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Order 2003-11-22
Served: November 24, 2003



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

Issued by the Department of Transportation
on the 24th of November, 2003

Essential air service at

CHISHOLM/HIBBING, MINNESOTA

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

Docket OST 2003-15796 - 4

ORDER SELECTING CARRIER

Summary

By this order, the Department is selecting Mesaba Aviation, Inc., (Mesaba) d/b/a Northwest Airlink, to provide essential air service at Chisholm/Hibbing, Minnesota, at an annual subsidy rate of \$1,048,612, for the two-year period ending October 31, 2005.

Background

On July 28, 2003, Mesaba filed a 90-day notice to suspend its subsidy-free air service at Chisholm/Hibbing, Minnesota. By Order 2003-9-18, September 23, 2003, we requested proposals for replacement service and required Mesaba to continue providing essential air service to Chisholm/Hibbing while we processed a carrier-selection case.

Carrier Proposals

In response to our request for proposals, we received two proposals from Mesaba, the only carrier to submit a proposal. Both options contemplate service with 34-seat Saab 340 equipment to Minneapolis. Under Option 1, Mesaba proposed to provide twelve nonstop round trips a week for \$1,194,717 annual subsidy. Under Option 2, Mesaba proposed 18 round trips per week for \$1,993,910.

Decision

The staff closely reviewed Mesaba's proposal, especially since Mesaba was the only applicant, and the carrier agreed to certain modifications. The higher service option of 18 round trips would require subsidy support of almost \$2 million per year, far above the program average. After discussion with the staff, Mesaba agreed to provide 14 round trips a week for less subsidy than it

had originally requested for its 12-a-week option.¹ Chisholm/Hibbing generated 39.6 enplanements per day during the year ended June 30, 2001. Since then, traffic has fallen off, as it has in general, both program-wide and nationally. During the year ended June 30, 2003, Chisholm/Hibbing generated 21.7 enplanements a day.

We have informally discussed the results of our negotiations with the community. The community was concerned about possible upline preemption of seats by either International Falls or other communities. Also, they indicated that non-revenue passengers from a Northwest Reservations center were not counted in the community's historical traffic. They also inquired whether other carriers would be allowed to compete with Mesaba while it is subsidized, thereby providing additional capacity in the market.

Our subsidy calculations include some passenger revenue generated by International Falls-Minneapolis passengers that travel over the Chisholm/Hibbing-Minneapolis segment. While Mesaba would be allowed to operate upline on all of its service, as it has historically, the carrier will be providing sufficient capacity to accommodate both communities' traffic. Historical load factors over the critical leg between Hibbing and Minneapolis have averaged less than 60%, even including upline passengers from International Falls, with twelve round trips per week (two fewer than we are securing), and so the historical traffic levels can be accommodated at reasonable load factors. Also, as we noted to the community, the fact that we are authorizing subsidy for Mesaba does not preclude another carrier from simultaneously serving Chisholm/Hibbing.

After careful consideration of the carrier's proposals, the community's historical traffic, and the subsidy requirements, we will select Mesaba's two-round-trip-a-day proposal for \$1,048,612. That will provide a total of 66 seats inbound and 66 seats outbound each day, clearly sufficient to accommodate Chisholm/Hibbing's current traffic of 21.7 enplanements per day. We find both the service and subsidy levels reasonable.

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 Mesaba fit by Order 2003-7-4, on July 8, 2003, relative to its providing essential air service at Watertown, South Dakota. 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 Mesaba 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

¹ As we announced in our request for proposals in Order 2003-9-18, we are moving away from the rate-negotiation process that we have historically used to a bid system. However, as we stated in our request for proposals, we always reserve the right to negotiate with the applicants if appropriate, especially in cases such as this one involving only one applicant.

operations in accordance with 14 CFR Part 121, and knows of no reason why we should not find that Mesaba remains fit.

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

ACCORDINGLY,

1. We select Mesaba Aviation, Inc., d/b/a Northwest Airlink, to provide essential air service at Chisholm/Hibbing, Minnesota, as described in Appendix C;
2. We set the final rate of compensation for Mesaba Aviation, Inc., d/b/a Northwest Airlink, for the provision of essential air service at Chisholm/Hibbing, Minnesota, as described in Appendix C, to be payable as follows: for each 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 arrivals and departures completed during the month by \$742.64;²
3. We direct Mesaba Aviation, Inc., d/b/a Northwest Airlink, 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, 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;
4. We find that Mesaba Aviation, Inc., d/b/a Northwest Airlink, continues to be fit, willing and able to operate as a commuter air carrier and capable of providing reliable essential air service at Chisholm/Hibbing, Minnesota;
5. This docket will remain open until further order of the Department; and
6. We will serve copies of this order on the mayors and airport manager of Chisholm and Hibbing, Minnesota; and Mesaba Aviation, Inc.

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>*

² See Appendix C for calculations.

CHISHOLM/HIBBING, MINNESOTA
AND SURROUNDING COMMUNITIES



Great Circle Miles

Hibbing-Brainerd	92
-Duluth	48
-Minneapolis	174
Minneapolis-Brainerd	113
-Duluth	144

Mesaba Airlines, Essential Air Service at Chisholm/Hibbing Minnesota, Docket 15796

	<u>Chisholm/Hibbing</u>
Time Period	Annual
Nonstop Miles	174
Weekly Round Trip Service	28 Nonstops
Block Hours	1,553 1/
Wtd. Departures	1,412 1/
Turns at Hub	706 1/
RPMs	3,786,936 2/
Passengers	21,764 2/
Fare 1/	\$48
Pax. Rev.	\$1,044,672
<u>Other Rev. @ 1%</u>	<u>\$10,447</u>
Total Revenue	\$1,055,119
Pilot and flt.att. @ \$237.64/hr.	\$369,055
Fuel @ \$184.96/hr.	\$287,243 3/
Hull insurance @ \$6.04/hr.	\$9,380
Flt. Maint. @ \$215.05/hr.	\$333,973
Lease @ \$184.89/hr.	\$287,134
<u>Depreciation @ \$44.83</u>	<u>\$69,621</u>
Total Directs	\$1,356,406
Station rent	\$28,764
Landing fee @ \$8.18/turn	\$5,775
Deicing/turn	\$6,354
Station agents	\$120,888
<u>Communications</u>	<u>\$11,400</u>
Total EAS station(s)	\$173,181
Landing fee/turn	\$23,884 4/
<u>Handling/turn</u>	<u>\$109,573 4/</u>
HUB station	\$133,457
Pax.fees @ \$5.85/pax.	\$111,390 4/
Credit Cards @ 2%	\$20,893
Comm. & Mktg. @ 2.04%	\$21,311
FAA & Liab. Ins. @ \$.003349/RPM	\$12,682
Gnd maint.@ \$44.70/wtd. dep.	\$63,116
<u>G&A @ \$71.55/wtd.hr.</u>	<u>\$111,117</u>
Total Indirects	\$647,147
Operating expense	\$2,003,553
<u>Return @ 5%</u>	<u>\$100,178</u>
Economic cost	\$2,103,731
Annual subsidy @ 97%	\$1,048,612

1/ 28 flt./week*52 weeks x .97 = 1,412 depts./wtd. depts.; 706 turns; 1,412*66 min. = 1,553 hrs.

2/ HIB-MSP: 13,987*14/12 trips = 16,318

INL-MSP: 10.8 pax./flt.*1,412*10/28flts. = 5,446

RPMS: 21,764*174 miles = 3,786,936 RPMs

3/ 136 gph*\$1.36/gallon, including oil.

4/ Incrementally costed.

Appendix C

**Mesaba Aviation, Inc., Essential Air Service to be Provided to Chisholm/Hibbing,
Minnesota Docket OST-2003-15796**

Effective Period: October 27, 2003, through October 31, 2005.

Scheduled Service:

14 nonstop round trips per week to Minneapolis.

Aircraft: Saab 340

Rate per Minneapolis Flight: \$742.64 ¹

Weekly Ceiling at each Community: \$20,793.92 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 Annual compensation of \$1,048,612 divided by the estimated annual completed departures and arrivals at a 97 percent completion factor at each community:

28 departures/arrivals x 52 weeks x .97 = 1,412 total.

² 28 flights/week/community x \$742.64.