



1998

**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 May, 1998

Essential Air Service at

HEALY LAKE, ALASKA

under 49 U.S.C. 41731, *et seq.*

Docket OST 1998-3546

ORDER SELECTING CARRIER

Summary

By this order we are selecting 40-Mile Air, Ltd. to provide subsidized essential air service at Healy Lake, Alaska, for the two-year period beginning June 1, 1998, through May 31, 2000, at an annual subsidy rate of \$37,256. (See Appendix A for a map.)

Background

The Healy Lake community has received subsidized essential air service from Frontier Flying Service for several years, most recently pursuant to Order 96-5-23. That order established an annual subsidy rate of \$37,185 for Frontier Flying Service to provide two round trips a week in the Healy Lake-Fairbanks market and it will expire on May 31, 1998.

Under our normal procedures when nearing the end of a rate term, we contact the incumbent carrier to determine whether it is interested in continuing service and whether it will continue to require subsidy. Consistent with that practice, when we contacted Frontier Flying Service we were advised that the carrier was no longer interested in providing Healy Lake service beyond the current rate term and would not be submitting a service proposal.

In response to that decision by Frontier Flying Service, the Department issued Order 98-2-26, requesting interested carriers to submit service proposals meeting the essential air service requirements of the Healy Lake, community. Four carriers, Tanana Air Service, Warbelow's Air Ventures, Inc., Wright Air Service, Inc., and 40-Mile Air, Ltd.¹ submitted service proposals and each applicant projected a subsidy need for its proposal.

Carrier Service Proposals

Each of the applicant carriers has proposed to provide two nonstop round trips a week in the Healy Lake-Fairbanks market using five-seat aircraft. Three of the carriers, Warbelow's Air Ventures, Inc., Wright Air

¹ 40-Mile Air provided subsidized essential air service at Healy Lake several years ago before being replaced by Frontier Flying Service.

Service, Inc., and 40-Mile Air, Ltd., propose to use Cessna 206 or 207 equipment. Tanana Air Service proposes to use Piper Cherokee aircraft.

Based on informal rate discussions held between the applicant carriers and the Department staff, annual subsidy rates were agreed to as follows: Tanana Air Service \$31,156; Warbelow's Air Ventures \$35,719; Wright Air Service \$37,548; and 40-Mile Air \$37,256.

Community and State Comments

The residents of the Healy Lake community have actively participated in this matter. Service of the proposals was made on two interested groups within the community and we have received two sets of comments addressing the issue of carrier selection.

One group, with Mr. Paul KIRSTEATTER acting as spokesperson, urges the selection of Wright Air Service citing first-hand experience with the applicant and noting the carrier's dependability and reliability in providing service to bush communities. In addition, Mr. KIRSTEATTER notes the ease of passenger access and the availability of refrigerated storage facilities at Wright's facilities at the Fairbanks terminal.

The second, and somewhat larger group, with Mr. Gary LUKE acting as spokesperson, urges the selection of 40-Mile Air. This group states that in the past 40-Mile has demonstrated a concern for the community's air service needs noting the carrier's willingness to provide flag stop service when requested. They also state that 40-Mile is best suited to respond to what they feel is their increased need for air service as the Healy Lake community grows.

Decision

After reviewing the various Healy Lake service proposals and the civic comments regarding those proposals, we have decided to select 40-Mile Air Ltd. for a two-year period, starting on or about June 1, 1998, through May 31, 2000, at an annual subsidy rate of \$37,256.

Other than the community views, there is little to differentiate from among the four proposals. Each applicant proposes very comparable service - two nonstop round trips a week to Fairbanks, with similar aircraft - which meets the defined level of essential air service at Healy Lake. The variance in requested subsidy levels is relatively minor, especially between the two applicants for whom civic groups have expressed support. In addition, all of the applicants are experienced in providing air service in Alaska, and appear to possess sufficient resources and experience to provide reliable service.

In selecting carriers to provide essential air service, the Department is specifically required under section 49 U.S.C. 41733 to consider, among other criteria, the preferences of the actual and potential users of air transportation at the essential air service community, "giving substantial weight to the views of elected officials representing the users." We have decided to select 40-Mile Air, based on the recommendation of the larger group supporting the selection of 40-Mile Air coupled with the fact that 40-Mile has been the designated essential air service at Healy Lake before.

Carrier Fitness

49 U.S.C. 41737(b) and 41738 require that we find a carrier fit, willing, and able to provide reliable service before we may compensate it for essential air service. We last found 40-Mile Air Ltd. fit to provide scheduled passenger service as a certificated air carrier by Order 94-1-31 January 28, 1994.

The Department has routinely monitored the carrier's continuing fitness, and no information has come to our attention that would lead us to question its ability to operate in a reliable manner. Based on our review of its most recent submissions, we find that 40-Mile Air Ltd. continues to have available adequate financial and managerial resources to maintain reliable service at Healy Lake, 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 why we should not find that 40-Mile Air Ltd. remains fit.

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

ACCORDINGLY,

1. The Department selects 40-Mile Air Ltd. to provide essential air service at Healy Lake, Alaska, as described in Appendix C, for the period beginning on or about June 1, 1998, through May 31, 2000;
2. The Department sets the final rate of compensation for 40-Mile Air Ltd. for the provision of essential air service at, Healy Lake, Alaska, at \$37,256 per year, as described in Appendix C, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the ceiling per week of \$716.48 and shall be determined by multiplying the number of subsidy eligible arrivals and departures operated during the month by \$179.12;²
3. The Department finds 40-Mile Air Ltd. fit, willing, and able to operate as a certificated air carrier and capable of providing reliable essential air service at Healy Lake, Alaska;
4. The Department directs 40-Mile Air Ltd. 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 its audit and examination 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; and
5. The Department will serve a copy of this order on the Healy Lake Village Council, Mr. Paul Kirsteatter, Mr. Fred Kirsteatter, the Governor of Alaska, the Alaska Department of Transportation and Public Facilities, Tanana Air Service, Wright Air Service Inc., Warbelow's Air Ventures, Inc., 40-Mile Air Ltd., and the carriers listed in Appendix D.

By:

² See Appendix C for calculations.

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://dms.dot.gov>*

The electronic version may not include all of the appendices

EAS Map Will Be Supplied
On Request (202) 366-1055

**Annual Compensation Projection For
40-Mile Air's Proposed
Essential Air Service At
Healy Lake, Alaska**

Annual Block Hours: 1/ 208 hours 4 ow flts/wk
 Aircraft Type: Cessna 206/207 5 seats
 Routing: Fairbanks > Healy Lake > Fairbanks

<u>Revenue Forecast</u>			(\$)
Passenger	70	\$85.00	5,950
Cargo	7,196	\$0.30	2,159
Mail <u>2</u> /	8,582	\$0.87	<u>7,466</u>
Total Revenue			15,575

<u>Direct Expense</u>	<u>Rate per Block Hr.</u>	<u>Totals</u>
	(\$)	(\$)
Pilot & Copilot	48.17	10,019
Fuel & Oil	33.85	7,041
Maintenance	56.00	11,648
Depreciation <u>3</u> /	20.00	4,160
Insurance <u>4</u> /	29.50	6,136
Agent fee @ \$20 per departure at Healy Lake		<u>2,080</u>
Total Direct Expense		41,084

<u>Indirect Expense</u>		
At 25.0% of Direct Exp. net of Depreciation		9,231
<u>Total Operating Cost</u>		50,315
Profit Element @ 5% of TOC		<u>2,516</u>
Total Economic Cost		52,831

Subsidy need @ 100% Completion		37,256
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Footnotes on following page.

Footnotes:

1/ At 1 block hour per one-way trip x (52wks x 4 ow flts per week) = 208
annual block hours.

2/ Based on Bush Mail Rate Order 98-1-25, [117 miles x (\$8.4514/2,0000)]
= \$0.4944 + \$0.3805 = \$0.8749

3/ Depreciation: [\$70,000/7 yrs. economic life]/500hrs. avg. annual
utilization.

4/ Insurance:
Hull: Annual premium \$4,900/500hrs. annual utilization (plus)
Liability: [\$1,970 per seat x 5 seats]/500hrs. utilization.

**ESSENTIAL AIR SERVICE AT
TO BE PROVIDED AT HEALY LAKE, ALASKA**

EFFECTIVE PERIOD: For the two-year period from June 1, 1998
through May 31, 2000

SERVICE: Two trips a week over the routing
Fairbanks-Healy Lake-Fairbanks.¹

AIRCRAFT TYPE: Cessna 206 or 207 (5 passenger seats)

TIMING OF FLIGHTS: Flights must be well-timed and well-spaced to
ensure full compensation.

RATE PER ARRIVAL AND
DEPARTURE:² \$179.12

WEEKLY COMPENSATION
CEILING:³ \$716.48⁴

See note on next page

¹ 40-Mile Air Ltd. is allowed to operate service via intermediate points provided such service does not result in more than two intermediate stops in the Healy Lake-Fairbanks market.

² Annual subsidy \$37,256 divided by 208 annual arrivals and departures at Healy Lake.

³ Calendar weeks that fall into separate calendar months will be treated as part of the later month for the purpose of calculating both calendar weeks per month and the monthly compensation.

⁴ 2 arrivals + 2 departures at Healy Lake per week x \$179.12.

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 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 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.

Service List To This Order
Will Be Supplied On Request (202) 366-1055