

Letter to Carrier

Docket OST-8556-14



128354

**U.S. Department of
Transportation**

Office of the Secretary
of Transportation

400 Seventh St., S.W.
Washington, D.C. 20590

Mr. Robert Cohn
Counsel for Peninsula Airways, Inc.
Shaw Pittman
2300 N St. NW
Washington, DC 20037

May 4, 2001

Dear Mr. Cohn:

As you recall, in our rate conference on April 30 we suggested the possibility of Peninsula Airways submitting a joint application for subsidized essential air service (EAS) at Adak, Alaska. Under such a proposal Peninsula would provide Adak's passenger service while Northern Air Cargo or Evergreen, both all-cargo jet operators, would transport the bulk of the mail and freight.

We are requesting that Peninsula Airways submit such a joint application with either Northern Air Cargo or Evergreen. Peninsula may, of course, submit a stand-alone proposal for service to Adak. The joint application that we are requesting necessarily requires Peninsula Airways to agree upon a proposal with one of the two cargo airlines.

As you requested, we discussed the antitrust implications of our request with Thomas Ray, the Department's attorney for antitrust matters. He states that the development of a joint proposal by Peninsula Airways and one of the cargo airlines should not violate the antitrust laws. The Department solicited proposals from all applicants by Order 2001-2-15 for service to Adak. By virtue of our soliciting proposals, it is clear that the Adak market is so small that competitive scheduled service is not presently viable and that no service will be provided without Government subsidy. The Department's staff is requesting Peninsula Airways to submit a joint proposal in the belief that such a proposal may provide the best means of carrying out the Department's responsibility to ensure airline service to Adak. If Peninsula agrees to submit a joint proposal, it would merely be for the Department's consideration along with the proposals of other applicants for securing appropriate service at Adak. In fact, a joint proposal would not preclude Peninsula from submitting, as it has, a stand-alone proposal.

In addition, since the all-cargo applicants in the case provide all-cargo service with jet aircraft, they are not direct competitors of Peninsula, which provides combi service with small aircraft. Peninsula Airways may also choose which cargo airline would join in any joint proposal. And as you know, all of the initial proposals are placed in the public Docket (OST 8556) for all to see.

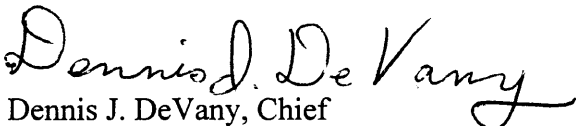
We are requesting a joint proposal due to our eagerness to have the community and Department free to choose, as one option, service with a mixture of large freighter and

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small combi aircraft. Obviously, it would be difficult to present such an option without coordination of the carriers. For example, a double-blind joint proposal could have Peninsula projecting it would carry 50% of the mail and freight and its "partner" projecting it would carry 90% of the mail and freight.

We hope this letter will be of use to Peninsula in deciding whether or not to submit a joint proposal with either Northern Air Cargo or Evergreen.

Sincerely,


Dennis J. DeVany, Chief
EAS and Domestic Analysis

cc.

Orin Seybert
Thomas Ray
Northern Air Cargo
Evergreen
Security