

Order: 2004-4-3
Served: April 6, 2004



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

Issued by the Department of Transportation
on the **1st** day of **April, 2004**

Essential Air Service at

ESCANABA, MICHIGAN

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

Docket OST-2003-15128

ORDER SELECTING CARRIER

Summary

By this order, the Department is selecting Skyway Airlines, Inc., d/b/a Midwest Connect, to provide subsidized essential air service at Escanaba, Michigan, at an annual subsidy rate of \$290,952 for the period of August 5, 2003, through March 31, 2006. (See Appendix A for a map.)

Background

After Skyway filed a 90-day notice to suspend service at Escanaba on May 7, 2003, the Department issued Order 2003-6-19, June 13, 2003, requiring the carrier to continue to serve the community while we solicited a replacement carrier through our normal procedure of requesting proposals for replacement service.

Three air carriers—Skyway, Mesa Air Group (on behalf of its wholly-owned subsidiary, Air Midwest), and Mesaba Aviation, d/b/a Northwest Airlink—submitted proposals in response to the Department's solicitation.

During rate discussions with Skyway, the carrier and staff agreed that Skyway would provide Escanaba with three round trips each weekday and four round trips each weekend to Milwaukee with 19-passenger Beech 1900D aircraft, with a limited number of intermediate stops at Iron Mountain/Kingsford, Michigan, for an annual subsidy of \$290,952.

Rate discussions stalled with Mesaba and Mesa, and they both ultimately withdrew their proposals.

Community Comments

We have received comments from the Escanaba airport manager, who has stated that the community has been pleased with the service provided by Skyway, and supports selection of that carrier.

Decision

We will select Skyway Airlines, Inc., d/b/a Midwest Connect, as described above, to provide subsidized EAS at Escanaba for the period of August 5, 2003, through March 31, 2006, for \$290,952 annually. (See Appendix B for a summary calculation of this rate.) Skyway has successfully served Escanaba for over five years, and the community is satisfied with the carrier's performance. In addition, Skyway has a good track record of providing reliable essential air service in the Great Lakes region. Finally, we find that the subsidy rate is reasonable for the level of service to be provided.

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. We last found Skyway fit by Order 2002-12-8, December 10, 2002, in connection with its essential air service at Iron Mountain/Kingsford, Michigan. 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 Skyway is fit. Based on the above, we find that Skyway is fit to provide the essential air transportation at issue in this case.

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

ACCORDINGLY,

1. The Department selects Skyway Airlines, Inc. d/b/a Midwest Connect, to provide essential air service at Escanaba, Michigan, as described in Appendix C for the period of August 5, 2003, through March 31, 2006;
2. The Department sets the final rate of compensation for Skyway Airlines, Inc. d/b/a Midwest Connect, for the provision of essential air service at Escanaba, Michigan, as described in Appendix C for the period described above, 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 set forth by Appendix C and shall be determined by multiplying the subsidy-eligible flights each way completed during the month by \$177.52;¹

¹ See Appendix B for the calculation of this rate, which assumes the use of the aircraft designated. If the carrier reports a significant number of aircraft substitutions, a revision of this rate may be required.

3. The Department directs Skyway Airlines, Inc. d/b/a Midwest Connect, 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. Copies of flight logs for aircraft sold or disposed of must be retained. The carriers may forfeit its compensation for any claim that is not supported under the terms of this order;
4. We find that Skyway Airlines, Inc. d/b/a Midwest Connect, continues to be fit, willing and able to operate as a certificated air carrier and capable of providing reliable essential air service at Escanaba, Michigan;
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 Escanaba, the Director, Michigan Bureau of Aeronautics, Mesa Air Group, Inc., Mesaba Aviation, d/b/a Northwest Airlink, and Skyway Airlines, Inc. d/b/a Midwest Connect.

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



Skyway Airlines, Inc., d/b/a Midwest Connect
 Proposal To Provide Essential Air Service at Escanaba, Michigan
Calculation of Compensation Requirement

		<u>ESC-MKE</u>		
	Departures		1,639 ¹	
	Block hours		1,639	
	Flight hours		1,393	
	Available seat-miles		6,072,495	
	Revenue passenger-miles		3,156,855	
Operating revenue:				
Passenger	3,813	ESC-MKE passengers @ \$92.00 average fare		\$350,796
	6,256	ESC-MKE passengers @ \$123.00 average fare		769,488
	<u>6,120</u>	ESC-MKE passengers @ \$65.00 average fare		<u>397,800</u>
Totals	<u>16,189</u>			<u>\$1,518,084</u>
Operating expense:				
Direct operating expense:				
Aircraft lease	\$36,000	12 months	0.75	\$324,000
Property taxes	\$2,000	1 year		2,000
Hull insurance	\$0.34	Per \$100 of a/c value	\$3,000,000	0.75
Liability insurance	\$1.65	Per 1,000 RPM's	3,156,855	
Fuel	\$1.15	125 gallons per BH	1,639	235,606
Flying operations	\$156.39	Per flight hour	1,639	0.85
Crew overnight	\$55.00	1,200		66,000
Maintenance & engine reserve	\$203.95	Per flight hour	1,639	0.85
Total direct operating expense				\$1,142,473
Indirect operating expense:				
Station expense:				
ESC station costs	\$245,378	per year		\$245,378
Airport passenger costs	\$1.50	8,095	passengers	12,143
Deicing	\$100	per event	75	7,500
MKE landing fees	\$1.73	Per 1,000 pounds	16.088	820
MKE turn costs	\$50.00			820
Total station expense				\$328,843
General and administrative expense:				
Passenger costs	\$8.93	per passenger	16,189	\$144,568
Variable overhead	\$15.00	per block hour	1,639	24,585
Local advertising				5,000
Commissions	5.1%	passenger revenue	\$1,518,084	77,422
Total general and administrative				<u>\$251,575</u>
Total indirect operating expense				<u>\$580,418</u>
Total operating expense				<u>\$1,722,891</u>
Operating loss				\$204,807
Profit element	0.05	\$1,722,891		<u>86,145</u>
Compensation requirement				<u>\$290,952</u>

¹ Although we are requiring that six round trips each weekday and four each weekend be provided at Escanaba, this order compensates Skyway for less than six/four round trips because the carrier is already subsidized for a portion of its service between Escanaba and Milwaukee as an intermediate point in Iron Mountain service. (See Order 2002-12-8, December 10, 2002, Appendix B.)

Skyway Airlines, Inc., d/b/a Midwest Connect
Provision of Essential Air Service at Escanaba, Michigan
Summary of Service To Be Provided

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.

Skyway Airlines, Inc., d/b/a Midwest Connect
Provision of Essential Air Service at Escanaba, Michigan
Summary of Service To Be Provided

Effective period: August 5, 2003, through March 31, 2006.

Service: Three round trips each weekday and four each weekend to Milwaukee.

Intermediate stops and upline service: An intermediate stop is permitted at Iron Mountain, Michigan, on no more than one of the six one-way flights to be operated each weekday and eight each weekend.
There are no limitations on service upline from Escanaba.

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

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

Annual compensation: \$290,952.
This rate assumes an annual completion factor of 98.2 percent.
A compensation ceiling is to be applied per calendar week such that service above that ceiling in one week cannot make up for service shortfalls in another week.

Subsidy rate per arrival/departure: \$177.52 ¹

Compensation ceiling each week: \$5,680.64 ²

¹ Annual subsidy of \$290,952 divided by 1,639 estimated annual departures from Appendix B.

² Rate per departure of \$177.52 multiplied by 32 scheduled weekly departures.