

Order 2004-10-21
Served: November 3, 2004



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

Issued by the Department of Transportation
on the 29th day of October, 2004

Essential Air Service at

**NORFOLK, NEBRASKA
NORTH PLATTE, NEBRASKA**

**DOCKET OST-1998-3704
DOCKET OST-1999-5173**

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

ORDER SETTING FINAL SUBSIDY RATES

Summary

By this order, we are setting past-period subsidy rates for Great Lakes Aviation's provision of essential air service at Norfolk and North Platte, Nebraska.

Discussion

By Order 2002-5-22, May 24, 2002, the Department selected Great Lakes Aviation, Ltd., to provide essential air service, with subsidy support, at Norfolk and North Platte, Nebraska, through November 30, 2003. By Order 2003-6-25, June 19, 2003, the Department tentatively terminated the subsidy eligibility of Norfolk under the Essential Air Service Program because the subsidy per passenger exceeded the \$200 per passenger statutory ceiling and the community is less than 210 highway miles from the medium hub airport at Omaha

By Order 2004-5-15, May 20, 2004, the Department selected Great Lakes Aviation, Ltd., to provide essential air service, with subsidy support, at five Nebraska communities, including North Platte. This selection became effective at North Platte on July 1, 2004. The same order also made final the Department's tentative action in Order 2003-6-25 and terminated Norfolk's eligibility to receive subsidized essential air service, effective July 10, 2004. There is a past period of approximately seven months associated with Great Lakes Aviation's

service at each of these two communities for which the carrier has not received compensation. For the past period, we are setting rates based on rate negotiations that we have completed with Great Lakes. We have reviewed the carrier's proposals and find these rates reasonable for the service provided.

The following table indicates the rates and dates of the compensation for each community:

| <u>Community</u> | <u>Effective Period</u> | <u>Annual Rate</u> |
|------------------|--|--------------------|
| Norfolk | December 1, 2003, through July 9, 2004. | \$502,506 |
| North Platte | December 1, 2003, through June 30, 2004. | \$1,078,947 |

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 Norfolk, Nebraska, as described in Appendix B, Page 1, to be payable as follows: for each calendar month during which essential air service was 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 \$411.55;¹

2. The Department sets the final subsidy rate for Great Lakes Aviation, Ltd., for the provision of essential air service at North Platte, Nebraska, as described in Appendix B, Page 2, to be payable as follows: for each calendar month during which essential air service was 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 \$575.75;²

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;

¹ See Appendix B for subsidy calculations.

² See Appendix B for subsidy calculations.

4. Dockets OST-1998-3704 and OST-1999-5173 will remain open until further order of the Department; and

5. The Department will serve a copy of this order on Great Lakes Aviation, Ltd.

By:

KARAN K. BHATIA
Assistant Secretary for Aviation
and International Affairs

(SEAL)

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<http://dms.dot.gov>

Great Lakes Aviation, Ltd.
Provision of Essential Air Service at Norfolk, Nebraska
Calculation of Annual Compensation Requirement Applicable to the Period of
December 1, 2003, through July 9, 2004

| | | | |
|----------------------------------|-------------------------|--|------------------|
| | Departures: | 1,221 | |
| | Block hours | 778 | |
| | Available seat-miles | 2,422,440 | |
| | Revenue passenger-miles | 1,224,324 | |
| | | | |
| Operating revenue: | | | |
| Passenger | 2,874 | OFK-DEN passengers @ \$107.60 average fare | \$309,246 |
| Other | 0.0062 | of passenger revenue of \$309,246 | <u>1,917</u> |
| Total operating revenue | | | \$311,163 |
| | | | |
| Operating expense: | | | |
| Direct operating expense: | | | |
| Flying operations | | | \$116,030 |
| Hull insurance | | | 9,295 |
| Fuel and oil | | | 165,093 |
| Maintenance per departure | | | 133,406 |
| Maintenance per hour | | | 75,729 |
| Aircraft lease | | | <u>101,201</u> |
| Total direct operating expense | | | \$600,754 |
| | | | |
| Indirect operating expense: | | | |
| Station expense | | | \$74,400 |
| Marketing | | | 5,000 |
| Liability insurance | | | 14,923 |
| Passenger-related expense | | | 29,459 |
| Administrative | | | <u>50,387</u> |
| Total indirect operating expense | | | <u>\$174,169</u> |
| | | | |
| Total operating expense | | | <u>\$774,923</u> |
| | | | |
| Operating loss | | | \$463,760 |
| | | | |
| Profit element | | 5 percent of \$774,923 total operating expense | <u>38,746</u> |
| | | | |
| Compensation requirement | | | <u>\$502,506</u> |

Great Lakes Aviation, Ltd.
Provision of Essential Air Service at North Platte, Nebraska
Calculation of Annual Compensation Requirement Applicable to the Period of
December 1, 2003, through June 30, 2004

| | | | |
|----------------------------------|-------------------------|--|--------------------|
| | Departures: | 1,874 | |
| | Block hours | 2,178 | |
| | Available seat-miles | 8,082,562 | |
| | Revenue passenger-miles | 2,890,164 | |
| | | | |
| Operating revenue: | | | |
| Passenger | 12,732 | LBF-DEN passengers @ \$96.62 average fare | \$1,230,216 |
| Other | 0.0062 | of passenger revenue of \$1,230,216 | <u>7,627</u> |
| Total operating revenue | | | \$1,237,843 |
| | | | |
| Operating expense: | | | |
| Direct operating expense: | | | |
| Flying operations | | | \$324,682 |
| Hull insurance | | | 26,009 |
| Fuel and oil | | | 365,429 |
| Maintenance per departure | | | 204,753 |
| Maintenance per hour | | | 211,909 |
| Aircraft lease | | | <u>283,185</u> |
| Total direct operating expense | | | \$1,415,967 |
| | | | |
| Indirect operating expense: | | | |
| Station expense | | | \$174,000 |
| Denver turn costs | | | 277,652 |
| Marketing | | | 5,000 |
| Liability insurance | | | 35,228 |
| Passenger-related expense | | | 130,503 |
| Administrative | | | <u>168,117</u> |
| Total indirect operating expense | | | <u>\$790,500</u> |
| | | | |
| Total operating expense | | | <u>\$2,206,467</u> |
| | | | |
| Operating loss | | | \$968,624 |
| | | | |
| Profit element | | 5 percent of \$2,206,467 total operating expense | <u>110,323</u> |
| | | | |
| Compensation requirement | | | <u>\$1,078,947</u> |

**Great Lakes Aviation, Ltd., Essential Air Service To Be Provided at
Norfolk, Nebraska, Docket OST-1998-3704**

Effective period: December 1, 2003, through July 9, 2004.

Service: Two round trips each weekday and each weekend to Denver.

Intermediate stops and upline service: Flights between Norfolk and Denver may stop at an intermediate point.
No service to 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: \$502,506.
This rate assumes an annual completion factor of 97.5 percent. A compensation ceiling is to be applied per calendar week such that service above that ceiling in one week cannot make up for service shortfalls in another week.

| | |
|---------------------------------|-------------------------|
| Subsidy rate per Denver flight: | \$411.55 ¹ |
| Weekly compensation ceiling: | \$9,877.20 ² |

¹ \$502,506 divided by 1,221 annual departures as shown in Appendix A.

² 24 flights per week * \$411.55.

**Great Lakes Aviation, Ltd., Essential Air Service To Be Provided at
North Platte, Nebraska, Docket OST-1999-5173**

Effective period: December 1, 2003, through June 30, 2004.

Service: Three nonstop round trips each weekday and each weekend to Denver.

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: \$1,078,947.
This rate assumes an annual completion factor of 99.8 percent.
A compensation ceiling is to be applied per calendar week
such that service above that ceiling in one week cannot make
up for service shortfalls in another week.

| | |
|---------------------------------|--------------------------|
| Subsidy rate per Denver flight: | \$575.75 ³ |
| Weekly compensation ceiling: | \$20,727.00 ⁴ |

³ \$1,078,947 divided by 1,874 annual departures as shown in Appendix A.

⁴ 36 flights per week * \$575.75.

**Great Lakes Aviation, Ltd., Essential Air Service To Be Provided at
Norfolk, Nebraska, Docket OST-1998-3704
and
North Platte, Nebraska, Docket OST-1999-5173**

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.