

March 17, 2003

Office of the Secretary
Department of Transportation
400 Seventh Street S.W.
Washington, DC 20590

Re: OST 2003-14579

Dear Sir:

Acting in my individual capacity, I am respectfully requesting leave to file my comments regarding the application of Republic Airlines Inc. d/b/a Republic Airlines ("Republic") for the authority to conduct interstate transportation of persons, property and mail pursuant to Parts 201 and 204 of the Economic Regulations of the Department of Transportation. I was employed in a key position for an Applicant previously before the Department (Maverick Airways Corporation, OST 1996-1400), served in management and consulting roles at new entrant and low fare airlines, and may seek to participate in the formation of an air carrier in the future.

I am supportive of Republic's overall efforts to obtain Certification as a scheduled air carrier, as its benefits to the domestic airline industry, US Airways, the State of Kentucky, and the public at large are undeniable. It is clear that the initiation of service by Republic will maintain convenient air service to many communities, while relieving US Airways of a substantial cost burden. I remain hopeful that the deployment of regional jets as part of its reorganization plan will allow US Airways to emerge from bankruptcy protection in the near future. In addition, the "Jets for Jobs" program negotiated by US Airways and its regional partners will provide much needed employment for hundreds of aviation professionals until they are recalled to the network carrier when economic conditions improve.

However, I am perplexed as to why Republic would call into question its intentions by treating this Application as a mere formality and request that the Department declare them fit without any scrutiny. More specifically, the Department should seek clarification on the following issues before issuing an Order to Show Cause:

The Use of the Application Process by Republic

The Application is silent to the reason that Republic's parent company Republic Airlines Holdings, Inc. ("RAH") has elected to create a new entity for the operation of up to 23 regional jets. Given that Chatauqua Airlines, an RAH subsidiary company, already operates 62 of the same aircraft type, it seems illogical that a separate company and its requisite overhead costs is necessary for this purpose. The February 26 edition of the Indianapolis Star has reported that the formation of Republic is a result of the continued rejection of the "Jets for Jobs" program by the pilots of Chatauqua.

I believe that is appropriate for the Department to inquire as to the justification of an existing airline or related company to seek Economic Authority for any new operation. I would remind the Department that recent questions regarding abuse of the certification process (Boston-Maine Airways Corp., OST 00-7668-19; Potomac Air, Inc., OST 2000-8536-4) have been raised by other interested parties. Given the taxpayer cost required to examine and process any Application, the intent of the Applicant should be clear, and if not, should be challenged by the Department during the initial review phase.

The Relevance of the Financial Fitness Requirement

I strongly object to Republic's assertion on page 2 that "this Application does not present the usual concerns associated with a new entrant first year operating expenses." The Applicant also states on Page 12, "Republic submits that the three month zero revenue test that the Department traditionally relies upon to determine a new entrant's financial fitness is not relevant and should not be applied (emphasis added) within the context of Republic's proposed operations."

This request is not only arrogant, but seeks to alter the statutory requirements of Part 204 for the granting of a Certificate of Public Convenience and Necessity. While the Department has some latitude in declaring an Applicant "fit, willing, and able" to conduct scheduled air transportation, the use of its guidelines for financial fitness (also known as the "Zero Revenue Test") is well established and applied equitably to all Applicants seeking Economic Authority. Republic would have the Department create a new category of air carriers based on an

Applicant's corporate structure and relationship with a network carrier. Such a distinction is not authorized under current regulations.

Furthermore, Republic's reliance on the Regional Jet Service Agreement with US Airways as basis for an automatic fitness determination is dubious at best. Notwithstanding the precarious situation of US Airways under Chapter 11 protection, this agreement is not perpetual and is dependent upon their partner's management discretion and cash flow. Even under a "fee for service" arrangement, the public interest is not served, unless the Applicant can demonstrate its ability to operate as a stand-alone, independent entity. Otherwise, is it prudent to create a new airline and then have it cease operations within a year should US Airways initiate procedures under Chapter 7 of the U.S. Bankruptcy Code?

The Department also runs the risk of setting a dangerous precedent should it find Republic fit by relying on the Regional Jet Service Agreement. In practice, a future applicant could receive Economic Authority based solely on the existence of a contractual obligation by a third-party to provide revenues in support of any proposed operation. Would the Department be able to deny certification to any Applicant seeking Scheduled Charter Authority, provided they executed an agreement for a long-term track program? If an Applicant presented a plan to finance its ongoing operations with funds derived from a "Travel Bank" with corporate travel dollars committed upon the initiation of service on a particular route, could the Department require other capital or credit be available?

Regardless of whether or not Republic's "fee for service" arrangement is based on its actual costs, it is in fact, revenue. If, "the three month zero revenue test that the Department traditionally relies upon to determine a new entrant's financial fitness is not relevant and should not be applied," then it will cease to be relevant in future proceedings.

The Request for Confidential Treatment

Whether or not the Department decides that Republic has made a *prima facie* case for its fitness determination, it must carefully consider the Applicant's motion to suppress all relevant supporting data. Especially troublesome, is the rationale behind the confidentiality of the Regional Jet Service Agreement – the very document that Republic relies upon to exempt it from

the Department's zero revenue test. Because code-sharing agreements are integral to the generation of revenue at almost all network and regional carriers, they are frequently made available to investors and the public in filings with the Securities and Exchange Commission. In fact, RAH has made available other such service agreements to the SEC in recent S-1 documents filed as a precursor to the issuance and sale of public securities. While certain items of financial or competitive sensitivity should be redacted, I believe that the public must be allowed a more thorough overview of this relationship, since Republic asserts that this "fee for service" arrangement is the sole basis under which it will support its ongoing operations.

Notwithstanding the confidentiality of the above document, Republic's further request to withhold any actual or pro forma financial statements should warrant additional scrutiny in reviewing their application. It is without precedent that an Applicant would be granted Economic Authority to commence scheduled operations without the most basic financial information being offered for public examination. I would agree that many of the details of Republic's operating plan are commercially sensitive. However, I take exception with the assertion that the release of past financial statements from RAH and Chatauqua and the projected operating costs of Republic will cause the demise of the company – especially since these numbers have likely been reviewed by Wall Street.

Conclusion

Chatauqua has always been regarded as a well-run organization both operationally and financially, and I possess no information to indicate that RAH and its management will not continue to do the same with Republic. This is why I remain confused by Republic's cavalier approach to the certification process and the lack of transparency in its Application.

The Department must take further action to insure that Republic's intentions are clear and its fitness is determined in a manner consistent with the well-established practices that have proven beneficial to the airline industry and the public at large. I am confident that in addressing these concerns, Republic will be allowed to bring to market the many benefits of its relationship with US Airways, while preserving the public trust manifested in the Department's certification process.

Respectfully submitted,

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