

Order 2004-9-15  
Served: September 17, 2004



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

Issued by the Department of Transportation  
on the 14<sup>th</sup> day of September, 2004

Essential Air Service at

AMOOK BAY, ALASKA  
KITOI BAY, ALASKA  
MOSER BAY, ALASKA  
OLGA BAY, ALASKA  
PORT BAILEY, ALASKA  
PORT WILLIAM, ALASKA  
SEAL BAY, ALASKA  
WEST POINT, ALASKA  
ZACHAR BAY, ALASKA

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

Docket OST-2000-6945

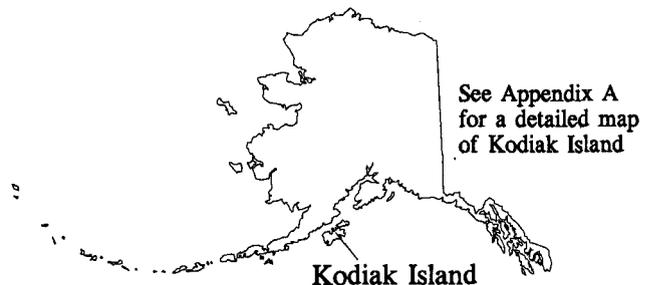
ORDER TENTATIVELY RESELECTING CARRIER  
AND SETTING FINAL SUBSIDY RATE

**Summary**

By this order, the Department is tentatively reselecting Island Air to continue providing essential air service at nine Kodiak Island, Alaska, communities in the caption above, and setting an annual subsidy rate of \$196,782 per the carrier for such service.

**Background**

By Order 2002-8-4, August 7, 2002, the Department selected Redemption, Inc., d/b/a Island Air Service (Island Air), to provide essential air service at nine communities on Kodiak Island – Amook Bay, Kitoi Bay, Moser Bay, Olga Bay, Port Bailey, Port William, Seal Bay, West Point and Zachar Bay. Island Air was selected to provide each community with service to Kodiak consisting of two or three round trips



per week during the 18-week peak season, and one round trip per week during the 34-week off-peak season, with 4-seat Cessna 206, float-equipped aircraft. Annual subsidy for that service was set at \$132,569. The carrier's rate term expired July 31, 2004.

Under our normal procedures, when nearing the end of a carrier's contract, we either issue a request for proposals, or, as in this case, contact the carrier to determine whether it is interested in continuing service at the community and whether it will continue to require subsidy. If the carrier wishes to continue service with subsidy, we usually negotiate a new subsidy rate with the carrier, issue an order tentatively reselecting the carrier for a new two-year rate term at the agreed rate, and direct other parties to show cause why we should not finalize our tentative decision. Other carriers wishing to submit competing proposals are invited to do so in response to the show-cause order. If any such proposals are filed, we process them as a competitive case. Consistent with this practice, we invited Island Air to submit a proposal for continuation of essential air service at the nine Kodiak Island communities.

#### **Carrier Proposal**

Island Air submitted a proposal to continue providing essential air service at all nine Kodiak Island communities for a new two-year rate term. The carrier proposes to continue to provide the communities with their historical service patterns of two or three round trips each week during the 18-week peak season, and one round trip per week during the 34-week off-peak season, with 4-seat Cessna 206 float-equipped aircraft. For this service, Island Air requests an annual subsidy of \$196,782.

#### **Tentative Reselection**

Island Air continues to provide the Kodiak Island communities with reliable essential air service and we find that both the service and subsidy levels are reasonable. Therefore, we will tentatively reselect Island Air to continue providing service to all nine Kodiak Island communities for an additional two-year period beginning August 1, 2004, and ending July 31, 2006, at an annual subsidy rate of \$196,782. The specific service levels for each community are detailed in Appendix B.

#### **Responses to Tentative Decision**

We will give interested persons 30 days from the date of service of this order to show cause why we should not make final our tentative decision to reselect Island Air to provide essential air service to the nine Kodiak Island communities at the service and subsidy levels discussed above. We expect persons objecting to our tentative decision to support their objections with relevant and material facts. We will not entertain general, vague or unsupported objections.

Competing proposals may contemplate service to Kodiak or any other appropriate hub city. Service should consist of two or three round trips each week (per Appendix B) to the hub during the 18-week peak period, and generally one round trip a week in the off-peak period. Of course, as always, we will formally solicit the communities' views on any service options we receive before making a long-term carrier selection decision. In

order to assist carriers in making their traffic and revenue forecasts, we have included historical traffic data in Appendix D.

In the event any carrier other than the incumbent is interested in filing proposals, with or without subsidy requests, it should file them within 30 days of the date of service of this order. At the end of that period, our staff will notify the incumbent if a competing proposal has been filed, while keeping any such competing proposal confidential, and provide it 15 days to modify its proposal, if it so chooses. At the end of those 15 days, we will docket all proposals, thereby making them public for the first time, and direct each carrier, including the incumbent, to serve a copy of its proposal on the civic parties and other applicants. Shortly afterwards, we would provide a summary of the proposals to the community officials and ask them to submit their final comments, including ranking their preferences for the various options, while giving full consideration to all proposals that are timely filed.<sup>1</sup>

Interested carriers should prepare their proposals with every expectation that their initial proposals will also be their final and only proposals.<sup>2</sup> We retain the discretion to negotiate proposals with carriers when we deem it desirable; in such cases, of course, we would give all applicants the same opportunity. We also retain the discretion to reject outright all unreasonable or unrealistic proposals and resolicit a new round of proposals.

We are hereby providing interested carriers with some basic information to serve as guidance when they prepare their proposals, but we will not prescribe a precise format for their proposals. We expect proposals to adequately describe the service being proposed and the annual amount of subsidy being requested. The applicants can make their own judgments as to the level of detail they wish to present; however, they might want to include proposed schedules as well as supporting data for their subsidy requests, such as aircraft type, flight frequencies, projected block hours, passengers, revenues and expenses, completion factor, intermediate stops (if any), and whether or not upline service is contemplated. We strongly encourage clear, well-documented proposals that will facilitate their evaluation by the affected communities and the Department. We do not anticipate any change in our selection criteria, or in the general provisions governing subsidy payments for essential air service.<sup>3</sup>

We encourage proposals that meet the needs of the communities in an efficient manner. Carriers are also welcome to propose more than one service option, if they choose, and they need not limit themselves in any way if they envision other, potentially more

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<sup>1</sup> In cases where a carrier proposes to provide essential air service without subsidy and we determine that service can be reliably provided without such compensation, we do not proceed with the carrier-selection case. Instead, we simply rely on that carrier's subsidy-free service as proposed.

<sup>2</sup> It is incumbent on each carrier to discuss with the communities their preferences before it submits its proposals.

<sup>3</sup> In selecting a carrier to provide subsidized essential air service, 49 U.S.C. 41733(c)(1) directs us to consider four factors: (1) service reliability; (2) contractual and marketing arrangements with a larger carrier at the hub; (3) interline arrangements with a larger carrier at the hub; and (4) community views. In addition, we have always given weight to the applicants' relative subsidy requirements. Appendix C contains the general provisions governing essential air service; as in the past, these provisions will be included in the selection order as part of the Department's authorization of subsidy for the selected service.

attractive service possibilities -- different hubs or aircraft, for example -- with subsidy requirements that remain competitive.

### **Other Carrier Requirements**

The Department is responsible for implementing various Federal statutes governing lobbying activities, drug-free workplaces, and nondiscrimination.<sup>4</sup> Consequently, all carriers receiving Federal subsidy to support essential air service must certify that they are in compliance with Department regulations regarding drug-free workplaces and nondiscrimination, and those carriers whose subsidies exceed \$100,000 over the life of the rate term must also certify that they are in compliance with the regulations governing lobbying activities. All carriers that plan to submit proposals involving subsidy should submit the required certifications along with their proposals. Interested carriers requiring more detailed information regarding these requirements as well as copies of the certifications should contact the Office of Aviation Analysis at (202) 366-1053. The Department is prohibited from paying subsidy to carriers that do not submit these documents.

### **Community and State Comments**

The communities and State are welcome to submit comments at any time.<sup>5</sup> In any event, if proposals are filed, we will provide a summary of them to the civic parties and ask them to file their final comments.

### **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 compensate it for essential air service. We last reviewed the fitness of Island Air when we selected it to provide essential air service at the Kodiak Island communities in Order 2002-8-4. The Department has discussed the fitness of Island Air with the Federal Aviation Administration and no information has come to our attention that would lead us to conclude that Island Air does not continue to be fit. The Federal Aviation Administration states that it knows of no reason to question Island Air's fitness. We therefore conclude that the carrier remains fit to conduct the operations proposed here. Island Air remains subject to the Department's continuing fitness monitoring.

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<sup>4</sup> The regulations applicable to these areas are: (1) 49 CFR Part 20 – New restrictions on lobbying; (2) 49 CFR Part 21 – Nondiscrimination in federally-assisted programs of the Department of Transportation – Effectuation of title VI of the Civil Rights Act of 1964; 49 CFR Part 27 – Nondiscrimination on the basis of disability in programs and activities receiving or benefiting from Federal financial assistance; and 14 CFR Part 382 - Nondiscrimination on the basis of disability in air travel; and (3) 49 CFR Part 29 – Government-wide debarment and suspension (non-procurement) and government-wide requirements for drug-free workplace (grants).

<sup>5</sup> Civic parties should file an original and five copies of their comments in Docket OST-2000-6945. Comments should be addressed to: Dockets Operations and Media Management Division, M-30, Office of the Secretary, U.S. Department of Transportation, Room PL 401, 400 7<sup>th</sup> Street, S.W., Washington, DC 20590.

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

**ACCORDINGLY,**

1. We tentatively reselect Redemption, Inc., d/b/a Island Air Service, to provide essential air service at Amook Bay, Kitoi Bay, Moser Bay, Olga Bay, Port Bailey, Port William, Seal Bay, West Point and Zachar Bay, Alaska, as described in Appendix B, for the period from August 1, 2004, through July 31, 2006;
2. We tentatively set the final rate of compensation for Redemption, Inc., d/b/a Island Air Service, for the provision of essential air service at Amook Bay, Kitoi Bay, Moser Bay, Olga Bay, Port Bailey, Port William, Seal Bay, West Point and Zachar Bay, Alaska, as described in Appendix B, for the period from August 1, 2004, through July 31, 2006, payable as follows: for each month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling set forth in Appendix B, and shall be determined by multiplying the subsidy-eligible departures completed during the month by \$204.13;<sup>6</sup>
3. We direct Redemption, Inc., d/b/a Island Air Service, 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;
4. We find that Redemption, Inc., d/b/a Island Air Service, continues to be fit, willing and able to operate as a certificated air carrier and capable of providing reliable essential air service at Amook Bay, Kitoi Bay, Moser Bay, Olga Bay, Port Bailey, Port William, Seal Bay, West Point and Zachar Bay, Alaska;
5. We direct interested parties having objections to the selection of Redemption, Inc., d/b/a Island Air Service, to provide essential air service as described in ordering paragraph 1 above, at the rate set forth in ordering paragraph 2 above, to file such objections or competing service proposals no later than 30 days from the date of service of this order;<sup>7</sup>
6. If we receive objections or competing proposals within the 30-day period, Redemption, Inc., d/b/a Island Air Service, will be compensated at the subsidy rate set

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<sup>6</sup> 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, revision of this rate may be required.

<sup>7</sup> Objections should be filed with the Dockets Operations and Media Management Division, M-30, Room PL401, Department of Transportation, 400 7th Street, S.W., Washington, DC 20590. Proposals to provide essential air service should be filed with the Chief, EAS & Domestic Analysis Division, X-53, Office of Aviation Analysis, Room 6401, Department of Transportation, at the same address. Questions regarding filings in response to this order may be directed to John McCamant at (202) 366-1060.

forth in ordering paragraph 2 above as a final rate, effective August 1, 2004, until all objections are resolved;

7. We will afford full consideration to the matters and issues raised in any timely and properly filed objections and service proposals before we take further action.<sup>8</sup> If no objections or competing service proposals are filed, all further procedural steps will be deemed waived and this order shall become effective on the thirty-first day after its service date;

8. Docket OST 2000-6945 shall remain open until further order of the Department; and

9. We will serve copies of this order on the civic officials of Amook Bay, Kitoi Bay, Moser Bay, Olga Bay, Port Bailey, Port William, Seal Bay, West Point and Zachar Bay, the Alaska State Department of Transportation and Public Facilities, the Governor of Alaska, Island Air Service, and the parties listed in Appendix E.

By:

**KARAN K. BHATIA**  
Assistant Secretary for Aviation  
and International Affairs

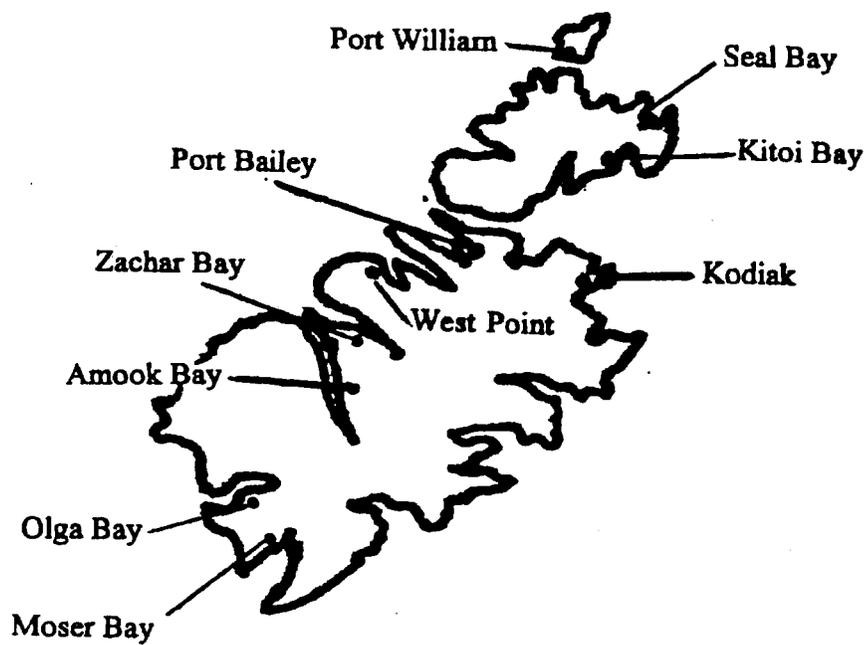
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*An electronic version of this document is available on the World Wide Web at*  
**<http://dms.dot.gov>**

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<sup>8</sup> Since we are providing for the filing of objections to this order, we will not entertain petitions for reconsideration.

# KODIAK ISLAND AREA MAP



**REDEMPTION, INC., D/B/A ISLAND AIR SERVICE  
ESSENTIAL AIR SERVICE TO BE PROVIDED AT  
KODIAK ISLAND, ALASKA**

Effective Period: August 1, 2004, through July 31, 2006

Service: **Peak Period (18 weeks)**

Three round trips per week over the routing Kodiak-Olga Bay-Moser Bay-Kodiak.

Two round trips per week over the routing Kodiak-Kitoi Bay-Seal Bay-Port William-Kodiak.

Two round trips per week over the routing Kodiak-Zachar Bay-Amook Bay-Kodiak.

Two round trips per week over the routing Kodiak-Port Bailey-West Point-Kodiak.

**Off-Peak Period (34 weeks)**

One round trip per week for all routes listed above

Aircraft: Cessna 206 floatplane, 4 seats

Timing of Flights: Flights must be well timed and well spaced to ensure full compensation.

Subsidy Rate: \$196,782 per year  
\$204.13 per departure<sup>1</sup>

Weekly

Compensation Ceiling: <sup>2</sup> \$2,653.69 off-peak  
\$5,919.77 peak

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<sup>1</sup> Annual compensation of \$196,782, divided by the number of arrivals and departures at all communities estimated to be performed annually (964).

<sup>2</sup> The subsidy rate for each arrival/departure (\$204.13) multiplied by the number of scheduled subsidy-eligible flights per week off-peak (13) and peak (29).

Note: The carrier understands that it may forfeit its compensation for any flight 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.

**Redemption, Inc., d/b/a Island Air Service  
Calculation of Subsidy Requirement  
Kodiak Island, Alaska**

Total block hours:	4481/	
Aircraft Type: Cessna 206 floatplane		
Departures	964	
<b>Revenue</b>		
Total operating revenue		\$52,577
<b>Direct Operating Expense</b>		
Pilot & Copilot	116.17 per BH	\$52,046
Fuel & Oil	57.12 per BH	25,590
Maintenance	75.93 per BH	34,015
Hull Insurance	36.61 per BH	16,400
3 <sup>rd</sup> Party Insurance	5.60 per BH	2,507
Other Liability Insurance	19.26 per BH	8,626
Depreciation/Rental	39.81 per BH	<u>17,834</u>
Total Direct Operating Expense		\$157,018
Total Indirect Operating Expense		\$34,703
Capacity Related		\$45,764
<b>Total Operating Expense</b>		<b>\$237,485</b>
<b>Operating Loss</b>		<b>\$184,908</b>
<b>Profit element @ 5 percent of Total Operating Expense</b>		<b><u>\$11,874</u></b>
<b>Compensation Requirement</b>		<b>\$196,782</b>

**Footnotes**

	<u>Hours</u>	<u>Dep./wk</u>	<u>Total Dep.</u>
<b>1/ Off-peak (34 weeks)</b>			
ADQ-KOY-(alz)-KMY-ADQ; (45+10+45) min. x 1 x 34	57	3	102
ADQ-KKB-SYB-KPR-ADQ: (20+18+12+36) min. x 1 x 34	49	4	136
ADQ-KZB-AOS-ADQ; (30+10+36) min. x 1 x 34	43	3	102
ADQ-KPY-(ugi)-KWP-ADQ; (20+18+22) min. x1 x 34	<u>34</u>	<u>3</u>	<u>102</u>
	183	13	442
<b>Peak (18 weeks)</b>			
ADQ-KOY-(alz)-KMY-ADQ; (45+10+45) min. x 3 x 18	90	9	162
ADQ-KKB-SYB-KPR-ADQ: (20+18+12+36) min. x 2 x 18	52	8	144
ADQ-KZB-AOS-ADQ; (30+10+36) min. x 2 x 18	46	6	108
ADQ-KPY-(ugi)-KWP-ADQ; (20+18+22) min. x 2 x 18	<u>36</u>	<u>6</u>	<u>108</u>
	224	29	522

Note: Stops at San Juan/Uganik and Alitak/Lazy Bay are authorized but associated costs and revenues are not included in the rate. An additional 10 percent has been added to calculated 407 block hours to account for aircraft diversions and groundings due to adverse weather.

**Historical Traffic Data  
Kodiak Island, Alaska  
12 Months Ended March, 2004**

<u>Community</u>	<u>Passengers</u>	<u>Freight (lbs.)</u>	<u>Mail (lbs.)</u>
Amook Bay	40	1,888	3,173
Kitot Bay	19	327	9,609
Moser Bay	32	695	1,339
Olga Bay	51	490	880
Port Bailey	14	988	1,644
Port William	30	546	6,125
Seal Bay	72	1,711	5,481
West Point	63	454	11,149
Zachar Bay	3	165	1,640
Alitak/Lazy Bay	108	3,578	4,739
San Juan/Uganik	27	2,635	4,520

Source: Island Air Service

## SERVICE LIST FOR ALASKA

Aaron Air	Hageland Aviation Services, Inc.	Scenic Mountain Air, Inc.
Aero Tech Flight Service, Inc.	Haines Airways, Inc.	Seaside Air Service
Air Excursions	Heli-Lift, Inc.	Security Aviation, Inc.
Air Lift Alaska	Homer Air	Seward Flying Service, Inc.
Air Madura	Hudson Air Service, Inc.	Silver Bay Logging, Inc.
Alaska Airlines, Inc.	Iliamna Air Taxi, Inc.	Skagway Air Service, Inc.
Alaska Bush Carrier, Inc.	Island Air Service	Soloy Helicopters, Inc.
Alaska Central Express, Inc.	Island Wings Air Service	Southcentral Air, Inc.
Alaska Coastal Airlines, Inc.	Jim Air, Inc.	Specialized Air Service
Alaska Fly'N Fish Charters	K2 Aviation	Spemak Airways
Alaska Flyers	Kachemak Air Service, Inc.	Sunrise Aviation, Inc.
Alaska Helicopters, Inc.	Kachemak Bay Flying Service, Inc.	Tamarack Air, Ltd.
Alaska Island Air, Inc.	Katmai Air	Tanana Air Service
Alaska Seair Adventures	Kenai Air Alaska, Inc.	Taquan Air Service, Inc.
Alaska West Air, Inc.	Kenai Fjords Outfitters, Inc.	Tatonduk Outfitters, Inc.
Aleutian Air, Ltd.	Kenair	Temsco Helicopters, Inc.
Aleutian Specialty Aviation	Ketchikan Air Service, Inc.	Totem Air
Allegheny Commuter airlines, Inc.	Ketchum Air Service, Inc.	Trans-Alaska Helicopters, Inc.
Amerijet International, Inc.	Kodiak Air Service	Trans-Porter Alaska, Inc.
Arctic Air Alaska, Inc.	Koyukon Air, Inc.	Tundra Copters, Inc.
Arctic Circle Air Service, Inc.	Kupreanof Flying Service	Umiat Enterprises, Inc.
Baker Aviation, Inc.	Kusko Aviation, Inc.	Uyak Air Service
Bellair, inc.	L.A.B. Flying Service, Inc.	Vemair
Beluga Lake Float Plane Service	Larry's Flying Service, Inc.	Warbelow's Air Ventures, Inc.
Bering Air, Inc.	Loken Aviation, Inc.	Ward Air
Bran-Air & Branham Adventures	Lone Star Airlines, Inc.	Wings of Alaska
Camai Air	Lone Wolf Aero Services, Inc.	Woods Air Service, Inc.
Canning Air Service	Maritime Helicopters, Inc.	Wrangell Mountain Air, Inc.
Cape Smythe Air Service, Inc.	MarkAir, Inc.	Wright Air Service, Inc.
Cassaroon Turbo Helicopters	Metroflight, Inc.	Yukon Helicopters
Chugiak Aviation	Midway Airlines, Inc.	Yutana Airlines, Inc.
Clearwater Air, Inc.	Midwest Express Airlines, Inc.	Yute Air Alaska, Inc.
Coastal Helicopters, Inc.	Misty Fjords Air & Outfitting	
Cordova Air Service, Inc.	Mountain Aviation	
CPA-Air Service	Mountain Helicopters	Alaska Juneau Aeronautics, Inc.
Customized Alaskan Adventures	Nash West Aviation, Ltd.	Ken Bannon
Delta Connection	Natron Air	E. B. Freeman
Denali air	Nordic Air	A. Edward Jenner
Egli Air Haul, Inc.	North Star Air Cargo, Inc.	John McFarlane
Ellis Air Taxi, Inc.	Northern Air Cargo, Inc.	Kevin Thomas
Ellison Air, Inc.	Northwest Airlink	Pat Dempsey
ERA Aviation, Inc.	Olson Air Service, Inc.	P. Richard Steinman III
F.S. Air Service, Inc.	Pacific Wing, Inc.	
Fishing and Flying	Peninsula Airways, Inc.	
Fiskehawk Aero Service	Precision Valley Aviation, Inc.	
Forty (40)-Mile Air, Ltd.	Promech, Inc.	
Frontier Flying Service, Inc.	Ram Air, Inc.	
Golden Plover Air	Ray Atkins Registered Guide	
Grant Aviation, Inc.	Rediske Air, Inc.	
Great Northern Air Guides	Reeve Aleutian Airways, Inc.	
Gulf Air Taxi, Inc.	Regal Air	
Gulf Aviation, Inc.	Reid Air	
Gulkana Air Service, Inc.	Rust's Flying Service, Inc.	
	Ryan Air Service, Inc.	