

Order 2004-10-16
Served: October 28, 2004



**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.**

Issued by the Department of Transportation
on the 25th day of October, 2004

Essential Air Service at

**PRESQUE ISLE/HOULTON, MAINE
AUGUSTA/WATERVILLE, MAINE
BAR HARBOR, MAINE
ROCKLAND, MAINE**

**Dockets OST-1997-2784 and
OST-2000-8012**

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

**ORDER SELECTING CARRIER
AND SETTING SUBSIDY RATE**

Summary

By this order, the Department is reselecting Colgan Air, Inc. (Colgan), to provide subsidized Essential Air Service (EAS) at Presque Isle/Houlton, Augusta/Waterville, Bar Harbor and Rockland, Maine, for a two-year period at a combined annual subsidy rate of \$4,312,849.

Background

By Order 2003-6-2, issued June 2, 2003, the Department tentatively reselected Colgan to provide EAS at Presque Isle/Houlton, Augusta/Waterville, Bar Harbor and Rockland, for a combined subsidy of \$4,373,818. That order also requested that carriers interested in providing EAS at the four communities file their competing proposals within 20 days of the service date of the order. In response to that request, a competing proposal was submitted by Mesa Air Group, Inc. d/b/a Air Midwest (Air Midwest). As a result of Air Midwest's submission, the rates tentatively set for

Colgan by Order 2003-6-2 automatically became final rates effective until further Department action by the terms of that order.¹ However, before rate negotiations with Colgan and Air Midwest were completed, and in light of the fact that the Department had instituted new streamlined carrier selection procedures, the Department decided that the best course of action was to issue a new request for proposals and begin the carrier selection case anew.

Therefore, by Order 2004-7-28, issued July 27, 2004, the Department again requested proposals from all carriers interested in providing essential air service at Presque Isle/Houlton, Augusta/Waterville, Bar Harbor and Rockland, Maine. In response to that order, proposals were received from Mesa Air Group, Inc., d/b/a Air Midwest (Air Midwest), and Colgan Air, Inc. (Colgan).

Carrier Proposals

The proposals of both carriers are summarized below:

Air Midwest proposes four service options, all of which would be operated with 19-seat Beech 1900D aircraft. The carrier operates other service in the Northeast with a US Airways code-share, and states in its proposal that it would make reasonable efforts to extend the marketing arrangement to these routes also.

Option 1: Augusta/Waterville, Bar Harbor and Rockland -- \$3,429,099. In the carrier's narrative, this option is referred to as "three-round-trips." However, the carrier's schedule and attendant statistics appear to show that Bar Harbor would receive six round trips a day to Boston, Augusta/Waterville would receive three round trips a day, and Rockland would receive four round trips a day.

Option 2: Augusta/Waterville, Bar Harbor, Rockland, and Presque Isle -- \$4,243,699. Same as Option 1, plus three nonstop round trips per day between Presque Isle/Houlton and Boston.

Option 3: Presque Isle -- \$2,256,635. Five nonstop round trips per day between Presque Isle/Houlton and Boston.

Option 4: Presque Isle -- \$1,352,842. Three nonstop round trips per day between Presque Isle/Houlton and Boston.

¹ See ordering paragraph 6 of Order 2003-6-2.

Colgan proposes two service options with 19-seat Beech 1900D aircraft: The service would be operated as US Airways Express. The carrier states that it currently operates its Presque Isle service with Saab 340 aircraft and would continue to do so as long as the traffic in the market supported the service, even though we are paying for and requiring only 19-seat Beech 1900's.

Option 1: Presque Isle -- \$1,116,423. 19 non-stop round trips each week between Presque Isle and Boston.

Option 2: Augusta/Waterville, Bar Harbor, and Rockland -- \$3,196,426. Augusta/Waterville and Bar Harbor would each receive 12 nonstop and 12 one-stop round trips to Boston each week. Rockland would receive 18 nonstop and 6 one-stop round trips each week to Boston.

Community Comments

In response to our letter to the communities requesting their preferences on the carrier-selection decision, we received comments from the City of Presque Isle, the Augusta State Airport, Hancock County (Bar Harbor), and the City of Rockland.

In a letter dated September 29, the City Manager of Presque Isle supports the selection of the proposal submitted by Colgan. According to the City Manager, Colgan is the current provider of services at the community and there is no compelling reason that would justify disrupting the current provider of services. He further states that Colgan's Saab 340 aircraft is preferred over Air Midwest's Beech 1900 aircraft and that continuation of Colgan's current schedule would not cause a disruption to the public.

In a letter dated September 30, the manager of the Augusta State Airport states that the City of Augusta fully supports the selection of Colgan. He states that Colgan has operated this service for approximately ten years, has proven to be reliable, convenient and competitive, and has been the recipient of the Kennebec Valley Chamber of Commerce President's Award. He further states that Colgan's service is the same or an improvement over the service pattern they currently operate and adequately meets the demands of the traveling public to and from Augusta. On the other hand, he states that the service proposed by Air Midwest has no compelling reason to warrant the City's support because it offers no improvement over what they currently have.

In a letter dated September 8, and signed by all three county commissioners, Hancock County, owner and operator of the Hancock County-Bar Harbor Airport, states that they are satisfied with the current service provided by Colgan, and urges the Department to

award the service for the Augusta, Bar Harbor and Rockland markets to Colgan. They state that Colgan has provided reasonable and reliable scheduled service at the airport since 1991. They further state that Colgan has worked hard to provide service that meets the needs of the market, as is evident by the growth in passengers between 1991 and 2004.

Finally, in a letter dated September 22, the City Manager of the City of Rockland states that the City supports the selection of Colgan. He states that the City has a long-term relationship with Colgan and the continuation of that relationship is recommended. Colgan has experience operating into Rockland's untowered airport in challenging weather conditions, has a good reputation with airport managers, operators and customers and has developed seasonal schedules that accommodate the large fluctuations in customer demand between winter and summer. Colgan's proposed service offers more frequent flights and is less costly than Air Midwest's. The City Manager also states that the Knox County Board of Commissioners, operators of the Rockland Airport, supports this recommendation.

Decision

After careful review of this matter, including the comments submitted by the communities, we have decided to select Colgan to continue providing EAS at Presque Isle/Houlton, Augusta/Waterville, Bar Harbor and Rockland. We will establish an annual subsidy of \$1,116,423 for Colgan's service at Presque Isle/Houlton for two years, and we will establish an annual subsidy of \$3,196,426 for the carrier's service at Augusta/Waterville, Bar Harbor and Rockland, also for two years. We find that the subsidy amounts requested are reasonable for the service to be provided.

In selecting a carrier to provide scheduled EAS, 49 U.S.C. 41734 requires that we consider the applicants' marketing arrangements at the hub for ease of through ticketing and baggage, and community views. Both of these statutory criteria point toward the selection of Colgan. Colgan clearly has the support of all four communities. Regarding the marketing arrangements at the hub, Colgan currently operates the service, and has for some time, as a US Airways Express carrier.

Finally, we always consider the applicants' relative subsidy requirements. In this case we find that the combined subsidy requested by Air Midwest for all four communities (\$4,243,699) is only marginally less than that requested by Colgan (\$4,312,849), and is not a sufficient reason to override the communities' universal support for the continuation of Colgan's service.

Carrier Fitness

49 U.S.C. 41737(b) and 41738 require that we find an air carrier fit, willing and able to provide reliable service before we may compensate it for essential air service. Colgan was found by the Department to be fit, willing and able to engage in scheduled passenger operations as a commuter air carrier by Order 91-8-37, issued August 19, 1991. Most recently, in Order 2004-6-14, the Department found that Colgan continues to be fit to operate as a commuter air carrier and is capable of providing reliable essential air service at Beckley and Bluefield/Princeton, West Virginia. Since that time, no information has come to our attention that would lead us to question the carrier's ability to operate in a reliable manner. The FAA 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 Colgan is fit. Based on the above, we find that Colgan is fit to provide the essential air transportation at issue in this case.

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

ACCORDINGLY,

1. The Department selects Colgan Air, Inc., to provide subsidized essential air service at Presque Isle/Houlton, Augusta/Waterville, Bar Harbor and Rockland, Maine, for the two-year period beginning November 1, 2004, and ending October 31, 2006;
2. The Department sets the final subsidy rate for Colgan Air, Inc., for the provision of essential air service at Presque Isle/Houlton, Maine, as described in Appendix A, to be payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling and shall be determined by multiplying the subsidy-eligible flights completed during the month to Boston by \$582.38;
3. The Department sets the final subsidy rate for Colgan Air, Inc., for the provision of essential air service at Augusta/Waterville, Bar Harbor and Rockland, Maine, as described in Appendix A, to be payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling and shall be determined by multiplying the subsidy-eligible flights completed during the month to Boston by \$440.10;
4. The Department directs Colgan Airways, Inc., to retain all books, records, and other source and summary documents 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;

5. We find that Colgan Air, Inc., continues to be fit, willing and able to operate as a commuter air carrier and capable of providing reliable essential air service at Presque Isle/Houlton, Augusta/Waterville, Bar Harbor and Rockland, Maine;

6. These dockets will remain open until further order of the Department; and

7. We will serve copies of this order on the mayors and airport managers of Presque Isle, Houlton, Augusta, Waterville, Bar Harbor and Rockland, Maine, the Hancock County Board of Commissioners, the Governor of Maine, the Maine Department of Transportation, Colgan Air and Air Midwest.

By:

KARAN K. BHATIA
Assistant Secretary for Aviation
and International Affairs

(SEAL)

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<http://dms.dot.gov>

**COLGAN AIR, INC.
ESSENTIAL AIR SERVICE TO BE PROVIDED AT
PRESQUE ISLE/HOULTON, MAINE**

Effective Period: November 1, 2004 through October 31, 2006

Service: 19 nonstop round trips each weekday between Presque Isle/Houlton and Boston

Aircraft: Beech 1900 (19-seat)

Timing of Flights: Flights must be well timed and well spaced to ensure full compensation.

Subsidy Rate: Per year - \$1,116,423
Per flight - \$582.38 ¹

Weekly Compensation Ceiling: \$22,130.44 ²

¹ Annual compensation of \$1,116,423, divided by the estimated number of annual arrivals/departures at Presque Isle/Houlton completed (1,917), calculated as follows: number of scheduled arrivals at or departures from Presque Isle/Houlton per week (38) x 52 weeks x .97 = 1,917

² The subsidy rate per flight (\$582.38) multiplied by the number of scheduled subsidy-eligible flights per week (38).

**COLGAN AIR, INC.
ESSENTIAL AIR SERVICE TO BE PROVIDED AT
AUGUSTA/WATERVILLE, BAR HARBOR & ROCKLAND, MAINE**

Effective Period: November 1, 2004 through October 31, 2006

Service: Augusta/Waterville and Bar Harbor
12 nonstop and 12 one-stop round trips each week to Boston

Rockland
18 nonstop and 6 one-stop round trips each week to Boston

Aircraft: Beech 1900 (19-seat)

Timing of Flights: Flights must be well timed and well spaced to ensure full compensation.

Subsidy Rate: Per year - \$3,196,426
Per flight - \$440.10³

Weekly Compensation Ceiling: \$63,374.40⁴

Annual compensation of \$1,116,423, divided by the estimated number of annual arrivals/departures at Presque Isle/Houlton completed (1,917), calculated as follows: number of scheduled arrivals at or departures from Presque Isle/Houlton per week (38) x 52 weeks x .97 = 1,917

³ Annual compensation of \$3,196,426, divided by the estimated number of annual arrivals/departures at Augusta/Waterville, Bar Harbor and Rockland completed (7,263), calculated as follows: number of scheduled arrivals at or departures from Augusta/Waterville, Bar harbor and Rockland per week (144) x 52 weeks x .97 = 7,263

⁴ The subsidy rate per flight (\$440.10) multiplied by the number of scheduled subsidy-eligible flights per week (144).

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, such as for unreliable service, the Department may terminate the contract, issue a Request for Proposals, 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.

APPENDIX B

**COLGAN AIR, INC.
ESSENTIAL AIR SERVICE TO BE PROVIDED AT
PRESQUE ISLE/HOULTON,
AUGUSTA/WATERVILLE, BAR HARBOR & ROCKLAND, MAINE
CALCULATION OF SUBSIDY REQUIREMENT**

	<u>Presque Isle/Houlton</u>	<u>Augusta/Waterville, Bar Harbor, Rockland</u>
Total Revenue	\$2,752,771	\$3,677,583
Block Hours	3,035	5,286
Flight Hours	2,428	4,626
Departures @ 97% completion	1,917	6,608
Total Passengers	26,803	33,765
Flying Operations	\$375,952	\$654,879
Fuel	560,832	976,827
Maintenance	955,964	1,665,216
Lease	288,000	576,000
Insurance	<u>160,074</u>	<u>293,636</u>
Total Direct Expenses	\$2,340,822	\$4,166,558
BOS Ground Handling	\$115,254	\$145,190
BOS Landing Fees	58,326	147,342
Station Salaries	244,800	625,907
Outstation Landing Fees	9,411	80,393
Station Rent	18,000	0
USAir Passenger Fees @ \$12.12/per	324,855	409,234
USAir Revenue Related Fees 6.3%	172,390	230,306
Marketing & Promotion	24,000	30,000
Crew Training	120,000	255,000
G&A @ 7.5%	<u>257,089</u>	<u>456,745</u>
Total Indirect Expenses	\$1,344,125	\$2,380,117
Total Operating Expenses	\$3,684,947	\$6,546,675
Profit @ 5%	<u>184,247</u>	<u>327,334</u>
Economic Cost	\$3,869,194	\$6,874,009
Compensation @ at 97% Completion.	\$1,116,423	\$3,196,426
Subsidy per Passenger	\$41.65	\$94.67