

BEFORE THE
OFFICE OF THE SECRETARY
DEPARTMENT OF TRANSPORTATION
WASHINGTON, D.C.

Application of :
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: :
MIDWEST EXPRESS AIRLINES, INC. : :
: : Docket OST-00-7337
for an exemption pursuant to : :
49 U.S.C. 41718(b)-Indianapolis : :
Ronald Reagan-Washington National : :
Airport : : May 5, 2000

APPLICATION OF MIDWEST EXPRESS AIRLINES, INC.

Midwest Express Airlines, Inc. ("Midwest Express") hereby applies for an exemption pursuant to section 41718(b) of the federal transportation statute for 4 slots at Ronald Reagan Washington National Airport ("DCA" or "Washington National") in order to provide twice daily nonstop service between Indianapolis and DCA and thereby double the number of carriers and increase by more than two-thirds the number of daily round trip flights between the capitol of Indiana and the nation's capitol.

In connection with this nonstop operation, and subject to an award of four slots to serve Indianapolis, the wholly owned affiliated carrier and code share partner of Midwest Express, Astral Aviation, Inc. d/b/a Skyway Airlines ("Skyway") will provide twice daily nonstop service between Indianapolis and Springfield, Illinois. These flights will

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continue on to Quincy, Illinois and, hence, both communities will gain new on-line Midwest Express service to the east to Washington National, New York LaGuardia and Boston Logan, and to the north to Milwaukee.^{1/}

The Indianapolis-DCA market is precisely the kind of market that section 41718(b) was intended to benefit. Indianapolis is classified as a medium hub airport (according to FAA's Primary Airport Enplanement Activity Summary for Calendar Year 1997) for which the Congress directed the Secretary reserve as many as eight slots for award under section 41718(b). See section 41718(c)(3)(B).

In addition, the market is served by a single carrier on a nonstop basis despite high levels of local traffic. Moreover, the service of Midwest Express in the Indianapolis-DCA market will produce maximum competitive benefits since Midwest Express is renowned for its extremely high service levels compared to traditional combination air carriers. Based on these considerations,

^{1/} By Order 2000-4-10, the DOT provisionally awarded Midwest Express 14 slots to serve LaGuardia Airport. Six of these 14 slots will be used to offer three times daily Indianapolis-LaGuardia nonstop service.

Midwest Express seeks four additional inside the perimeter DCA slots to serve Indianapolis.

I. INTRODUCTION

A. MIDWEST EXPRESS IS UNIQUELY POSITIONED TO BRING NEW SERVICE TO UNDERSERVED COMMUNITIES

Over the past few years, both the Congress and DOT have placed substantial emphasis on improving the quality of air service to small and mid-sized communities.

Indeed, this focus is embodied in the criteria established by the Congress governing the allocation of inside the perimeter DCA slots under section 41718(b). Nevertheless, the Department has received very few applications from other carriers for these slots so that they may provide enhanced service to small and mid-sized communities.

While other carriers may not see an opportunity in serving communities of this size, Midwest Express has a solid track record of linking underserved, mid-continent cities to major U.S. business centers. For example, in 1986, Midwest Express began nonstop service between Milwaukee and Washington National, after other airlines had

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abandoned the market. Midwest Express has, since 1986, developed a very successful airline hub in Milwaukee, with Washington National service as a center piece. Thereafter, in 1994, Midwest Express began nonstop service between Omaha and Washington National after the nonstop route had been entirely abandoned. Today, Midwest Express provides Omaha with its only nonstop service to both coasts, with service to Los Angeles and Newark complementing the Washington National service. Most recently, Midwest Express began the first and only nonstop service between Grand Rapids, Michigan and DCA, building on existing Midwest Express nonstop service from Grand Rapids to Milwaukee, Dayton and Toronto.

Midwest Express' successful route strategy, and particularly the development of its Washington National route structure, is in perfect harmony with the intent of Congress in enacting section 41718(b) which was designed to benefit small and mid-sized DCA city-pair markets.

It is in this context that Midwest Express has already applied for 4 DCA slots to provide nonstop service for the first time to Des Moines, Iowa a designated small hub airport for which as many as 4 DCA slots are reserved. See

section 41718(c)(3)(A). In the same vein, Midwest Express today is requesting 4 DCA slots to also provide nonstop service to Indianapolis, which, in turn, would allow it to begin new service in both Springfield and Quincy, Illinois.

In short, Midwest Express, upon the grant of its section 41718 applications, is ready, willing and able to provide substantial new DCA service to underserved communities. Other carriers do not appear to be inclined to do so despite the clear intent of Congress.

**B. MIDWEST EXPRESS WILL SERVE DOWNSTATE ILLINOIS
IF AWARDED DCA SLOTS FOR INDIANAPOLIS SERVICE**

Midwest Express recently announced a significant increase in service from Indianapolis, adding service to Des Moines, New York, and Boston. Indeed, Midwest Express strongly desires to continue to build up its service levels from Indianapolis, which would allow, in turn, Skyway Airlines to add new feeder service and enter new markets.

In this context, U.S. Senator Richard J. Durbin (D-Illinois) and the Illinois Congressional delegation have been tireless in their efforts to attract new service to downstate Illinois. Indeed, the urgency of these efforts has increased in light of United Express' decision earlier

this year to terminate its service to Quincy and American Eagle's announcement this week that it will be terminating all of its service to Springfield. Currently, Skyway serves neither of these communities. However, if Midwest Express is awarded DCA slots for nonstop service to Indianapolis, Skyway would enter both communities and link them to Washington, New York, Boston and Milwaukee via Indianapolis.

This Midwest Express operating proposal will offer precisely the type of new service benefits for underserved communities that the Congress intended to achieve with the passage of section 41718(b). Accordingly, Midwest Express asks that it be awarded the 4 DCA slots out of the 8 DCA slots reserved for service to medium and smaller hubs so that it may start nonstop service to Indianapolis, which would yield significant public benefits to and replace lost service at both Springfield and Quincy, Illinois.

II. THE INDIANAPOLIS-DCA MARKET IS ELIGIBLE FOR AND REQUIRES MORE DCA SERVICE

Section 41718(b) lays out specific criteria for the grant of inside perimeter DCA exemption slots. Service using section 41718(b) slots must be provided between

Washington National and designated medium, small and nonhub airports. The carrier selection process to be carried out by the Secretary must be accomplished in a manner to promote air transportation (1) by new entrant and limited incumbent carriers; (2) in nonstop air markets operated by a single air carrier; and (3) that will produce maximum competitive benefits, among other factors. In addition, operators of only Stage 3 equipment are eligible for DCA slots and slots awarded under this section (but not any other slot exemption provision, such as section 41714(d)) may not exceed more than two in any one hour period during the hours of 0700 and 2159. The Midwest Express application is consistent with these statutory provisions.

Midwest Express is a limited incumbent carrier as the term is defined in the statute as it is currently operating and holding a total of only 12 of DCA slots.^{1/} Indeed, only three other air carriers operating at Washington National hold or operate fewer DCA slots than does Midwest Express.

Indianapolis is a medium hub airport as defined by the FAA in its Airport Enplanement Activity Summary for 1997.

^{2/} An additional four slots are held by Midwest Express' code share partner--Skyway.

Further, and most significantly the Indianapolis-DCA market is served but by a single nonstop air carrier, USAirways.

Its service currently consists of F-100 and DC-9 service three times each weekday and on Sunday. No nonstop service is provided by USAirways on Saturday. However, service was not always this poor. Prior to 1996, USAirways offered four nonstop roundtrip flights per day with most flights operating on Saturday and Sunday. With the cutback in both weekday and weekend service to Washington National, Indianapolis has suffered a significant loss.

Given USAirways monopoly status in the DCA market, it is not surprising that for the twelve months ended September, 1999, USAirways had achieved an 81% share of the Indianapolis-DCA market. The carrier with the next largest share was Northwest with 6.9% of the local market. Such disparate market share statistics are indicative of a less than fully competitive market. And, it was just this kind of market, the Congress sought to insure had an opportunity to improve its access to Washington National when it enacted section 41718(b).

For the 12 months ended September, 1999 the Indianapolis-Washington, D.C. market was Indianapolis'

sixth largest O&D market, with approximately 270,000 annual passengers. Over half of this traffic used Washington National, the preferred close-in airport. From 1997 to 1999, the Indianapolis-DCA market grew at a rate of 5.6% even as USAirways provided reduced levels of capacity.

Although Indianapolis generated over 3.4 million enplanements in 1997 and was therefore classified as a medium hub airport, the eight county area from which the Indianapolis airport draws traffic has a population of over 2.84 million and is the 26th largest metropolitan area in the country. Indianapolis is projected to enjoy a higher rate of population growth through 2003 than the other midwest cities with which it competes for economic development.^{1/} Compared to other cities and states in the midwest, Indianapolis has higher rates of personal income growth, a greater percentage of increase in retail sales of general merchandise, and more retail sales per household.

These statistics help explain why *Entrepreneur Magazine* rated Indianapolis the number one city in its region for entrepreneurial growth. It will clearly be necessary for

^{3/} These cities are Chicago, Louisville, St. Louis, Cincinnati and Cleveland.

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air carrier access to Indianapolis to grow as does its population and economic base.

Total effective buying income per household in Indianapolis is over \$42,600. This level of household income translates into high levels of demand for air transportation. Contributing to the local economy and the financial well being of its citizens is the fact that several Fortune 500 companies are located in the area including Eli Lilly, Bank One and Allison-Rolls Royce. As the capitol of the State of Indiana, the state government also contributes much to the strength of the local economy.

Midwest Express proposes to offer twice daily DC-9/MD-80 service between the state capitol and the nation's capitol. This service will complement the other service provided by Midwest Express to DCA, including service to Midwest Express' hub city of Milwaukee and its second base of operations in Omaha. In addition, Midwest Express' affiliate, Skyway Airlines, serves the Grand Rapids-DCA market with new Fairchild 328JET regional jet aircraft.

Midwest Express has also applied in Docket OST-00-7187 under section 41718(b) for 4 slots to serve the nonstop Des Moines-DCA market (with continuing service to Kansas City)

and has separately applied under section 41714(d) to retime one DCA slot so to provide nonstop service between Kansas City and DCA. In short, Midwest Express plays the important role of specializing in linking Washington, D.C. to major, but underserved midcontinent cities. In most cases these cities are overlooked by other carriers, thereby consigning the local passenger to less convenient connecting or sporadic single plane service. The desire of Midwest Express to serve the Indianapolis-DCA market is consistent with this marketing philosophy and will substantially contribute to the competitive balance in the DCA air market.

Apart from the inherent benefit of a two carrier nonstop market, passengers in the Indianapolis and Washington, D.C. market will enjoy a level of service unparalleled in the industry. Midwest Express provides a uniquely high level of in-cabin service at competitive prices that brings the carriers numerous awards and accolades. From its comfortable two-plus-two leather seating (thereby eliminating the unpopular middle seat) to its elegant meal service, every Midwest Express passenger

is offered a level of comfort no major carrier can match.

Midwest Express is justifiably proud of the awards it has received for its service offerings. To name but a few, a leading consumer report has named Midwest Express as the "Best U.S. Airline" for seven consecutive years. In 1996 and 1994, the prestigious *Zagat Airline Survey* rated Midwest Express Airlines the "#1 Domestic Airline," and #4 in the world -- the first time a U.S. airline has placed among the top ten. In 1999, readers of *Condé Nast Traveler* magazine rated Midwest Express as the "#1 U.S. Airline" for the fifth year in a row. In 1998, *Travel & Leisure* named Midwest Express Airlines "Best Domestic Airline" for the second consecutive year. And *Air Transport World* has honored Midwest Express with its "Passenger Service Award" for outstanding performance and innovation. Competitive benefits can come in many forms. In the case of Midwest Express, they come in the form of high levels of passenger service which other carriers may try to provide but do not deliver, at fully competitive prices.

When the Congress directed the Secretary to ensure that slots issued under section 41718(b) are awarded to produce maximum competitive benefits, it could well have had the possibility of Midwest Express providing competitive nonstop service in an existing monopoly market (such as in the Indianapolis-DCA market) in mind and for this reason alone the grant of this application would be fully justified.

**III. THE MIDWEST EXPRESS SERVICE PROPOSAL
WILL ALSO BENEFIT DOWNSTATE ILLINOIS**

Apart from these local market benefits, the Midwest Express proposal will provide significant advantages to downstate Illinois air markets, which also justifies DOT approval of this application. Midwest Express has fashioned its Indianapolis-DCA proposal to not only address the needs of the local market but as well the chronic air service deficit experienced by downstate Illinois. Midwest Express will do so by operating Skyway turboprop aircraft from Indianapolis to Springfield, and then beyond to Quincy. Both communities have suffered the recent loss of air service which Midwest Express will redress by providing one stop and nonstop service to Indianapolis.

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From Indianapolis, Springfield and Quincy passengers can make online connections to the east to Washington, D.C., New York City (through LaGuardia), Boston and to the north to Milwaukee, Midwest Express' hub from which it and Skyway provide 327 weekday departures to 44 destinations.

The city of Springfield is the capitol of Illinois and despite its stature among Illinois cities, its air service is declining. Just this week, American Eagle announced it is terminating all service to the city from which it served Chicago's O'Hare airport four times daily leaving the market being served with mainly 19-seat aircraft by a single carrier ("United Express"). The only other hub airport served from Springfield is St. Louis.

Skyway, the Midwest Express code share carrier, will operate twice daily on a nonstop basis between Indianapolis and Springfield. This service will restore service previously provided by USAirways in the late 1980's. Further this service will link the state capitols of Indiana and Illinois. The online connecting service proposed by Midwest Express is specifically tailored to maximize public benefits by linking East Coast business centers that produce the most Springfield traffic.

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Springfield generates more passenger O&D traffic to Washington and New York than any other destination, except Chicago and St. Louis. By linking Springfield with Indianapolis, Washington and New York passengers (as well as those destined or originating in Milwaukee and Boston) will be able to make online Midwest Express connections at the less congested Indianapolis airport, avoiding the bottleneck airports at Chicago and St. Louis.

Quincy, located to the west of Springfield is even more limited in its air service options than is Springfield. The only service to and from Quincy is currently provided by Trans World Express to St. Louis with 19-seat aircraft operated three times daily. This past January, United Express terminated all service to the city and thereby it lost its air link to O'Hare--a point to which the DOT previously guaranteed access under the essential air service program. As the DOT well understands, the reduction of hub airport access by 50% drastically impacts the economic well being of a community. Midwest Express and Skyway will redress this situation by offering twice daily single-plane service to Indianapolis via Springfield. As noted, from Indianapolis, Quincy passengers

will have online connections to Washington, D.C. (Quincy's second largest market), New York City (Quincy's sixth largest market), Boston and Milwaukee.

The services of Skyway will initially be provided with 19-seat turboprop equipment. However, as the DOT knows, Skyway is purchasing new regional jet aircraft and currently operates 5 Fairchild 328JET aircraft, configured with 32 seats, and has just placed an order for five additional 328JET and 44 seat 428JET aircraft. As the Springfield and Quincy markets grow, Skyway will have ready access to regional jet aircraft to serve their respective needs.

IV. CONCLUSION

In enacting section 41718(b) the Congress sought to equalize the chances that non hub, small and medium sized communities could gain much needed access to Washington National. Midwest Express has approached the opportunities created by this new provision of the law by paying careful attention to communities that have had their aspirations for access to the nation's capitol reduced by the impact of the FAA's High Density Airport Rule. The Indianapolis-DCA market is just such a market that has recently seen a

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decline in service both during the business week and the elimination of all Saturday service. Midwest Express is anxious to ameliorate this situation by offering twice daily nonstop service between Indianapolis and DCA.

Moreover, upon the grant of this application, the Midwest Express' code share partner and wholly owned affiliated carrier, Skyway, will offer nonstop service between Indianapolis and Springfield and one stop service between Indianapolis and Quincy. This Midwest Express commitment to serve these downstate Illinois cities will offer them needed new access to the air transport network since both have just lost some or all of their service to Chicago. Therefore, the Midwest Express application and the required July 5, 2000 decision date comes just in time for these cities which so desperately need improved air service.

The attributes of this Midwest Express application are in accord with philosophy of section 41718)b) and commands the DOT's approval. By so doing the DOT will not only eliminate a monopoly DCA market but as well offer valuable new service opportunities for downstate Illinois.

Respectfully submitted,

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