Order 2004-6-24
Served: June 25, 2004

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

Issued by the Department of Transportation
on the **25th day of June, 2004**

Essential air service at **ADAK, ALASKA** under 49 U.S.C. 41731 *et seq.*	**Docket OST-2000-8556**

ORDER RESELECTING CARRIER

Summary
By this order, the Department is reselecting Alaska Airlines, Inc., to provide essential air service (EAS) at Adak, Alaska, at an annual subsidy rate of $1,617,923, for the period May 1, 2004, through June 30, 2006.

Background
Order 2003-1-8 selected Alaska Airlines to provide two one-stop round trips a week between Adak and Anchorage, for the one-year period ended April 30, 2004, at the annual rate of $1,647,026. Because we had received inquiries from carriers interested in submitting competing proposals at Adak, by Order 2004-3-18, March 17, 2004, we issued a request for proposals. In response to that order, we received timely-filed proposals from Peninsula Airways, Inc., and the incumbent, Alaska Airlines.

Carrier Proposals
Alaska Airlines, Inc., proposes to continue to provide two one-stop round trips a week to Anchorage with 737-200 combi aircraft. Under its proposal, Alaska would require $1,617,923 annual subsidy, and the contract would extend for a two-year period. Peninsula Airways, Inc., proposes to provide three one-stop round trips a week to Anchorage with 30-seat Saab 340B aircraft. Under its proposal, Peninsula would require $954,855 annual subsidy, and the contract would likewise extend for a two-year period.

Community Comments
We received comments from Adak's City Manager and City Council, the Aleut Corporation, and At-Sea Processors Association. All indicate their desire that we reselect Alaska Airlines. The Aleut Corporation notes that the growth potential for Adak and Western Aleutians is very bright, and Alaska Airlines offers the best alternative. It notes that Adak has been named the homeport for the Sea Based X Band Radar (SBX), scheduled to be sited at Adak in the spring of 2005, which should be a major future economic multiplier. In addition, it states that Congress has recently assigned new, exclusive fishing rights for a substantial volume of Pollock, a species of fish, to Adak processors and fishermen, beginning in January 2005. Further, the superior freight capability of Alaska's combi jets with moveable bulkheads is critical for the community's nascent fishing industry and the delivery of perishable goods. At-Sea Processors likewise states that jet service by Alaska Airlines provides critical lift for seafood. The City Manager calls Alaska's jet service the community's lifeline, and allows for moving substantial volumes of mail and freight, and that Adak's fishing industry is dependent on regularly scheduled jet service for getting fresh fish products to market. The city council passed a resolution endorsing Alaska Airlines' proposal because of the dependence of Adak's seafood industry on Alaska Airline's service, and the needs of Federal and State government agencies located at Adak, including the U.S. military.

Decision
In Order 2003-1-8, the previous order selecting Alaska Airlines for Adak, the Department noted the following:

> In non-Alaska communities the Department would nearly always select the lower-cost alternative when the subsidy differences [$749,095 at the time] are this great. .... Notwithstanding the above, the Department has traditionally given even greater weight to desires of Alaska communities, given the state's greater dependence on air service. Clearly, no community currently relying on subsidized air service is as isolated and dependent on air service as Adak. For these reasons, we will select Alaska Airlines. However, given the very substantial level of subsidy required to support this service, if traffic does not respond or the level of subsidy support needed does not decline, we will review the [need to select such a more expensive proposal in the next carrier selection.] (Page 4.)

We have decided to reselect Alaska Airlines, although we are concerned by the high level of subsidy required by Alaska's proposal. Alaska's proposal is significantly more expensive than Peninsula's. Peninsula has provided reliable EAS in Alaska, especially in the Aleutians, for a number of years. Normally this level of subsidy-difference would be decisional. However, there are special considerations dictating Alaska Airlines' reselection. First, the current EAS definition for Adak as set by Order 80-1-167, requires service with aircraft exceeding 60-seat capacity. Peninsula's proposal with 30-seat Saabs does not meet that criterion. Moreover, as we have noted in earlier Adak proceedings, the very long distance of 1,200 miles to Anchorage, coupled with the very severe and unpredictable weather, almost dictate the use of large aircraft. In addition, Alaska's large jet provides greater overall lift and should better accommodate Adak's cargo needs than Peninsula's Saabs. Finally, we are required by statute to give great weight to community preferences. In this case, the community is unanimous in its support for Alaska Airlines' service.

Nonetheless, we remain concerned about the high level of subsidy required to support Adak's air service. After one-year of reliable service by Alaska Airlines, it is clear that the need for subsidy has not declined significantly. The community and the carrier have argued that within the next two-year period there will be significant expansion of Adak traffic, which should reduce the need for subsidy. The Department will follow these traffic numbers closely.

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 Alaska Airlines fit by Order 2004-5-5, where we tentatively selected it to provide subsidized essential air service at Cordova, Gustavus, Petersburg, Wrangell, and Yakutat, 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 Alaska continues to have available adequate financial and managerial resources to provide quality service at the community 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 Alaska remains fit.

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

ACCORDINGLY,

1. We select Alaska Airlines, Inc., to provide essential air service at Adak, Alaska, as described in Appendix C;

2. We set the final rate of compensation for Alaska Airlines, Inc., for the provision of essential air service at Adak, Alaska, 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 $7,778.48;[1]

3. We direct Alaska Airlines, 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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[1] See Appendix C for calculations

4. We find that Alaska Airlines, Inc., continues to be fit, willing and able to operate and capable of providing reliable essential air service at Adak, Alaska;

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

6. We will serve copies of this order on the city of Adak, the State Department of Transportation and Public Facilities, Peninsula Airways, and Alaska Airlines, Inc.

By:

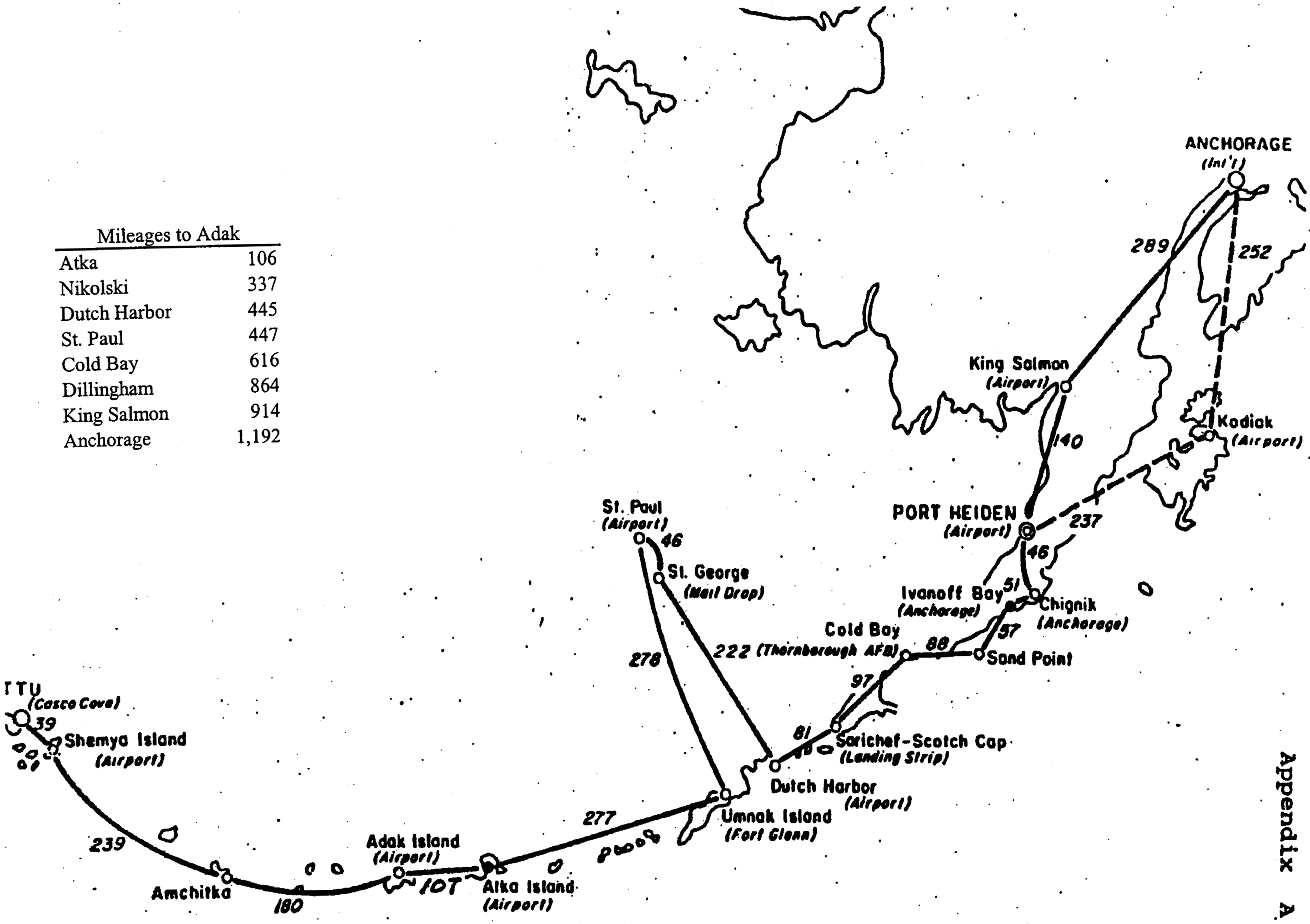
KARAN K. BHATIA
Assistant Secretary for Aviation
and International Affairs

(SEAL)

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

Appendix A

Mileages to Adak	
Atka	106
Nikolski	337
Dutch Harbor	445
St. Paul	447
Cold Bay	616
Dillingham	864
King Salmon	914
Anchorage	1,192



Appendix B

Essential Air Service to Adak, Alaska, Docket OST 2000-8556

	Adak
Block Hours	632
Passenger	$1,607,306
U.S. Mail	$366,225
Freight	$508,308
Excess Baggage	$8,768
Trans. Related and Other	$288,318
Total Revenue	$2,778,925
Flying Operations	$1,797,049
Flight Maintenance	$1,034,028
Depreciation	$243,773
Total Directs	$3,074,850
Ground Maintenance	$20,548
Flight Attrendant	$111,018
Other Passenger Service	$10,666
Aircraft and Traffic Service	$561,164
Promotion and Sales	$69,967
General and Administrative	$208,663
Ground Depreciation	$43,449
Transport Related	$23,544
Total Indirects	$1,049,019
Total Operating Expense	$4,123,869
Return	$206,193
Interest	$66,786
Economic Cost	$4,396,848
Annual Subsidy	$1,617,923

Appendix C

Alaska Airlines, Inc., Essential Air Service to be Provided to Adak, Alaska, Dockets OST-2000-8556

Effective Period: April 1, 2004, through June 30, 2006.
Scheduled Service:
2 one-stop round trips per week to Anchorage.
Aircraft: B-737-200
Rate per Anchorage Flight: $7,778.48 [1]
Weekly Ceiling at each Community: $31,113.92 [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 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 $1,617,923 divided by the estimated annual completed departures and arrivals:
4 flights/week x 52 weeks = 208 total.

[2] 4 flights/week x $7,778.48.