

Order 2003-10-9
Served: October 7, 2003

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



Issued by the Department of Transportation
on the 7th day of October, 2003

Essential Air Service at

CENTRAL AND CIRCLE, ALASKA

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

Docket OST-98-3621

ORDER SETTING FINAL RATES

Summary

By this order, we are setting final subsidy rates, retroactive to October 1, 2001, for Warbelow's Air Ventures, Inc., for its essential air service (EAS) at Central and Circle, Alaska.

Discussion

As discussed in Order 2002-2-13, the Department authorized emergency EAS payments to subsidized carriers because of the losses suffered by them in the face of generally lower revenue and higher costs after the terrorist attacks of September 11, 2001, combined with the fact that the EAS carriers are paid on a pre-agreed, fixed rate per flight. That order provided for immediate increases to the final rates then in place on an *ad hoc*, interim basis, along with authority to re-negotiate new final rates retroactive to October 1 until the end of the carriers' selection term as provided in the order.¹ By Order 2003-1-25 we extended that rate as an interim beyond the end of the carrier selection term, June 30, 2002, until further Department action.

9-11 Related Rate, October 1, 2001, through June 30, 2002

Order 2000-10-5 selected Warbelow's to provide EAS at Central and Circle at the annual rate of \$35,951 from July 1, 2000, through June 30, 2002. As shown in Appendix B, the carrier's passenger revenue did not decrease below projected levels after the terrorist attacks. Also, though its insurance rates increased somewhat, the

¹ See Order 2002-2-13 for a complete discussion of the emergency relief.

after the terrorist attacks. Also, though its insurance rates increased somewhat, the increases did not become effective until toward the end of the adjustable rate period. Thus overall, this retroactively adjustable rate increased very little, from \$35,951 to \$37,006 annually, from that established by Order 2000-10-5.

July 1, 2002, through December 6, 2002

Warbelow's rate for this period increased significantly, as shown in Appendix B, to \$109,172. A great deal of the increase was because of decreased mail revenue. Servant Air competed against Warbelow's for carriage of mail during much of this time. As a result, Warbelow's mail revenue decreased significantly, but its expenses remained the same. Overall, Warbelow's annual subsidy rate increased by \$73,221 from that previously set by Order 2000-10-5. At the same time, its mail revenue decreased by \$66,354.

December 7, 2002, until further Department Action

Servant Air ceased competing with Warbelow's for the carriage of mail at these communities on December 6, 2002, and so Warbelow's projects a significant increase in mail revenue. As a result, Warbelow's has agreed to an annual subsidy rate of \$56,932 until further Department action, a level closer to that in Order 2000-10-5.²

The carrier and staff have agreed to these rates, and they appear reasonable. They are based on the same level of service selected by Order 2000-10-5. The rates we are setting are based on Warbelow's system average expenses and appear reasonable. By setting these final rates, both the carrier and the Department will have certainty as to the ongoing subsidy while we continue to process the carrier selection proceeding.

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

ACCORDINGLY,

1. The Department sets the final subsidy rate for Warbelow's Air Ventures, Inc., for the provision of essential air service at Central and Circle, Alaska, as described in Appendix C-1, 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 ceiling and shall be determined by multiplying the subsidy-eligible flights completed during the month to Fairbanks by \$35.58;³
2. The Department sets the final subsidy rate for Warbelow's Air Ventures, Inc., for the provision of essential air service at Central and Circle, Alaska, as described in Appendix C-2, to be payable as follows: for each calendar month during which

² Warbelow's mail revenue increased because the Postal Service ceased tendering mail to another carrier. The recently passed Rural Service Improvement Act, Section 3002 (g) (39 USC 5402 (g)), provides that in Alaska the United States Postal Service shall tender all of the non-priority mail in a market to the carrier providing subsidized essential air service.

³ See Appendix C-1 for calculation.

essential air service is provided, the amount of compensation shall be subject to the weekly ceiling and shall be determined by multiplying the subsidy-eligible flights completed during the month to Fairbanks by \$104.97; ⁴

3. The Department sets the final subsidy rate for Warbelow's Air Ventures, Inc., for the provision of essential air service at Central and Circle, Alaska, as described in Appendix C-3, 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 ceiling and shall be determined by multiplying the subsidy-eligible flights completed during the month to Fairbanks by \$54.74; ⁵

4. These rates are in lieu of, and not in addition to, those set by Orders 2002-2-13, and 2003-1-25;

5. We direct Warbelow's Air Ventures, Inc., 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, whichever comes first. 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 copies of this order on Warbelow's Air Ventures, Inc.

By:

MICHAEL W. REYNOLDS
Acting Assistant Secretary for Aviation
and International Affairs

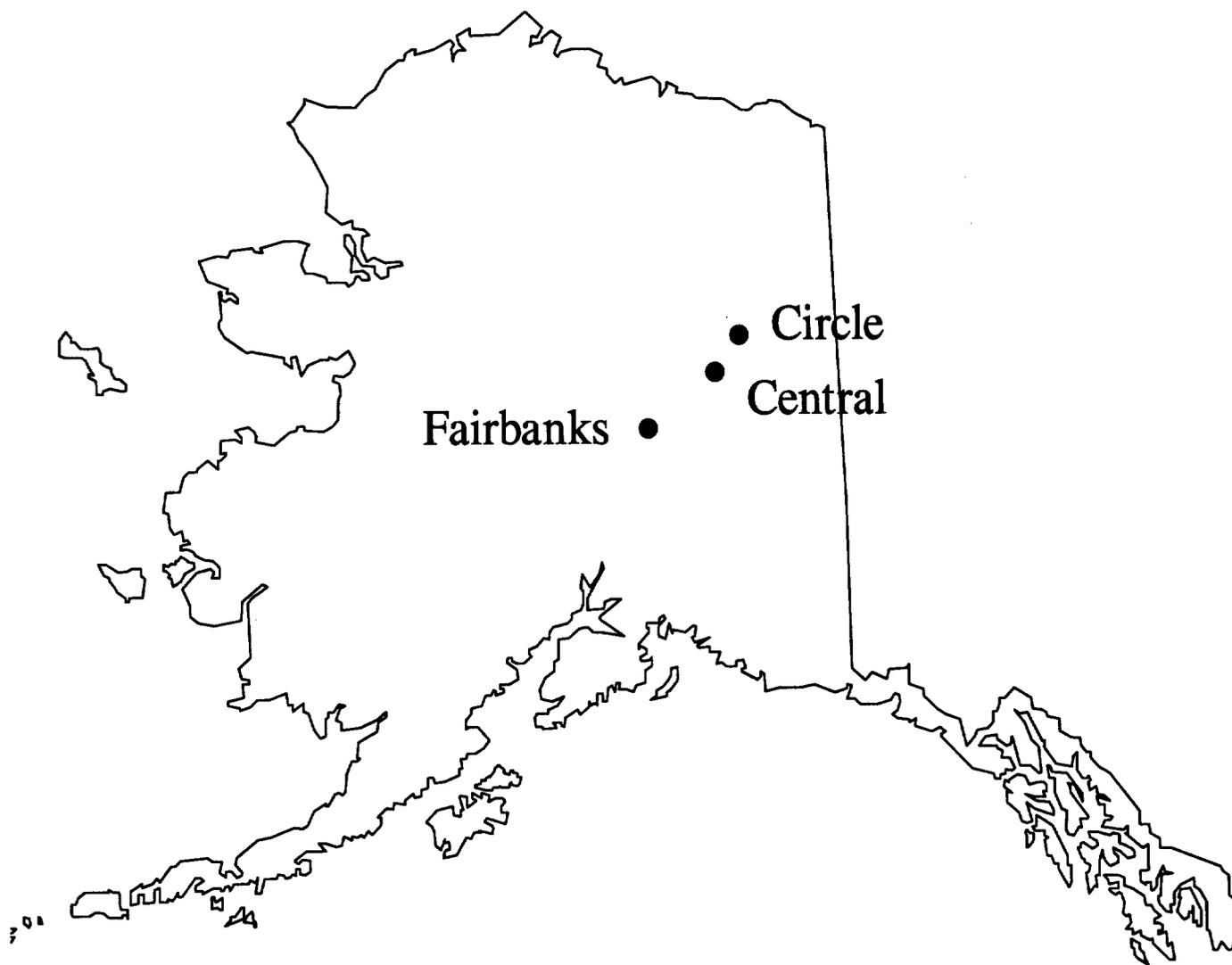
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An electronic version of this document is available on the World Wide Web at
<http://dms.dot.gov>

⁴ See Appendix C-2 for calculation.

⁵ See Appendix C-3 for calculation.

Appendix A



Direct Air Miles

Central-Circle	27
Fairbanks-Central	104
Fairbanks-Circle	131

Appendix B

Essential Air Service, Annual Subsidy at Central and Circle, Alaska, Docket 3621

	<u>Order 2000-10-5</u>	9-11 Related <u>10/1/01--6/30/02</u>	7/1/02 thru <u>12/6/2002</u>	12/7/02 until <u>Further DOT Action</u>
PA-31 Hours			494 1/	494
Passenger	\$45,815	\$45,815	\$36,120	\$31,584
Freight	\$5,344	\$5,344	\$4,219	\$8,560
<u>Mail</u>	<u>\$50,451</u>	<u>\$50,451</u>	<u>\$25,241</u>	<u>\$49,981</u>
Circle	\$101,610	\$101,610	\$65,580	\$90,125
Passenger	\$5,625	\$5,625	\$6,232	\$1,968
Freight	\$4,633	\$4,633	\$3,086	\$6,467
<u>Mail</u>	<u>\$61,255</u>	<u>\$61,255</u>	<u>\$20,111</u>	<u>\$46,594</u>
Central	\$71,513	\$71,513	\$29,429	\$55,029
Total revenue	\$173,123	\$173,123	\$95,009	\$145,154
Pilot	\$28,906	\$28,906	\$25,856	\$25,856
Fuel	\$36,047	\$36,047	\$35,519	\$35,519
Hull Insurance	\$3,246	\$3,441	\$4,614	\$4,614
Maintenance	\$65,723	\$65,723	\$63,573	\$63,573
<u>Depr./Rental</u>	<u>\$8,305</u>	<u>\$8,305</u>	<u>\$8,941</u>	<u>\$8,941</u>
Directs	\$142,227	\$142,422	\$138,503	\$138,503
Liability Insurance	\$13,500	\$14,310		
<u>Other</u>	<u>\$43,391</u>	<u>\$43,391</u>	<u>\$55,955</u>	<u>\$53,960</u>
Indirects	\$56,891	\$57,701	\$55,955	\$53,960
Operating Expense	\$199,118	\$200,123	\$194,458	\$192,463
<u>Profit @ 5%</u>	<u>\$9,956</u>	<u>\$10,006</u>	<u>\$9,723</u>	<u>\$9,623</u>
Economic Cost	\$209,074	\$210,129	\$204,181	\$202,086
Annual Subsidy	\$35,951	\$37,006	\$109,172	\$56,932

1/ FAI-CEM-IRC-FAI, 5 r.t./week*52 weeks*1.9 hrs. = 494 hrs.

**Warbelow's Air Ventures, Inc., Essential Air Service to be Provided to
Central and Circle, Alaska, Docket 3621**

Effective Period: October 1, 2001, through June 30, 2002.

Scheduled Service:

Central: Five nonstop and five one stop flights per week;

Circle: Five nonstop and five one stop flights per week.

Aircraft: Piper Navajo, 8 seats. One of the round trips may be with a Cessna 206/207 (5 seats).

Subsidy Rate per Flight: \$35.58 ¹

Weekly Compensation Ceilings at Central and at Circle: \$355.80 ²

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 \$37,006 divided by 2 communities divided by 520 flights, calculated as follows:

5 round trips per week x 2 directions x 52 weeks

² 10 flights per week x \$35.58 = \$355.80.

**Warbelow's Air Ventures, Inc., Essential Air Service to be Provided to
Central and Circle, Alaska, Docket 3621**

Effective Period: July 1, 2002, through December 6, 2002.

Scheduled Service:

Central: Five nonstop and five one stop flights per week;

Circle: Five nonstop and five one stop flights per week.

Aircraft: Piper Navajo, 8 seats.

Subsidy Rate per Flight: \$104.97 ¹

Weekly Compensation Ceilings at Central and at Circle: \$1,049.70 ²

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.

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¹ \$109,172 divided by 2 communities divided by 520 flights, calculated as follows:

5 round trips per week x 2 directions x 52 weeks

² 10 flights per week x \$104.97 = \$1,049.70.

**Warbelow's Air Ventures, Inc., Essential Air Service to be Provided to
Central and Circle, Alaska, Docket 3621**

Effective Period: December 7, 2002, until further Department action.

Scheduled Service:

Central: Five nonstop and five one stop flights per week;

Circle: Five nonstop and five one stop flights per week.

Aircraft: Piper Navajo, 8 seats.

Subsidy Rate per Flight: \$54.74 ¹

Weekly Compensation Ceilings at Central and at Circle: \$547.40 ²

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.

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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 \$56,932 divided by 2 communities divided by 520 flights, calculated as follows:
5 round trips per week x 2 directions x 52 weeks.

² 10 flights per week x \$54.74 = \$547.40.