Order 2002-6-6
Served: June 19, 2002

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

Issued by the Department of Transportation
on the 14th day of June, 2002

Essential Air Service at **IRON MOUNTAIN/KINGSFORD, MICHIGAN** under 49 U.S.C. 41731 *et seq*.	**Docket OST-1999-5175**

ORDER SETTING FINAL SUBSIDY RATES

Summary

By this order, the Department is setting final subsidy rates for Great Lakes Aviation, Ltd. (Great Lakes), to provide essential air service (EAS) at Iron Mountain/Kingsford, Michigan, at annual subsidy rates of $1,968,729 for the period October 1, 2001, through May 31, 2002, and $1,614,863 beginning June 1, 2002, until further Department action.[1]

Background

By Order 99-12-2, December 1, 1999, the Department selected Great Lakes to provide essential air service at Iron Mountain/ Kingsford, through November 30, 2001, at an annual subsidy rate of $473,599, for a minimum of three nonstop round trips each weekday and each weekend to Chicago O'Hare Airport, using 30-seat Embraer Brasilia aircraft.

The terrorist attacks of September 11 changed the aviation industry in many ways. In the case of carriers that provide subsidized EAS, they are paid on a pre-agreed, fixed fee-per-flight basis, with no built-in triggers. Since September 11, carriers' expenses are significantly higher and revenues are down, meaning that the carriers have incurred substantial losses to the point of jeopardizing service to small, rural communities across the country. As a result, the Department issued Order 2002-2-13, February 15, 2002, authorizing emergency subsidy to carriers, effective retroactive to October 1, 2001, through the end of the normal contract period.[2] That order granted immediate rate relief to carriers in order to get them much-needed cash as soon as possible, and also stated our intention of renegotiating all essential air service contracts, retroactive to October 1. In response to that order, Great Lakes submitted a proposal for Iron Mountain/Kingsford based on post-September 11 operating results.

After reviewing Great Lakes' proposal, the carrier and staff have agreed on new final rates for the carrier to continue to provide Iron Mountain/Kingsford with three nonstop round trips a day to Chicago O'Hare with Beech 1900D aircraft. As appears to be common in the industry, Great

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1 See Appendix A for a map of the service area.
2 See Order 2002-2-13 for a full discussion.

Lakes suffered its worst losses immediately following the September 11 attacks, and passenger traffic appears to be rebounding. Thus, we have agreed to a two-tiered rate for Great Lakes: the first from October 1, 2001, through May 31, 2002, at an annual rate of $1,968,729 and a rate of $1,614,863 from June 1, 2002, until further Department action. The dramatic increase in subsidy is driven principally by two factors. First, there was, as noted above, a severe drop in what had been forecast as very high revenues. Second, the cost of insurance has risen precipitously.

On a separate track, because Great Lakes' last contract expired on November 30, 2001, we recently issued Order 2002-2-18, February 27, 2002, requesting proposals from carriers interested in providing long-term EAS at Iron Mountain/Kingsford. We have received proposals from Great Lakes, Mesa Air Group/Air Midwest, and Astral Aviation d/b/a Skyway Airlines. We are in the process of negotiating those proposals to completion. In the meantime, Great Lakes will be compensated at these rates while we process the carrier selection case.

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

ACCORDINGLY,

1. The Department sets final rates of compensation for Great Lakes Aviation, Ltd., d/b/a United Express, for the provision of essential air service at Iron Mountain/Kingsford, Michigan, as described in Appendix C, for the period from October 1, 2001, through May 31, 2002, 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 set forth in Appendix C, and shall be determined by multiplying the subsidy-eligible arrivals and departures flown during the month by $1,103.55 for the period October 1, 2001, through May 31, 2002, and by $905.19 for the period June 1, 2002, until further Department action;[3] and

2. The Department will serve a copy of this order on the Mayor and Airport Manager of Iron Mountain, the Governor of Michigan, and Great Lakes Aviation, Ltd.

By:

READ C. VAN de WATER
Assistant Secretary for Aviation
and International Affairs

(SEAL)

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[3] See Appendix C for the calculation of this rate, which assumes the use of the aircraft designated. If the carrier reports a significant number of aircraft substitutions, a revision of this rate may be required.

APPENDIX A

IRON MOUNTAIN/KINGSFORD, MICHIGAN
AND SURROUNDING COMMUNITIES

GREAT LAKES AVIATION, LTD.
ANNUAL COMPENSATION REQUIREMENT FOR ESSENTIAL AIR SERVICE AT
IRON MOUNTAIN/KINGSFORD, MICHIGAN
(October 1, 2001, through May 31, 2002)

Departures:	IMT-ORD	2,974	Mileages:	IMT-ORD	265
				IMT-IWD	109
				Available seat-miles	11,446,191[1/]
Block hours		3,167			
				Revenue passenger-miles	4,146,574

Operating revenue:			
Passengers	12,774	IMT-ORD passengers @ $91.32 average fare	$1,166,522
	2,036	IWD-IMT-ORD psgrs @ $77.46 average fare	157,709
Subtotals	14,810		1,324,231
Other	0.0062	of passenger revenue of $1,324,231	8,210
Total operating revenue			$1,332,441

Operating expense:				
Direct operating expense:				
Flying operations	$149.05	per block hour	3,167	$472,008
Hull insurance	$7.50	per departure	2,974	22,301
Fuel & oil	$1.2671	per gallon	391,127	495,597
Maintenance (a)	$109.26	per departure	2,974	324,885
Maintenance (b)	$97.28	per block hour	3,167	308,064
Aircraft lease	$170.00	per block hour	3,167	538,352
Total direct operating expense				$2,161,207

Indirect operating expense:				
Passenger-related	$10.25	14,810	total passengers	$151,803
War risk liability insurance	$1.25	14,810	total passengers	18,513
Liability insurance	$0.00790	4,146,574	revenue pass.-miles	32,758
General and administrative	$0.01710	11,446,191	available seat-miles	195,730
Local marketing	$5,000	1	community	5,000
Chicago O'Hare station expense	$380	892	departures	338,960
Iron Mountain/Kingsford station expense	$20,000	12	months	240,000
Total indirect operating expense				$982,764

Total operating expense				$3,143,971
Operating loss				$1,811,530
Profit element	0.05	$3,143,971	Total operating expense	157,199
Compensation requirement				$1,968,729

[1/] ASMs calculated as follows: six IMT-ORD plus four IMT-IWD segments a day x 19 seats x 313 days x 95% completion.

GREAT LAKES AVIATION, LTD.
ANNUAL COMPENSATION REQUIREMENT FOR ESSENTIAL AIR SERVICE AT IRON MOUNTAIN/KINGSFORD, MICHIGAN
(June 1, 2002, until further notice)

Departures:	IMT-ORD	2,974	Mileages:	IMT-ORD	265
				IWD-IMT	109
				Available seat-miles	11,446,191[1/]
Block hours		3,167			
				Revenue passenger-miles	5,287,200

Operating revenue:			
Passengers	16,000	IMT-ORD passengers @ $91 average fare	$1,456,000
	2,800	IWD-IMT-ORD passengers @ $99 average fare	277,200
Subtotals	18,800		$1,733,200
Other	0.0062	of passenger revenue of $1,733,200	10,746
Total operating revenue			$1,743,946

Operating expense:				
Direct operating expense:				
Flying operations	$149.05	per block hour	3,167	$472,008
Hull insurance	$7.50	per departure	2,974	22,301
Fuel & oil	$1.2671	per gallon	391,127	495,597
Maintenance (a)	$109.26	per departure	2,974	324,885
Maintenance (b)	$97.28	per block hour	3,167	308,064
Aircraft lease	$170.00	per block hour	3,167	538,352
Total direct operating expense				$2,161,207

Indirect operating expense:				
Passenger-related	$10.25	18,800	total passengers	$192,700
War risk liability insurance	$1.25	18,800	total passengers	23,500
Liability insurance	$0.00790	5,287,200	revenue pass.-miles	41,769
General and administrative	$0.01710	11,446,191	available seat-miles	195,730
Local marketing	$5,000	1	community	5,000
Chicago O'Hare station expense	$380	892	departures	338,960
Iron Mountain/Kingsford station expense	$20,000	12	months	240,000
Total indirect operating expense				$1,037,659

Total operating expense				$3,198,866
Operating loss				$1,454,920
Profit element	0.05	$3,198,866	Total operating expense	159,943
Compensation requirement				$1,614,863

1/ ASMs calculated as follows: six IMT-ORD plus four IMT-IWD segments a day x 19 seats x 313 days x 95% completion.

GREAT LAKES AVIATION, LTD.
ESSENTIAL AIR SERVICE AT
IRON MOUNTAIN/KINGSFORD, MICHIGAN

Effective period: October 1, 2001 through May 31, 2002.

Service: 18 round trips per week to Chicago O'Hare.

Intermediate stops and upline service: Nonstop; upline service may be provided to Ironwood, MI/Ashland, WI. No other upline or intermediate service is permitted 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: $1,968,729[1]

Subsidy Rate Per Arrival/Departure: $1,103.55[2]

Weekly Compensation Ceiling: $39,727.80[3]

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[1] This rate assumes an annual completion factor of 95 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.
[2] Annual compensation of $1,968,729 divided by 1,784 annual arrivals and departures to and from Chicago.
[3] Subsidy rate per arrival/departure of $1,103.55 multiplied by 36 eligible arrivals and departures each week.

GREAT LAKES AVIATION, LTD.
ESSENTIAL AIR SERVICE AT
IRON MOUNTAIN/KINGSFORD, MICHIGAN

Effective period: June 1, 2002, until further Department action.

Service: 18 round trips per week to Chicago O'Hare.

Intermediate stops and upline service: Nonstop; upline service may be provided to Ironwood, MI/Ashland, WI. No other upline or intermediate service is permitted 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: $1,614,863[1]

Subsidy Rate Per Arrival/Departure: $905.19[2]

Weekly Compensation Ceiling: $32,586.84[3]

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[1] This rate assumes an annual completion factor of 95 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.

[2] Annual compensation of $1,614,863 divided by 1,784 annual arrivals and departures to and from Chicago.

[3] Subsidy rate per arrival/departure of $905.19 multiplied by 36 eligible arrivals and departures each week.

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 this rate, 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 this route. 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.