



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

Issued by the Department of Transportation
on the 3rd day of December, 2003

Essential air service at

**GLASGOW, MONTANA
GLENDIVE, MONTANA
HAVRE, MONTANA
LEWISTOWN, MONTANA
MILES CITY, MONTANA
SIDNEY, MONTANA
WOLF POINT, MONTANA**

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

Served: December 8, 2003

Docket OST-1997-2605

ORDER REQUESTING PROPOSALS AND ESTABLISHING FINAL SUBSIDY RATE

Summary

By this order, the Department is (a) requesting proposals from carriers interested in providing essential air service at the seven Montana communities listed above for the two-year period beginning March 1, 2004, with or without subsidy; and (b) establishing a final subsidy rate of \$5,716,559 annually for the service provided by Big Sky Transportation Co., d/b/a Big Sky Airlines, at the seven communities from December 1, 2002, until the selection case is completed.

Background

By Order 2000-11-11, November 13, 2000, the Department selected Big Sky to provide subsidized service at the seven Montana communities listed above by operating 11 Sidney-Billings, 5 Sidney-Bismarck, 1 Sidney-Glendive-Miles City-Billings, 11 Glendive-Miles City-Billings, 12 Glasgow-Wolf Point-Billings and 12 Havre-Lewistown-Billings round trips each week with 19-seat Fairchild Metro III aircraft for the two-year period from December 1, 2000, through November 30, 2002, at an annual subsidy rate of \$4,952,234.¹ By Order 2002-8-3,

¹ See Appendix A for a map. Beginning with Order 98-9-12, September 14, 1998, the Department has allowed Big Sky to operate some of Sidney's service to Bismarck rather than Billings, though Big Sky may return to operating all of Sidney's service to Billings at any time, if it chooses to do so. The service in question had been the Sidney-Glendive segment on one Sidney-Glendive-Miles City-Billings round trip each weekday. Under Order 98-9-12, Big Sky dropped the Sidney-Glendive segment in favor of a nonstop Sidney-Bismarck round trip, at a subsidy savings of about \$25,000 a year; on June 18, 2001, Big Sky added Williston, North Dakota, as an unsubsidized intermediate point on its Sidney-Bismarck flights.

August 7, 2002, the Department subsequently revised Big Sky's annual subsidy rate to \$5,716,559, effective October 1, 2001, through the remainder of the rate term, in recognition of the lower revenue and higher operating costs experienced by the carrier as a result of the September 11, 2001, terrorist attacks.

As the end of the rate term approached, the Department issued Order 2002-10-40, October 31, 2002, requesting proposals from carriers interested in providing service at the communities, with or without subsidy, and extending Big Sky's expiring subsidy rate as an interim rate from December 1, 2002, until further Department action. Big Sky has continued to provide essential air service at the seven communities under that interim rate.

New Request for Proposals

Proposals were submitted in response to our request in Order 2002-10-40. However, those proposals are now a year old, and we have consequently decided to request fresh proposals from all interested carriers now. Carriers should file their proposals within 30 days of the date of service of this order. At the end of that period, our staff will docket the proposals, thereby making them public, and direct each carrier to serve a copy of its proposal on the civic parties and other applicants. Shortly afterwards, we will provide a summary of the proposals to the communities and ask them to submit their final comments. We will give full consideration to all proposals that are timely filed.²

The preceding paragraph reflects streamlined carrier-selection procedures that we have recently introduced for the essential air service program generally. In the past, we have accepted *initial* carrier proposals, reviewed them, and then negotiated *final* proposals with each applicant before formally presenting the proposals to communities for their final comments. We found that a two-step process was generally necessary because, in most cases, the incumbent carrier was the only one interested. As a result, we were unable to rely on competition to discipline carrier subsidy requests, and communities had to wait on a protracted selection process. More recently, however, we have noticed that most orders requesting essential air service proposals have drawn interest from at least two carriers, and sometimes more. Under the circumstances, we expect that competition among multiple carriers will ensure reasonable subsidy requests, obviate the need for rate negotiations, and allow us to streamline the carrier selection process.

Consequently, interested carriers should prepare their proposals with every expectation that their initial proposals will also be their *final* and *only* proposals.³ We retain the discretion to further negotiate proposals with carriers when we deem it desirable; in such cases, of course, we will

² In cases where a carrier proposes to provide essential air service without subsidy and we determine that service can be reliably provided without such compensation, we do not proceed with the carrier-selection case. Instead, we simply rely on that carrier's subsidy-free service as proposed.

³ For this reason, we are allowing carriers 30 days to submit their proposals, rather than just 20 as in the past. Because the new procedures anticipate that a carrier's first proposal will also be its final proposal, we expect to enforce our filing deadlines more stringently than in the past. Carriers should not expect the Department to accept late filings. The additional 10 days will comfortably accommodate the additional time carriers may find necessary to prepare their proposals.

give all applicants the same opportunity. For example, we anticipate that we will continue to negotiate rates in cases where there is only a single interested carrier. We also retain the discretion to reject outright all unreasonable or unrealistic proposals, and to resolicit a new round of proposals. However, we anticipate that negotiation or rejection will be only occasional exceptions to the general rule.

We are here providing interested carriers with some basic information to serve as guidance when they prepare their proposals, but we will not prescribe a precise format for their proposals. We expect proposals to adequately describe the service being proposed and the annual amount of subsidy being requested. The applicants can make their own judgments as to the level of detail they wish to present; however, they might want to include proposed schedules as well as supporting data for their subsidy requests, such as projected block hours, revenues and expenses. We strongly encourage clear, well-documented proposals that will facilitate their evaluation by affected communities and the Department. We do not anticipate any change in our selection criteria, nor in the general provisions governing subsidy payments for essential air service.⁴

With respect to the Montana communities at issue here, we expect proposals consisting of service, at a minimum, with two-pilot, twin-engine aircraft with at least 15 passenger seats, and offering 12 round trips a week from each of the communities (17 in the case of Sidney) to Billings. Such service is generally consistent with what the communities now receive, and fully satisfies their essential air service requirements.⁵ We encourage proposals that meet those requirements in an efficient manner.⁶ Carriers are also welcome to propose more than one service option, if they choose; they need not limit themselves to those requirements if they envision other, potentially more attractive service possibilities -- different hubs, for example -- with subsidy requirements that remain competitive.

Service and Traffic History

Big Sky has operated subsidized service at the seven communities since 1980, when it replaced Frontier Airlines, Inc. During the year ended September 30, 2003, the most recent 12-month period for which data are available, Glasgow averaged 6.6 enplanements a day, Glendive 3.0, Havre 3.6, Lewistown 2.6, Miles City 3.4, Sidney 6.0 and Wolf Point 4.5. On a composite basis, the seven communities averaged a total of 29.7 enplanements a day, an improvement of 2.1

⁴ 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. As in the past, the general provisions governing essential air service will be included in the selection order as part of the Department's authorization of subsidy for the selected service. Appendix C, p. 2, of this order shows those provisions.

⁵ The communities' essential air service determinations, as last established by Order 94-10-4, October 6, 1994, required at least two round trips to Billings each weekday and weekend with no more than one intermediate stop (nonstop-only for Lewistown), providing a minimum of 10 inbound and outbound seats for Glasgow, 5 for Glendive, 8 for Havre, 6 for Lewistown, 5 for Miles City, 13 for Sidney, and 10 for Wolf Point.

⁶ For example, in most cases here, two communities are served together on a single route.

percent over the previous 12-month period. However, Sidney's airport was closed during July-August 2003 for runway resurfacing; otherwise, the improvement would have been greater.⁷

Other Carrier Requirements

The Department is responsible for implementing various Federal statutes governing lobbying activities, drug-free workplaces, and nondiscrimination.⁸ Consequently, all carriers receiving Federal subsidy for essential air service must certify that they are in compliance with Department regulations regarding drug-free workplaces and nondiscrimination, and those carriers whose subsidies exceed \$100,000 over the life of the rate term must also certify that they are in compliance with the regulations governing lobbying activities. Because the Department is prohibited from paying subsidy to carriers that do not submit these documents, all carriers that plan to submit proposals involving subsidy should be aware that the selected carrier will be expected to complete the required certifications. Interested carriers requiring more detailed information regarding these requirements as well as copies of the certifications should contact the Office of Aviation Analysis at (202) 366-1053.⁹

Community and State Comments

The communities and state are welcome to submit comments on the proposals at any time. As noted earlier, however, we will provide a summary of the proposals to the civic parties and ask them to submit their final comments shortly after the end of the 30-day period for carrier proposals.

Final Subsidy Rate

As a result of discussions with Department staff, Big Sky has agreed that the interim subsidy rate of \$5,716,559 annually, as established by Order 2002-10-40, should be the final rate from December 1, 2002, until the selection case is completed. We conclude that the rate appears reasonable for the service at issue, and we will therefore establish it as the final subsidy rate for Big Sky's service during the period in question.

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

ACCORDINGLY,

1. We request that carriers interested in providing essential air service at Glasgow, Glendive, Havre, Lewistown, Miles City, Sidney and/or Wolf Point, Montana, submit their proposals,

⁷ See Appendix B for historical traffic data. Enplanements represent one-half of total origin-and-destination traffic, and average enplanements per day are based on 313 weekdays and weekends a year.

⁸ The regulations applicable to these areas are: (1) 49 CFR Part 20 -- New restrictions on lobbying; (2) 49 CFR Part 21 -- Nondiscrimination in federally-assisted programs of the Department of Transportation -- Effectuation of title VI of the Civil Rights Act of 1964; 49 CFR Part 27 -- Nondiscrimination on the basis of disability in programs and activities receiving or benefiting from Federal financial assistance; and 14 CFR Part 382 -- Nondiscrimination on the basis of disability in air travel; and (3) 49 CFR Part 29 -- Government-wide debarment and suspension (non-procurement) and government-wide requirements for drug-free workplace (grants).

⁹ The certifications are also available on the web at <http://ostpxweb.dot.gov/aviation/index.html>.

with or without subsidy requests, no later than 30 days after the date of service of this order. The proposals should be sent to the EAS & Domestic Analysis Division, X-53, Office of Aviation Analysis, Room 6401, Department of Transportation, 400 7th Street S.W., Washington, DC 20590, with the title "Proposal to Provide Essential Air Service at [the community or communities of interest], Docket OST-1997-2605";¹⁰

2. We set the final rate of compensation for Big Sky Transportation Co., d/b/a Big Sky Airlines, for the provision of essential air service at Glasgow, Glendive, Havre, Lewistown, Miles City, Sidney and Wolf Point, Montana, as described in Appendix C, for the period from December 1, 2002, until further Department action, payable as follows: for each month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceilings set forth in Appendix C, and shall be determined by multiplying the subsidy-eligible arrivals and departures completed during the month by 641.23;¹¹
3. The rate established in ordering paragraph 2 above is in lieu of, not in addition to, that established by Order 2002-10-40, October 31, 2002;
4. We direct Big Sky Transportation Co., d/b/a Big Sky Airlines., 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;
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 managers of Glasgow, Glendive, Havre, Lewistown, Miles City, Sidney and Wolf Point, Montana; Big Sky Transportation Co., d/b/a Big Sky Airlines; and the persons listed in Appendix D.

By:

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

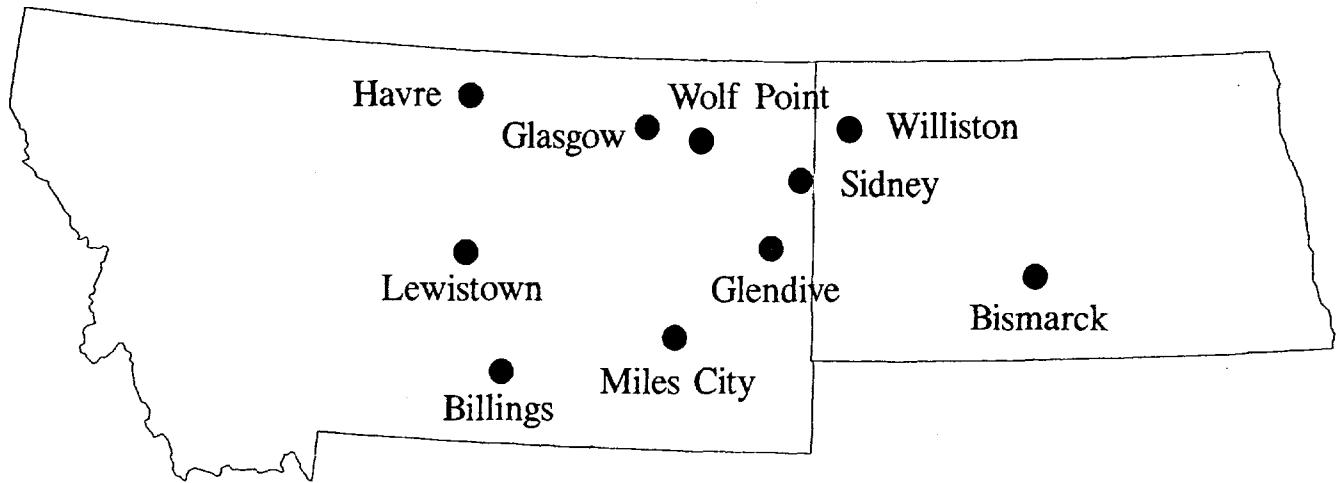
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*An electronic version of this document is available
on the World Wide Web at <http://dms.dot.gov>*

¹⁰ Questions regarding filings in response to this order may be directed to Ed Niederberger at (202) 366-1039.

¹¹ 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 these rates may be required.

M A P



HISTORICAL ENPLANEMENTS AT GLASGOW, GLENDIVE, HAVRE,
LEWISTOWN, MILES CITY, SIDNEY AND WOLF POINT, MONTANA

	GLASGOW		GLENDIVE		HAVRE		LEWISTOWN	
	NO.	AVG.	NO.	AVG.	NO.	AVG.	NO.	AVG.
2001 4th qtr	574		305		237		210	
2002 1st qtr	451		206		243		149	
2nd qtr	396		229		239		146	
3rd qtr	456		217		238		210	
4th qtr	580		222		336		266	
2003 1st qtr	483		197		208		148	
2nd qtr	467		226		261		174	
3rd qtr	527		296		319		234	
Year ended September 30, 2002	1,877	6.0	957	3.1	957	3.1	715	2.3
Year ended September 30, 2003	2,057	6.6	941	3.0	1,124	3.6	822	2.6

APPENDIX B

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	MILES CITY		SIDNEY		WOLF POINT		TOTAL	
	NO.	AVG.	NO.	AVG.	NO.	AVG.	NO.	AVG.
2001 4th qtr	282		592		377		2,577	
2002 1st qtr	266		488		336		2,139	
2nd qtr	219		509		330		2,068	
3rd qtr	261		556		377		2,315	
4th qtr	328		675		354		2,761	
2003 1st qtr	240		533		305		2,114	
2nd qtr	244		510		357		2,239	
3rd qtr	256		148		394		2,174	
Year ended September 30, 2002	1,028	3.3	2,145	6.9	1,420	4.5	9,099	29.1
Year ended September 30, 2003	1,068	3.4	1,866	6.0	1,410	4.5	9,288	29.7

SOURCE: Carrier reports. Enplanements represent one-half of total origin-and-destination traffic, and average enplanements per day are based on 313 service days (weekdays and weekends) each year. Sidney's airport was closed during July-August 2003 for runway resurfacing.

BIG SKY TRANSPORTATION CO., d/b/a BIG SKY AIRLINES
 ESSENTIAL AIR SERVICE AT GLASGOW, GLENDIVE, HAVRE, LEWISTOWN,
 MILES CITY, SIDNEY AND WOLF POINT, MONTANA

EFFECTIVE PERIOD	December 1, 2002, until further Department action
SERVICE	
Havre and Lewistown	12 Havre-Lewistown-Billings round trips each week
Glasgow and Wolf Point	12 Glasgow-Wolf Point-Billings round trips each week
Sidney, Glendive and Miles City	11 Sidney-Billings, 5 Sidney-Bismarck, 1 Sidney-Glendive-Miles City-Billings, and 11 Glendive-Miles City-Billings round trips each week. At its own discretion, the carrier may revert Sidney's Bismarck service to Billings via Glendive and Miles City.
AIRCRAFT TYPE	Fairchild Metro III (19 seats)
TIMING OF FLIGHTS	Flights must be well-timed and well-spaced to ensure full compensation
SUBSIDY RATE PER ARRIVAL/DEPARTURE	\$641.23 <u>1/</u>
COMPENSATION CEILING EACH WEEK	\$114,138.94 <u>2/</u>

1/ Annual compensation of \$5,716,559 divided by 8,915 annual arrivals and departures at a 96 percent completion factor, calculated as follows:

HVR-LWT-BIL	8 dpts x 313 service days x .96 =	2,404
GGW-OLF-BIL	8 dpts x 313 service days x .96 =	2,404
SID-BIL	4 dpts x 261 weekdays x .96 =	1,002
	2 dpts x 52 weekends x .96 =	100
SID-BIS	2 dpts x 261 weekdays x .96 =	501
GDV-MLS-BIL	8 dpts x 261 weekdays x .96 =	2,004
	4 dpts x 52 weekends x .96 =	200
SID-GDV-MLS-BIL	6 dpts x 52 weekends x .96 =	300
		8,915

2/ Subsidy rate per arrival/departure of \$641.23 multiplied by 178 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 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 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.

SERVICE LIST FOR THE STATE OF MONTANA

Air Wisconsin, Inc.
Alpine Air Express
Alpine Aviation, Inc.
Amerijet International, Inc.
Barken International, Inc.
Big Sky Transportation Co.
Corporate Airlines, Inc.
Delta Connection
Empire Airlines, Inc.
Mesa Airlines, Inc.
Mesaba Aviation, Inc.
Midwest Express Airlines, Inc.
Northern Tier Airlines, Inc.
West Isle Air, Inc.
Westward Airways, Inc.

Ken Bannon
Doug Franklin
E.B. Freeman
Ben Harrison
A. Edward Jenner
Keith Kahle
Bob Karns
Colleen O'Day
Gene Mallette
Lee Mason
John Rahenberg
Tracy Schoenrock
Dan Traitor
Gary L. White

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The Honorable Bob Rice
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The Honorable Kevin Myhre
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