

BEFORE THE  
DEPARTMENT OF TRANSPORTATION  
WASHINGTON, D.C.

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Application of ) )  
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**ATLANTIC COAST JET, INC.** ) )  
 ) )  
for a certificate of public ) Docket OST-99-  
convenience and necessity ) )  
pursuant to 49 U.S.C. 41102 ) )  
to engage in scheduled ) )  
interstate air transportation ) )  
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**APPLICATION OF ATLANTIC COAST JET, INC.**

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September 22, 1999

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**APPLICATION OF ATLANTIC COAST JET, INC.**

Atlantic Coast Jet, Inc. ("Atlantic Coast Jet"), pursuant to 49 U.S.C. § 41102 and Part 201 of the Department of Transportation Economic Regulations, hereby applies for a certificate of public convenience and necessity to authorize it to engage in scheduled interstate air transportation with respect to persons, property and mail. Atlantic Coast Jet requests that this application be processed by non-hearing procedures pursuant to Subpart Q of the Department's Procedural Regulations.

Atlantic Coast Jet is a wholly-owned subsidiary of Atlantic Coast Airlines Holdings, Inc. ("Atlantic Coast Airlines Holdings"). Atlantic Coast Airlines Holdings is the parent corporation of Atlantic Coast Airlines ("ACA"), a holder of a certificate of public convenience and necessity issued by Order 91-12-43.<sup>1/</sup> ACA

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<sup>1/</sup> ACA was most recently found by the Department to have established its continuing fitness as an air carrier by letter dated February 1, 1999.

currently operates 80 regional jet and turboprop aircraft in scheduled service under the trade name "United Express" pursuant to ACA's code share agreement with United Air Lines.

Atlantic Coast Jet, an affiliate of ACA, will operate regional jet aircraft flights under the trade name "the Delta Connection" pursuant to a Delta Connection Agreement, entered into by Atlantic Coast Jet, Atlantic Coast Airlines Holdings and Delta Air Lines, Inc. ("Delta") dated effective September 9, 1999 (the "Delta Connection Agreement"). The senior officers and directors of ACA will hold similar positions at Atlantic Coast Jet. In addition, the Atlantic Coast Jet organization will include a separate group of a minimum of five director level employees to hold the five FAA-required positions of Director of Operations, Director of Maintenance, Chief Pilot, Chief Inspector and Director of Safety. See, 14 C.F.R. § 119.65. Based on ACA's proven track record, and the inclusion of a separate cadre of FAA-required director level employees, Atlantic Coast Jet will have the managerial expertise and compliance disposition to conduct regional jet service with full regard for the rules and regulations of the DOT and Federal Aviation Administration, just as ACA has for over eight years.

ACA and Atlantic Coast Airlines Holdings have the financial capacity, and will make available to Atlantic Coast Jet, the funds necessary to support the operations of Atlantic Coast Jet, including the acquisition of aircraft to be flown in the Delta Connection program and sufficient funds to defray pre-operating

costs associated with the carrier certification effort. However, for the reasons explained below, this application does not present the usual issue of coverage of new entrant first year carrier operating expenses, although ACA and Atlantic Coast Airlines Holdings will financially support the operations of Atlantic Coast Jet to the extent necessary.

Under the Delta Connection Agreement, Delta will compensate Atlantic Coast Jet at an established rate per block hour flown by Atlantic Coast Jet on Delta's behalf. Delta will market the Delta Connection services of Atlantic Coast Jet and will collect all revenues generated by Atlantic Coast Jet's Delta Connection flights. In other words, Atlantic Coast Jet will be compensated by Delta without regard to the number of passengers transported by Atlantic Coast Jet. Delta will carry the burden of any shortfall in passenger and other revenue. This arrangement is known in the industry as a "fee-per-departure" arrangement since Delta is purchasing from Atlantic Coast Jet all of its available seat miles generated by Atlantic Coast Jet's Delta Connection flights. To this extent, the risk to passenger funds in connection with Atlantic Coast Jet's initial operations is considerably narrowed as Delta will be responsible for the collection of all fares and charges and payment of appropriate refunds and passenger related claims.

In further support of its application, Atlantic Coast Jet states as follows:

1. **Applicant.** Atlantic Coast Jet is a corporation organized under the laws of the State of Delaware. Its principal place of business is 515A Shaw Road, Dulles Virginia, 20166. Its parent is Atlantic Coast Airlines Holdings, Inc., which, along with ACA, has entered into (or guaranteed) various aircraft purchase agreements. Atlantic Coast Jet was formed by Atlantic Coast Airlines Holdings to be a corporate vehicle to seek out business opportunities including the entry of a code share agreement with a major air carrier. Atlantic Coast Jet has recently entered into the Delta Connection Agreement in furtherance of Atlantic Coast Airlines Holdings' business development plan to actively employ the aircraft which it has under contract to purchase commencing in March, 2000.

2. **Citizenship.** Atlantic Coast Jet is a citizen of the United States as defined in 49 U.S.C. § 40102(a)(15) of the federal transportation statute. All of the senior officers and directors of Atlantic Coast Jet are citizens of the United States. All of the issued and outstanding shares of Atlantic Coast Jet are held by Atlantic Coast Airlines Holdings. In turn, Atlantic Coast Airlines Holdings is deemed a U.S. citizen as at least 75 percent of its voting shares are owned by citizens of the United States. Only one person holds 10 percent or more of the voting stock of Atlantic Coast Airlines Holdings as identified in Exhibit 5 to this application. An affidavit attesting to the citizenship of the applicant is attached as Exhibit 2.

3. **Authority Requested by Atlantic Coast Jet.** Atlantic Coast Jet hereby requests authority to engage in interstate and overseas scheduled air transportation of persons, property and mail between any point or points in the United States, its territories and possessions, or the District of Columbia, on the one hand, and any other point or points in the United States, its territories and possessions. Atlantic Coast Jet also seeks the right to hold itself out and trade as "the Delta Connection."

4. **Service Proposal.** Atlantic Coast Jet will conduct operations pursuant to a route schedule to be developed by Delta and coordinated with Atlantic Coast Jet's operations group. Initially, Atlantic Coast Jet expects its Delta Connection operations to be conducted primarily in the northeastern portion of the United States. At the end of the first 12 months of operations Atlantic Coast Jet's regional jet aircraft fleet will consist of 20 aircraft units (assuming the timely delivery of the aircraft by their manufacturers). An additional 15 aircraft are projected to be operating by the end of the second year of operations, for a total fleet of 35 aircraft. Because Atlantic Coast Jet is not responsible for the scheduling of the aircraft to be operated as Delta Connection flights, the applicant is not submitting a route map with this application. However, based on a projection of 37,555 aircraft block hours in the first twelve months of operation, Atlantic Coast Jet has prepared and included as Exhibit

15 a forecast income statement, consolidated balance sheet and other statistical data.<sup>2/</sup>

The Delta Connection Agreement provides for the initiation of Delta Connection service by Atlantic Coast Jet in April, 2000, assuming receipt of necessary government approvals and the timely delivery of aircraft to Atlantic Coast Jet.

5. **Aircraft**. Atlantic Coast Jet will operate twenty-five 32-seat Dornier 328Jet-300 aircraft and twenty 50-seat Canadair Regional Jet aircraft in its Delta Connection operation. Atlantic Coast Jet's affiliate - ACA - has these aircraft on order under various aircraft purchase agreements. Pursuant to the terms of these agreements, ACA may assign its rights to the aircraft to any ACA affiliated air carrier and ACA will do so in connection with the 45 aircraft Atlantic Coast Jet is contractually committed to make available to Delta as a Delta Connection carrier. ACA has secured manufacturer-supplied financing support for its aircraft purchases including the aircraft to be assigned to Atlantic Coast Jet. Final aircraft financing (or, if necessary, interim financing) arrangements will be made between now and the date of aircraft delivery.

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<sup>2/</sup> ACJ is filing contemporaneously herewith a Motion for Confidential Treatment pursuant to Rule 39, requesting that Exhibit 15 be granted confidential treatment due to the highly sensitive nature of the financial information contained therein.

6. **Fuel**. Estimated first year fuel consumption by Atlantic Coast Jet is contained in Exhibit 15. Pursuant to its agreement with Delta, Atlantic Coast Jet will pass through to Delta the cost of fuel. Further, fuel for Atlantic Coast Jet will be purchased by Delta on Atlantic Coast Jet's behalf in most cases. Atlantic Coast Jet is authorized to state to the Department on behalf of Delta that it does not anticipate difficulty in obtaining adequate fuel supplies for the operations of Atlantic Coast Jet. To the extent Atlantic Coast Jet will purchase fuel for itself, Atlantic Coast Jet, likewise, does not anticipate difficulty in obtaining adequate fuel supplies.

7. **Fitness**. Atlantic Coast Jet is fit, willing and able to provide scheduled air transportation of persons, property and mail and to conform to the provisions of the laws, rules and requirements of the Department of Transportation, including the Federal Aviation Administration. Exhibits which support this finding are attached to this application.

8. **Opening Argument**. Issuance of a certificate to Atlantic Coast Jet is consistent with the public interest. The public interest, in the case of this application, is found in the traveling public's demonstrated preference for new, quiet, regional jet aircraft service of the variety being offered by major air carriers pursuant to agreements with both affiliated and non-

affiliated regional carriers.<sup>3/</sup> In furtherance of the public's demand for such service, ACA has acquired for use by Atlantic Coast Jet in the Delta Connection program the right to purchase twenty 50-seat Canadair regional jet aircraft and twenty-five 32-seat Dornier 328Jet-300 aircraft. Atlantic Coast Jet will deploy these aircraft in operations exclusively for Delta Air Lines as Delta Connection flights.

The flights Atlantic Coast Jet will operate on Delta's behalf will permit Delta to better compete for connecting traffic in competition with other major air carriers.<sup>4/</sup> The DOT has long recognized the advantages to the consumer brought about by closely coordinated code share flight operations. The advantage of such services is heightened when passengers can obtain regional jet service linking smaller cities with major air transportation hubs.

Atlantic Coast Jet's management has a wealth of experience in providing regional air transportation. For approximately eight years ACA, the affiliate of Atlantic Coast Jet, has conducted regional air service in conjunction with a major air carrier. Presently, ACA serves 51 cities in 23 states. ACA conducts 546

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<sup>3/</sup> The DOT has documented the positive trends associated with regional jet service, including added passenger comfort levels, quicker and more frequent service, increased service in existing markets and service in entirely new nonstop markets. Profile: Regional Jets and Their Emerging Role in the U.S. Aviation Market, Department of Transportation, June, 1998.

<sup>4/</sup> Atlantic Coast Jet will also be accommodating a significant component of local traffic in each of the markets it will serve.

daily departures serving its principal hubs of Washington Dulles International Airport and Chicago's O'Hare Airport.

Since 1997, ACA has been providing 50-seat Canadair regional jet services in numerous Washington Dulles and O'Hare city-pair markets with great operational and financial success. Atlantic Coast Airlines Holdings and Atlantic Coast Jet have every reason to believe that regional jet operations as a Delta Connection carrier will be as successful a venture as has ACA.

Indeed, the Atlantic Coast Jet business plan entails considerably less financial risk than does the ACA business model. Therefore, the certification issues to be addressed by the Department will be less challenging in this case. Specifically, under the Delta Connection Agreement, Delta will be responsible exclusively for the marketing of the new service. Delta will sell the air transportation and collect the revenue therefrom. Atlantic Coast Jet will be paid by Delta its direct cost of operating aircraft on Delta's behalf. These costs are defined in the Agreement between Atlantic Coast Jet and Delta and are subject to adjustment under various circumstances. Delta will be responsible for all other costs of operations including marketing, planning, advertising, ground handling and other costs not directly associated with the operation of Atlantic Coast Jet's aircraft. Delta will also be responsible for all reservations, sales and ticketing functions using Delta ticket stock, as well as revenue

accounting functions. Delta will make all required collections and adjudicate and pay all passenger and similar claims.

On a weekly basis, Delta will advance funds to Atlantic Coast Jet to support its flight operations. Atlantic Coast Jet will be paid its defined direct costs and receive incentive payments if Atlantic Coast Jet's flights operate within a specified performance parameter. Under this type of financial arrangement, there is little, if any, risk to passenger funds in connection with Atlantic Coast Jet's operation. Although Atlantic Coast Jet can readily demonstrate to the DOT that, in conjunction with its parent and affiliate company, it has more than adequate resources available to it to commence operations, such a showing is not necessary in this case since the applicant carrier's operating costs are being prepaid by its code share partner.

Finally, the Department can find that grant of this application will be consistent with the public interest because the senior management of Atlantic Coast Jet will be the same individuals that have successfully managed the profitable operations of ACA for the past several years. The ACA management team successfully launched ACA service in 1991, restructured the finances of ACA during the economic downturn in 1994, and subsequently grew the fleet to 80 aircraft. To date, ACA has flown over 12 million passengers. With over seventeen consecutive quarters of profitable financial results, ACA's management has gained the confidence of the regional jet aircraft manufacturers and the capital markets. ACA has

developed into one of the premier U.S. regional air carriers with ample access to regional aircraft and capital to grow and to offer passengers new regional jet service opportunities.

Atlantic Coast Jet's operations will be profitable and will permit the applicant, along with its parent and affiliated air carrier, to successfully launch Delta Connection services in the year 2000 and to grow the operation in 2001 and beyond, thereby bringing new levels of service and convenience to U.S. passengers and enhanced competition in the Northeast and other regions of the country. This will be accomplished without impacting the steady growth of Atlantic Coast Airlines.

WHEREFORE, for the reasons set forth above, and based on the Exhibits attached to this application, Atlantic Coast Jet, Inc. respectfully requests that the Department issue to it a certificate of public convenience and necessity as described herein and to authorize Atlantic Coast Jet to conduct operations under the trade name "the Delta Connection."

Respectfully submitted,

SILVERBERG, GOLDMAN and BIKOFF, L.L.P.

Attorneys for  
**ATLANTIC COAST JET, INC.**

By: \_\_\_\_\_  
Robert P. Silverberg

Dated: September 22, 1999