	\$253.33 <u>1/</u>
COMPENSATION CEILING EACH WEEK	\$9,119.88 <u>2/</u>

1/ Annual compensation of \$464,869 divided by 1,835 annual arrivals and departures at a 98 percent completion factor: $36 \text{ dpts} \times 52 \text{ weeks} \times .98 = 1,835$.

2/ Subsidy rate per arrival/departure of \$253.33 multiplied by 36 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 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 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 levels 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.