



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

Issued by the Department of Transportation  
On the 4<sup>th</sup> day of November, 2003

INTRA-ALASKA MAINLINE

SERVICE MAIL RATES

Docket OST-2003-14695

(Docket OST-95-429)

**ORDER REVISING FINAL MAINLINE MAIL RATES**

**Summary**

By this order, the Department is establishing new intra-Alaska mainline mail rates effective four days after the service date of this order because of revised data submitted by Everts Air Cargo (EAC).<sup>1</sup> We are also directing EAC, Lynden Air Cargo (LAC), and Era Aviation (ERA), to begin compiling past-period data so that in the next update we can examine whether it is appropriate to add their data in determining the long-term trends in unit costs.<sup>2</sup> We have also referred EAC to our Office of Enforcement for investigation.

**Revised Rate**

Order 2003-8-8, August 6, 2003, directed all parties to show cause within 20 days of the service date of the order why the mail rates specified in that order should not be made final for the period October 1, 2003, through September 30, 2004. No objections were filed, and the order became final. On October 10, 2003, Northern Air Cargo (NAC), filed a petition for reconsideration of that order. There have been no objections to that petition. In its petition, NAC stated that EAC had materially overstated its enplaned tons, thus significantly understating its terminal costs and causing overall intra-Alaska mainline mail rates to be understated. NAC stated on page 2 of its petition that apparently EAC had reported transported tons instead of enplaned tons, a fundamental error. We have reviewed EAC's revised reports, submitted October 8, 2003, and have confirmed the position of NAC's petition on that error.<sup>3</sup> The linehaul rate is not affected by EAC's error, but the terminal rate increases by 11.6%--from \$.2166 per pound to \$.2417 per pound for the non-priority, and from \$.2521 to \$.2813 for the priority.

<sup>1</sup> Besides EAC, the carriers currently included in the Alaska Mainline mail rate calculation are Alaska Airlines, Northern Air Cargo, and Lynden Air Cargo.

<sup>2</sup> EAC and LAC were added to the mainline cost pool only recently, and we have included their data in calculating the current years costs, but have only included the costs of AS and NAC in calculating long-term cost trend, used for projecting inflation increases.

<sup>3</sup> NAC, in fact, underestimated the impact of EAC's errors, and we have corrected for that here.

### **Effective Date of the New Rate**

Because no party objected to Order 2003-8-8 in the period prescribed for objection, that order automatically became final on August 26, 2003, and the rate became effective October 1. It is our general policy not to adjust final rates retroactively, except under rare circumstances. All of the parties had the opportunity to examine the rate and its calculation in Order 2003-8-8 and to object before it became final. None of the parties, including NAC, have asked for retroactive rate relief. We will therefore make the new rate effective on a prospective basis only. While Order 2003-8-8 was to be final through September 30, 2004, the mail rate in that order is incorrect. We will therefore make the new rate effective four days after the service date of this order, in order to afford all parties time to review the order and for the carriers to adjust their prospective billings to the Postal Service.

### **Enforcement**

Had EAC's error not been corrected, and we understand NAC rather than EAC detected the error, we estimate the mainline carriers in the cost pool would have been underpaid \$3,000,000 this year.<sup>4</sup> It also appears that EAC made similar errors, confusing transported and enplaned tons in prior years. Also, it appears that EAC may have made errors in reporting financial information in the second and fourth quarters of 2002, which it detected at the last minute on July 30, 2003. As discussed in Order 2000-11-9, we excluded EAC from the cost pool, though not the tender of mail, for a year because of its unreliable data.

Because rates are established as a class, individual carrier(s) failures to provide complete and accurate data as required by our regulations affect all other carriers in the rate and, of course, our proceedings and the Postal Service. It is imperative that carriers comply with our requirements in reporting their data, and the failure to do so by EAC may violate 14 CFR 241 and constitute an unfair and deceptive practice and unfair method of competition in violation of 49 U.S.C. 41708. We are therefore referring this matter to our Enforcement Office for appropriate action.

### **Postal Service Comment**

The Postal Service did not object to Order 2003-8-8, but commented on August 26, 2003. The Postal Service has requested that we consider adding EAC, LAC, and ERA in the next update to the calculation of the long-term trend. Before Order 2000-11-9 was issued, only NAC and AS were in the cost pool. Since adding EAC and LAC to the cost pool, we have updated the rate by separately calculating the current year costs. However, since the rates are made effective on a final, prospective basis, but are based on historical costs, we must estimate what costs will be in the forthcoming year. Otherwise, in a period of increasing costs the carriers would always be underpaid. Since 1997 we have

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<sup>4</sup> 59,641 tons enplaned, or 119,282,000 pounds, with 80% non-priority and 20% priority:  
95,425,600\*(\$.2417-\$.2166) = \$2,395,182 Non-priority; 23,856,400 lbs.\*(\$.2813-\$.2521) = \$696,607  
Priority.

estimated the increasing costs based on a ten-year moving average that included NAC and AS only, because we did not have the costs for EAC and LAC for earlier periods.

We are hereby directing EAC, ERA, and LAC to submit the required data so that in the next rate update based on data for YE 3/31/04, we may examine modifying our rate calculation accordingly. Order 2000-11-9 first added LAC's data to the mainline cost pool. Order 2000-8-14 tentatively included EAC in the mainline cost pool, but Order 2000-11-9 subsequently excluded them because it found their data unreliable. Order 2001-7-1 finally added EAC to the mainline cost pool. EAC and LAC have stated they could compile the necessary information back through YE 3/31/00.

Also, the Postal Service has requested that we add ERA to the pool of carriers. Up until now, we have completely excluded ERA because they were smaller and thus had less impact on the rate. We have asked ERA to submit the required information<sup>5</sup> as well as the other carriers so that we may consider adding them, both to the next rate period and to the long-term trend. Depending on the results of our analysis, we may accede to the Postal Service's request.

**ACCORDINGLY,**

1. We make final the rates established in Appendix A, for the period beginning four days after the service date of this order, through September 30, 2004, or until further order of the Department, whichever occurs later;
2. We direct Everts Air Cargo, Lynden Air Cargo, and ERA Aviation to provide the necessary information from the year ended March 31, 2000, going forward, so that we may examine whether they should be added to the calculation of the long-term trend, and, in the case of ERA, to the mail rate update;
3. This docket shall remain open until further order of the Department; and
4. We will serve this order upon all parties on the Service List for this Docket.

By:

**MICHAEL W. REYNOLDS**  
Acting Assistant Secretary for Aviation  
and International Affairs

(SEAL)

*An electronic version of this document is available on the World Wide Web  
<http://dms.dot.gov>*

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<sup>5</sup> LAC, EAC, and NAC submit the required mail rate information on their schedule P-2 of Form 41.

## INTRA-ALASKA MAINLINE CLASS SERVICE MAIL RATES

Effective: Four days after service date of order, through September 30, 2004, or until further Department action, whichever comes later.

	Base Year Rates 1/	Adjustment Factors 2/	Proposed Final Rates 3/	Current Rates: Orders 02-9-6 and 02-10-12	Change from Prior Rate
<b>Linehaul Charge per Billing Ton-Mile</b>					
Priority	\$1.1969	90.87%	\$2.2845	\$2.3469	-2.66% 4/
Non-priority	\$.7246	90.87%	\$1.3830	\$1.4208	-2.66% 4/

**Terminal Charge per Pound Originated**

Priority	\$.1697	65.75%	\$.2813	\$.2340	20.21% 4/
Non-priority	\$.1458	65.75%	\$.2417	\$.2011	20.19% 4/

1/ Per Order 82-11-23

2/ See Appendix B

3/ Column (1) increase by Column (2).

4/ Any differences due to rounding.

**INTRA-ALASKA CLASS SERVICE MAIL RATES COST ADJUSTMENT FACTORS**  
(Expenses in Thousands of Dollars)

	Base Year Ended <u>9/30/80</u> 1/	Year Ended <u>3/31/03</u> 2/	Average Annual Change YE 3/31/02 to YE 3/31/03 3/	Midpoint to Midpoint Change 4/	Estimated Unit Cost at <u>4/1/04</u> 5/	Percent Change 1980 Base Year to <u>4/1/04</u> 6/
Unit Cost per Available Ton-Mile						
Fuel		\$0.23635	Inflation Not Applicable to Fuel		\$0.236350	
<u>Nonfuel</u>		<u>\$0.49122</u>	4.66%	7.10%	<u>\$0.526097</u>	
Total	\$0.399469	\$0.72757			\$0.762447	90.87%
Unit Cost per Ton Enplaned (App. C)	\$191.54	\$303.77	2.98%	4.51%	\$317.47	65.75%

1/ Per Order 82-11-23, updated most recently in Order 97-12-24.

2/ See Appendix C.

3/ See the regression results in Appendix D. As indicated in Order 97-9-37, we will rely on the most recent fuel costs, and apply no inflation factor to those costs. Also, these are trends for Alaska and NAC only, unweighted by mail carried.

4/ Reflects the fact that from the mid point of the reporting period to the midpoint of the prospective rate is 1 and 1/2 years.

1.0466 x 1.0233; where 1.0233 is the average annual unit cost increase projected for a 6-month period.

1.0298 x 1.0149; where 1.0149 is the average annual unit cost increase projected for a 6-month period.

5/ Fuel, annual unit cost of \$.236325; Non-fuel linehaul \$.491236 x 1.0710; Terminal, \$303.77 x 1.0451.

6/ \$.762439 in preceding column divided by \$.399469 in the base period, and \$317.47 in the preceeding column divided by \$191.54 in the base period.

Operating Expenses, Alaska Airlines, Northern Air Cargo, Lynden Air Cargo, and Air Cargo Express  
Intra-Alaska Class Service Mail Rates--Year Ended March 31, 2003

	Alaska Airlines (AS)				Northern Air Cargo (NAC)		Lynden (LAC)	Tatonduk (EAC)		Total 1/
	#621. B-737-2C	#617. 737-400	#612. 737-700	#634. 737-900	#711. B-727	#216. DC-6	#556. Hercules	#150. C-46	#218. DC-6	
<b>Linehaul Costs</b>										
Domestic Fuel	\$19,385,512	\$86,042,396	\$36,445,854	\$11,030,393	\$5,288,082	\$5,539,586	\$3,112,450	\$530,091	\$5,032,662	
<u>Dom. N-Fuel</u>	<u>\$65,393,257</u>	<u>\$293,563,358</u>	<u>\$84,796,829</u>	<u>\$23,111,357</u>	<u>\$8,687,138</u>	<u>\$8,701,780</u>	<u>\$35,890,105</u>	<u>\$1,170,133</u>	<u>\$8,457,732</u>	<u>\$529,771,689</u>
Total	\$84,778,769	\$379,605,754	\$121,242,683	\$34,141,750	\$13,975,220	\$14,241,366	\$39,002,555	\$1,700,224	\$13,490,394	
Intra-AK Skd. B.Hrs.	20,853	10,139	970	100	2,942	6,057	1,849	1,534	7,541	51,985
Intra-AK Adj. Fuel B.Hrs.	---	---	---	---	---	---	3,469	---	---	3,469
Domestic Total	26,357	159,579	71,186	22,578	3,194	7,064	12,130	1,586	7,659	311,333
Intra-AK Fuel	\$15,337,333	\$5,466,784	\$496,621	\$48,855	\$4,870,863	\$4,749,897	\$1,658,956	\$512,711	\$4,955,125	\$38,097,145
<u>Intra-AK N-Fuel</u>	<u>\$51,737,511</u>	<u>\$18,651,821</u>	<u>\$1,155,465</u>	<u>\$102,362</u>	<u>\$8,001,741</u>	<u>\$7,461,308</u>	<u>\$5,470,800</u>	<u>\$1,131,768</u>	<u>\$8,327,426</u>	<u>\$102,040,202</u>
Total	\$67,074,844	\$24,118,605	\$1,652,086	\$151,217	\$12,872,604	\$12,211,205	\$7,129,756	\$1,644,479	\$13,282,551	\$140,137,347
Intra-AK Skd. ATMs	97,872,002	48,157,805	4,123,106	597,142	20,922,305	15,712,725	11,665,706	1,156,248	16,531,292	216,738,331
\$/ATM, Fuel	\$0.15671	\$0.11352	\$0.12045	\$0.08181	\$0.23281	\$0.30230	\$0.14221	\$0.44343	\$0.29974	\$0.17577 1/
<u>\$/ATM, N-Fuel</u>	<u>\$0.528624</u>	<u>\$0.387306</u>	<u>\$0.280241</u>	<u>\$0.171420</u>	<u>\$0.382450</u>	<u>\$0.474858</u>	<u>\$0.468964</u>	<u>\$0.978828</u>	<u>\$0.503737</u>	<u>\$0.470799 1/</u>
Total	\$0.685334	\$0.500826	\$0.400691	\$0.253230	\$0.615260	\$0.777158	\$0.611174	\$1.422258	\$0.803477	\$0.646569 1/
Intra-AK Mail RTMs	6,453,848	581,675	11,424	5,283	4,283,032	3,711,033	3,905,191	655,275	9,281,705	28,888,466
RTM % of Total	22.34%	2.01%	0.04%	0.02%	14.83%	12.85%	13.52%	2.27%	32.13%	100.01% 2/
\$/ATM, Fuel	\$0.03501	\$0.00228	\$0.00005	\$0.00002	\$0.03453	\$0.03885	\$0.01923	\$0.01007	\$0.09631	\$0.236350
<u>\$/ATM, N-Fuel</u>	<u>\$0.11809</u>	<u>\$0.00778</u>	<u>\$0.00011</u>	<u>\$0.00003</u>	<u>\$0.05672</u>	<u>\$0.06102</u>	<u>\$0.06340</u>	<u>\$0.02222</u>	<u>\$0.16185</u>	<u>\$0.491220</u>
Wtd. \$/ATM, Total	\$0.153100	\$0.010060	\$0.000160	\$0.000050	\$0.091250	\$0.099870	\$0.082630	\$0.032290	\$0.258160	\$0.727570
<b>Terminal Costs</b>										
			<u>Alaska (AS)</u>		<u>NAC</u>	<u>LAC</u>	<u>EAC</u>			
#6900					\$12,584,817		\$6,488,305			
System Tons Enpl.					43,019		27,070			
Intra-AK Skd. Svc. \$			\$58,188,835		\$11,159,850	\$3,461,870 3/	\$5,448,786			\$78,259,341
Intra-AK Skd. Svc. Tons			160,506		38,148	11,173	22,733			232,560
\$/Ton Enplaned			\$362.53		\$292.54	\$309.84	\$239.69			\$336.51 1/
AK Mail Tons Enplaned			19,202		16,916	8,112	15,411 4/			59,641
Mail Tons % of Total			32.20%		28.36%	13.60%	25.84%			100.00% 2/
Wtd. \$/Ton Enplaned			\$116.73		\$82.96	\$42.14	\$61.94			\$303.77

1/ Many of the subtotals in this column are not used to calculate the rate, which is weighted by amount of mail, but are shown for comparison purposes only.

2/ Due to rounding, may not necessarily sum to 100%.

3/ Lynden developed its intra-Alaska costs by directly assigning all terminal costs, and then allocating the remainder on intra-Alaska and system departures.

4/ Mainline aircraft only.