

BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, DC

Essential Air Service at)	
)	
BAR HARBOR, MAINE)	Docket DOT-OST-2011-0185
PRESQUE ISLE/HOULTON, MAINE)	Docket DOT-OST-2000-8012
PLATTSBURGH, NEW YORK)	Docket DOT-OST-2003-14783
)	

**PROPOSAL OF PENINSULA AIRWAYS, INC.
TO PROVIDE ESSENTIAL AIR SERVICE AT
PRESQUE ISLE AND BAR HARBOR, MAINE, AND PLATTSBURGH, NEW YORK**

Correspondence with regard to this document should be addressed to:

Danny Seybert, CEO
Scott Bloomquist, President
PENINSULA AIRWAYS, INC.
6100 Boeing Avenue
Anchorage, AK 99502
907-243-2485

Robert E. Cohn
Patrick R. Rizzi
HOGAN LOVELLS US LLP
Columbia Square
555 Thirteenth Street, NW
Washington, DC 20004
202 637 4999/5659
robert.cohn@hoganlovells.com
patrick.rizzi@hoganlovells.com

Counsel for
Peninsula Airways, Inc.

January 6, 2012

BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, DC

Essential Air Service at)	
)	
BAR HARBOR, MAINE)	Docket DOT-OST-2011-0185
PRESQUE ISLE/HOULTON, MAINE)	Docket DOT-OST-2000-8012
PLATTSBURGH, NEW YORK)	Docket DOT-OST-2003-14783
)	

January 6, 2012

**PROPOSAL OF PENINSULA AIRWAYS, INC.
TO PROVIDE ESSENTIAL AIR SERVICE AT
PRESQUE ISLE AND BAR HARBOR, MAINE, AND PLATTSBURGH, NEW YORK**

Pursuant to DOT Order 2011-11-26 (“Order”),¹ Peninsula Airways, Inc. (“PenAir”) hereby submits its proposals to provide:

- ◇ subsidized, year-round essential air service for two years between Presque Isle/Houlton, Maine, and Plattsburgh, New York, on the one hand, and Boston Logan International Airport, on the other hand; and
- ◇ non-subsidized essential air service during the High Season² for two years between Bar Harbor, Maine and Boston Logan International Airport.

PenAir’s EAS proposals readily satisfy the requisite criteria set forth in the Statute and the Order, and offer superior benefits for passengers and the local communities.

¹ By memorandum dated December 19, 2011, the Department extended the deadline for the submission of proposals to January 6, 2012.

² The High Season covers the period approximately a week before Memorial Day and approximately a week after Labor Day.

PenAir is an established airline with over 50 years of experience in providing service, including EAS service, to small communities. PenAir is based in Alaska and plans to set up a new base of operations to bring its high-quality service to these communities. PenAir has crafted a package of proposals that will be desirable to the communities and meet the operational needs of PenAir. PenAir is submitting an inseparable package of proposals; the EAS proposals to each community are not on a stand-alone basis. Thus, PenAir is willing to make these commitments so long as it receives the designation to provide EAS service at all three communities.

I. PENAIR'S PROPOSALS OFFER SIGNIFICANT CAPACITY, NUMEROUS FREQUENCIES, AND WELL-TIMED SCHEDULES TO EACH OF THE COMMUNITIES.

A. PenAir's Presque Isle/Houlton ("PQI") Proposal

PenAir proposes to operate 19 weekly nonstop roundtrips between PQI and Boston with the following pattern of service: 3 roundtrips per weekday; 2 roundtrips on Saturday; 2 roundtrips on Sunday. See Illustrative Schedule 1. PenAir would operate this service year-round using a pressurized, multi-engine Saab 340 aircraft with up to 33 available passenger seats.³ This Presque Isle/Houlton service would require an annual subsidy of \$4,381,014.

³ Although PenAir's Saab 340 aircraft is configured for 34 passenger seats, operational constraints related to the Presque Isle/Houlton service limit PenAir to offering 33 passenger seats per flight. Accordingly, as with the predecessor operation by Colgan, a third weekday roundtrip is necessary to meet the requirement for 67 seats per day each way.

The principal reason for the sizeable disparity between this subsidy request and the current – albeit insufficient – subsidy for the same number of weekly frequencies using the same type of aircraft is driven by the substantial increases in the costs of fuel since Colgan was selected by the Department. In its March 2010 EAS bid proposal for Presque Isle/Houlton, it appears that Colgan used fuel prices of approximately \$2.98 per gallon.⁴ However, current fuel prices are substantially higher. AirNav reports that fuel prices at PQI were \$5.00 per gallon for Jet A as of November 2011, and over \$8.00 per gallon for Jet A at Boston Logan International. See www.airnav.com (for PQI and BOS). PenAir has used a conservative fuel price of \$5.30 per gallon which is the weighted average of fuel prices reported on AirNav at Presque Isle, Bar Harbor, and Plattsburgh.

As stated above, PenAir's PQI EAS proposal is not submitted on a stand-alone basis, but is dependent on PenAir receiving the EAS designations at Plattsburgh and Bar Harbor (for the High Season).

B. *PenAir's Bar Harbor ("BHB") Proposal*

PenAir would operate 14 weekly nonstop roundtrips between BHB and Boston, without subsidy, for the High Season, using 34-seat, pressurized, multi-engine Saab 340 aircraft. PenAir initially plans to operate its "High Season" BHB-Boston service twice daily each day. See Illustrative Schedule 1. However, PenAir would be

⁴ With projected block hours of 3,485 and total estimated fuel expense of \$1,348,234 (Colgan Proposal for PQI, dated March 26, 2010), and further assuming a fuel burn rate on the Saab of 130 gallons per hour, then the estimated fuel price in Colgan's 2010 proposal was \$2.98.

willing to operate up to 4 daily roundtrips between Boston and Bar Harbor during the High Season, should market demand warrant (as it has in the past).

PenAir will provide this “High Season” service on a subsidy-free basis. However, PenAir’s proposal to provide subsidy-free service is conditioned on PenAir being selected as the carrier to provide subsidized, year-round EAS to Presque Isle/Houlton and Plattsburgh. To be clear, if PenAir is not selected to provide subsidized EAS at Presque Isle/Houlton and Plattsburgh, then it withdraws this proposal to provide subsidy-free EAS service at Bar Harbor.

PenAir understands that Cape Air is submitting a proposal to provide year-round service to Bar Harbor using smaller aircraft, including service during the High Season. PenAir’s larger aircraft, High Season service should provide a beneficial complement to Cape Air’s independently proposed EAS service, and takes into account the unique seasonality of the Bar Harbor-Boston market (as highlighted by the Department in the Order).

C. *PenAir’s Plattsburgh (“PBG”) Proposal*

PenAir proposes to operate 12 weekly nonstop roundtrips between PBG and Boston with the following pattern of service: 2 roundtrips per weekday; 1 roundtrip on Saturday; 1 roundtrip on Sunday. See Illustrative Schedule 1. PenAir would operate this service year-round with a 34-seat, pressurized, multi-engine Saab 340 aircraft. This Plattsburgh service would require an annual subsidy of \$2,713,149. In its January 2010 EAS bid proposal for Plattsburgh, Colgan apparently used fuel prices of approximately

\$4.49 per gallon.⁵ Current fuel prices are substantially higher. AirNav reports \$5.83/gallon of Jet A at PBG as of January 4, 2012, and over \$8.00/gallon of Jet A at Boston Logan International. See www.airnav.com (for PBG and BOS). PenAir has used a conservative fuel price of \$5.30/gallon which is the weighted average of fuel prices reported on AirNav at Presque Isle, Bar Harbor, and Plattsburgh. PenAir's PBG proposal is conditioned on PenAir's receiving the EAS designations for PQI and Bar Harbor (the latter during the High Season).

* * *

The chart below summarizes PenAir's proposals.

	Hub	Frequencies/ Schedule	Duration	Aircraft / Pax Capacity	Subsidy Request
Presque Isle/Houlton	Boston	19 weekly: 3x per weekday 2x on Saturday 2x on Sunday	Year-Round	Saab 340 33 pax	\$4,381,014
Bar Harbor	Boston	14 weekly: 2x per weekday 2x on Saturday 2x on Sunday	High Season	Saab 340 34 pax	No Subsidy
Plattsburgh	Boston	12 weekly: 2x per weekday 1x on Saturday 1x on Sunday	Year-Round	Saab 340 34 pax	\$2,713,149
				TOTAL ANNUAL SUBSIDY	\$7,094,163

⁵ With projected block hours of 1,456 and total estimated fuel expense of \$850,478 (Colgan Proposal for PBG, dated January 13, 2010), and further assuming a fuel burn rate on the Saab of 130 gallons per hour, then the estimated fuel price in Colgan's 2010 proposal was \$4.49.

Although the proposed subsidies for Presque Isle/Houlton and Plattsburgh are higher than Colgan's current subsidy levels on those routes, that disparity is explained and justified by the current substantially higher fuel costs. Moreover, the higher subsidies for the two communities is mitigated somewhat when the Department accounts for the subsidy-free High Season Bar Harbor service that PenAir proposes as part of its package – service for which Colgan currently receives a subsidy. In this regard, Colgan currently receives \$7.23 million annual for its year-round service to the three communities, whereas, despite the substantial increase in fuel costs, PenAir's service to the three communities totals only \$7.10 million.

Each of PenAir's EAS proposals is consistent with or otherwise surpasses the service parameters set forth in the Order for the three communities. (Order, at 3.)

II. PENAIR HAS SUBSTANTIAL EXPERIENCE IN SAFELY AND RELIABLY SERVING SMALL COMMUNITIES, PARTICULARLY IN CHALLENGING WEATHER CONDITIONS. ITS SAAB 340 AIRCRAFT AND ITS RELATIONSHIPS WITH OTHER AIRLINES WILL PROVIDE ADDITIONAL BENEFITS FOR PASSENGERS ON THESE ROUTES.

In selecting a carrier to provide subsidized essential air service, the Department considers four factors: (1) service reliability; (2) contractual and marketing arrangements with a larger carrier at the hub; (3) interline arrangements with a larger carrier at the hub; and (4) community views, see 49 U.S.C. 41733(c)(1), as well as the relative subsidy requirements. See DOT Order 2011-11-26, at 2 n.1. PenAir offers the Department, the communities, and the travelling public substantial benefits.

Service Reliability and Experience. PenAir is Alaska's largest regional airline, flying nearly 222,851 passengers and more than 94.9 million revenue passenger miles in 2010. It is family-owned and has approximately 500 employees, the majority of whom have 10 or more years of service with the airline. PenAir has more than 50 years of operational experience in Alaska's harsh weather environment. It currently operates a fleet of thirty multi-engine and single-engine aircraft, providing vital air service to more than forty small and large Alaska communities. PenAir provides the only scheduled air transportation and reliable access to the outside world for many of these communities. As a subsidized EAS provider to certain communities in Alaska such as Nikolski, Akutan, and Adak, PenAir is very familiar with the Department's EAS Program and with providing critical EAS service to small communities. Indeed, as the Department knows, PenAir was the very first recipient of EAS subsidy when the program began decades ago.

Safety is PenAir's highest priority. PenAir was the first Part 135 U.S. air carrier to become a Part 121 air carrier. The FAA has also awarded the Diamond Certificate of Excellence to PenAir for 10 consecutive years.

In a letter to Secretary LaHood, Senator Snowe of Maine noted that any "selected carrier must have equipment, including appropriate on-board deicing systems designed to provide reliable service in the extreme cold of Maine's winters."⁶ PenAir more than meets the Senator's concern. PenAir's management, crews, mechanics, dispatchers, and Saab 340 aircraft have relatively unparalleled experience in safely and

reliably operating from both small, remote, single-runway airports (e.g., Dutch Harbor, Alaska) and major hubs (e.g., Ted Stevens Anchorage International Airport, Anchorage, Alaska), over water (e.g., the Bering Sea), and in all types of weather, including the harsh winter weather often encountered in Alaska. This experience will be of substantial value to PenAir, these EAS communities, and passengers on these routes.

The Saab 340. As noted above, PenAir proposes operating Saab 340 aircraft on these EAS routes. It is an aircraft with which PenAir has more than 13 years of operational experience in the harsh Alaskan weather. The Saab 340 is well-suited for these routes. It is a dependable, multi-engine aircraft with seats for up to 34 passengers⁷ in a comfortable 2-by-1 seating configuration, thereby addressing the concerns of the Maine congressional delegation and others about being relegated to aircraft with 15 or fewer seats on these routes.⁸ It has a cargo capacity of 2,500 lbs. and cruises at approximately 265 knots. In addition, the Saab 340 aircraft has significant passenger amenities: lavatory facilities, a pressurized cabin, and a flight attendant. It also has a two-pilot cockpit crew.

PenAir has been a longstanding operator of Saab 340 aircraft, and it has substantial experience in operating these aircraft on far longer nonstop, overwater

⁶ Letter from Senator Snowe to Secretary LaHood, dated November 29, 2011 (“Snowe Letter”).

⁷ As explained above, PenAir’s Saab 340 aircraft will offer 34 passenger seats on its Bar Harbor and Plattsburgh services, but – as a result of operational constraints – will offer up to 33 passenger seats on its Presque Isle/Houlton service.

⁸ See Snowe Letter; Letter of Congressman Michaud of Maine, to Secretary LaHood, dated December 1, 2011; see also Letter from the Executive Director of the Department of Defense, Veterans, and Emergency Management, Maine Military Authority, to Secretary LaHood, dated December 5, 2011. [All available in Docket DOT-OST-2000-8012.]

routes than Boston–PQI, Boston–BHB, and Boston–PBG. For example, PenAir regularly flies between Anchorage and Dutch Harbor (692 miles) and between Anchorage and St. Paul Island (767 miles), both of which entail substantial time over the Bering Sea.

Relationships with Other Carriers. PenAir has Electronic Interline Ticket Agreements with Alaska Airlines, Continental Airlines (Colgan, Commutair, Gulfstream), Delta Air Lines (Alantic Southeast, Chautauqua, Comair, Freedom, Shuttle America, Skywest, Pinnacle, Mesaba, Compass), and US Airways (PSA, Air Wisconsin, Republic, Trans States, Piedmont). PenAir also has Interline Agreements with American Airlines, Hawaiian Airlines, Aloha Airlines, United Airlines, and Skywest. These relationships allow for single check-in, single-ticket air travel, making it easier for passengers traveling from/to each of these EAS points to destinations beyond/behind Boston. PenAir's relationship with Alaska Airlines is more extensive, allowing passengers on PenAir flights to earn frequent flyer miles in Alaska Airlines' frequent flyer program. Subject to confirmation with Alaska Airlines, PenAir intends that its passengers on these EAS routes would be able to earn Alaska Airlines frequent flyer miles, which frequent flyer miles can then be redeemed for free travel or upgrades on flights offered not only by Alaska Airlines but also by its partners, Air France, Air Pacific, American Airlines, British Airways, Cathay Pacific, Delta Air Lines, Era Alaska, Icelandair, Kenmore Air, KLM Airlines, Korean Air Lines, LAN, PenAir, and Qantas. PenAir also intends to discuss upgrading its interline arrangements with certain of its interline partner-carriers

to a full codeshare arrangement once PenAir is selected as the carrier for each of these routes.

III. CONCLUSION.

PenAir's proposals fulfill the statutory prerequisites for EAS and offer superior benefits to passengers and these EAS communities. Accordingly, PenAir urges the Department to select it (i) to provide essential air service for two years between Boston, on the one hand, and Presque Isle/Houlton and Plattsburgh, on the other hand, at the subsidy levels presented herein, and (ii) to provide non-subsidized BOS-BHB essential air service during the High Season for two years.

Respectfully submitted,



Robert E. Cohn
Patrick R. Rizzi
HOGAN LOVELLS US LLP
Columbia Square
555 Thirteenth Street, NW
Washington, DC 20004
+1 202 637 4999/5659

**PenAir Subsidy Summary
BOS-PQI**

	BOS-PQI	
	Revenue/Cost	Notes
Revenue	\$4,190,562	1
Fuel	\$2,311,595	2
MX Operations	\$2,431,335	3
Flight Operations	\$820,868	4
Ground Service	\$486,430	5
Landing Fees	\$214,049	5
Ticketing and Passenger Related	\$455,480	5
Aviation Insurance	\$21,926	5
Ownership	\$598,800	6
Overhead	\$822,923	7
Total @ 97% Completion	\$8,163,406	
Operating Income/(Loss)	(\$3,972,844)	
EAS Cycles at 97%	1,917	
Margin at 5%	\$408,170	
Total Economic Cost/Subsidy	\$4,381,014	
Subsidy Per Departure at 97%	\$2,285	
Total Flights (19 roundtrips x 52 weeks)	1,976	
Flights @ 97% Completion	1,917	
Block Hours	3,355	8
Estimated Passengers	29,511	9
Revenue per Passenger	\$142	

Notes

1/ Estimated Net Fare of \$142 x 29,511 passengers.

2/ Assumes a fuel cost of \$5.30 per gallon x fuel burn of 130 gallons per block hour.

3/ Uses PenAir Maintenance plus maintenance burden per block hour (\$724.69).

4/ Uses PenAir Pilot and Copilot Expense per block hour (\$244.67).

5/ Uses Colgan estimate from its proposal submitted March 25, 2010 (Docket DOT-OST-2000-8012).

6/ Assumes rate of \$178.48 per block hour.

7/ Uses PenAir cost per departure (\$401.91) plus an allocation of estimated additional overhead.

8/ Uses the average block hours per flight from T-100 Data from YE Q3 2011 (1.75 hours per flight).

9/ Assumes that PenAir is able to carry all passengers currently carried in the market (From Order 2011-11-26, Appendix B).

**PenAir Subsidy Summary
BOS-PBG**

	BOS-PBG	
	Revenue/Cost	Notes
Revenue	\$1,419,880	1
Fuel	\$1,101,711	2
MX Operations	\$1,158,779	3
Flight Operations	\$391,227	4
Ground Service	\$214,332	5
Landing Fees	\$112,812	5
Ticketing and Passenger Related	\$150,269	5
Aviation Insurance	\$10,058	6
Ownership	\$285,390	7
Overhead	\$511,640	8
Total @ 97% Completion	\$3,936,218	
Operating Income/(Loss)	(\$2,516,338)	
EAS Cycles at 97%	1,211	
Margin at 5%	\$196,811	
Total Economic Cost/Subsidy	\$2,713,149	
Subsidy Per Departure at 97%	\$2,240	
Total Flights (12 roundtrips x 52 weeks)	1,248	
Flights @ 97% Completion	1,211	
Block Hours	1,599	9
Estimated Passengers	20,284	
Revenue per Passenger	\$70	

Notes

1/ Estimated Net Fare of \$70 x 20,284 passengers.

2/ Assumes a fuel cost of \$5.30 per gallon x fuel burn of 130 gallons per block hour.

3/ Uses PenAir Maintenance plus maintenance burden per block hour (\$724.69).

4/ Uses PenAir Pilot and Copilot Expense per block hour (\$244.67).

5/ Uses Colgan estimate from its proposal submitted January 13, 2010 (Docket DOT-OST-2003-14783).

6/ Assumes rate of \$6.29 per block hour.

7/ Assumes rate of \$178.48 per block hour.

8/ Uses PenAir cost per departure (\$401.91) plus an allocation of estimated additional overhead.

9/ Uses the average block hours per flight from T-100 Data from YE Q3 2011 (1.32 hours per flight).

ILLUSTRATIVE SCHEDULE 1

4752	BOS	PQJ	840A	1035A	SAT SUN
4753	BOS	PQJ	900A	1055A	MON-FRI
4754	BOS	PQJ	105P	300P	MON-FRI
4756	BOS	PQJ	635P	820P	SAT SUN
4756	BOS	PQJ	700P	850P	MON-FRI
4750	PQJ	BOS	600A	800A	SAT SUN
4751	PQJ	BOS	610A	810A	MON-FRI
4753	PQJ	BOS	1105A	1255P	SAT SUN
4753	PQJ	BOS	1120A	110P	MON-FRI
4755	PQJ	BOS	325P	520P	MON-FRI

4783	BOS	PBG	210P	335P	MON-FRI
4785	BOS	PBG	635P	800P	SAT SUN
4785	BOS	PBG	700P	825P	MON-FRI
4782	PBG	BOS	600A	715A	SAT SUN
4783	PBG	BOS	610A	730A	MON-FRI
4784	PBG	BOS	405P	525P	MON-FRI

4771	BOS	BHB	820A	935A	MON-FRI
4771	BOS	BHB	840A	955A	SAT SUN
4773	BOS	BHB	1230P	145P	MON-FRI
4773	BOS	BHB	215P	330P	SAT SUN
4772	BHB	BOS	1005A	1130A	MON-FRI
4772	BHB	BOS	1025A	1150A	SAT SUN
4774	BHB	BOS	415P	535P	SAT SUN
4774	BHB	BOS	400P	520P	MON-FRI

BOSPQJ 1:55
 BOSPBG 1:25
 BOSBHB 1:15

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Proposal of Peninsula Airways, Inc., has been served this January 6, 2012, upon each of the following addressees:

Dennis DeVaney, USDOT
Dennis.DeVany@dot.gov

Michael Martin, USDOT
Michael.F.Martin@dot.gov

Essential Air Service Program
EAS@dot.gov

Scott Wardwell
Airport Director, Northern Maine Regional Airport
swardwell@presqueisleme.us

Chris Kreig
Manager, Plattsburgh International Airport
kreigc@co.clinton.ny.us

Garry Douglas
North Country Chamber of Commerce, President & CEO
gfdoug@hotmail.com

M. Allison Navia
Manager, Hancock County-Bar Harbor Airport
manager@bhairport.com


Jonathan Echmalian