

BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, DC

Essential Air Service at)	
)	
BAR HARBOR, MAINE)	Docket DOT-OST-2011-0185
PLATTSBURGH, NEW YORK)	Docket DOT-OST-2003-14783
PRESQUE ISLE/HOULTON, MAINE)	Docket DOT-OST-2000-8012
)	
Under 49 U.S.C. 41731 <i>et seq.</i>)	

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

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January 3, 2018

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Pursuant to DOT Order 2017-11-3 (“Order”), Peninsula Airways, Inc. (“PenAir”) submits its proposal to continue providing essential air service (“EAS”) for the following communities:

- ***Presque Isle, Maine (“PQI”) and Plattsburgh, New York (“PBG”).*** Subsidized, year-round EAS for two years between each of these communities and Boston Logan International Airport (“Boston” or “BOS”).
- ***Bar Harbor, Maine (“BHB”).*** Subsidized EAS for two years between Bar Harbor and Boston only during the High Season¹.

I. BACKGROUND

In June 2012, PenAir established an East Coast operation based in Boston and, as part of its East Coast system, began operating year-round subsidized EAS between Boston and Plattsburgh/Presque Isle, as well as non-subsidized EAS between Boston

¹ The High Season covers the period from approximately May 25th (just before or on Memorial Day weekend) and approximately September 3rd (just after Labor Day).

and Bar Harbor during the High Season. See DOT Order 2012-3-2. Since that original award, PenAir has been re-selected to provide the EAS at these three communities twice. See DOT Orders 2014-6-4 and 2016-4-10.² During the past five years, PenAir has provided high quality and reliable service, and has gained substantial knowledge and experience about operating EAS flights, for Presque Isle, Plattsburgh, and Bar Harbor. PenAir has also worked closely with each of the three communities and expanded its brand awareness and service offerings at the communities. PenAir desires to continue providing EAS as described in this proposal.

II. PROPOSED SERVICES AND SUBSIDIES

PenAir has developed service and subsidy proposals to meet the service needs of the three communities and the operational needs of PenAir, with subsidy amounts necessary to fairly compensate PenAir for the corresponding EAS services.

PenAir would accept an award for (i) the subsidized EAS on all three EAS routes (PQI, PBG, BHB) as outlined herein or (ii) the subsidized EAS for Plattsburgh and Presque Isle without an award of the subsidized Bar Harbor service. In other words, PenAir's proposal to provide EAS to Plattsburgh and Presque Isle is indivisible, and PenAir will not accept an award for just the subsidized Bar Harbor service.

(a) Presque Isle. PenAir would continue to provide 19 weekly nonstop roundtrips between PQI and Boston using its Saab 340 aircraft with the following pattern of service: 3 roundtrips per weekday; 2 roundtrips on Saturday; and 2 roundtrips on

² Starting with the award in 2016, PenAir provided the High Season Bar Harbor service on a subsidized basis.

Sunday, on the same or substantially similar schedules to those currently being operated at PQI. The annual subsidy for the Presque Isle–Boston service would be \$6,549,770 for Year 1 and \$6,744,106 for Year 2. See Appendix A (subsidy calculation for PQI).

The proposed annual EAS subsidies for Presque Isle are higher than the current PQI subsidies. These higher subsidies reflect significant cost increases at PQI and BOS beyond PenAir's control, including increases in airport-related expenses that PQI has announced and rent increases due to PenAir's requirement to move from Terminal B to Terminal E at Boston Logan International Airport (BOS). With respect to PQI cost increases, the landing fee at PQI is increasing from \$330 per landing for CY 2017 to \$770 per landing for the second half of 2018 (more than double the 2017 rate), to \$570 per landing for CY 2019, and to \$590 per landing for the first half of 2020. The total minimum monthly landing fees are increasing by approximately \$560,000 from the current two-year EAS contract period to the next two-year period (i.e., July 2018 – June 2020). In addition, the costs of PenAir's real estate and hangar leases at PQI are also substantially increasing (by amounts ranging from \$370 - \$570 per month), as is the monthly ARFF fee.

With respect to BOS, American Airlines has notified PenAir that it will no longer be able to operate from its space in Terminal B at BOS. Massport can only accommodate PenAir in Terminal E, and, indeed, Massport has informed PenAir that any other non-jetway aircraft (like the Saab 340) would also be required to operate out of Terminal E. Operating out of Terminal E will result in a projected annual expense

increase of more than \$380,000 annually, which PenAir has allocated pro rata among its PQI, PBG, and BHB subsidy calculations.

Notably, the unit costs (flight operations, maintenance, admin, depreciation) used in calculating PenAir's subsidy request are otherwise based on PenAir's actual expense data for its current Northeast Saab 340 operations for the year ending September 30, 2017.

(b) Plattsburgh. PenAir proposes to continue operating 12 weekly nonstop roundtrips between PBG and Boston using its Saab 340 aircraft with the following pattern of service: 2 roundtrips per weekday; 1 roundtrip on Saturday; and 1 roundtrip on Sunday. Year 1 envisions operations at PBG on the same or substantially similar schedules to those currently being operated at PBG. However, Year 2 contemplates – upon availability of additional flight crews – an early morning departure and late evening return service at PBG (as the community desires). PenAir maintains a maintenance base at PBG, where it employs 12 maintenance and inspection personnel (not including its airport operations personnel). The annual subsidy for Plattsburgh–Boston service would be \$3,206,419 for Year 1 and \$3,723,989 for Year 2. See **Appendix B** (subsidy calculation for PBG).

The proposed annual EAS subsidies for Plattsburgh are higher than the current PBG subsidies. These higher subsidies reflect increases in airport-related expenses beyond PenAir's control that PBG has announced and the increased rent of operating at Terminal E at BOS. For example, PenAir's monthly hangar rent is increasing by \$8,723 per month (*i.e.*, \$104,676 annually), and PBG's pro rata portion of the terminal move at BOS amounts to approximately \$124,060 and \$127,782 for Year 1 and Year 2,

respectively. The proposed Year 2 subsidy is also higher because of the increased costs to enable the early morning departure/late evening arrival at PBG. In addition, PenAir has allocated an additional \$25,000 to its advertising budget for each of Year 1 and Year 2 in order to enhance its marketing to the Canada catchment area around Plattsburgh.

(c) **Bar Harbor**. PenAir proposes to continue operating 14 weekly nonstop roundtrips (twice daily service) with its Saab 340 aircraft between BHB and Boston for the High Season (beginning approximately just before or on the Memorial Day weekend and ending approximately just after the Labor Day weekend) according to the following schedule: one midday roundtrip, and, per the community’s request, an early morning BHB departure and a late evening BHB arrival. The subsidy for this Bar Harbor–Boston service during the High Season would be \$408,954 for Year 1 and \$453,533 for Year 2 (each of which is lower than the current EAS subsidy). See Appendix C (subsidy calculation for BHB).

The chart below summarizes PenAir’s subsidized EAS proposals for Presque Isle, Plattsburgh, and Bar Harbor.

* * *

	Hub	Frequencies/ Schedule	Aircraft	Year 1 Subsidy Request	Year 2 Subsidy Request
Presque Isle	Boston	19 weekly, Year-Round: 3x per weekday 2x on Saturday 2x on Sunday	Saab 340	\$6,549,770	\$6,744,106
Plattsburgh	Boston	12 weekly, Year-Round: 2x per weekday 1x on Saturday	Saab 340	\$3,206,419	\$3,723,989

		1x on Sunday			
Bar Harbor	Boston	14 weekly, High Season; 2x daily	Saab 340	\$408,954	\$453,533

III. PENAIR’S SUBSTANTIAL EXPERIENCE IN SAFELY AND RELIABLY SERVING THESE AND OTHER SMALL COMMUNITIES WITH ITS SAAB 340 AIRCRAFT AND ITS CODESHARE AND INTERLINE RELATIONSHIPS WITH OTHER AIRLINES WILL CONTINUE TO PROVIDE SUBSTANTIAL BENEFITS FOR PASSENGERS ON THESE ROUTES.

PenAir’s EAS proposals readily satisfy the criteria set forth in the Statute and the Order, and would continue to offer substantial benefits for passengers and the local communities. In selecting a carrier to provide subsidized essential air service, the Department considers several 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 of actual and potential users of the air service, and (5) whether the carrier has included in its proposal a plan 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 2014-1-21, at 2 n.4. PenAir’s EAS proposal offers the Department, the communities, and the travelling public substantial benefits.

(1) Service Reliability and Experience.

PenAir has been operating air service in the challenging weather environment in Alaska for more than half a century and in the northeast United States for five years. It is a family-owned carrier, has several hundred employees, and operates an all-Saab turboprop aircraft fleet. In 2016, PenAir flew more than 286,000 passengers and more than 116.5 million revenue passenger miles. For YE September 30, 2017, PenAir had

more than 50,000 enplanements on its “East Coast” network. As the Department knows, PenAir was the very first recipient of an EAS subsidy when the program began decades ago. It has provided subsidized EAS to small communities in Alaska, and it currently provides such service to Presque Isle, Plattsburgh, and Bar Harbor.

Safety is PenAir’s highest priority. It 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 16 years. And, the FAA recently approved PenAir’s Safety Management System (SMS), making PenAir the only carrier headquartered in Alaska to have received approval of its SMS. See **Appendix D** (Press Release). PenAir’s management, crews, mechanics, dispatchers, and Saab 340 aircraft have relatively unparalleled experience in safely and reliably operating from small, remote, single-runway airports and major hubs, over water, and in all types of weather, including harsh winter weather. This experience is of substantial value to PenAir, these EAS communities, and passengers on these routes. Indeed, despite the sometimes challenging weather and air traffic environment in the Northeast, PenAir had a 97% completion rate for its Plattsburgh and Presque Isle services in CY 2016 and 96% for Bar Harbor.

As noted above, PenAir proposes operating Saab 340 aircraft on these EAS routes. It is an aircraft with which PenAir has more than 17 years of operational experience in the harsh Alaskan weather and five years of experience in the Northeast. The Saab 340 has been well-suited for the PQI, PBG, and BHB routes. It is a dependable, pressurized, multi-engine aircraft with seats for 30-33 passengers in a comfortable 2-by-1 seating configuration such that each passenger has an aisle and/or

window seat (i.e., no “middle seats”), thereby enhancing the on-board passenger experience. It has a two-person cockpit crew and enjoys significant passenger amenities for this category of aircraft: lavatory facilities, a pressurized cabin, a flight attendant, and in-flight beverage/snack service. It has a cargo capacity of 2,500 lbs. and cruises at approximately 265 knots.

**(2) Contractual/Marketing Arrangements With A Larger Carrier At The Hub;
(3) Interline Arrangements With A Larger Carrier At The Hub.**

Codeshare: PenAir has a longstanding marketing relationship with Alaska Airlines, including codesharing. Alaska Airlines places its designator code on PenAir’s flights between Boston and Presque Isle/Plattsburgh/Bar Harbor, and, as such, these flights have high visibility not only on PenAir’s and Alaska Airlines’ websites, but also on third-party travel distribution systems such as Orbitz. Travelers on PenAir’s Plattsburgh, Presque Isle, and Bar Harbor flights can also earn and redeem frequent flyer miles as part of Alaska Airlines’ frequent flyer program. Frequent flyer miles earned on PenAir’s flights can be redeemed for free travel or upgrades on flights offered not only by Alaska Airlines but also by some of its U.S. and foreign airline partners.

Interline: PenAir has Electronic Interline Ticket and Baggage agreements with Alaska Airlines (and its regional carriers), Delta (and its regional carriers), United (and its regional carriers), and American (and its regional carriers), each of which flies to Boston. These arrangements facilitate single-ticket, single check-in, and through-baggage, making it easier for passengers traveling to/from these EAS communities to travel to/from destinations beyond Boston. JetBlue has informed PenAir that it would

discuss interline arrangements with PenAir, if it is selected as the EAS carrier for PQI, PBG, and BHB, out of Boston.

(4) *Community Views.*

PenAir has safely and reliably provided service to Presque Isle, Plattsburgh, and Bar Harbor for the past five years. It employs local people at each community for airport operations, and – in the case of Plattsburgh – it employs an additional 12 personnel at its maintenance base. PenAir has been active in each local community, and it plans to continue providing “Honor Flights” for military veterans (if it is re-selected as the EAS carrier). That said, PenAir would not presume to speak for the communities, and understands that the Department will solicit each community’s views as part of its decision-making process.

(5) *Marketing Plan.*

If selected for this EAS, PenAir will continue its local marketing efforts, in conjunction with the local communities, as part of its ongoing initiative to raise awareness and enhance brand recognition about its services. These local marketing efforts would include advertising in local print and radio/TV media, social networking avenues, community involvement, and donation engagement, as PenAir has done in these communities in the past. Moreover, the marketing reach for these services would be expanded because these flights would also be available for purchase through PenAir’s website, Alaska Airlines’ website, and certain on-line booking sites that consumers frequently use to assist in their travel planning. In addition, as noted above, PenAir has allocated an additional \$25,000 to its advertising budget for each of Year 1

and Year 2 in order to enhance its marketing to the Canada catchment area around Plattsburgh.

IV. 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 to provide essential air service for another two years between Boston, on the one hand, and Plattsburgh, Presque Isle, and Bar Harbor, on the other hand, at the subsidy and service levels presented herein.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Proposal of Peninsula Airways, Inc., has been served this January 3, 2018, upon each of the following addressees:

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PQI EAS Proposal

Presque Isle, ME- Boston, MA

APPENDIX A

	YEAR 1	YEAR 2
	PQI	PQI
Annual Flights	1,917	1,917
Fare	\$117	\$117
Block Time	1.5	1.5
Annual Block Hours	2,876	2,876
Passengers	28,710	28,710
	Note 1	Note 1
	Note 2	Note 2
	Note 3	Note 3
REVENUE	\$ 3,369,980	\$ 3,369,980
Flight Operations	\$ 2,691,686	\$ 2,772,436
Maintenance	\$ 2,007,099	\$ 2,067,312
Admin	\$ 3,965,315	\$ 4,084,274
Depreciation	\$ 241,542	\$ 241,542
Terminal E vs B Increase	\$ 201,312	\$ 207,351
PQI Landing Fee Increase \$34,760 and \$18,960 /mth	\$ 322,320	\$ 237,000
PQI Real Estate Lease Increase \$370 and \$570 /mth	\$ 5,640	\$ 8,040
AARF Increase \$300 and \$450 /mth	\$ 4,500	\$ 6,300
PQI Hangar Increase \$664 /mth	\$ 7,968	\$ 8,207
	Note 4	Note 4
	Note 4	Note 4
	Note 4	Note 4
	Note 4	Note 4
	Note 4	Note 4
	Note 4	Note 4
TOTAL Operating Expenses	\$ 9,447,381	\$ 9,632,462
Profit @ 5%	\$ 472,369	\$ 481,623
[(Total Direct+Indirect)*.05]		
ECONOMIC COST	\$ 9,919,750	\$ 10,114,085
ANNUAL SUBSIDY	\$ 6,549,770	\$ 6,744,106

Note 1: Annual flights= 19 weekly round trip flights x 0.97 = 1,917 segments
 Note 2: Current average fare FYTD with a 6.5% decrease
 Note 3: Annual passengers based on actual YE 09.30.17 with a 7% increase
 Note 4: Monthly increase over YE 09.30.17 expenses.

APPENDIX D



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PRESS RELEASE

December 14, 2017

PENAIR RECEIVES HIGHEST SAFETY VERIFICATION FROM THE FAA

ANCHORAGE – PenAir is among the first air carriers in the United States and the only carrier headquartered in the state of Alaska to have received approval by the FAA for its Safety Management System (SMS). This approval and validation in achieving the highest safety verification in the industry shows their strong commitment to safety.

PenAir began implementing, the FAA mandated Safety Management System in 2010 as a voluntary pilot project. Now, per FAA regulation 14 CFR part 5, every air carrier in the United States is required to have an approved and accepted SMS by the FAA’s deadline of March 9, 2018. PenAir has been recognized by many external sources for its accident free safety record and the continuous improvement of their safety culture.

“This has been a huge undertaking for us but we could not be more pleased with the outcome. Distinction through safety has been our emphasis and has driven our employees to be the very best when it comes to our #1 goal of – safety, safety, safety. Every employee has played a major role for the last seven years towards this distinction and it has paid off. It has been paramount in our daily operations and even in the daily lives of our employees. We are proud to be amongst the first in the nation, and the only regional carrier in Alaska, to receive this recognition for our outstanding and distinguished safety system,” says Sr. V.P. of Safety and Flight Ops, Brian Whilden.

What does this SMS program mean to the travelling public? With an SMS program, air carriers must assess and analyze potential hazards and then implement hazard controls and preventative maintenance to ensure that identified risks are mitigated to the lowest possible level. It means that the aviation industry is striving to be one of the safest industries in the country.

“Most recently we had our bi-annual audit by our codeshare partner, Alaska Airlines. The auditors completing the audit indicated they have done thousands of audits and indicated PenAir was one of the best they had seen. This is a direct reflection of our Safety Management System and the role it plays throughout our operations,” said Whilden. “Receiving these words of approval from Alaska Airlines as well as the FAA’s validation of our Safety Management System emphasizes our commitment to the safety of our customers and employees.”

About PenAir

Celebrating 60 plus years of service, PenAir began in 1955 in Bristol Bay, Alaska. Today, PenAir is one of the largest operators of Saab 340 turboprop aircraft in the country. PenAir currently serves eight communities in southwest Alaska. They also operate scheduled flights between Boston and Presque Isle, ME, Plattsburgh, NY and Bar Harbor, ME. For flight details and promotions more info can be found at penair.com.

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