Order 2004-8-25

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

Issued by the Department of Transportation
on the **20th day of August, 2004**

Essential Air Service at **BROOKINGS, SOUTH DAKOTA, and HURON, SOUTH DAKOTA** under 49 U.S.C. 41731 *et seq.*	**Served: August 25, 2004** **Docket OST-1997-2785** **Docket OST-2000-7138**

ORDER SETTING FINAL SUBSIDY RATES

Summary

By this order, the Department is setting final, past-period subsidy rates for the period of October 1, 2001, through December 31, 2002, for Great Lakes Aviation, Ltd. for its provision of essential air service at Brookings and Huron, South Dakota. The final rates will be $1,045,428 on an annual basis for Brookings and $568,848 for Huron.

Background

Great Lakes Aviation has provided subsidized essential air service at Brookings and Huron for a number of years. Most recently, Great Lakes Aviation was selected by the Department in Order 2003-6-28, June 19, 2003, at an annual subsidy rate of $1,911,452 for the period of January 1, 2003, until further Department action.[1]

In response to the terrorist attacks of September 11, the Department issued Order 2002-2-13, February 15, 2002, authorizing emergency essential air service payments to all subsidized carriers because of the losses suffered by them in the face of generally lower revenue and higher costs after the terrorist attacks of September 11, 2001, and to reflect and compensate for the fact that the essential air service carriers are paid on a pre-agreed, fixed rate per flight. That order provided for immediate increases to the final rates then in place on an *ad hoc*, interim basis, along with the authority to re-negotiate new final rates to October 1, 2001, until the end of the carriers' selection term.[2]

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[1] By Order 2004-7-5, July 6, 2004, the Department selected Mesa Air Group, Inc., d/b/a Air Midwest to replace Great Lakes Aviation at Brookings and Huron. We anticipate that Air Midwest will inaugurate this service on or about September 1, 2004.

[2] See Order 2002-2-13 for a complete discussion of the emergency relief.

Order 2002-2-13 amended the existing subsidy rates (set by Order 2001-9-11, September 17, 2001, for Brookings and Order 2000-12-24, December 26, 2000, for Huron) by setting interim rates of $932,521 for Brookings and $509,325 for Huron from October 1, 2001, through December 31, 2002, the expiration date of the carrier selection for the two communities.

Because the subsidy rates originally set for service at Brookings and Huron expired on December 31, 2002, the Department extended the rates set by Order 2002-2-13, as interim rates from January 1, 2003, until further Department action, by Order 2003-1-29, January 31, 2003. Those interim rates were replaced by the final rate discussed above set by Order 2003-6-28, and are not at issue here.

The Department must now set final subsidy rates for the period of October 1, 2001, through December 31, 2002, to replace the interim rates set for that period by Order 2002-2-13.

Action on Past-period Rates

For the September 11-related rate period of October 1, 2001, through December 31, 2002, we have concluded negotiations with Great Lakes Aviation, Ltd., and have made adjustments consistent with the framework established by Order 2002-2-13, namely, that we would make up for revenue reductions, to the extent that they fell below those forecast in the final rates in effect on September 11, and for insurance and security increases directly attributable to the September 11 attacks. (Traffic-related expenses are adjusted downward proportional to the drop in passengers, and the profit element is a flat five percent of total operating costs.) This process yields rates of $1,045,428 on an annual basis for Brookings and $568,848 for Huron. (For summary computations of these rates, see Appendix B.)

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

ACCORDINGLY

1. The Department sets the final subsidy rate for Great Lakes Aviation, Ltd., for the provision of essential air service at Brookings, South Dakota, for the period of October 1, 2001, through December 31, 2002, as described in Appendix A, Page 1, to this order, to be 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 and shall be determined by multiplying the subsidy-eligible flights completed during the month to Denver by $879.99;[3]

2. The Department sets the final subsidy rate for Great Lakes Aviation, Ltd., for the provision of essential air service at Huron, South Dakota, for the period of October 1, 2001, through December 31, 2002, as described in Appendix A, Page 2, to this order, to be 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 and shall be

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[3] See Appendix B, page 1, for subsidy calculations.

determined by multiplying the subsidy-eligible flights completed during the month to Denver by $463.23;[4]

3. We direct Great Lakes Aviation, Ltd., 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 the 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 is 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. The final subsidy rates established by this order are in lieu of, and not in addition to, the rates established by Order 2001-9-11, September 17, 2001, for Brookings and Order 2000-12-24, December 26, 2000, for Huron as amended by Order 2002-2-13;

5. Dockets OST-1997-2785 and OST-2000-7138 will remain open until further Department order; and

6. We will serve a copy of this order on the Mayors of Brookings and Huron, South Dakota; the airport managers of Brookings and Huron; the Director, South Dakota Department of Transportation, Office of Aeronautics; and Great Lakes Aviation, Ltd.

By:

KARAN K. BHATIA
Assistant Secretary for Aviation
and International Affairs

(SEAL)

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[4] See Appendix B, page 2, for subsidy calculations.

Great Lakes Aviation, Ltd.
Provision of Essential Air Service at Brookings, South Dakota
Summary of Service To Be Provided

Effective period: October 1, 2001, through December 31, 2003.

Service: Two nonstop round trips each weekday and each weekend to Minneapolis/St. Paul.

Intermediate stops and upline service: Flights between Brookings and Minneapolis/St. Paul may originate or terminate at Huron.
No service to other 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.

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: $1,045,428.

Subsidy rate for each arrival from or departure to Minneapolis/St. Paul: $879.99 [1]

Weekly compensation ceiling:[2] $21,119.76 [3]

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[1] Annual compensation of $1,045,428 (from Appendix B, Page 1), divided by the number of departures estimated to be performed annually (1,188 departures, from Appendix B, Page 1).

[2] Weeks that fall into separate calendar months shall be treated as part of the latter month for the purpose of calculating service weeks each month and monthly compensation. Service above the ceiling level in one week cannot make up for service shortfalls in another week.

[3] The subsidy rate for each arrival/departure multiplied by the number of scheduled subsidy-eligible flights per week (24).

Great Lakes Aviation, Ltd.
Provision of Essential Air Service at Huron, South Dakota
Summary of Service To Be Provided

Effective period: October 1, 2001, through December 31, 2003.

Service: Two nonstop or one-stop round trips each weekday and each weekend to Minneapolis/St. Paul.

Intermediate stops and upline service: Flights between Huron and Minneapolis/St. Paul may stop a Brookings.
No service to other 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.

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: $568,848.

Subsidy rate for each arrival from or departure to Minneapolis/St. Paul: $463.23 [4]

Weekly compensation ceiling: [5] $11,117.52 [6]

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4 Annual compensation of $568,848 (from Appendix B, Page 2), divided by the number of departures estimated to be performed annually (1,228 departures, from Appendix B, Page 2).

5 Weeks that fall into separate calendar months shall be treated as part of the latter month for the purpose of calculating service weeks each month and monthly compensation. Service above the ceiling level in one week cannot make up for service shortfalls in another week.

6 The subsidy rate for each arrival/departure multiplied by the number of scheduled subsidy-eligible flights per week (24).

Great Lakes Aviation, Ltd.
Essential Air Service at Brookings and Huron, South Dakota
Summary of Service To Be Provided

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 this 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 the 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 requirement 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.

Great Lakes Aviation, Ltd.
Provision of Essential Air Service at Brookings, South Dakota
Calculation of Annual Compensation Requirement Applicable to the Period of
October 1, 2001, through December 31, 2002

BKX-MSP departures:	1,188	BKX-MSP mileage	182
Block hours	1,188	Available seat-miles	4,108,104
Flight hours	950	Original revenue passenger-miles:	491,400
		Post-9/11 revenue passenger-miles	312,858

	From Selection Order 2001-9-11	Adjustment for 9/11	9/11-adjusted compensation requirement
Operating revenue:			
Passenger	$275,400	($144,842)[1]	$130,558
Other	1,707	(898)[2]	809
Total operating revenue	$277,107		$131,367
Operating expense:			
Direct operating expense:			
Flying operations (block-hour-based)	$126,712		$126,712
Flying operations (departure-based)	23,408		23,408
Hull insurance	6,677	$9,088[3]	15,765
Fuel and oil BKX-MSP	215,028		215,028
Maintenance (departure-based)	107,158		107,158
Maintenance (flight-hour-based)	103,997		103,997
Aircraft lease	165,619		165,619
Total direct operating expense	$748,599		$757,687
Indirect operating expense:			
BKX facility lease	$5,700		$5,700
BKX landing fees	5,400		5,400
BKX deicing charge	9,625		9,625
BKX local marketing	5,000		5,000
BKX station manager	26,000		26,000
BKX station agent	41,600		41,600
MSP cost per turn	151,470		151,470
Liability insurance	1,283	$3,203[4]	4,486
Security		45,674[5]	45,674
Passenger-related	27,684	(10,058)[6]	17,626
Administrative	50,489		50,489
Total indirect operating expense	$324,251		$363,070
Total operating expense	$1,072,850		$1,120,757
Operating loss	$795,743		$989,390
Profit element	53,643		56,038
Compensation requirement	$849,386		$1,045,428

[1] Annual passenger forecast adjusted to 1,719 passengers at average fare of $75.95 based on post-9/11 results.
[2] Freight forecast adjusted to 0.0062 of the adjusted passenger revenue of $130,558.
[3] Increased hull insurance premium allocated at $13.27 per block hour.
[4] Increased liability/war risk insurance premium allocated at $0.014340 per revenue passenger-mile.
[5] Increased security screening expense allocated at $$0.011118 per available seat-mile.
[6] Passenger-related expense adjusted to reflect reduction in forecast passengers from 2,700 annually to 1,719.

Great Lakes Aviation, Ltd.
Provision of Essential Air Service at Huron, South Dakota
Calculation of Annual Compensation Requirement Applicable to the Period of
October 1, 2001, through December 31, 2002

HON-BKX departures:	1,228	HON-BKX mileage	70
Block hours	572	Available seat-miles	1,633,240
Flight hours	457	Original revenue passenger-miles:	1,134,000
		Post-9/11 revenue passenger-miles	590,184

	From Selection Order 2000-12-24	Adjustment for 9/11	9/11-adjusted compensation requirement
Operating revenue:			
Passenger	$382,500	($197,365)[7]	$185,135
Other	2,372	(1,224)[8]	1,148
Total operating revenue	$384,872		$186,283
Operating expense:			
Direct operating expense:			
Flying operations (block-hour-based)	$53,831		$53,831
Flying operations (departure-based)	6,889		6,889
Hull insurance	3,339	$4,251[9]	7,590
Fuel and oil HON-BKX	133,459		133,459
Maintenance (departure-based)	92,100		92,100
Maintenance (flight-hour-based)	47,903		47,903
Aircraft lease	82,810		82,810
Total direct operating expense	$420,331		$424,582
Indirect operating expense:			
HON facility lease	$6,360		$6,360
HON landing fees	4,605		4,605
HON deicing charge	9,625		9,625
HON local marketing	5,000		5,000
HON station manager	26,000		26,000
HON station agent	41,600		41,600
HON hangar	30,000		30,000
HON crew accommodation	100,740		100,740
Liability insurance		$8,463[10]	8,463
Passenger-related	74,822	(35,882)[11]	38,940
Administrative	23,257		23,257
Total indirect operating expense	$322,009		$294,590
Total operating expense	$742,340		$719,172
Operating loss	$357,468		$532,889
Profit element	37,117		35,959
Compensation requirement	$394,585		$568,848

[7] Annual passenger forecast adjusted to 2,342 passengers at average fare of $79.05 based on post-9/11 results.

[8] Freight forecast adjusted to 0.0062 of the adjusted passenger revenue of $186,283.

[9] Increased hull insurance premium allocated at $13.27 per block hour.

[10] Increased liability/war risk insurance premium allocated at $0.014340 per revenue passenger-mile.

[11] Passenger-related expense adjusted to reflect reduction in forecast passengers from 4,500 annually to 2,342.