Order: 2017-12-22

Served: December 21, 2017

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

Issued by the Department of Transportation
on the 21st day of December, 2017

Essential Air Service at **SALINA, KANSAS** (FAIN 69A3451860445)[1] under 49 U.S.C. 41731 *et seq.*	**DOT-OST-2002-11376**

ORDER SELECTING AIRLINE AND ESTABLISHING ANNUAL SUBSIDY RATE

Summary
By this Order, the United States Department of Transportation (the Department) is selecting SkyWest Airlines, Inc. (SkyWest), to provide Essential Air Service (EAS) at Salina, Kansas, using 50-passenger Canadair Regional Jet CRJ200 (CRJ200) aircraft for the two-year contract term from April 1, 2018, through March 31, 2020, for an annual subsidy of $2,995,087.[2] SkyWest will provide Salina with 12 weekly round trips to Denver International Airport (DEN) and/or Chicago O'Hare International Airport (ORD). The service will be branded as United Express.

Background
By Order 2016-2-9, issued on February 10, 2016, the Department selected Great Lakes Aviation, Ltd. (Great Lakes) to provide EAS at Salina with 12 nonstop round trips per week to DEN using

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[1] FAIN = Federal Award Identification Number.

[2] Such subsidy is calculated and distributed on a fiscal year basis, subject to the availability of funds.

30-passenger Embraer EMB-120 aircraft for the two-year term from April 1, 2016, through March 31, 2018, for an annual subsidy of $1,999,905.

As the expiration of the current contract approached, the Department issued Order 2017-9-10, September 13, 2017, requesting proposals from airlines for a new contract term. In response to that Order, four airlines submitted proposals: Aerodynamics, Inc. d/b/a SkyValue Airways (SkyValue), Boutique Air, Great Lakes, and SkyWest.

Each airline's complete proposal and the community comments may be accessed online at www.regulations.gov by entering docket number DOT-OST-2002-11376 in the search block.

Proposal of Boutique Air
Boutique Air submitted a proposal with four service options using 8/9-passenger Pilatus PC-12 aircraft for a two-year contract term. The options are summarized below:

Option	***Annual Subsidy***	***Hub(s)***	***Round Trips per Week***
1	$3,682,413	DEN	18
2	$4,510,174	DEN	24
3	$3,817,164	DEN/DFW	18
4	$4,694,627	DEN/DFW	24

Proposal of Great Lakes
Great Lakes submitted a proposal with two options both serving Salina nonstop from DEN. Option 1 would provide 12 weekly round trips using 30-passenger EMB-120 aircraft for an annual subsidy of $2,597,524. Option 2 would provide 12 weekly nonstop round trip using a 50-passenger regional jet for an annual subsidy of $3,737,194.

Proposal of SkyValue
SkyValue submitted a proposal to provide Salina 12 weekly nonstop round trips to DEN using 50-passenger Embraer ERJ-145 aircraft for an annual subsidy of $5,342,838.

Proposal of SkyWest
SkyWest submitted a proposal to provide Salina with 12 weekly round trips to DEN and/or ORD, branded as United Express, using CRJ200 aircraft for an annual subsidy of $2,995,087. SkyWest's proposal is for a two-year contract term.

SkyWest's proposal is contingent on the Department, as well as the community of Salina, waiving the hold-in requirement at 49 U.S.C. § 41734(c),[3] which would allow the airline to terminate its service at the community 120 days after giving notice to the Department and the

[3] 49 U.S.C. § 41734(a) requires that EAS carriers provide the Department and the communities they serve 90 days' notice prior to terminating, suspending, or reducing EAS service to that community. Upon receiving such a notice, the Department issues a request for proposals to identify replacement service. If the Department is unable to locate a replacement carrier during that 90-day period, the Department must require the existing EAS carrier to continue to serve that community for successive 30-day periods, until a replacement carrier is selected.
49 U.S.C. § 41734(b) & (c).

community of its intent to end, suspend, or reduce EAS. SkyWest states in its proposal that it does not foresee this to be an issue and plans to serve Salina for the full contract period. Nonetheless, in the event such action becomes necessary, SkyWest expressed concern that it would be "operationally constrained and kept in a community indefinitely, without the ability to adapt to the marketplace."

Community Comments

On November 2, 2017, the Department requested comments from Salina regarding this EAS air carrier-selection case. In response, the Department received a letter from the City of Salina, signed by the Mayor and City Manager, strongly supporting the proposal put forward by SkyWest. In its letter, the community carefully explains why the other airline bids did not meet Salina's air service needs for a new contract term, in particular the bid by Great Lakes, the incumbent airline. Salina expresses concern about Great Lakes' operating future and the likelihood it would be able to fulfill its EAS obligations. The community also explains:

> The [Great Lakes] proposal lacks certainty and the airline has failed to describe how either option can meet community expectations. When questioned about the Option A for continued EMB-120 service, Salina was informed that [Great Lakes] intends to move EMB-120 operations to Southern California by March 2018. If this is the airline's plan, then continued EMB-120 service at Salina is not an option that can be considered for an EAS subsidy contract scheduled to start on April 1, 2018.
>
> Option B is for Dornier 328 jets operated by Key Lime Air. In Salina's opinion, this is an attempt to set up a "virtual airline" situation at Salina. To our knowledge the Key Lime Air option would not be supported by United Airlines with a code-share agreement and there is no evidence that Key Lime has interline agreements at the Denver hub. With the limited information provided by [Great Lakes] to Salina, the community will not support the air carrier's proposal to use Key Lime Air at Salina.

Regarding Boutique, the community stated clearly that it would not waive its right to twin-engine aircraft. Salina is not entitled to service with twin-engine aircraft because it had only single-engine service in the past, from SeaPort Airlines using Pilatus PC-12 and Cessna Caravan aircraft.[4] Nonetheless, these comments express the community's preference for twin-engine aircraft. Regarding SkyValue, the community stated that even after discussions with the carrier, it was unclear exactly how the SkyValue would serve the community. The Mayor and city manager also stated that the community did not want service by an airline that had no agreements with a larger carrier at the hub.

With respect to SkyWest, the community described SkyWest's proposal as "superior" to the three competing proposals. The community also summarized several advantages the SkyWest proposal had over the other proposals: service being branded as United Express, flights to both DEN and ORD hubs, SkyWest's positive financial outlook, and the airline's pilot recruitment, training, and retention program.

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[4] 49U.S.C. 41732(b)(5) requires "service provided in aircraft with at least 2 engines and using 2 pilots, unless scheduled transportation has not been provided to the place in aircraft with at least 2 engines and using 2 pilots for at least 60 consecutive operating days at any time since October 31, 1978."

The Department also received several letters from Manhattan, Kansas, approximately 88 miles from Salina, objecting to SkyWest's proposal, specifically the proposed service to ORD, on the grounds that it would compete with its own ORD service and bleed off traffic.

Decision

First, the Department acknowledges and appreciates the reliable service Great Lakes has provided Salina during the current EAS contract. After carefully reviewing each airline's proposal and taking into account all factors, the Department has decided to select SkyWest to provide EAS at Salina for the new, two-year contract term from April 1, 2018, through March 31, 2020.

In selecting an airline to provide subsidized EAS for an eligible place not in Alaska, 49 U.S.C. § 41733(c)(1) directs the Department to consider five factors: (a) service reliability; (b) contractual and marketing arrangements with a larger carrier to the hub; (c) interline arrangements with a larger carrier at the hub; (d) community views, giving substantial weight to the views of the elected officials representing the users; and e) whether the carrier has included a plan in its proposal to market its service to the community.

SkyWest has been partner in the EAS program for many years and has a proven record of providing reliable service at all EAS communities it serves. SkyWest's service at Salina would operate as United Express and, thus, would provide passengers access to United Airlines' global network. In addition, SkyWest's service to DEN and ORD, both large hub airports and major hubs for United, will provide customers with seamless connections to the national air transportation system. Furthermore, SkyWest has unanimous support of the elected officials representing the users of the service, a key carrier-selection criterion. The Department also notes the large number of letters (over 50) from a wide spectrum of the actual or potential users of the service expressing support for SkyWest's proposal at Salina.

As noted earlier, SkyWest's proposal is contingent upon an exemption from the requirement at 49 U.S.C. 41734(c), which requires airlines providing EAS to continue to serve the community even after filing a notice to suspend service until a replacement airline begins full EAS. The Secretary may exempt airlines from certain EAS requirements when the exemption is consistent with the public interest. Under 49 U.S.C. § 40101(a)(11), the Secretary of Transportation shall consider as being in the public interest: "maintaining a complete and convenient system of continuous scheduled interstate air transportation for small communities and isolated areas with direct financial assistance from the United States Government when appropriate." Salina overwhelmingly supports SkyWest's proposal and the Department believes that SkyWest's use of CRJ200 aircraft, its codeshare with United, its service to both DEN and ORD, and its support from a broad section of the community will significantly increase passenger enplanements. For these reasons, and the reasons described in the preceding paragraphs, the Department will grant SkyWest an exemption from the requirement at 49 U.S.C. 41734(c) under the authority provided at 49 U.S.C. § 40109(c). As long as Salina remains eligible to receive EAS, the Department would, in response to any notice from SkyWest announcing its intent to terminate, suspend, or reduce service, issue a request for proposals to find a replacement carrier, as soon as it is practicable.

The Department shall make this selection contingent upon its receiving properly executed certifications from SkyWest that it is in compliance with the Department's regulations regarding drug-free workplaces and nondiscrimination, as well as the regulations concerning lobbying activities.[5]

Service Transition

The Department expects Great Lakes and SkyWest to work together to make a smooth transition with no service hiatus. Before Great Lakes suspends service, the Department expects it to notify all passengers holding reservations for travel after the suspension date, to assist those passengers in making alternate air transportation arrangements, or to provide a refund of the ticket price, without penalty, if requested.

If SkyWest is unable to start service on April 1, 2018, Great Lakes is required to serve Salina with the current service pattern until SkyWest begins full EAS at the community. In that case, Great Lakes will be compensated at the annual subsidy rate it proposed in its EAS bid, as described in Appendix D.

Reminder About EAS Eligibility

To remain eligible for EAS, communities must comply with all applicable EAS eligibility requirements. 49 U.S.C. § 41731(a)(1)(C) states that to be eligible for EAS, a community must have an average subsidy per passenger of less than $1,000 during the most recent fiscal year, as determined by the Secretary of Transportation, or face termination of subsidy eligibility, regardless of distance to the hub airport. The $1,000 subsidy per passenger limit applies to all EAS communities outside of Alaska and Hawaii.

In addition, the Department is prohibited from subsidizing air service at a community where the subsidy per passenger exceeds $200, unless the community is more than 210 highway miles from the nearest large- or medium-hub airport. Salina is located fewer than 210 miles from Kansas City International Airport (MCI), a medium-hub airport, and is subject to this eligibility requirement.

Carrier Fitness

49 U.S.C. §§ 41737(b) and 41738 require that the Department find an air carrier fit, willing, and able to provide reliable service before the Department may subsidize it to provide EAS. SkyWest is subject to the Department's continuing fitness requirements, and no information has come to the Department's attention that would cause the Department to question the air carrier's fitness at this time. The Department has contacted the Federal Aviation Administration, and it has raised no concerns that would negatively affect our fitness findings. The Department therefore concludes that SkyWest is reliable and fit to conduct the operations proposed at Salina.

This Order is issued under authority delegated in 49 CFR Part 1.25a(b).

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[5] The certifications are available online under "Reports and Publications" at http://www.transportation.gov/office-policy/aviation-policy/essential-air-service-reports.

ACCORDINGLY,
1. The Department selects SkyWest Airlines, Inc. to provide Essential Air Service at Salina, Kansas, and establishes the annual subsidy rate as described in Appendix C;

2. Under the authority provided by 49 U.S.C. § 40109(c), the Department exempts SkyWest Airlines, Inc. from 49 U.S.C. § 41734(c) for Essential Air Service at Salina, Kansas, under this Order and finds that this exemption is consistent with the public interest at 49 U.S.C. § 40101(a)(11);

3. The Department directs SkyWest Airlines, Inc. 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 from the service date of this Order or until the Department indicates that the records may be destroyed, whichever comes first. 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;

4. The Department finds that SkyWest Airlines, Inc. is fit, willing and able to operate as a certificated air carrier, and capable of providing reliable Essential Air Service at Salina, Kansas;

5. This docket will remain open pending further Department action; and

6. The Department will serve a copy of this Order on the Mayor of Salina, the City Manager of Salina, the Executive Director of Salina Airport Authority, SkyWest Airlines, Inc., Great Lakes Aviation, Ltd., Aerodynamics, Inc. d/b/a SkyValue Airways, and Boutique Air.

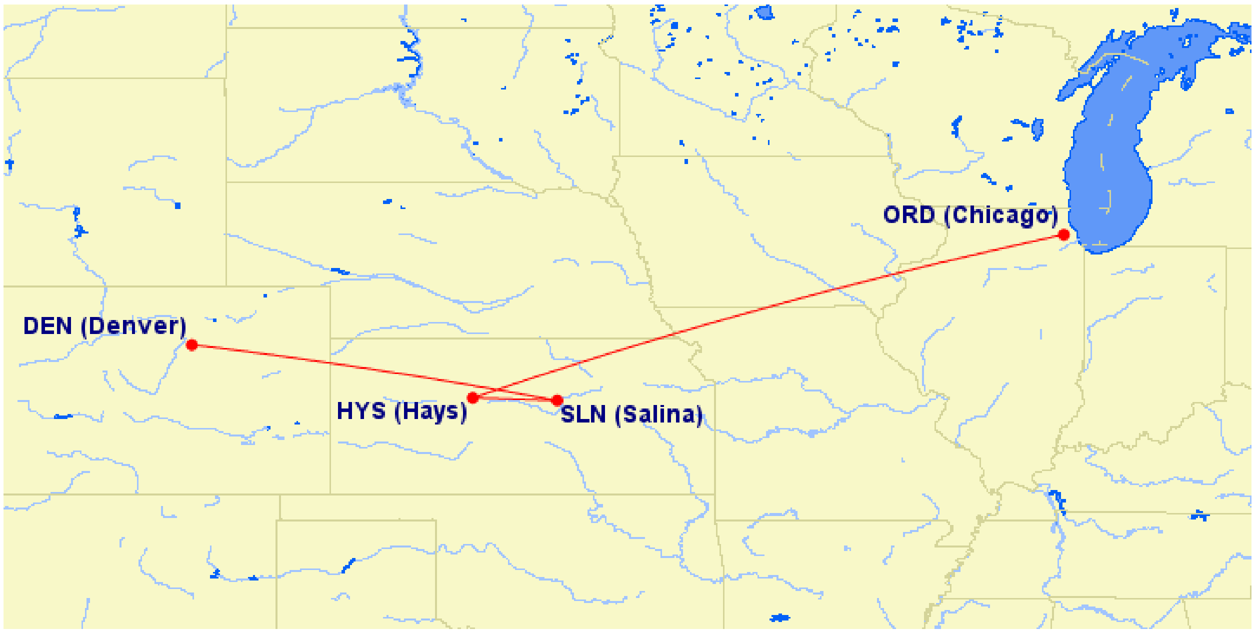
By:

SUSAN MCDERMOTT
Deputy Assistant Secretary
for Aviation and International Affairs

(SEAL)

An electronic version of this document is available at
www.regulations.gov

AREA MAP



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SkyWest Proposal at Salina

SkyWest Airlines
Essential Air Service Bid
10/31/2017

		SLN DEN/ORD
Number of round trips per week		12
Aircraft type		CRJ
Passenger Revenue		
Passengers		28,000
Average fare		$ 88.00
Revenue		$ 2,464,000
Block Time		
Trip block time (minutes)		75
Total scheduled block time		1,560
Total completed block time	98%	1,529
RPMS		
Passengers		28,000
Stage length		324
Total RPMs		9,058,000
ASMs		
Scheduled departures		1,248
Competed departures	98%	1,223
Stage length		324
Available Seats		50
Total ASMs		20,186,400
Revenue		$ 2,464,000
Direct operating expenses		$ 4,008,679
Marketing Costs		$ 20,000
RPM related		$ 114,780
Departure related		$ 896,806
ASM related		$ 188,137
Total expenses		$ 5,228,401
Operating income (loss)		$ (2,764,401)
5% profit margin		$ 230,686
Annual subsidy requirement		**$ 2,995,087**
SkyWest effective rates per unit		
Cost per trip		$ 4,275
Cost per passenger		$ 165
SkyWest cost per block hour		$ 3,420
Effective Subsidy rate per unit		
Subsidy per trip		$ 2,449
Subsidy per passenger		$ 107
Load factor		45%

Great Lakes Proposal at Salina

Great Lakes Aviation, Ltd.

Annual Compensation Requirements for Essential Air Service at
Salina, Kansas to Denver (DEN)
Two Round Trips - EMB-120 Brasilia
98.0% completion factor

Departures:						1,223
Block Hours:						1,916
Revenue Passenger Miles:						7,640,000
Available Seat Miles:						14,015,580
Operating Revenues:						
Passenger:	**SLN-DEN**	20,000	psgrs at	$114.72	$2,294,400	
Other:	(at 0.62% of passenger revenue)				$14,225	
Total Operating Revenues:						$2,308,625
Operating Expenses:						
Direct:	Aircraft and Hull Insurance				$721,710	
	Fuel and Oil				$786,721	
	Flying Operations				$720,359	
	Maintenance				$925,780	
Total Direct Expenses:						$3,154,570
Total Indirect Expenses:						$1,517,953
Total Operating Expenses:						$4,672,523
Operating Loss						($2,363,898)
Profit Element (5.0% of Total Operating Expenses)						$233,626
Annual Compensation Requirement:						**$2,597,524**

Representative Schedule
***** [SLN] Salina, Kansas *****

-------------------- **DEPARTURES** --------------------

FLT	DPT	ARR	TO	EQP	FREQ
3021	8:30	9:10	DEN	EMB	123456
3025	14:20	15:00	DEN	EMB	12345.7

-------------------- **ARRIVALS** --------------------

FLT	EQP	FREQ	FROM	DPT	ARR
3025	EMB	123456	DEN	11:30	13:58
3026	EMB	12345.7	DEN	17:30	19:58

No Upline Scheduling Restrictions

SkyWest Airlines, Inc.
Essential Air Service to be provided at Salina, Kansas
DOT-OST-2002-11376

Annual Subsidy:	$2,995,087
Contract Term:	April 1, 2018, through March 31, 2020
Hub(s):	Denver International Airport (DEN) Chicago O'Hare International Airport (ORD)
Scheduled Service:	12 weekly round trips to DEN and/or ORD
Aircraft:	50-passenger CRJ200
Rate per Flight:[1]	$2,449
Weekly Ceiling:[2]	$58,776

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 plans 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 the 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 this rate, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be ensured 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 stipulated service levels, the carrier may cease to provide service to that specific location without regards 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 Department and carrier do not constitute a total or partial reduction or cessation of payment.

Subsidy contract 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.

Funds may not be available for performance under this Order beyond December 22, 2017. The Government's obligation for performance under this Order beyond December 22, 2017, is subject to the availability of 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 December 22, 2017, until funds are made available to the Department for performance. If sufficient funds are not made available for performance beyond December 22, 2017, the Department will provide notice in writing to the carrier.

All claims for payment, including any amended claims, must be submitted within 90 days of the last day of the month for which compensation is being claimed. For example, claims for service provided in July must be filed by October 31; August claims must be submitted by November 30, and so on.

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[1] Annual compensation of $2,995,087 divided by 1,223 annual departures (24 weekly departures x 52 weeks x 98 percent completion).
[2] 24 arrivals and departures per week multiplied by $2,449.

Great Lakes Aviation, Ltd.
Essential Air Service to be provided at Salina, Kansas
DOT-OST-2002-11376

Annual Subsidy:	$2,597,524
Contract Term:	April 1, 2018, through April 30, 2018[1]
Hub:	Denver International Airport (DEN)
Scheduled Service:	12 weekly nonstop round trips
Aircraft:	30-passenger EMB-120
Rate per Flight:[2]	$2,124
Weekly Ceiling:[3]	$50,976

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 plans 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 the 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 this rate, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be ensured 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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[1] This is only an interim rate in case SkyWest is unable to start service on April 1, 2018.
[2] Annual compensation of $2,597,524 divided by 1,223 annual departures (24 weekly departures x 52 weeks x 98 percent completion).
[3] 24 arrivals and departures per week multiplied by $2,124.