

274483

Order 2004-3-25
Served: March 23, 2004



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

Issued by the Department of Transportation
on the 23rd day of March, 2004

Essential Air Service at

ATHENS, GEORGIA

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

Docket OST-2002-11348- 31

**ORDER SELECTING CARRIER
AND ESTABLISHING SUBSIDY RATES**

Summary

By this order, the Department is (a) selecting Air Midwest, Inc., d/b/a US Airways Express, to provide essential air service (EAS) at Athens, Georgia, for a two-year period at an annual subsidy rate of \$392,108, and (b) setting final rates for Air Midwest's hold-in service at the community retroactive to June 14, 2003, and ending with the beginning of the two-year rate term. (See Appendix A for an area map.)

Background

On March 14, 2003, Air Midwest filed a 90-day notice of its intent to suspend its unsubsidized scheduled air service at Athens, effective on June 13, 2003. In response, we issued Order 2003-4-21 requesting proposals for replacement service and requiring the carrier to continue to serve the community while we processed a carrier-selection case.¹ Air Midwest and Corporate Airlines, Inc. (Corporate) submitted replacement carrier proposals in response to our request.

¹ Order 2003-4-21 required Air Midwest to continue its current service at Athens consisting of 18 round trips per week to Charlotte using 19-seat Beech 1900D aircraft.

Proposals

Air Midwest submitted three options, all of which would provide nonstop service to Charlotte with 19-seat Beech 1900D turboprop aircraft. Option 1 would provide twelve round trips per week for \$392,108; Option 2 – 18 round trips per week for \$555,630; and Option 3 – 23 round trips per week for \$874,571. Air Midwest has a code-share agreement with US Airways and would continue to serve the community as a US Airways Express carrier.

Corporate's proposal consists of two options: Option 1 would provide 12 nonstop round trips per week to Atlanta for \$654,740, and Option 2 would provide 18 weekly nonstop round trips to Atlanta for \$882,057. Corporate proposes to use their 19-seat Jetstream 32 turboprop aircraft to serve Athens and would serve the community without a code-share relationship with a major carrier at Atlanta.²

Community Comments

By letter dated January 14, 2003, the Mayor of the unified governments of Athens and Clark County indicated the community's unanimous preference for the selection of Corporate and the carrier's 18 nonstop-round-trip-per-week option to serve Atlanta. However, that position was premised on the then-current information that Air Midwest would lose the US Airways code in May 2004.³ After the two carriers reached agreement to extend the code-share relationship, the community switched its preference from Corporate to Air Midwest. This switch was reflected in a letter dated February 25, 2004, from the Mayor supporting the selection of Air Midwest's 18 nonstop-round-trip-per-week option to serve US Airways' hub at Charlotte based on: 1) the carrier's code-share relationship with US Airways, 2) its "e-ticketing capabilities and inter-line agreements with Delta, Northwest, American, Continental, and United Airlines," 3) its lowered ticket prices "to be more competitive with airlines operating in Atlanta," 4) the carrier's "working with the UGA (University of Georgia), the Athens Chamber of Commerce and other entities in an effort to increase ridership, and 5) the carrier's ability to "offer (Athens) 4,940 additional seats annually with three round trips versus two round trips with Corporate Airlines."

Decision

We have decided to select Air Midwest's twelve nonstop-round-trip-per-week option beginning when it inaugurates that service pattern or 60 days after the date of service of this order, whichever is first, through the 24th full month thereafter, at the annual subsidy rate of \$392,108. Our decision is consistent with the community's preference of air carrier, the rate is reasonable for the service at issue, and the carrier's performance continues to be satisfactory.

² Corporate has a code-share relationship with American Airlines and operates as the American Connection in selected markets only.

³ US Airways had notified us that it had terminated Air Midwest's code-share arrangement at Charlotte. Subsequently, the carriers reached an agreement to extend the code-share at least until October 15, 2006. (See Docket OST-2002-11348, item 28.)

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

In this case, all of the statutorily required selection criteria point toward the selection of Air Midwest. First, the community prefers the selection of Air Midwest. Second, Air Midwest provides service at Athens under a code-share arrangement with US Airways at Charlotte that offers beyond-hub benefits such as one-stop check in; interline baggage handling, through ticketing, and joint fares. Moreover, Air Midwest has operated for many years as a scheduled carrier in general and, specifically, at Athens. Corporate, on the other hand, no longer has community support, and does not have contractual or marketing arrangements with a major carrier at Atlanta – both statutory criteria. Also, as indicated below, Air Midwest's subsidy rate is substantially less than that proposed by Corporate.

In addition to the statutorily required carrier selection criteria, fiscal prudence requires that we consider the relative subsidy requirements, as we have done since the inception of the program. In that regard, the difference in annual cost between Air Midwest's 12-round trip-option and its 18-round-trip option is significant, \$392,108 versus \$555,630. Corporate's 12-round-trip-a-week option (\$654,740) is even more expensive than Air Midwest's 18-trip option – \$555,630.

We also recognize that the community's support for Air Midwest was predicated on the carrier's current service level of 18 round trips each week, rather than the service offered under its 12-round-trip option. In addition to the subsidy requirements of each carrier's service options, however, we also carefully review a community's historical passenger traffic in order to ensure that the selected service option will provide sufficient capacity to accommodate historical traffic at reasonable load factors. In the case of Athens, we reviewed the number of passengers using the Ben Epps Airport in each of the years from 1999 through the year ending September 30, 2003.⁴ During the year ended September 30, 2003, the most recent 12-month period for which data are available, the community averaged 21.7 enplanements a day, or just 7.2 passengers per flight on 19-seat aircraft. Two rounds trips a day on 19-seat aircraft, offering 38 seats in each direction, will accommodate the community's current traffic at a 55-60 % load factor, and is even sufficient to accommodate the higher passenger levels prior to the terrorist attacks of September 11.

Thus, based on all of the above, we have decided to select Air Midwest to serve Athens for a new two-year period as described in Appendix B at the proposed annual subsidy of

⁴ See Order 2003-4-21, April 28, 2003, and Appendix B.

\$392,108 (Option 1) to provide two nonstop round trips on weekdays and on weekends to Charlotte with 19-seat Beech 1900D turboprop aircraft.

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 may subsidize it to provide essential air service. Air Midwest was most recently found fit to provide scheduled passenger service by Order 2004-2-14, selecting the carrier to provide EAS at Manhattan and Salina, Kansas. Since that time, no information has come to our attention that would lead us to question the carrier's ability to operate in a reliable manner. The FAA has advised us that the carrier is conducting its operations in accordance with its regulations, and knows of no reason why we should not find that Air Midwest is fit. Based on the above, we find that Air Midwest is fit to provide the essential air transportation at issue in this case.

Hold-in Subsidy Rates

Air Midwest's service at Athens became eligible for subsidy as of June 14, 2003, the end of the 90-day notice period, by virtue of the Department's hold-in action under Order 2003-4-21. As a result of discussions with Department staff, Air Midwest has agreed to a final hold-in subsidy rate of \$555,630 annually for the period from June 14, 2003, until the carrier implements the long-term proposal selected by this order or 60 days after the date of service of this order, whichever is first. Upon review, we conclude that the rate is reasonable for the service at issue, and we will establish it as the final rate for Air Midwest's hold-in service.

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

ACCORDINGLY,

1. The Department selects Air Midwest, Inc., d/b/a US Airways Express, to provide essential air service at Athens, Georgia, as described in Appendix B for the period beginning when the carrier implements the selected service pattern or 60 days after the date of service of this order, whichever is first, through the 24th full month thereafter;
2. We set the final rates of compensation for Air Midwest, Inc., d/b/a US Airways Express, for the provision of essential air service at Athens, Georgia, as described in Appendix B, for the period from June 14, 2003, through the 24th full month thereafter, when the carrier implements the selected service pattern or 60 days after the date of service of this order, whichever is first, 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 B and shall be determined by multiplying the subsidy-eligible arrivals and departures completed during the month by the following amounts:⁵

⁵ See Appendix B for the calculation of these rates, which assume the use of the aircraft designated. If the carrier reports a significant number of aircraft substitutions, revision of these rates may be required.

- (a) \$309.20 from June 14, 2003, until the carrier implements the selected service pattern or 60 days after the date of service of this order, whichever is first
 - (b) \$327.30 from the date on which the carrier implements the selected service pattern or 60 days after the date of service of this order, whichever is first, through the 24th full month thereafter
3. The Department directs Air Midwest, Inc., d/b/a US Airways Express, 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 earlier. 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 Air Midwest, Inc., d/b/a US Airways Express, continues to be fit, willing and able to operate as a certificated air carrier and capable of providing reliable essential air service at Athens, Georgia;
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 Athens, Georgia; the Governor of Georgia; the Office of Intermodal Programs-Aviation of the Georgia Department of Transportation; Mesa Air Group, Inc., d/b/a Air Midwest; and Corporate Airlines, Inc.

By:

KARAN K. BHATIA
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>*

AREA MAP



Air Midwest, Inc., d/b/a US Airways Express
Essential Air Service at Athens, Georgia
Docket OST-2002-11348

Effective period:	From June 14, 2003, until the carrier implements the selected service pattern or 60 days after the date of service of this order, whichever is first.
Service at Athens:	18 nonstop round trips per week to Charlotte, North Carolina.
Intermediate stops and upline service:	No other service to any intermediate or upline points is contemplated under the terms of this proposal; accordingly, no such service may be provided on subsidized flights without prior Department approval.
Timing of Flights:	Flights must be well-timed and well-spaced to ensure full compensation.
Aircraft type:	Beech 1900-D turboprop aircraft (19 passenger seats).
<u>Subsidy Rate per Flight:</u>	\$309.20 ¹
<u>Weekly Compensation Ceiling:</u>	\$22,262.40 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.

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 \$555,630 compensation, divided by 1,797 one-way completed departures, calculated as follows: 36 flights per week * 52 weeks * 96% completion factor = 1,797 flights.

² Total of 72 flights per week * \$309.20 = \$22,262.40

Air Midwest, Inc., d/b/a US Airways Express
Essential Air Service at Athens, Georgia
Docket OST-2002-11348

Effective period: From the date on which the carrier implements the selected service pattern or 60 days after the date of service of this order, whichever is first, through the 24th full month thereafter

Service at Athens: 12 nonstop round trips per week to Charlotte, North Carolina.

Intermediate stops and upline service: No other service to any intermediate or upline points is contemplated under the terms of this proposal; accordingly, no such service may be provided on subsidized flights without prior Department approval.

Timing of Flights: Flights must be well-timed and well-spaced to ensure full compensation.

Aircraft type: Beech 1900-D turboprop aircraft (19 passenger seats).

Subsidy Rate per Flight: \$327.30³

Weekly Compensation Ceiling: \$15,710.40⁴

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.

³ \$392,108 compensation, divided by 1,198 one-way completed departures, calculated as follows: 24 flights per week * 52 weeks * 96% completion factor = 1,198 flights.

⁴ Total of 48 flights per week * \$327.30 = \$15,710.40

**Air Midwest, Inc., d/b/a US Airways Express, Essential Air Service at
Athens, Georgia, Docket OST-2002-11348
Subsidy Calculation Computed on an Annual Basis**

Weekly Round Trips	12	18
AHN-CLT Miles	162	162
Departures: (1,248 @ a 96% completion factor)	1,198 ^{1/}	1,797 ^{2/}
Block Hours: (Average Block Time = 0.92 hour or 55 minutes per flight)	1,098 ^{1/}	1,647 ^{2/}
Available Seat Miles (ASMs):	3,687,444 ^{1/}	5,531,166 ^{2/}
Passengers:	9,300	14,378
Average Net Fare:	\$79.29	\$79.29
Revenue Passenger Miles (RPMs):	1,506,600 ^{1/}	2,329,236 ^{2/}
Passenger Revenue	\$737,397	\$1,140,032
Other Revenue @ 1% of passenger revenue	7,374	11,400
Total Revenue	<u>\$744,771</u>	<u>\$1,151,432</u>
<u>Direct Expenses:</u>		
Crew & Training @ 153.15 per Block Hour	\$168,159	\$252,238
Hull Insurance @ \$6.93 per Block Hour	7,609	11,414
Fuel and oil @ 140.00 per Block Hour	153,720	230,580
Maintenance @ \$289.22 per Block Hour	317,564	476,345
<u>Aircraft Rental @ \$49.12 per Block Hour</u>	<u>53,934</u>	<u>80,901</u>
Total Direct Expenses	<u>\$700,986</u>	<u>\$1,051,478</u>
<u>Indirect Expenses:</u>		
Traffic Related @ \$.06/RPM	\$90,396	\$139,754
Marketing @ \$5,000	5,000	5,000
Departure Related @ \$148/dep.	177,304	265,956
<u>Capacity Related @ \$.0194/ASM</u>	<u>71,536</u>	<u>107,305</u>
Total Indirect Expense	<u>\$344,236</u>	<u>\$518,015</u>
<u>Operating Expenses:</u>	\$1,045,222	\$1,569,493
Profit @ 5%	\$52,261	\$78,475
<u>Interest Expense @ \$35.88 per block hour</u>	<u>\$39,396</u>	<u>\$59,094</u>
Economic Cost	<u>\$1,136,879</u>	<u>\$1,707,062</u>
Annual Subsidy	<u>\$392,108</u>	<u>\$555,630</u>
Subsidy per departure	<u>\$327.30</u>	<u>\$309.20</u>
Maximum subsidy per week	<u>\$15,710.40</u>	<u>\$22,262.40</u>

^{1/} AHN-CLT: 24 flights/week * 52 weeks * 96% = 1,198 departures; 1,198 * 55 minutes/60 minutes = 1,098 hours; 1,198

* 162 miles * 19 seats = 3,687,444 Available Seat Miles.

^{2/} AHN-CLT: 36 flights/week * 52 weeks * 96% = 1,797 departures; 1,797 * 55 minutes/60 minutes = 1,647 hours; 1,797

* 162 miles * 19 seats = 5,531,166 Available Seat Miles.