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Order 2004-6-20
Served: June 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 of June, 2004

Essential Air Service at:
ATKA AND NIKOLSKI, ALASKA
Under 49 U.S.C. 41731 *et seq.*

Docket OST 95-363 - 29

ORDER SELECTING CARRIER

Summary
By this order, the Department is re-selecting Peninsula Airways, Inc., to provide essential air service at Atka and Nikolski, Alaska, at annual subsidy rates of $336,303 and $173,603 per year, respectively, for the period ending June 30, 2006.

Background
Peninsula Airways has provided subsidized service at Atka and Nikolski for a number of years. Most recently, by Order 2002-4-12, April 17, 2002, the Department re-selected Peninsula Airways, Inc, to provide subsidized essential air service at Atka and Nikolski, Alaska, through March 31, 2004. At Atka, Peninsula Airways was selected to provide four nonstop round trips a week with 9-seat Grumman Goose or Piper T-1040 aircraft to Dutch Harbor. At Nikolski, Peninsula was selected to provide three nonstop round trips a week with 9-seat Grumman Goose or Piper T-1040 aircraft to Dutch Harbor. Annual rates were set at $255,221 for its Atka service and $85,538 for its service to Nikolski.

EAS for Atka was defined by Order 91-1-21 as one round trip a week with up to two intermediate stops to Adak, Dutch Harbor, or Cold Bay, with small (10-seat or fewer) aircraft. EAS for Nikolski was defined by Order 87-11-14 as one scheduled and one flagstop round trip a week to either Dutch Harbor or Cold Bay with small aircraft and up to two intermediate stops. We have consistently subsidized more service to Atka and Nikolski than the EAS guarantee to reflect the need to accommodate all the traffic -- passengers, freight, and mail—and the directional imbalance of mail and freight.[1] By Order 2004-3-18 we requested proposals for

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[1] Without the directional imbalance of mail and freight, it does not appear that subsidy support would be required.

Adak,[2] Atka, and Nikolski, consistent with our normal practice, because another applicant had expressed interest in submitting a proposal.

Carrier Proposal

In response to our request for proposals, only Peninsula, the incumbent, responded. At both communities, Peninsula proposes a mixture of Piper T-1040 and Grumman Goose aircraft, with most service at Atka operated with 9-seat Pipers and most service at Nikolski operated with 9-seat Goose equipment. At Atka, Peninsula would provide four nonstop round trips per week to Dutch Harbor, and would require $336,303 annual subsidy. At Nikolski, Peninsula would provide two nonstop round trips per week to Dutch Harbor, and would require $173,603 annual subsidy.

Decision

Peninsula was the only applicant. We have reviewed its proposal, and find both the service and subsidy levels reasonable. Peninsula's projected costs and revenue are consistent with its Schedules F-2 and T-100.

At Atka, the increase in subsidy cost is driven by a decrease in projected revenue from its prior selection, from $388,369 to $339,866, and by increased direct expenses, from $474,053 to $553,920. At Nikolski, the increase in subsidy cost is driven by a projected increase in direct expense, from $177,948 to $269,890, notwithstanding that projected service is reduced from three round trips per week to two. The Nikolski rate in the prior order was based exclusively on the costs of the Piper T-1040, a faster aircraft with substantially lower operating costs per hour. In fact, for operational reasons,[3] Peninsula operated most of its subsidized Nikolski service with the Grumman Goose, a much slower and more expensive aircraft. While the subsidy calculation reflects Goose operations only, we have provided that when Peninsula substitutes the T-1040, it will be compensated at a lower rate reflective of that aircraft's significantly lower operating costs, resulting in an effective subsidy rate less than $173,603.

Peninsula indicates that it was difficult to meet its three-round-trip-a-week schedule at Nikolski on a reliable basis without basing an additional backup aircraft in the region, which would have driven up its costs even further. With reduced service at Nikolski, Peninsula will be better able to reliably meet its schedule, and will still be able to accommodate historical traffic at the community. After careful consideration of the carrier's proposal, we find both the service and subsidy levels reasonable and will establish the above subsidy rates for a new, two-year contract period, through June 30, 2006.[4]

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[2] We are handling the carrier-selection case at Adak separately in Docket 8556.

[3] Because of the extreme isolation of these communities, Peninsula has to base two aircraft in Dutch Harbor to provide reliable service to Atka and Nikolski. One of the aircraft must be an amphibious aircraft such as the Goose, because Peninsula also provides subsidized service to nearby Akutan, which is accessible only to amphibious aircraft.

[4] Because Peninsula's last contract expired on March 31, 2004, we will set these rates retroactive to April 1.

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 Peninsula fit by Order 2003-4-1, April 4, 2003, relative to its providing essential air service at Akutan, Alaska. 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 Peninsula 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 operations in accordance with 14 CFR Part 121, and knows of no reason why we should not find that Peninsula remains fit.

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

ACCORDINGLY,

1. We re-select Peninsula Airways, Inc., to provide essential air service at Atka and Nikolski, Alaska, as described in Appendix C;

2. We set the final rate of compensation for Peninsula Airways, Inc. for the provision of essential air service at Atka, Alaska, as described in Appendix C-1, 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 $808.42;[5]

3. We set the final rate of compensation for Peninsula Airways, Inc. for the provision of essential air service at Nikolski, Alaska, as described in Appendix C-2, 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 $834.63;[6]

4. We direct Peninsula Airways, 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 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;

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[5] See Appendix C-1 for calculations.

[6] See Appendix C-2 for calculations.

5. We find that Peninsula Airways, Inc., continues to be fit, willing and able to operate as a commuter air carrier and capable of providing reliable essential air service at Atka and Nikolski, Alaska;

6. This docket will remain open until further order of the Department; and

7. We will serve copies of this order on the Alaska Department of Transportation and Public Facilities, the communities of Atka and Nikolski, and Peninsula Airways, Inc.

By:

KARAN K. BHATIA
Assistant Secretary for Aviation
and International Affairs

(SEAL)

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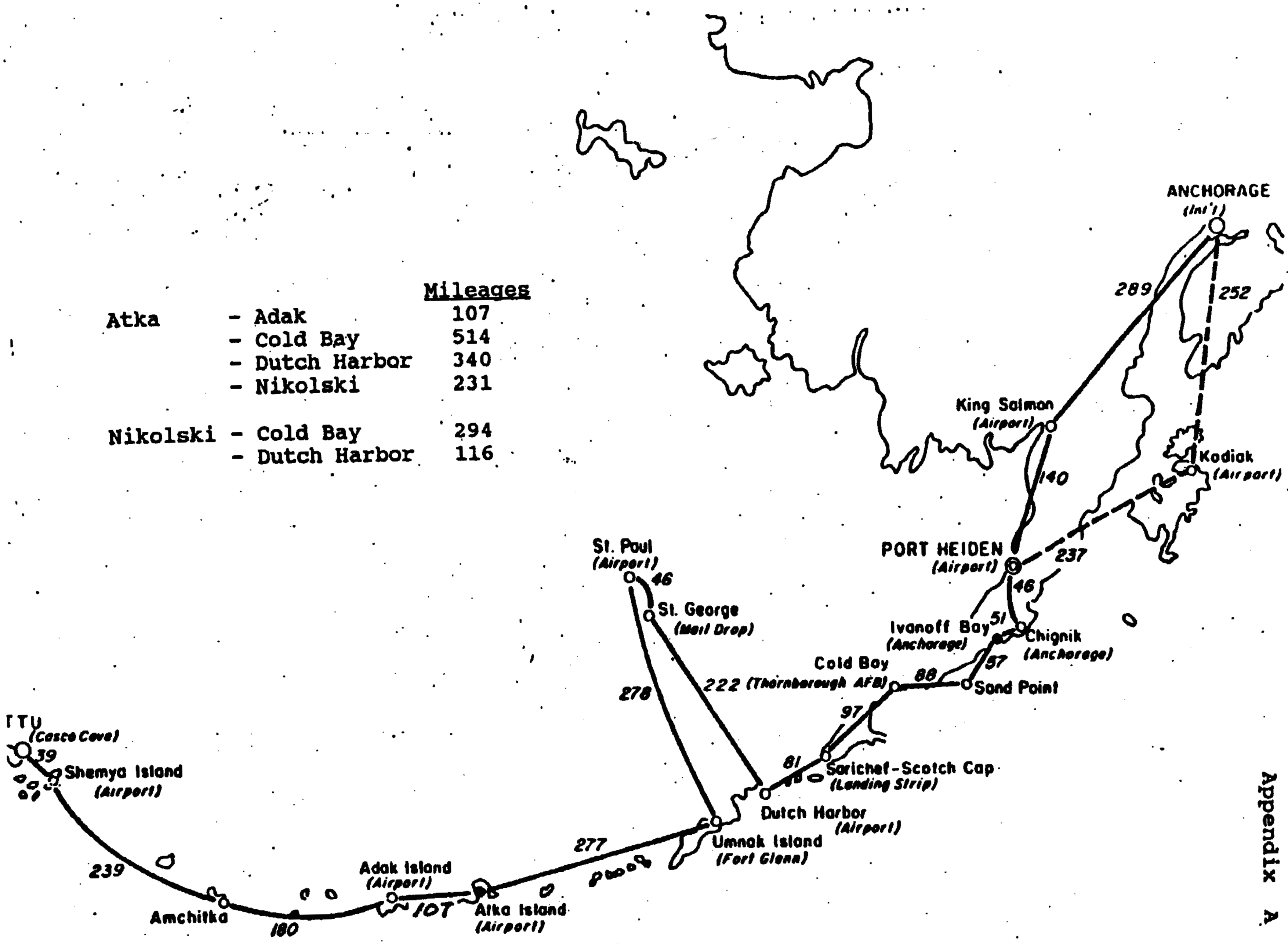
Appendix A

Atka and Umnak Island (Nikolski), Alaska

		Mileages
Atka	- Adak	107
	- Cold Bay	514
	- Dutch Harbor	340
	- Nikolski	231
Nikolski	- Cold Bay	294
	- Dutch Harbor	116



Appendix B

Peninsula Airways' Annual Subsidy Need at Atka and Nikoski, Alaska, Docket 363

	Atka	Nikolski
Weekly Round Trips	4	2
Aircraft Type	Piper T-1040	G-21 Goose
Block Hours	666	208
Passengers: 606 and 584	$118,382	$57,039
Freight: 12,881 and 31,067 lbs.	$8,373	$18,330
Mail: 94,716 and 77,097 lbs.	$213,111	$77,868
Total Revenue	$339,866	$153,237
Direct Expense	$553,920	$269,890
Indirect Expense	$90,050	$41,386
Total Operating Expense	$643,970	$311,276
Return at 5%	$32,199	$15,564
Total Economic Cost	$676,169	$326,840
Annual Subsidy Need @ 100% Completion	$336,303	$173,603

Peninsula Airways, Inc., Essential Air Service to be Provided to Atka, Alaska Docket OST-1995-363

Effective Period: April 1, 2004, through June 30, 2006.
Scheduled Service:
4 nonstop round trips per week to Dutch Harbor.
Aircraft: Piper T-1040, 9-seats.
Rate per Dutch Harbor Flight: $808.42[1]
Weekly Ceiling: $6,467.36 [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 parities 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.

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[1] Annual compensation of $336,303 divided by the estimated annual completed departures and arrivals:
8 departures/arrivals x 52 weeks = 416 total.

[2] 8 flights/week x $808.42.

Peninsula Airways, Inc., Essential Air Service to be Provided to Nikolski, Alaska Docket OST-1995-363

Effective Period: April 1, 2004, through June 30, 2006.
Scheduled Service:
2 nonstop round trips per week to Dutch Harbor.
Aircraft: Grumman Goose, 9-seats [1]
Rate per Dutch Harbor Flight: $834.63 [2]
Weekly Ceiling: $3,338.52 [3]

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] When Peninsula substitutes a Piper T-1040, we will assign 3 seats to that aircraft for payout purposes.

[2] Annual compensation of $173,603 divided by the estimated annual completed departures and arrivals:
4 departures/arrivals x 52 weeks = 208 total.

[3] 4 flights/week x $834.63.