

BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, DC

Essential Air Service at)
CRESCENT CITY, CALIFORNIA) Docket DOT-OST-1997-2649
)

**PROPOSAL OF PENINSULA AIRWAYS, INC.
TO PROVIDE ESSENTIAL AIR SERVICE AT
CRESCENT CITY, CALIFORNIA**

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March 22, 2017

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Pursuant to DOT Order 2017-2-10 (“Order”), Peninsula Airways, Inc. (“PenAir”) hereby submits its proposal to provide subsidized, year-round essential air service (“EAS”) between Crescent City, California, and Portland, Oregon, for a period of two years, commencing on October 1, 2017.

PenAir is honored to be the incumbent air carrier for the past 1½ years providing EAS to Crescent City and the surrounding region. In addition to readily satisfying the requisite criteria set forth in the relevant Statute and the Order, PenAir’s EAS proposal would offer superior benefits for passengers and businesses in the local community and its catchment area at a reasonable subsidy level.

I. BACKGROUND.

PenAir is an established airline with over 60 years of experience in providing reliable scheduled service, including EAS, to smaller communities. For many years, PenAir provided reliable and safe EAS for several communities in Alaska, where it is

based.¹ It currently provides EAS to the following nine small communities in five states: Presque Isle and Bar Harbor (seasonal), Maine; Plattsburgh, New York; Crescent City, California; Liberal and Dodge City, Kansas; Kearney, Scottsbluff, and North Platte, Nebraska.

II. PENAIR'S PROPOSAL OFFERS SIGNIFICANT CAPACITY AND WELL-TIMED SCHEDULES TO/FROM PORTLAND, A MAJOR HUB FOR ITS CODESHARE PARTNER ALASKA AIRLINES.

PenAir proposes to continue offering 14 weekly nonstop roundtrips between Crescent City ("CEC") and Portland ("PDX") on a schedule of 2 roundtrips per day. PenAir would operate this service year-round using pressurized, multi-engine Saab 340 aircraft with 30 passenger seats (in a comfortable 2-by-1 seating configuration), a two-pilot cockpit crew, a flight attendant, in-flight beverage/snack service, and an on-board lavatory. This service schedule will provide 420 weekly seats each way between Crescent City and Portland. As detailed in Exhibit PENAIR-1, PenAir's CEC-PDX service would require an annual subsidy of **\$3,244,293** for the first year and **\$3,392,728** for the second year.

Portland is a major destination, in and of itself, for Crescent City travelers and a gateway for connections to other destinations. In an Air Service Survey conducted in 2015, more survey respondents – by a sizeable margin – wanted nonstop service to Portland than any other city/hub.

¹ See, e.g., DOT Order 2009-5-4 (Akutan); DOT Orders 2004-6-20 and 2006-5-21 (Atka and Nikolski).

During the business week, PenAir plans to overnight an aircraft at Crescent City (as the current schedule does), thereby providing Crescent City passengers with an early morning departure to, and an evening arrival from, Portland. This schedule will enable CEC passengers to make same-day roundtrips to Portland.

PenAir's CEC schedule is also designed to facilitate convenient connections at PDX with Alaska Airlines flights to/from numerous other destinations in the United States, including Los Angeles, Dallas, Seattle, San Francisco, and Sacramento. Alaska Airlines is a PenAir codeshare partner, and Portland is one of its major hubs. Alaska Airlines has served Portland for over 35 years and currently operates, on average, about 124 daily departures there.² As a result, PenAir's service proposal offers Crescent City travelers not only convenient nonstop service to Portland, but also seamless, single check-in, single ticket, through-baggage, one-stop service to numerous destinations beyond PDX on Alaska Airlines. Moreover, PenAir participates in Alaska Airlines' frequent flyer program, so passengers on PenAir's Crescent City flights can earn miles in that popular program.

Notably, with PenAir's nonstop EAS to Portland and the community's strong support, CEC has experienced a significant rebound in passenger traffic. As reported in Appendix B of DOT Order 2017-2-10, CEC handled 11,315 passengers for the year ending 3Q 2015. PenAir began service at Crescent City on September 15, 2015, and, for the year ending 3Q 2016 (i.e., when PenAir was providing the EAS), the Crescent

² See <https://newsroom.alaskaair.com/network> (page updated in September 2016).

City service had 17,638 passengers. With its experience serving this route, its enhanced understanding of the Crescent City and Portland markets, and continued marketing efforts, PenAir believes that it can increase passenger traffic even more on the CEC–PDX route (as reflected in its detailed subsidy calculation, see Exhibit PENAIR-1).

III. PENAIR’S SUBSTANTIAL EXPERIENCE PROVIDING EAS AND ITS RELATIONSHIPS WITH OTHER AIRLINES WILL PROVIDE ADDITIONAL BENEFITS FOR PASSENGERS ON THE CEC–PDX ROUTE.

In selecting a carrier to provide subsidized essential air service, the Department considers five 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; (4) community views; and (5) whether the carrier has included a plan in its proposal to market its service to the community, see 49 U.S.C. 41733(c)(1), as well as the relative subsidy requirements. See DOT Order 2014-11-18, at 3 n.4. PenAir satisfies each of these factors, and its proposal provides the Department, the communities, and the travelling public with substantial benefits at a reasonable subsidy level.

(1) **Service Reliability and Experience.** PenAir flew more than 385,000 passengers and more than 116.5 million revenue passenger miles in 2016. It is family-owned and has several hundred employees, the majority of whom have many years of service with the airline. PenAir has more than 60 years of operational experience in Alaska’s harsh weather environment. It currently operates a fleet of 21 multi-engine

passenger and all-cargo Saab 340 and Saab 2000 aircraft, providing vital air service to 8 Alaska communities from Anchorage, as well as to 9 EAS communities in the continental United States.

PenAir is very familiar with the Department's EAS Program and the vital importance of providing safe, reliable, and convenient EAS to small communities. Indeed, as the Department knows, PenAir was the very first recipient of an 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 awarded the Diamond Certificate of Excellence to PenAir for 16 consecutive years. PenAir's management, crews, mechanics, and dispatchers have relatively unparalleled experience with Saab 340 aircraft in safely and reliably operating from both small, remote airports without control towers (e.g., Dutch Harbor, Alaska; Presque Isle, Maine) and major hubs (e.g., Ted Stevens Anchorage International Airport; Boston Logan International Airport), over water (e.g., the Bering Sea; the Atlantic Ocean), and in all types of weather, including the harsh winter weather often encountered in Alaska and the Northeast United States. Moreover, PenAir now has nearly two years of experience operating in the Northern California-Oregon region and serving CEC and the Portland hub. This experience will continue to be of substantial value to PenAir, Crescent City, the local catchment area, and passengers traveling between CEC, a small airport on the Pacific Ocean, and PDX, a major hub.

As noted above, PenAir proposes operating its Saab 340 aircraft on this EAS route, an aircraft with which PenAir has more than 15 years of operational experience. The Saab 340 has been well-suited for the proposed route between Crescent City and Portland. It is a dependable, multi-engine aircraft with a two-pilot cockpit crew, seats for 30 passengers, a cargo capacity of 2,500 lbs., and a cruise speed of approximately 265 knots. Each passenger on the Saab 340 has an aisle and/or window seat (i.e., no “middle seats”). In addition, the Saab 340 aircraft has significant passenger amenities for this category of aircraft: lavatory facilities, a pressurized cabin, a flight attendant, and in-flight beverage/snack service.

(2) Contractual and Marketing Arrangements with a Larger Carrier at the Hub. As described above, Alaska Airlines – with its hub at PDX – is, and long has been, a codeshare partner with PenAir. With this relationship, PenAir will carry the AS designator code on its CEC–PDX flights. Passengers will benefit from single check-in, single-ticket, through-baggage air travel, making it easier for passengers traveling between Crescent City and the numerous nonstop destinations served by Alaska Airlines from its Portland hub. Such itineraries will continue to be available on Alaska Airlines’ website and certain major on-line travel booking sites. Seats for travel just between Crescent City and Portland could also be purchased via PenAir’s website, Alaska Airlines’ website or booking sites. Passengers on PenAir’s CEC–PDX flights would also be able to earn frequent flyer miles in Alaska Airlines’ frequent flyer program, which frequent flyer miles can then be redeemed at certain levels for free travel or

upgrades on flights offered not only by Alaska Airlines but also by Alaska's many other foreign and domestic partners.

(3) **Interline arrangements with a Larger Carrier at the hub.** In addition to its codeshare, interline, and frequent flyer relationships with Alaska Airlines, PenAir also has Electronic Interline Ticket Agreements with Delta Air Lines (and its regional carriers), United Air Lines (and its regional carriers), and American Airlines (and its regional carriers), and plans to have one with Virgin America in summer 2017. These arrangements also facilitate single-ticket, single check-in, and through-baggage for travelers.

(4) **Community Views.** PenAir would not presume to speak for the community, and understands that the Department will solicit the community's views as part of its decision-making process.

(5) **Marketing Proposal for CEC-PDX.** If selected for this EAS, PenAir will continue a number of local marketing efforts, in conjunction with the local communities, as part of an initiative to continue raising awareness and brand recognition about the CEC-PDX service. These local marketing efforts would include advertising in local print and radio/TV media, social networking avenues, community involvement, and donation engagement. These combined efforts of PenAir and the CEC community have proved successful, as evidenced by the significant rebound in CEC-PDX traffic (+6,323 passengers) year-over-year between the YE 3Q 2015 and YE 3Q 2016. And, PenAir has committed another \$20,000 to similar marketing efforts for the two-year period of the next EAS contract. See Exhibit PENAIR-1. In addition, PenAir will also continue to

leverage Alaska Airlines' large market presence in Portland to promote its nonstop Crescent City–Portland service. And, as explained above, these flights would be available for purchase through PenAir's and Alaska Airlines' websites, as well as certain on-line booking sites that consumers frequently use to assist in their travel planning.

IV. CONCLUSION.

PenAir's proposal to operate CEC–PDX service with 14 weekly frequencies fulfills the statutory prerequisites for EAS and offers superior benefits to passengers, businesses, and agencies in Crescent City and its catchment area. Accordingly, PenAir urges the Department to select it to continue providing essential air service for two years between Portland, Oregon, and Crescent City, California, at the subsidy levels presented herein, beginning on October 1, 2017.

Respectfully submitted



Robert E. Cohn
Patrick R. Rizzi
HOGAN LOVELLS US LLP

Counsel to Peninsula Airways, Inc.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Proposal of Peninsula Airways, Inc., for EAS at Crescent City, California, has been served this March 22, 2017, upon each of the following addressees:

Kevin Schlemmer, USDOT
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Michael Martin, USDOT
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Essential Air Service Program
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Matthew Leitner
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A handwritten signature in black ink, appearing to read "Pat R." followed by a stylized flourish.

EXHIBIT PENAIR-1

Scheduled Flights R/T @ 98%	715.4
Scheduled Departures @ 98%	1430.8
Block Hours Per R/T	2.4
Total Scheduled Block Hours	1716.96
Passengers Enplaned	22000
Average O/W Fare	\$116.00
Annual Revenue	\$2,552,000.00

Cost Build-up from Unit Cost Rates

				Year 1	Year 2
<u>Cost Item</u>	<u>Cost Driver</u>	<u>Unit Cost Year 1</u>	<u>Unit Cost Year 2</u>	Annual Expense	Annual Expense
Ownership	Monthly	\$32,000.00	\$32,000.00	\$384,000.00	\$384,000.00
Maintenance	Blk Hrs	\$818.00	\$818.00	\$1,404,473.28	\$1,404,473.28
Pilots	Blk Hrs	\$388.00	\$407.40	\$666,180.48	\$699,489.50
FAs	Blk Hrs	\$66.50	\$69.83	\$114,177.84	\$119,886.73
Traffic Related Expenses	Passengers	\$47.59	\$49.26	\$1,047,019.88	\$1,083,665.57
Departure Related Expenses	Departure	\$459.51	\$485.93	\$657,474.04	\$695,268.64
Overhead Related Expenses	Departure	\$150.04	\$169.54	\$214,675.46	\$242,583.27
Insurance	Monthly	\$22,000.00	\$22,000.00	\$264,000.00	\$264,000.00
Fuel	Blk Hrs	\$383.98	\$383.98	\$659,277.54	\$659,278.30
Total Scheduled Completed Flight Operating Expenses				\$5,411,278.52	\$5,552,645.30
<u>Other Costs</u>					
CEC ARFF	Monthly	\$5,000		\$60,000.00	\$60,000.00
Hangar Expense	Monthly	\$3,250		\$39,000.00	\$39,000.00
Marketing	One Time	\$20,000		\$10,000.00	\$10,000.00
Total Non-Scheduled Flight Operating Expenses				\$109,000.00	\$109,000.00
Total Annual Expense				\$5,520,278.52	\$5,661,645.30
Margin @ 5%				\$276,013.93	\$283,082.27
TOTAL COSTS				\$5,796,292.45	\$5,944,727.57
ANNUAL REVENUE				\$2,552,000.00	\$2,552,000.00
TOTAL SUBSIDY				\$3,244,292.45	\$3,392,727.57