



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

Issued by the Department of Transportation
on the 1st day of February, 2008

Essential Air Service at

**MANHATTAN, KANSAS
SALINA, KANSAS**

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

Docket: DOT-OST-2003-15483

Docket: DOT-OST-2002-11376

**ORDER PROHIBITING SUSPENSION OF SERVICE,
SELECTING A NEW CARRIER, AND ESTABLISHING NEW SUBSIDY
RATES**

Summary

By this order, the Department is (a) prohibiting Air Midwest, Inc., a wholly-owned subsidiary of Mesa Air Group, Inc., d/b/a US Airways Express (Air Midwest) from suspending its subsidized essential air services at Manhattan and Salina, Kansas, until Great Lakes Aviation, Ltd. (Great Lakes), begins full replacement service, and (b) selecting Great Lakes to provide those services for a new two-year period at an annual subsidy rate of \$1,997,237. (See Appendix A for a map.)

Background

By Order 2007-12-25, December 21, 2007, the Department re-selected Air Midwest, the incumbent, to continue providing essential air service at Manhattan and Salina for a new two-year period beginning March 1, 2008, at an annual subsidy of \$1,619,566, and using 19-seat Beech 1900D turboprop aircraft. Air Midwest has provided the communities' essential air service (EAS) for several years, and is the only carrier providing scheduled services at both communities. The Department selected Air Midwest over Great Lakes, the only other carrier to submit a proposal.

On January 22, Air Midwest filed 90-day notices of its intent to suspend service, effective April 21, 2008, at 11 EAS communities, including Manhattan and Salina. Air Midwest's parent company, Mesa Air Group, Inc. in its 4Q2007 Revenue and Earnings statement, said that it has incurred "significant losses (at Air Midwest)," and "with little prospect of future profitability we have reluctantly begun to liquidate those assets and operations."

In the recent selection case, Great Lakes had proposed three daily nonstop round trips for Manhattan and two daily nonstop round trips a day for Salina. Great Lakes' Manhattan service would be provided to either Kansas City or St. Louis, and the carrier's Salina service would be provided to either Kansas City or Denver. The carrier proposed a combined annual subsidy of \$1,997,237 for service at both communities, regardless of hub, operating 19-seat Beech 1900D turboprop aircraft.

Community Comments

In light of Air Midwest's notice of intent to suspend service, both communities now support the immediate selection of Great Lakes. In fact, it was the Salina airport that initiated the discussions about replacing Air Midwest with Great. On January 25, the Executive Director of the Salina Airport, on behalf of Saline County and the Salina Chamber of Commerce requested that we vacate the selection of Air Midwest and award the EAS contract to Great Lakes. On January 25, the Manhattan Airport Director made the same request. Neither community stated a preference for a particular hub.

Decision

We have decided to select Great Lakes to provide those services based on its proposal in the recent carrier-selection case, as described earlier, and to allow Air Midwest to suspend its services at Manhattan and Salina as soon as Great Lakes begins replacement service. We will require Air Midwest to continue its existing service¹ until Great Lakes begins full EAS at both communities.

Under ordinary circumstances, when a carrier files notice to suspend service, we initiate a carrier-replacement proceeding by issuing an order requesting proposals from all interested carriers. However, in this case, we concluded a carrier-replacement case for Manhattan and Salina very recently, in late December, and the new rate term does not even begin until March 1. Great Lakes has informed the Department that it is willing to provide replacement service based on its proposal in that recent case, and the communities have asked that we move quickly to announce such a replacement. Given all these circumstances, it is clearly in the interest of the two communities, as well as Air Midwest and Great Lakes, that we act quickly and select Great Lakes to replace Air Midwest as soon as practicable. By now selecting Great Lakes to replace Air Midwest, we are, in essence, simply reconsidering our recent decision in Order 2007-12-25.² We will not designate a specific hub that Great Lakes must serve for each community. Rather, we expect the communities and carrier to work together to develop service patterns that are mutually beneficial.

Carrier Transition

Before Air Midwest suspends its services, we expect it to contact all travelers holding reservations for travel after its suspension date; to notify them of its suspension and of the replacement services that will be operated by Great Lakes, and to assist them in arranging alternate transportation or to provide them with a refund of their ticket price, without penalty, if requested.

¹ Air Midwest provides Manhattan three nonstop round trips a day (18 a week) and Salina two nonstop round trips a day (12 a week) to Kansas City.

² For technical reasons, we are not actually vacating Order 2007-12-25. If the carrier transition does not occur until after March 1, the subsidy rates established by Order 2007-12-25 for Air Midwest's services beginning March 1 need to become effective until the transition does occur.

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 compensate it for providing essential air service. We last found Great Lakes fit by Order 2007-12-22, December 22, 2007, in connection with our selection of it to provide subsidized EAS at seven communities in Montana. Since then, 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 Great Lakes continues to have available adequate financial and managerial resources to provide quality service at the communities at issue here, 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 14 CFR Part 121, and knows of no reason why we should not find that Great Lakes remains fit.

Nonetheless, we are very concerned that Great Lakes has received EAS awards within the last year and has not, to date, fulfilled those obligations. For example, Great Lakes is providing only partial service at Decatur, Marion/Herrin and Quincy, Illinois, even though it was awarded the routes almost a year ago.³ In addition, Great Lakes has not begun service at Merced or Visalia, California, or Ely, Nevada, despite having been awarded those routes last October.⁴ We expect Great Lakes to make every effort to fulfill all of its outstanding EAS obligations.

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

ACCORDINGLY,

1. The Department selects Great Lakes Aviation, Ltd., to provide essential air service at Manhattan and Salina, Kansas, as described in Appendix B, for the two-year period beginning when it starts full EAS at both communities;
2. We set the final rates of compensation for Great Lakes Aviation, Ltd., for the provision of essential air service at Manhattan and Salina, Kansas, as described in Appendix B, for the two-year period beginning when the carriers starts full EAS, payable as follows: for each month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling set forth in Appendix B and shall be determined by multiplying the subsidy-eligible flights completed during the month by \$558.36;
3. We prohibit Air Midwest from suspending service at Manhattan and Salina, Kansas, at the end of its 90-day notice period, and require it to maintain its current service at both communities for an initial 30-day period through May 21, 2008, or until Great Lakes begins full EAS, whichever is first;⁵
4. We direct Great Lakes Aviation, Ltd., to retain all books, records, and other source and summary documentation to support claims for payment and to preserve and maintain such documentation in a manner that readily permits the audit and examination by representatives of

³ See Orders 2007-3-5, March 9, 2007 (Marion/Herrin), 2007-3-10, March 13, 2007 (Quincy), and 2007-4-12, April 10, 2007 (Decatur).

⁴ See Order 2007-10-7, October 4, 2007.

⁵ In accordance with 49 U.S.C. 41734(c), we will extend Air Midwest's service obligation for successive 30-day periods as necessary until replacement service actually begins.

the Department. Such documentation shall be retained for seven years or until the Department indicates that the records may be destroyed, whichever is earlier. 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 Great Lakes Aviation, Ltd., continues to be fit, willing and able to operate as a certificated air carrier and capable of providing reliable essential air service at Manhattan and Salina, Kansas;

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

7. We will serve copies of this order on the Mayors of Manhattan and Salina, Kansas, the Governor of Kansas, the Aviation Division of the Kansas Department of Transportation, Great Lakes Aviation, Ltd., and Air Midwest, Inc.

By:

MICHAEL W. REYNOLDS
Acting Assistant Secretary for Aviation
and International Affairs

(SEAL)

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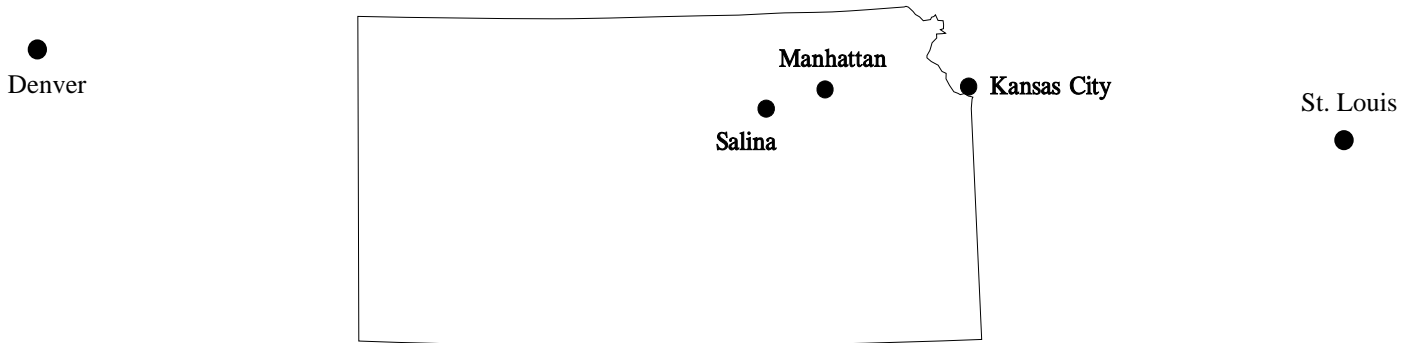
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AREA MAP



- Salina – Denver = 382.1 Statute Miles**
- Salina – Kansas City = 161.4 Statute Miles**
- Salina – St. Louis = 391.9 Statute Miles**
- Manhattan – St. Louis = 339.4 Statute Miles**
- Manhattan – Kansas City = 105.2 Statute Miles**
- Manhattan – Salina = 58.0 Statute Miles**

Great Lakes Aviation, Ltd.
Essential Air Service at Manhattan, Kansas
Subsidy Calculation

<u>Effective period:</u>	Two year period beginning when the carrier inaugurates full essential air service at the community.
<u>Service at Manhattan:</u>	18 nonstop round trips per week to Kansas City or St. Louis.
<u>Intermediate stops and upline service:</u>	No other service to any intermediate or upline points is contemplated under the terms of this proposal; accordingly, no such service may be provided on subsidized flights without prior Department approval.
<u>Timing of Flights:</u>	Flights must be well-timed and well-spaced to ensure full compensation.
<u>Aircraft type:</u>	Beech 1900-D turboprop aircraft (19 passenger seats).
<u>Subsidy Rate per Flight:</u>	\$558.36 ⁶
<u>Weekly Compensation Ceiling:</u>	\$23,451.12 ⁷

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 this 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.

Funds are not currently available for performance under this Order beyond September 30, 2008. The Government's obligation for performance under this Order beyond September 30, 2008, is contingent upon the availability of appropriated funds from which payment for services can be made. No legal liability on the part of the Government for any payment may arise for performance under this Order beyond September 30, 2008, until funds are made available to the Department for performance. If funds are not made available for performance beyond September 30, 2008, the carrier will receive notice in writing from the Department.

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.

⁶ \$1,997,237 compensation, divided by 3,577 departures, calculated as follows: 70 flights per week * 52 weeks * 98% completion factor = 3,577 flights.

⁷ Total of 42 flights per week * \$558.36 = \$23,451.12.

Great Lakes Aviation, Ltd.
Essential Air Service at Salina, Kansas
Subsidy Calculation

<u>Effective period:</u>	Two year period beginning when the carrier inaugurates full essential air service at the community.
<u>Service at Salina:</u>	12 nonstop round trips per week to Kansas City or Denver.
<u>Intermediate stops and upline service:</u>	No other service to any intermediate or upline points is contemplated under the terms of this proposal; accordingly, no such service may be provided on subsidized flights without prior Department approval.
<u>Timing of Flights:</u>	Flights must be well-timed and well-spaced to ensure full compensation.
<u>Aircraft type:</u>	Beech 1900-D turboprop aircraft (19 passenger seats).
<u>Subsidy Rate per Flight:</u>	\$558.36 ⁸
<u>Weekly Compensation Ceiling:</u>	\$15,634.08 ⁹

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 this 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.

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⁸ \$1,997,237 compensation, divided by 3,577 departures, calculated as follows: 70 flights per week * 52 weeks * 98% completion factor = 3,577 flights.

⁹ Total of 28 flights per week * \$558.36 = \$15,634.08.