Posted August 5, 1997

Order 97-8-5

Served August 11, 1997

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

Issued by the Department of Transportation
on the 5th day of August, 1997

Essential Air Service at

AUGUSTA/WATERVILLE, MAINE
BAR HARBOR, MAINE
ROCKLAND, MAINE
KEENE, NEW HAMPSHIRE
RUTLAND, VERMONT

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

Docket OST-97-2784
(49626, 47769, 47770,
46291 and 46292)

ORDER SETTING FINAL RATES

Summary

By this order, the Department of Transportation is setting final annual subsidy rates for Colgan Air, Inc., d/b/a Continental Connection, for its provision of essential air service at Keene, New Hampshire, Rutland, Vermont, and Augusta/Waterville, Bar Harbor and Rockland, Maine, for the period from October 1, 1997, or when the new service pattern is implemented, whichever is later, through December 31, 1998, at the Maine communities and through June 30, 1998, at Keene and Rutland.[1]

Background

By Order 96-9-2, September 3, 1996, the Department reselected Colgan to provide subsidized service at Augusta/Waterville, Bar Harbor and Rockland for the two-year period from October 1, 1996, through September 30, 1998. Colgan was selected to operate ten round trips a week between each community and Boston with 19-seat Beech 1900 aircraft at the annual subsidy rate of $990,239. Previously, Order 94-8-26 had selected Colgan to provide 28 nonstop round trips a week for Bar Harbor and 21 nonstops for Rockland in the peak season, with reduced off-peak service, for subsidy of $905,777 a year; and at Augusta/Waterville, Order 94-7-31 had selected Colgan to provide 4 nonstop round trips a day to Boston for $540,967 a year.

At Keene and Rutland, by Order 96-5-39, the Department reselected Colgan for the two-year period ending April 30, 1998, to operate ten round trips a week to Boston with 19-seat Beech 1900 aircraft at the annual subsidy rate of $764,566. Previously, Order 93-11-6 had selected Colgan to provide a combination of 18 nonstop and one-stop round trips a week, for subsidy set at $968,902 annually.

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1 See Appendix A for a map.

The currently subsidized service levels of ten round trips a week at each community reflected program-wide cutbacks implemented in November 1995 as a result of Congressional reductions in funding for the essential air service program.[2] As such, they were below the specified statutory minimum of two round trips a day, six days a week.

Congress has now provided a funding level of $50 million for the program beginning in fiscal year 1998 -- *i.e.,* beginning October 1, 1997. These funds are provided for by the Rural Air Service Survival Act, which was part of the Federal Aviation Administration reauthorization legislation enacted in 1996. The Department intends to use these funds to restore compliance with the statutory essential air service requirements in the Airport and Airway Safety and Capacity Expansion Act of 1987. Consequently, we requested that Colgan submit a proposal contemplating increased service at all five communities.

Carrier Proposal

Colgan submitted a proposal in response to our request that would provide each community a combination of four nonstop or one-stop round trips a day with 19-seat Beech 1900 equipment.

Specifically, of the three Maine communities, Augusta/Waterville and Bar Harbor would each receive 12 nonstop and 12 one-stop round trips a week, and Rockland would receive 18 nonstop and 6 one-stop round trips a week, with the intermediate stops for each community being one of the other two. Service would continue to be operated into Boston. The annual subsidy rate would be $1,785,960, and would be effective from October 1, 1997, or when Colgan implements the selected service, whichever is later, through December 31, 1998. Keene and Rutland would each receive 18 nonstop round trips a week, as well as 6 one-stops with intermediate stops via each other. Service would be operated into Boston rather than Newark. [3] The annual subsidy would be $1,475,852, and would be effective from October 1, 1997, or when Colgan implements the new service pattern, whichever is later, through June 30, 1998.

Decision

After thoroughly reviewing Colgan's proposal and its recent service histories, we have decided to authorize the subsidy and services proposed by Colgan. The rates appear reasonable for the services at issue and Colgan's performance continues to be satisfactory.

When the Department implemented the program-wide subsidy cuts in November 1995, service at most EAS communities was reduced below statutory minimums and well below viable levels. As a consequence, substantial traffic declines occurred at most communities, and carriers experienced cost inefficiencies in aircraft and personnel utilization as well. With the full fiscal year 1998 funding, we now expect to restore viable service at all of the subsidized EAS communities to levels that are commensurate with statutory and program guidelines. [4]

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[2] See Orders 95-11-28, November 17, 1995, and 96-2-1, February 2, 1996.

[3] Colgan recently became a Continental code-share carrier and, under its working agreement with Continental, has asked that it be permitted to change the communities' hub from Newark to Boston. The communities have agreed to the change, and we have informally approved it.

[4] 49 U.S.C. 41732(b)(1)(A) specifies that eligible EAS communities are to receive at least two round trips a day, six days a week; and the Department's program guidelines (14 CFR 398.5) contemplate that service will be commensurate with a community's historical traffic and its traffic-generating potential.

Keene and Rutland

Keene and Rutland had supported subsidy-free service since the inception of deregulation in 1978. In March 1989, however, the incumbent carrier, Precision Valley, ceased all operations. During the next four years, the communities endured first a service hiatus and then periodically unreliable service. With the inauguration of Colgan's service in late 1993, the communities' traffic began to rebound, and the subsidy necessary to support Colgan's service declined from $1,253,622 in the first year to $968,902 for the most recent full-EAS rate period. However, with the mandated subsidy reductions and consequent reductions of service to only ten round trips a week in November 1995, traffic decreased again.

To restore these markets Colgan now proposes one more round trip each day than it had operated before the cutbacks, i.e., four rather than three. We are willing to authorize this higher level of service on the basis that it does not add to the carrier's overall subsidy need. Colgan will dedicate an entire aircraft to Keene and Rutland, and the available utilization of that equipment will accommodate the fourth round trip. Thus Colgan will incur no added aircraft acquisition or insurance costs, and it expects that its remaining incremental operating costs will be offset by increased traffic and revenue. Overall, therefore, we concluded that Colgan's subsidy proposal for Keene and Rutland is reasonable. [5]

Augusta/Waterville, Bar Harbor and Rockland

Colgan's subsidy need at the three Maine communities is not quite $100,000 per community more than the rates that were in place before the November 1995 program reductions. In light of the need to rebuild traffic levels after nearly two years of degraded service, we find that Colgan's subsidy requirement is reasonable.

The service Colgan proposes differs slightly from that it provided prior to the cutbacks. During the peak season frequencies will be virtually the same as they were pre-November 1995, although there will be fewer nonstops and more one-stops. During the off-peak months Colgan's new service will offer slightly more frequencies for Bar Harbor and Rockland. Colgan's mixing of nonstop and one-stop itineraries within a three-city package is intended to contain its subsidy need while fully meeting the service needs of each community. We find that Colgan's proposal will restore service consistent with demonstrated traffic generating potential and reasonable subsidy expenditure. [5]

We are optimistic that all five communities will enjoy a substantial resurgence in traffic which will again work to reduce Colgan's subsidy requirements in the longer term. In that respect, we expect Colgan, community officials, and major businesses to work together energetically to promote the service improvements we are authorizing. To that end, we have earmarked funds for Colgan to use in its development of these markets. During our next rate-renewal review beginning in early 1998, we will consider the communities' continuing service needs in the light of their traffic responses to the service levels we are authorizing here.

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

ACCORDINGLY,

1. We set the final rate of compensation for Colgan Air, Inc., d/b/a Continental Connection, for the provision of essential air service at Keene, New Hampshire, and Rutland, Vermont, as described in Appendix C, for the period from October 1, 1997, or when Colgan implements the new service pattern, whichever is later, through
June 30, 1998, 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 C and shall be determined by multiplying the subsidy-eligible arrivals and departures completed during the month by $304.80;[6]

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[5] Appendix B contains details of Colgan's compensation requirements for these rates.

[6] See Appendix B for the calculation of this rate, which assumes the use of the aircraft designated. If the carrier reports a significant number of aircraft substitutions, revision of this rate may be required.

2. We set the final rate of compensation for Colgan Air, Inc., d/b/a Continental Connection, for the provision of essential air service at Augusta/Waterville, Bar Harbor and Rockland, Maine, as described in Appendix C, for the period from October 1, 1997, or when Colgan implements the selected service, whichever is later, through December 31, 1998, 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 C and shall be determined by multiplying the subsidy-eligible arrivals and departures completed during the month by $245.89**;** [5]

3. If sufficient funding is not available on October 1, 1997, to compensate Colgan in accordance with ordering paragraphs (1) and (2) above, Colgan will continue to provide the service described in Orders 96-9-2 and 96-5-39 at the subsidy rates established in those orders for the remainder of the present rate period or until such time as increased funding does become available;

4. We direct Colgan Air, Inc., d/b/a Continental Connection, 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 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. This docket will remain open until further order of the Department; and

6. We will serve a copy of this order on the Mayors and airport managers Augusta/ Waterville, Bar Harbor and Rockland, Maine, Keene, New Hampshire, and Rutland, Vermont, the Maine, New Hampshire, and Vermont Departments of Transportation, and Colgan Air, Inc., d/b/a Continental Connection.

By:

CHARLES A. HUNNICUTT
Assistant Secretary for Aviation
and International Affairs

(SEAL)

Appendix A

Map

Colgan Air, Essential Air Service at Augusta/Waterville, Bar Harbor, and Rockland, Maine

	Augusta	Bar Harbor	Rockland	Total
Distances	148	196	152	
Passengers	9,638	15,133	10,789	35,560
Fare	$80	$90	$85	
Total Revenue	$771,040	$1,361,970	$917,065	$3,050,075
Flight Hours 1/				4,498
Flying Ops. @ $94.46/hr.				$424,881
Fuel @ 138.61/hr 2/				$623,468
Maintenance @ $181/hr.				$814,138
Aircraft 3/				$852,456
Insurance 4/				$210,000
Direct Expense				$2,924,943
Pax. Rel. @ $12.12/pax.				$430,987
Rev. Related @ 6.3%				$192,155
Augusta Station				$70,874
Bar Harbor Station				$117,617
Rockland Station				$102,290
Boston Station				$250,681
G & A @ 10.9%				$445,761
Marketing				$70,440
Indirect Expense				$1,680,805
Total Oper. Exp.				$4,605,748
Return at 5%				$230,287
Total Econ. Cost				$4,836,035
Annual Subsidy Need				
97% completion				$1,785,960

1/

A/C #2

BHB-RKD-BOS: 7 flts./week x (20+ 45) min. x 52 weeks x .97/60 =	383
BOS-AUG-RKD-BOS 6 flts./week x (45+ 15+ 45) min. x 52 weeks x .97/60 =	530
BOS-AUG-BOS 5 flts./week x (45+ 45) min. x 52 weeks x .97/60 =	378
BOS-BHB-BOS, 6 flts./week x (60+ 60) min. x 52 weeks x .97/60 =	605
BOS-BHB, 6 flts./week x 60 min. x 52 weeks x .97/60 =	303
A/C #1	
AUG-BOS, 7 flts./week x 45 min. x 52 weeks x .97/60 =	265
BOS-BHB-BOS, 6 flts./week x (60+ 60) min. x 52 weeks x .97/60 =	605
BOS-RKD-BHB-RKD-BOS, 5 flts./week x (45+ 20+ 20+ 45) min. x 52 weeks x .97/60 =	546
BOS-RKD-AUG-BOS, 6 flts./week x (45+ 15+ 45) min. x 52 weeks x .97/60 =	530
BOS-RKD-AUG, 7 flts./week x (45+ 15) min. x 52 weeks x .97/60 =	353
	4,498

2/ 115 gph. x $1.20/gallon + oil.

3/ 2 aircraft @ $426,228 each.

4/ 2 aircraft @ $105,000 each.

Colgan Air, Essential Air Service at Keene, New Hampshire, and Rutland, Vermont

	Keene	Rutland	Total
Distances to Boston	74	127	
Passengers	4,989	12,260	17,249
Fare	$56	$75	
Total Revenue	$279,384	$919,500	$1,198,884
Flight Hours 1/			2,573
Expenses:			
Flying Ops. @ $94.46/hr.			$243,046
Fuel @ 138.61/hr 2/			$356,644
Maintenance @ $181/hr.			$465,713
Aircraft 3/			$426,228
Insurance 4/			$105,000
Direct Expense			$1,596,631
Pax. Rel. @ $12.12/pax.			$209,058
Rev. Related @ 6.3%			$75,530
Keene Station			$73,984
Rutland Station			$86,068
Boston Station			$214,318
G & A @ 10.9%			$245,859
Marketing @ EAS point & Hub			$45,920
Indirect Expense			$950,737
Total Oper. Exp.			$2,547,368
Return at 5%			$127,368
Total Econ. Cost			$2,674,736
Annual Subsidy Need 97% completion			$1,475,852

1/ Keene: 36 flts./week x 52 weeks x 30 minutes x .97/60 = 908 hrs.
Rutland: 36 flts./week x 52 weeks x 40 minutes x .97/60 = 1,211 hrs.
Keene/Rutland: 6 flts./week x 52 weeks x 90 minutes x .97/60 = 454 hrs.

2/ 115 gph x $1.20/gallon plus oil.

3/ 1 aircraft assigned.

COLGAN AIR, INC., d/b/a CONTINENTAL CONNECTION, ESSENTIAL AIR SERVICE AT AUGUSTA/WATERVILLE, BAR HARBOR, AND ROCKLAND, MAINE

EFFECTIVE PERIOD: October 1, 1997, through December 31, 1998

SCHEDULED SERVICE: [1]

Augusta/Waterville: 12 nonstop and 12 one-stop round trips each week to Boston;
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 TYPE: Beech 1900, 19-seats.

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

	Augusta	Bar Harbor	Rockland
SUBSIDY RATE PER ARRIVAL/DEPARTURE	$245.89 [2]	$245.89 [2]	$245.89 [2]
COMPENSATION CEILING EACH WEEK:	$11,802.72 [3]	$11,802.72 [3]	$11,802.72 [3]

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 parities 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.

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[1] Assuming sufficient increased funding; if not, the rate in Order 96-9-2 will continue until it expires or until increased funding becomes available, whichever comes first.

[2] Annual compensation of $595,320 ($1,785,960/3) divided by the estimated annual completed departures and arrivals at a 97 percent completion factor: 48 departures/arrivals x 52 weeks x .97 = 2,421.

[3] Subsidy rate per arrival/departure of $245.89 multiplied by 48 subsidy-eligible arrivals and departures each week.

**COLGAN AIR, INC., d/b/a CONTINENTAL CONNECTION,
ESSENTIAL AIR SERVICE AT KEENE, NEW HAMPSHIRE,
AND RUTLAND, VERMONT**

EFFECTIVE PERIOD: October 1, 1997, through June 30, 1998

SCHEDULED SERVICE: [1]
Keene: 18 nonstop and 6 one-stop round trips each week to Boston;
Rutland: 18 nonstop and 6 one-stop round trips each week to Boston

AIRCRAFT TYPE: Beech 1900, 19-seats.

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

	Keene	Rutland
SUBSIDY RATE PER ARRIVAL/DEPARTURE	$304.80 [2]	$304.80 [2]
COMPENSATION CEILING EACH WEEK:	$14,630.40 [3]	$14,630.40 [3]

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 parities 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.

[1] Assuming sufficient increased funding; if not, the rate in Order 95-12-38 will continue until it expires or until increased funding becomes available, whichever comes first.

[2] Annual compensation of $737,926 ($1,475,852/2) divided by the estimated annual completed departures and arrivals at a 97 percent completion factor: 48 departures/arrivals x 52 weeks x .97 = 2,421.

[3] Subsidy rate per arrival/departure of $304.80 multiplied by 48 subsidy-eligible arrivals and departures each week.