Order 97-5-12
Served: May 21, 1997
Posted: May 15, 1997

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

Issued by the Department of Transportation
on the 15th day of May 1997

Essential air service at **OIL CITY/FRANKLIN, PENNSYLVANIA** under 49 U.S.C. 41731 *et seq.*	**Dockets OST-97-2523** **(43934)**

ORDER TO SHOW CAUSE

Summary

By this order the Department of Transportation is tentatively reselecting Mesa Airlines, Inc., d/b/a USAir Express, to provide basic essential air service for the period May 1, 1997, through April 30, 1999, at Oil City/Franklin, Pennsylvania, with 19-passenger Beech 1900 aircraft. For the first five months of the rate period, May 1, 1997, through September 30, 1997, we propose to select Mesa to provide ten round trips a week to Pittsburgh for an annual subsidy rate of $118,373. For the period beginning October 1, 1997, through April 30, 1999, we would subsidize 24 round trips a week to Pittsburgh for an annual rate of $243,923.

Background

By Order 95-3-61, March 31, 1995, the Department selected Mesa Airlines, Inc., Liberty Express Division, d/b/a USAir Express to provide basic essential air service at Oil City/Franklin for the period June 1, 1994, through April 30, 1997. (See Appendix A for a map of the service area.) Under the terms of that selection, Mesa was to provide four nonstop round trips to Pittsburgh each weekday and each weekend with 19-passenger Beech 1900 aircraft for an annual rate of $168,592.

Because of Congressional reductions in funding for the essential air service program, however, the Department subsequently implemented program-wide reductions in subsidy payments and allowed for reduced service levels as of November 27, 1995. For Mesa's service at

Oil City/Franklin we reduced the level of subsidized service to ten round trips a week, consistent with our actions throughout the program, and reduced Mesa's annual subsidy to $89,916.[1] Mesa provided additional unsubsidized weekend service at Oil City/Franklin.

Under our normal procedures when nearing the end of a subsidy rate term, we contact the incumbent carrier to determine whether it is interested in continuing its service and whether it will continue to require subsidy. We usually negotiate a new subsidy rate with the carrier, issue an order tentatively reselecting it for a new 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 Mesa to submit proposals for the continuation of its essential air service at Oil City/Franklin.

As we mentioned above, because of program-wide reductions in essential air service subsidy payments, which began in November 1995 and continue through fiscal year 1997, subsidy has been limited to supporting no more than ten round trips a week at each essential air service community, including Oil City/Franklin. Thus, for the period May 1, 1997, through September 30, 1997, the Department requested that Mesa submit a service proposal that would maintain the currently subsidized ten round trips a week to Pittsburgh.

Beginning in fiscal year 1998, the Department anticipates a funding level of $50 million for the Essential Air Service Program. These funds are provided for by the Rural Air Service Survival Act which is part of the Federal Aviation Administration reauthorization legislation enacted in 1996. The Department intends to use these funds to restore compliance with the statutory essential air service requirements established in the Airport and Airway Safety and Capacity Expansion Act of 1987 which in turn we find imperative for communities to regain traffic and promote growth. Contingent upon the Department's receiving the full funding, we requested that for the remaining 19 months of Mesa's two-year rate term the carrier submit an option that contemplates increased service levels.

Summary of Air Carrier Proposals

In response to our request, Mesa has submitted two service/subsidy options--one at the current subsidized service level and another offering four round trips a day (24 round trips each week). Both options contemplated service with 19-passenger Beech 1900 aircraft. Following discussions with Department staff, Mesa agreed that under Option I, it would provide at least ten nonstop round trips a week between Oil City/Franklin and Pittsburgh at an annual subsidy rate of $118,373. This rate would be effective for the period April 1, 1997, through September 30, 1997, or until Mesa institutes an increased service level, whichever is later.

Under Option II, Mesa would provide at least 24 nonstop round trips a week between Oil City/Franklin and Pittsburgh at an annual subsidy rate of $243,923. This rate would be

[1] See Orders 95-11-28, November 17, 1995, and 96-2-1, February 2, 1996.

effective October 1, 1997, or when Mesa institutes the new service level, whichever occurs later.

Selection Decision

We have tentatively decided to reselect Mesa to provide essential air service at Oil City/Franklin for another two-year period. From May 1, 1997, through September 30, 1997, because of continued budget constraints for fiscal year 1997, we propose to select Mesa to maintain the current subsidized service level of ten nonstop round trips a week to Pittsburgh at the agreed-to subsidy rate in Option I; thereafter, through April 30, 1999, we propose to select Option II, authorizing four trips a day (24 round trips a week). We tentatively find that Mesa's proposed subsidy rates for these options are reasonable. [2]

When the Department implemented the program-wide subsidy cuts in November 1995, service at most essential air service communities was reduced below statutory minimums and well below viable levels. As a consequence, substantial traffic declines occurred at most communities, and carriers experienced cost inefficiencies in aircraft and personnel utilization as well. With the full fiscal year 1998 funding, the Department now expects to restore viable service at all of the subsidized essential air service communities to levels that are commensurate with statutory and program guidelines. [3]

We have reviewed Mesa's proposals and the community's traffic history and find that the provision of additional service is appropriate. From 1985 until the 1995 cuts, traffic at Oil City/Franklin had been quite stable, averaging nearly 19,000 origin-destination passengers a year. Traffic at Oil City/Franklin has since dropped by nearly 25 percent, and would very likely have dropped further had not Mesa maintained service at the community over and above the ten round trips per week that the Department has been supporting. We expect that restoration of service to the pre-cut level will aid the traffic at Oil City/Franklin to rebound.

Carrier Fitness

49 U.S.C. 41737(b) and 41738 require that we find an air carrier fit, willing, and able to provide service before we may pay it for essential air service. We last found Mesa Airlines, Inc., fit to provide scheduled passenger service as a certificated air carrier by Order 96-11-14, November 18, 1996, when we selected it to provide subsidized service at Garden City, Kansas, and Liberal, Kansas/Guymon, Oklahoma. The Department has routinely monitored the carrier's continuing fitness, and based on our review of its most recent submissions, we find that Mesa continues to have available adequate financial and managerial resources to establish and maintain quality service at Oil City/Franklin, and that it continues to possess a favorable compliance disposition. The Federal Aviation Administration has advised us that the carrier is conducting its operations in accordance with its regulations, and knows of no reason that we should not find that Mesa remains fit.

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[2] Appendix D contains summary calculations of Mesa's compensation requirements.

[3] 49 U.S.C. 41732(b)(1)(A) specifies that eligible essential air service communities are to receive at least two round trips a day, six days a week, and the Department's program guidelines (14 CFR 398.5) contemplate that service should be commensurate with a community's historical traffic and its traffic-generating potential.

Response to Tentative Proposal

We will give interested persons 20 days from the date of service of this order to show cause why we should not make final our tentative decision to reselect Mesa to provide essential air service at Oil City/Franklin at the subsidy rates 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.

Carriers interested in filing competing proposals, with or without subsidy requests, should file them within the 20-day period set for objections. At the end of that period, our staff will docket any competing proposals, thereby making them public, and direct each applicant to serve a copy of its proposal on the civic parties and other applicants. We will give full consideration to all proposals that are timely filed.

Procedures for Filing Replacement Proposals

For interested carriers unfamiliar with our procedures and recommended form for supplying the necessary information, we have prepared two explanatory documents that we will make available upon request. The first describes the process for handling carrier replacement cases under 49 U.S.C. 41734(f), and discusses in detail the process of requesting proposals, conducting reviews of applicants, and selecting a replacement carrier. The second is an evidence request containing an explanatory statement, a copy of Part 204 of our regulations (14 CFR 204), and schedules setting forth our recommended form for submitting data required for calculating compensation and determining the financial and operational ability of applicants to provide reliable essential air service. (Section 204.4 describes the fitness information required of all applicants for authority to provide essential air service.) Applicant carriers that have already submitted this information in another case need only resubmit it if a substantial change has occurred. However, if there are more recent data or if there have been any changes to the information on file, carriers should provide updates of those information elements. Interested carriers that need to obtain copies of these documents may contact the Office of Aviation Analysis at (202) 366-1053.

Other Carrier Requirements

The Department is responsible for implementing various Federal statutes governing lobbying activities, drug-free workplaces, and nondiscrimination.[4] 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.

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[4] The regulations applicable to each of these three areas are (1) 49 CFR Part 20, New Restrictions on Lobbying, implementing 31 U.S.C. 1352, entitled "Limitation on use of appropriated funds to influence certain Federal contracting and financial transactions"; (2) 49 CFR Part 29, Subpart F, Drug-Free Workplace Requirements (Grants), implementing the Drug-Free Workplace Act of 1988; and (3) 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 Handicap in Programs and Activities Receiving or Benefiting from Federal Financial Assistance; and 14 CFR Part 382, Nondiscrimination on the Basis of Handicap in Air Travel.

Community and State Comments

If we receive competing proposals, the communities of Oil City and Franklin and the State of Pennsylvania are welcome to submit comments on the proposals at any time.[5] Early in the proceeding, comments on the proposals' strengths and weaknesses would be particularly helpful, and the civic parties may also express a preference for a particular carrier, if they choose. In any event, after conducting rate conferences with all applicants, we will provide a summary of the conference results to the civic parties and ask them to file their final comments.[6]

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

ACCORDINGLY

1. The Department directs all interested persons to show cause within 20 days from the date of service of this order why it should not select Mesa Airlines, Inc., Liberty Express Division d/b/a USAir Express, to provide essential air service at Oil City/Franklin, Pennsylvania, as described in Appendix C to this order, for the two-year period beginning May 1, 1997, through April 30, 1999;

2. The Department directs all interested persons to show cause within 20 days from the date of service of this order why it should not set the final rates of compensation for Mesa Airlines, Inc., for the provision of essential air service at Oil City/Franklin, Pennsylvania, for the period May 1, 1997, through September 30, 1997, to be payable as follows: For each calendar week in which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling rates set forth in Appendix C, and shall be determined by multiplying the subsidy-eligible departures performed during the week [7] by $115.71; [8]

3. The Department directs all interested persons to show cause within 20 days from the date of service of this order why it should not set the final rates of compensation for Mesa Airlines, Inc., for the provision of essential air service at Oil City/Franklin, Pennsylvania, for the period October 1, 1997, through April 30, 1999, to be payable as follows: For each calendar week in which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling rates set forth in Appendix C, and shall be determined by multiplying the subsidy-eligible departures performed during the week [9] by $99.40; [10]

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[5] Civic parties should file an original and five copies of their comments in Docket OST-97-2523. This filing should be addressed to:

Documentary Services Division, SVC-121.30
Office of the Secretary
U.S. Department of Transportation, Room PL-401
400 Seventh Street, S.W.
Washington, D.C. 20590

[6] 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 normally hold rate conferences. Instead, we rely on the carrier's subsidy-free service.

[7] Subsidy-eligible departures are defined as each arrival from and departure to the hub from the essential air service point.

[8] See Appendix C for calculations.

[9] Subsidy-eligible departures are defined as each arrival from and departure to the hub from the essential air service point.

[10] See Appendix C for calculations.

4. If sufficient funding is not available on October 1, 1997, to compensate Mesa Airlines, Inc., in accordance with ordering paragraph (3), above, Mesa will continue to be compensated for the provision of ten nonstop round trips each week between Oil City/Franklin and Pittsburgh with 19-seat Beech 1900 aircraft, at the rate set forth in ordering paragraph (2), above, for the remainder of the selection period, through April 30, 1999, or until such time as the increased funding does become available;

5. In the event timely competing proposals are filed, the final rates tentatively established in ordering paragraph (2) or (3), as appropriate, shall be effective from May 1, 1997, onward, until further Department action;

6. If no competing proposals are filed, all further procedural steps will be deemed to have been waived, and the carrier selection tentatively made by this order shall become effective on the twenty-first day after the date of service of this order;

7. The Department directs Mesa Airlines, Inc., to retain all books to retain all books, records, and other source and summary documentation to support subsidy claims for payment and to preserve and maintain such documentation in a manner that readily permits the audit and examination thereof by representatives of the Department. Such documentation shall be retained for seven years or until the Department indicates that the records may be destroyed. 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;

8. We find that Mesa Airlines, Inc., continues to be fit, willing, and able to operate as an air carrier and capable of providing essential air service at Oil City/Franklin, Pennsylvania;

9. We direct any interested persons having objection to the selection of Mesa Airlines, Inc., to provide essential air service as described in ordering paragraph (1), above, at the rates set forth in ordering paragraphs (2) or (3), as appropriate, to file such objections or competing service proposals, with subsidy requests if necessary, within 20 days after the date of service of this order;[11]

10. Docket OST-97-2523 shall remain open until further order of the Department; and

11. We will serve a copy of this order on the Mayors and Airport Manager of Oil City and Franklin; the Governor of Pennsylvania; the Pennsylvania Department of Transportation Bureau of Aviation.; Mesa Airlines, Inc.; and the air carriers listed in Appendix E.

By:

CHARLES A. HUNNICUTT
Assistant Secretary for Aviation
and International Affairs

(SEAL)

An electronic version of this document is available on the World Wide Web at
http://www.dot.gov/general/orders/aviation.html
The electronic version may not include some or all of the appendices.

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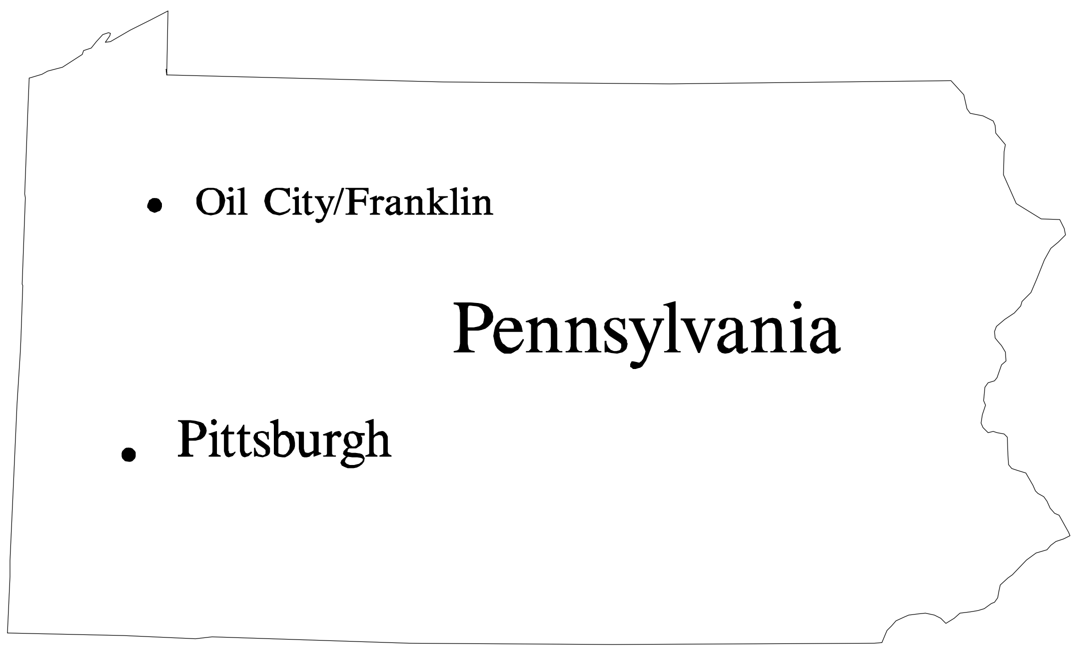
[11] Objections should be filed with the Documentary Services Division, SVC-121.30; Department of Transportation, Room PL-401; 400 7th Street, S.W.; Washington, D.C. 30590. Proposals should include all the data required by section 204.6 of the Department's Regulations (14 CFR 204.6), and should conform to the rules for documents to be filed with the Department (14 CFR 302.3). An original and five copies of the proposal should be sent to the EAS and Domestic Analysis Division, X-53; Office of Aviation Analysis, Room 6401; Department of Transportation; 400 7th Street, S.W.; Washington, D.C. 20590, with the title, "Proposal To Provide Essential Air Service at Oil City/Franklin, Pennsylvania, Docket OST-97-2523." After the proposals have been docketed, Department staff will contact each applicant and direct it to serve a copy of its proposal on the civic officials of the community, the state, and the other applicants. All applicants must then file a certificate of service with the Department's Documentary Services Division.

Appendix A



Historical Origin-Destination Traffic and Average Daily Enplanements
at Oil City/Franklin, Pennsylvania

Four quarters ended	Origin-destination passengers [1]	Average annual enplanements [2]	Average enplanements per service day [3]
12/31/85	16,190	8,095	26
12/31/86	15,962	7,981	25
12/31/87	18,858	9,429	30
12/31/88	21,011	10,506	33
12/31/89	19,987	9,994	32
12/31/90	21,276	10,638	34
12/31/91	20,309	10,154	32
12/31/92	19,528	9,764	31
12/31/93	19,496	9,748	31
12/31/94	16,917	8,458	27
12/31/95	18,927	9,464	30
12/31/96 [4]	13,314	6,657	21

[1] Source: U.S. Department of Transportation, Bureau of Transportation Statistics, Form 298-C, Schedule T-1, for traffic reported by Crown Airways, Inc., and Mesa Airlines, Inc., through June 30, 1995, and Form T-100 on-flight market origin-destination passengers for periods after June 30, 1995.
[2] Origin-destination passengers divided by two.
[3] Average annual enplanements divided by 313 effective annual service days, except for the four quarters ended 12/31/88, 12/31/92, and 12/31/96 (314 effective annual service days)
[4] Data for 1996 should be regarded as preliminary pending further review by Bureau of Transportation Statistics staff.

Mesa Airlines, Inc.

Basic Essential Air Service To Be Provided at Oil City/Franklin, Pennsylvania

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 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.

Mesa Airlines, Inc.
Basic Essential Air Service To Be Provided at Oil City/Franklin, Pennsylvania

Effective period: May 1, 1997, through September 30, 1997.

Service:
May 1, 1997, through Sept. 30, 1997: Ten nonstop round trips per week to Pittsburgh.
Oct. 1, 1997, through April 30, 1999: 24 nonstop round trips per week to Pittsburgh.

Aircraft type: Beech 1900 (19 passenger seats).

Timing of flights: Flights must be well-timed and well-spaced in order to ensure full compensation.

Annual compensation: May 1, 1997, through September 30, 1997: $118,373
October 1, 1997, through April 30, 1999: $243,923

Subsidy rate for each arrival from or departure to Pittsburgh:
May 1, 1997, through September 30, 1997: $115.71 [1]
October 1, 1997, through April 30, 1999: $99.40 [2]

Weekly compensation ceiling for each point: [3]
May 1, 1997, through September 30, 1997: $2,314.20 [4]
October 1, 1997, through April 30, 1999: $4,771.20 [5]

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1 Annual compensation of $118,373, divided by the number of departures estimated to be performed annually (1,023 departures, calculated by multiplying four departures per service day by 261 annual weekdays and multiplying further by 98 percent completion).

2 Annual compensation of $243,923, divided by the number of departures estimated to be performed annually (2,454 departures, calculated by multiplying eight departures per service day by 313 annual service days--counting each weekend as one service day--and multiplying further by 98 percent completion).

3 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.

4 The subsidy rate for each arrival/departure multiplied by the number of scheduled subsidy-eligible flights per week (20).

[5] The subsidy rate for each arrival/departure multiplied by the number of scheduled subsidy-eligible flights per week (48).

Mesa Airlines, Inc.
Provision of Essential Air Service at Oil City/Franklin, Pennsylvania
Calculation of Compensation Requirement
Two round trip (FKL-PIT) proposal

Aircraft type	Beech 1900
Estimated completion factor	0.98
Estimated departures	1,024
Estimated block hours	602
Estimated available seat-miles	1,245,184

Operating revenue:
Passenger revenue:

Market	Passengers	Average fare	Passenger revenue	Trip mileage	Revenue passenger-miles
FKL-PIT	5,960	$66.30	$395,148	64	381,440

Other revenue	0.01	$395,148	3,951	
Total operating revenue			$399,099	
Operating expense:	Cost per block hour	Block hours	Total expense	
Direct operating expense:				
Flying operations	$86.89	602	$52,308	
Fuel	$103.37	602	62,229	
Maintenance	$160.80	602	96,802	
Aircraft depr./rentals	$144.32	602	86,881	
Total direct op. exp.	$495.38		$298,220	
Indirect operating expense:				
Traffic-related	$0.200334	381,440	$76,415	RPM-based
Departure-related	$64.60	1,024	66,150	Departure-based
General & Administrative	$0.041797	1,245,184	52,045	ASM-based
Total indirect op. exp.			$194,610	
Total operating expense			$492,830	
Operating loss			$93,731	
Profit element	0.05	$492,830	24,642	
Compensation requirement			$118,373	
Average load factor			0.31	
Subsidy per passenger			$19.86	

Mesa Airlines, Inc.
Provision of Essential Air Service at Oil City/Franklin, Pennsylvania
Calculation of Compensation Requirement
Four round trip (FKL-PIT) proposal

Aircraft type	Beech 1900
Estimated completion factor	0.98
Estimated departures	2,454
Estimated block hours	1,440
Estimated available seat-miles	2,984,064

Operating revenue:
Passenger revenue:

Market	Passengers	Average fare	Passenger revenue	Trip mileage	Revenue passenger-miles
FKL-PIT	15,000	$66.30	$994,500	64	960,000
Other revenue	0.01	$994,500	9,945		
Total operating revenue			$1,004,445		

Operating expense:	Cost per block hour	Block hours	Total expense	
Direct operating expense:				
Flying operations	$86.89	1,440	$125,122	
Fuel	$103.37	1,440	148,853	
Maintenance	$160.80	1,440	231,552	
Aircraft depr./rentals	$144.32	1,440	207,821	
Total direct op. exp.	$495.38		$713,348	
Indirect operating expense:				
Traffic-related	$0.200334	960,000	$192,321	RPM-based
Departure-related	$64.60	2,454	158,528	Departure-based
General & Administrative	$0.041797	2,984,064	124,725	ASM-based
Total indirect op. exp.			$475,574	
Total operating expense			$1,188,922	
Operating loss			$184,477	
Profit element	0.05	$1,188,922	59,446	
Compensation requirement			$243,923	
Average load factor			0.32	
Subsidy per passenger			$16.26	

Air Carrier Service List for the State of Pennsylvania

Air Wisconsin, Inc.
Amerijet International, Inc.
Central States Airlines, Inc.
Chautauqua Airlines, Inc.
Chester County Aviation, Inc.
Colgan Air
Columbia Aviation, Inc.
Corporate Air, Inc.
Delta Connection
Enterprise Airlines, Inc.
Executive Airlines, Inc.
Henson Aviation Inc.
Horizon Air, Inc.
Jetstream International Airlines, Inc.
Long Island Airlines
Mesa Air Group, Liberty Express Division
Metroflight, Inc.
Midway Airlines, Inc.
Midwest Express Airlines, Inc.
New York Helicopter Corporation
Northcoast Executive Airlines, Inc.
Northwest Airlink
Omniflight Helicopter Service, Inc.
Pennsylvania Aviation, Inc.
Southern Air Transport, Inc.
Southern Jersey Airways, Inc.
Travelair, Inc.

John Albright
Chester Anderson
Ken Bannon
Grecorio Salas Calvo, Jr.
Sabrina Cranor
E.B. Freeman
Edward Harahusk
A. Edward Jenner
John McFarlane
Bill Oakes
Mark Prange
John Sinisi
Kevin Thomas