

Order 2004-8-11
Served: August 17, 2004



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

Issued by the Department of Transportation
on the 12th day of August, 2004

Essential Air Service at

**LAUREL/HATTIESBURG,
MISSISSIPPI**

Docket OST-2001-10685

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

ORDER RESELECTING CARRIER

Summary

By this order, the Department is reselecting Mesaba Aviation, Inc. (Mesaba), d/b/a Northwest Airlink, to provide essential air service (EAS) at Laurel/Hattiesburg, Mississippi, for the period from July 1, 2004, through June 30, 2006, at an annual subsidy rate of \$1,100,253. (See Appendix A for an area map.)

Background

By Order 2002-5-28, May 29, 2002, the Department selected Mesaba to provide subsidized essential air service at Laurel/Hattiesburg for the two-year period through June 30, 2004, at an annual subsidy of \$1,056,991. As the end of the current contract term approached, we issued Order 2004-6-6, June 7, 2004, requesting proposals from carriers interested in providing service at Laurel/Hattiesburg, with or without subsidy, for the two-year period beginning July 1, 2004. In response to our request we received proposals from Mesa Air Group, Inc., d/b/a Air Midwest (Air Midwest) and from Mesaba.

Proposals

Air Midwest submitted two options, both of which would provide nonstop service with 19-seat Beech 1900D turboprop aircraft. **Option 1** would provide three round trips each weekday and each weekend period to New Orleans for \$1,717,739; and **Option 2** would provide two round trips each weekday and weekend period to Atlanta for \$2,108,763. The

carrier would serve both New Orleans and Atlanta as Mesa Airlines without a code-share agreement with a major air carrier.

Mesaba proposes to provide Laurel/Hattiesburg with 13 nonstop round trips per week to Memphis for \$1,100,253 using 33- or 34-seat Saab 340 turboprop aircraft. It would continue to serve the Laurel/Hattiesburg – Memphis market as Northwest AirlinK, a Northwest Airlines code-share partner.

Community Comments

By letters dated July 22, 2004, the Mayors of Hattiesburg and Laurel expressed each community's preference for the selection of Mesaba. The letters mentioned that the Hattiesburg-Laurel area is experiencing major economic growth and "with the activation of Camp Shelby as a mobilization center for National Guard and Reserve units from around the country who are supporting Operation Iraqi Freedom ... we need to offer our flying public the maximum seats possible." The letters go on to mention that the "Hattiesburg-Laurel Regional Airport Authority and its governing authorities, recommend and propose selection of Mesaba Airlines to provide essential air service to this region based upon its past service, the proposed subsidy rate and the seat capacity advantage of its proposal."¹ Another letter, also dated July 22, from the Chairman and Executive Director of the Hattiesburg-Laurel Regional Airport "strongly recommends" that Mesaba's proposal be selected. They mention, "Northwest Airlines has been a strong partner with the Hattiesburg-Laurel community over the past years." Their letter also expresses concern over the possible loss of seat capacity when "we are experiencing an average load factor of 65% to 70% per month," as well as the possibility of dropping below the 10,000 annual enplanements needed to retain our eligibility for \$1 million dollars annually in FAA Airport Improvement Program Entitlement funds."

Decision

We have decided to select Mesaba's proposal for the period from July 1, 2004, through June 30, 2006, at the annual subsidy rate of \$1,100,253. Our decision is consistent with the community's preference for the selection of Mesaba, we find that the rate is reasonable for the service to be provided, and the carrier's performance continues to be satisfactory.

In selecting a carrier to provide subsidized essential air service, 49 U.S.C. 41733(c)(1) directs us to consider four factors under the circumstances of this case: (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 Mesaba. First, the community prefers the selection of Mesaba. Second, Mesaba provides service at Laurel/Hattiesburg under a code-share arrangement with Northwest Airlines at

¹ A copy of the communities' letters can be found in Docket OST-2001-10685 via the Internet. Go to: <http://dms.dot.gov/search/searchFormSimple.cfm>. Enter the number: 10685 in the space for "Docket Number" and press "Search."

Memphis that offers beyond-hub benefits such as one-stop check in, interline baggage handling, through ticketing, and joint fares. Mesaba has operated for many years as a Northwest Airlinck carrier, and has served Laurel/Hattiesburg for the last two years. In addition, Mesaba's proposal requires less subsidy than both of Air Midwest's options. Thus, all of the selection criteria support the selection of Mesaba.

We have also reviewed the community's historical passenger traffic in order to ensure that the selected proposal will provide sufficient capacity to accommodate historical traffic at reasonable load factors.² During 2003, the community averaged 35.6 enplanements a day, and only 20.3 enplanements per day during the first quarter of 2004, the most recent data we have available.³ Two round trips a day on 33-seat aircraft, offering 66 seats in each direction, will accommodate the community's current traffic at a 30.8 % load factor. If demand warrants, or if persuaded by the communities' support, Mesaba can offer additional service at any time. We expect the communities and Mesaba to work together to increase passenger levels and, thus, decrease subsidy levels over time.

Thus, based on all of the above, we have decided to select Mesaba to serve Laurel/Hattiesburg for a new two-year period as described in Appendix B at the proposed annual subsidy of \$1,100,253 to provide 13 nonstop round trips per week to Memphis with 33- or 34-seat Saab 340 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. Mesaba was most recently found fit to provide scheduled passenger service by Order 2003-11-22, selecting the carrier to provide EAS at Chisholm/Hibbing, Minnesota. 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 Mesaba is fit. Based on the above, we find that Mesaba 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 Mesaba Aviation, Inc., d/b/a Northwest Airlinck, to provide essential air service at Laurel/Hattiesburg, Mississippi, as described in Appendix B for the period from July 1, 2004, through June 30, 2006;
2. We set the final rates of compensation for Mesaba Aviation, Inc., d/b/a Northwest Airlinck, for the provision of essential air service at Laurel/Hattiesburg, Mississippi, as described in Appendix B, for the period from July 1, 2004, through June 30, 2006, payable as follows: for each month during which essential air service is provided, the amount of

² See Order 2004-6-6, June 7, 2004, and Appendix B.

³ Source: Department of Transportation, Bureau of Transportation Statistics, Air Carrier Summary Data (Form 41 and 298C), Schedule T-3 for the first quarter of 2004.

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: \$839.25;⁴

3. The Department directs Mesaba Aviation, Inc., d/b/a Northwest Airlink, 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 Mesaba Aviation, Inc., d/b/a Northwest Airlink, continues to be fit, willing and able to operate as a certificated air carrier and capable of providing reliable essential air service at Laurel/Hattiesburg, Mississippi;

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

6. We will serve copies of this order on the Mayors of Laurel and Hattiesburg, Mississippi; the airport manager of the Hattiesburg-Laurel Regional Airport; Mesaba Aviation, Inc., d/b/a Northwest Airlink; and Mesa Air Group, Inc.

By:

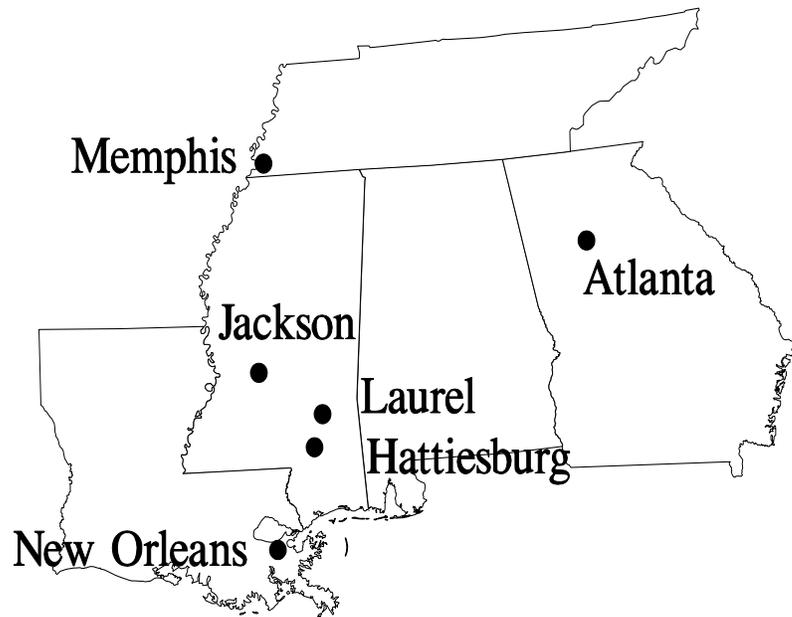
KARAN K. BHATIA
Assistant Secretary for Aviation
and International Affairs

(SEAL)

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

⁴ See Appendix B for the calculation of this rate, which assume the use of the aircraft designated. If the carrier reports a significant number of aircraft substitutions, revision of the rate may be required.

Area Map of Laurel/Hattiesburg, Mississippi



**Mesaba Aviation, Inc., d/b/a Northwest Airlink
Essential Air Service at Laurel/Hattiesburg, Mississippi
Docket OST-2001-10685**

<u>Effective Period:</u>	From July 1, 2004, through June 30, 2006.
<u>Service at Laurel/Hattiesburg:</u>	13 nonstop round trips per week to Memphis, Tennessee.
<u>Intermediate Stops and Upline Service:</u>	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.
<u>Timing of Flights:</u>	Flights must be well-timed and well-spaced to ensure full compensation.
<u>Aircraft Type:</u>	Saab 340 turboprop aircraft (33 or 34 passenger seats).
<u>Subsidy Rate per Flight:</u>	\$839.25 ¹
<u>Weekly Compensation Ceiling:</u>	\$21,820.50 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 \$1,100,253 compensation, divided by 1,311 one-way completed departures, calculated as follows: 26 flights per week * 52 weeks * 97.0% completion factor = 1,311 flights.

² Total of 26 flights per week * \$839.25 = \$21,820.50.

Mesaba Aviation, Inc., d/b/a Northwest Airlink
Essential Air Service at Laurel/Hattiesburg, Mississippi, Docket 2001-10685
Annual Subsidy Calculations

Weekly Round Trips	13
PIB - MEM Miles	250
Departures: (1,352 Scheduled Departures @ a 97.0% Completion Factor)	1,311 ^{1/}
Block Hours: (Average Block Time = 1.56 hour per Flight)	2,046 ^{1/}
Available Seat Miles (ASMs):	10,819,380 ^{1/}
Passengers (Forecast):	21,639
Average Net Segment Fare:	\$64.00
Revenue Passenger Miles (RPMs):	5,577,00 ^{1/}
Passenger Revenue	\$1,384,881
<u>Other Revenue (NONE)</u>	<u>193,883</u>
Total Revenue	<u>\$1,578,764</u>
<u>Direct Operating Expenses:</u>	
Flying Operations @ \$239.57 per Block Hour:	\$490,123
Hull Insurance @ \$5.50 per Block Hour:	11,252
Fuel and oil @ 133.28 per Block Hour:	272,670
Maintenance @ \$230.31 per Block Hour:	471,179
Depreciation @ \$52.02 per Block Hour:	106,425
<u>Aircraft Lease @ \$280.43 per Block Hour:</u>	<u>429,628</u>
Total Direct Expenses	<u>\$1,781,278</u>
<u>Indirect Expenses:</u>	
Facility Lease @ PIB (\$175.00 per Departure):	\$11,100
Landing Fees @ PIB (\$10.60 per Scheduled Turn – 676 Turns):	7,166
Landing Fees @ MEM (\$44.89 per Scheduled Turn – 676 Turns):	30,346
Deicing Charge @ PIB:	7,140
Labor @ PIB:	145,080
Communications @ PIB:	9,600
Utilities @ PIB:	360
Interrupted Trip Expense @ PIB:	8,400
Turn Rate @ MEM (\$170.00 per Turn – 656 Scheduled Turns):	111,472
Passenger Liability Insurance (\$0.0015500 per RPM):	8,644
FAA War Risk Insurance (\$0.0005874 per RPM):	3,276
Other Expenses @ \$106.51 per Block Hour – 2,046 Block Hours:	217,903
CRS Fees @ \$5.85 per passenger – 21,639 passengers:	126,587
Credit Card Fees @ 2.0% of Passenger Revenue -- \$1,384,881:	27,698
Commissions @ 4.0% of Passenger Revenue -- \$1,384,881:	55,395
<u>Corporate Administration @ \$0.0234 per ASM:</u>	<u>252,806</u>
Total Indirect Expense	<u>\$770,167</u>
<u>Total Operating Expenses:</u>	<u>\$2,551,444</u>
Profit @ 5% of Operating Expenses	\$127,572
Total Economic Cost	<u>\$2,679,017</u>
Annual Subsidy (Total Economic Cost – Total Annual Revenue):	<u>\$1,100,253</u>
Subsidy per Departure (Annual Subsidy / 1,311 Annual Departures):	<u>\$839.25</u>
Maximum Subsidy per Week (Subsidy per Departure * 26 Departures per Week)	<u>\$21,820.50</u>

^{1/} PIB-MEM: 26 flights per week * 52 weeks per year * 97.0% completion factor = 1,311 annual departures; 1,311 * 1.56 block hours per flight = 2,046 annual operating hours; 2,046 * 250 miles per flight * 33 seats per departure = 10,819,380 Available Seat Miles per year.