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UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
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on the 8th day of June, 2004

INTRA ALASKA BUSH SERVICE MAIL RATES

Docket OST-2003-14694

**ORDER SETTING FINAL RATE UNTIL FURTHER DEPARTMENT ACTION AND
REQUESTING COMMENTS**

Summary

By this order, the Department is adjusting the linehaul portion of the mail rate set by Order 2004-2-12 payable to intra-Alaska bush mail carriers providing service with Part 121 bush aircraft.¹ These rates will be effective on the first Saturday after the service date of this order on a final basis, not subject to retroactive adjustment, and will remain in effect until further Department action. The terminal portion of the rate will remain unchanged from that set in Order 2002-8-7.

We have made three changes to the ratemaking methodology in Order 2004-2-12:

(1) we have excluded from the rate calculation data of bush carriers operating on mainline routes, (2) we have established a separate, higher 121 rate for short-runway airports that only STOL² aircraft with higher operating costs, such as Era Aviation's DeHavilland Twin Otters, can operate into, and (3) we have, for the first time in the bush mail rates proceeding, established a "taper" to the payout provisions of the rate.

¹ Aircraft with ten seats or more operated in scheduled passenger service must comply with the Federal Aviation Administration's "Part 121" regulations. Aircraft with fewer than ten seats may be operated under Part 135 of the FARs.

² Aircraft capable of making short-takeoffs and landings.

The order confirms our tentative decision in Order 2003-10-10³ to require that at least one round trip a week be both scheduled and operated with qualified Part 121 equipment for the lower Part 121 rate to apply. We require the Postal Service to use the Department's official miles, as stipulated by our regulations, in applying these rates and for those of the mainline operators as well. Finally, we request the parties to comment on the draft directive by our Bureau of Transportation Statistics (BTS) regarding their proposed calculation of inter-village passenger and freight counts to enable the Postal Service to better determine, consistent with the Rural Service Improvement Act of 2002 (RSIA), those carriers eligible for mail tender.

This order follows the process in Order 2004-2-12, setting the initial Part 121 rate, and Order 2004-3-34, setting the initial Amphibious rate, each of which requested comments from all parties in response to the setting of each of those rates. Those rates are likely to be the least expensive and most expensive of the class rates, respectively. We have yet to establish rates and request comments on the terminal portion of the rate and the linehaul for Part 135 operators. Nevertheless, there is overlap among many of the issues addressed in setting the Part 121 and Amphibious rates, and those will be addressed for the two remaining classes. While we have not concluded the investigation of the Part 121 and Amphibious rates, it is clear that we are making progress in our continuing effort to make the rates more accurately reflect the will of Congress that rates accurately reflect the cost of delivering the mail, and we tentatively conclude that the rates for Part 121 operations, as modified in this order, meet that goal.

Background

Order 2004-2-12, February 13, 2004, established final bush mail rates for qualifying service with Part 121 aircraft. The order reduced the linehaul rate for such service from \$11.1627 per mail revenue ton mile (RTM) to \$4.5271 per RTM. We received objections to the order from the Consolidated Carriers, Hageland Aviation, Inc. (Hageland), Arctic Transportation Services, Inc. (ATS), Tanana Air Service, Inc. (Tanana), Larry's Flying Service, Inc. (LFS), the Postal Service, Era Aviation, Inc., (ERA), and Peninsula Airways, Inc. (Peninsula).

ISSUE 1: DATA SELECTION CRITERION, RATE BASED ON FRONTIER'S DATA

Objections Common to All Carriers

All of the carriers objected that Order 2004-2-12 erred by including the costs of operating Part 121 aircraft on "mainline routes." To correct the matter, they recommend excluding some or all of Peninsula's operations, which constituted three-quarters of total mail RTMs in Order 2004-2-12. In addition, on that same statutory basis, they would exclude significant portions of both Frontier's and ERA's data. Hageland states the following in its filing, February 27, 2004:

Our objection is based on the fact that the Department did not establish the rate in a manner that is consistent with the definitions of the law and as a result, the rate is not compensatory.... The Department made no distinction over what kind of routes these

³ Order 2003-10-10 requested comments on a number of different issues, among them the minimum level of Part 121 service needed in order to establish the prevailing rate.

[19-seat, Part 121] aircraft operated. The law clearly states that 121 bush passenger carriers are distinguished, in part, by the nature of their routes. In the context of Order 2004-2-12, it is inconsistent with the law to use data from any operations that were not conducted on "bush routes." More specifically, it is inappropriate and inconsistent with the law to base the rate on any operations of 121 bush passenger aircraft that were conducted on routes where mainline carriers were tendered bypass mail, or on routes where bypass mail was not tendered at all. (Page 2.)

Postal Service Comments

The Postal Service disagrees. In footnote (6) of its filing, the Postal Service states the following:

Section 5402 affords no support for any distinction of aircraft operation by market. While the statute defines both "bush route" (Section 5402(a)(6)) and "mainline route" (Section 5402(a)(12)), "bush carrier" is defined solely with regard to the load capacity of the carrier's aircraft (Section 5402(4)) and its operation on a "city pair route" without regard to whether that route is a bush route or a mainline route.

The Postal Service further states that excluding such operations would not be "consistent with class rate principles and, if implemented, would perpetuate the over-compensation that bush carriers have enjoyed for many years." (Page 3.) It notes that all of the calculations contained in Order 2004-2-12 are for Part 121 bush aircraft operations. "Segregating data concerning [Part 121 bush] aircraft on the basis of whether they operate in a mainline market or a bush market is an artificial exercise. Whether a market would be classified as mainline or bush for such an exercise is a function of who else is in that market, a distinction that has no bearing whatsoever on the cost characteristics of the aircraft." (Page 4.)

The Postal Service notes that Order 2004-2-12, Appendix A, shows that Peninsula's unit costs are consistent with Frontier's because they differed only slightly from each other. It was ERA's costs per RTM that were double those of the other carriers, and so perhaps ERA's costs should be excluded.⁴ "If Penair's lower costs are attributable to the fact that most of their operations are in mainline markets, as the objectors contend, why are Frontier's costs also much lower than ERA's? If neither Penair's nor Frontier's lower costs compared to ERA's are attributable to the bush or mainline classification of the markets they serve, should the Department consider establishing separate rate classes based on distance or some other criterion?" (Page 6).

Decision

The carriers' critical argument is a statutory one -- that RSIA directs the Department to exclude data for bush routes that are also served by mainline equipment from the calculation of bush rates. The carriers are correct. This conclusion is based on linking several separate definitions and directives from different parts of RSIA, as outlined below. This link is a logical relationship

⁴ Per Order 2004-2-12, Appendix A, Peninsula's Saab 340's cost \$3.9567, its Metros \$4.1688, and Frontier's B-1900s \$4.5472, and ERA's Twin Otters \$8.3365 per RTM. The average stage length for Peninsula's Saabs was 338 miles and 416 miles for its Metros. The average stage lengths computed from Appendices A and B of this order, after excluding mainline-type operations, were 157 miles for Frontier's Beech 1900s and 70 miles for ERA's Twin Otters.

when looking at the statute as a whole. The relevant parts of the law (39 U.S.C. 5402) are as follows:

(h)(6)(A) -- The Secretary shall establish new bush rates for passenger carriers operating in the State of Alaska receiving tender of nonpriority bypass mail under this subsection.

(a)(4) -- [T]he term ‘bush carrier’ means a carrier operating aircraft certificated within the payload capacity requirements of subsection (g)(1)(D)(i) [under 7,500 pounds payload] on a city pair route;

(a)(5) -- [T]he term ‘bush passenger carrier’ means a passenger carrier that meets the requirements of subsection (g)(1)(D)(i) and provides passenger service on a city pair route;

(a)(6) -- [T]he term ‘bush route’ means an air route in which only [emphasis added] a bush carrier is tendered nonpriority bypass mail between the origination point, being either an acceptance point or a regional hub, as determined by the Postal Service, and the destination city.

1. Exclude Overlapping Bush/Mainline Operations

Upon review, we find the statute is clear and requires us to exclude from the rate calculation, to the extent feasible, the traffic and costs of bush routes⁵ that overlap mainline routes. The Postal Service’s argument that such calculations are not consistent with class rate principles is not consistent with the statute.⁶ We also find the Postal Service’s contention -- that excluding operations with bush aircraft on mainline routes is an artificial exercise having no bearing on the cost characteristics of the operation -- to be inconsistent with our results. Excluding those dense, mainline-type segments results in a lower load factor overall, which in turn directly affects the cost characteristics of the operation. Simply put, with all other factor being constant, a full aircraft costs much less per RTM than an empty plane. As shown in Appendices A-2 and B-2, we have excluded the cost and traffic data for a number of Frontier’s and ERA’s segments where mainline aircraft also operated. As a result, the average load factor decreases from 48.64 percent to 43.26 percent for Frontier, and from 52.99 percent to 44.82 percent for ERA, as determined in Order 2004-2-12. Excluding the higher load factors of bush routes that overlap mainline routes, as required by RSIA, decreases the load factor of the remaining, eligible bush service, thereby driving up the mail rate. The cost of operating Part 121 aircraft to bush markets is thus not

⁵ 39 U.S.C. 5402 (a)(6) above refers to a “bush route” and “air route” but not a segment. The statute does not fully define “routes,” which must be distinguished from segments, the basic unit of the T-100 Segment Report. A segment is defined to be any nonstop service between a unique origin-destination city pair. A route is more than a segment, because it entails linking two or more service segments into an integrated, linear whole. A single route can serve one or more villages, linking each of them with the hub and with each other. Routes can be operated on a nonstop turnaround basis to the hub (the simplest kind of route) or may be operated on a multi-stop basis linking several villages with one or more hubs and with each other. It would be a simple matter for the Department to disallow any bush segment or city pair that over the course of a year shared the same origin-destination as a mainline operation, even if the mainline operation was performed on an *ad hoc* basis.

⁶ The T-100 Segment Report that allows the Department unlike its predecessor, the Civil Aeronautics Board, to include some parts of a carrier’s operations and not others (other than by aircraft type or by scheduled and nonscheduled criteria) was not available in previous base-rate investigations. Previously, the Department had to use the broad-brush approach of either including or excluding carriers in their entirety.

related to the costs of operating Part 121 aircraft to mainline markets, such as, for example, Frontier's service between Anchorage and Fairbanks.

The calculations in Appendices A and B cannot be reliably made for Peninsula because there is too much overlap between its service and that operated by mainline carriers. As discussed in footnote 5, it would be possible to find many individual segments operated on a *de minimis* basis by mainline carriers where Peninsula operated. However, we could not include such isolated segments to calculate the rate, because RSIA directs us to consider *bush routes*, and routes are more than a mere agglomeration of segments.⁷ Moreover, calculating rates on the basis of such mere agglomerations of segments would be unfair to the Postal Service and unsound rate making, because mail and freight are highly directional, *i.e.*, the vast majority is shipped outbound from the hub, causing the aircraft to have a much higher load factor on the initial, outbound leg from the hub to the bush, and lowest load factor on the last flight to the hub.⁸ Because of the dramatically different loads on outbound vs. inbound flights, and thus much different costs per RTM, sound ratemaking principles dictate that we exclude all of Peninsula's data.

2. Excluding Peninsula's Data Require Establishing a Mileage Rate Taper

The Postal Service is concerned that calculating the rate without Peninsula's data but requiring it to pay Peninsula that rate would be unfair to the Postal Service. Peninsula has substantially longer stage lengths than Frontier and ERA, and the higher average speeds it realizes over those longer hauls allow it to achieve lower costs per RTM. The Postal Service notes in its comments that Frontier's and Peninsula's unit costs per RTM are very close, and suggests that the Department consider establishing separate rates based on distance.

In response to Postal Service comments, we have introduced a mileage taper to the linehaul portion of the Part 121 bush mail rate. As noted earlier, Frontier's average stage length was 157 miles, whereas Peninsula's was 416. Absent Peninsula's data, without a rate taper, the Postal Service would have to pay Peninsula a rate based on the average speeds achieved over 157-mile average stage lengths. Establishing a rate that gradually tapers down as length of haul increases will more accurately compensate carriers, in their long-haul and short-haul markets, instead of having one rate for both short-hauls and long-hauls.

⁷ In its comments, Hageland would exclude Peninsula's data for the additional reason that Peninsula does not transport bush bypass mail, a reflection of the fact that there is no bypass mail in the Aleutians, where Peninsula primarily operates. We do not believe it was Congress's intent in Section 5402 (a)(6) to exclude data merely because there was no bush bypass mail: it would not intentionally exclude the Aleutians and Southeast, where there is likewise no bypass mail, from the rate calculation. Congress in RSIA did not address in-house non-priority bush mail. In-house nonpriority mail constitutes only 15 percent, and bypass mail the remainder, of non-priority mail. RSIA's focus on bypass mail was based on the Department's historical practice of excluding a carrier such as Alaska Central Express, which transports nonpriority mail equalized to the mainline rate and bush priority mail in mainline markets, from the previous rate calculations

⁸ Section 5402 (a)(6) of RSIA speaks not only of "routes," but also of service outbound from the hub to the destination city, and is thus silent on the backhaul -- the last flight into the hub. We maintain that Congress wanted the carriers to be compensated for the higher RTM costs of operating these segments, enabling the carrier to get the aircraft back to the hub from the bush.

3. Development of the Rate Based on Frontier's Data

As will be discussed in Issue 2, we have established a separate class rate based on ERA's costs, using the same principle of excluding from the calculation data for bush service that overlaps with mainline service. Developing rates based on Frontier's data, we first excluded all segments where mainline aircraft operated. Some of these exclusions were straightforward, because they involved service between an acceptance point (Anchorage or Fairbanks) and a regional hub with competing mainline service. Examples of these exclusions for Frontier were Anchorage to: Fairbanks, Aniak, Dillingham, Galena, and Bethel, and also Fairbanks to Barrow. Frontier's remaining, eligible service that we have used for calculating the rate, started and ended with a regional hub or acceptance point, and there was no mainline service anywhere on the route. We also excluded Frontier's Aniak-Bethel segment in the base period, because it was part of Frontier's Anchorage-Aniak-Bethel-Anchorage route that otherwise completely overlapped mainline service.

After making those exclusions, we determined Frontier's average load factor for its remaining, eligible service by weighting freight RTMs at 0.75 and mail and passenger traffic at 1, and dividing those totals by Available Ton Miles. By excluding mainline-type segments, load factor decreased by about 4 percent from that determined in Order 2004-2-12. Order 2004-2-12 had determined that Frontier's costs per block hour were \$860.82, or \$14.3470 per minute. Costs per block hour, unlike costs per RTM, are not affected by the presence or lack of mainline service on a segment, and do not vary by stage length.⁹ We next determined the cost per RTM for each mileage segment, by dividing block hour costs by RTMs computed at the same average load factor for each segment, and regressed those unit costs per RTM against nonstop segment miles; thus the lower unit costs of higher-speed operations on longer stage lengths were factored in. The resulting equation and chart, as shown in Appendix A, determines higher mail rates per mile for short flights and lower mail rates per mile for long flights, with diminishing effect as stage lengths increase.¹⁰ The regression coefficient was 78.98 percent and is reliable and statistically significant. We note, too, that these results dovetail with actual observations along various mileage segments.¹¹

⁹ Costs per block hour do not vary by stage length for several reasons relating to the fixed amount of time the aircraft spends taxiing on the ground. In the case of fuel, an aircraft burns the least amount of fuel while taxiing, and burns the greatest amount while climbing. Whether a flight is long or short, its taxi time corresponds to its time climbing to cruise. Likewise, costs per block hour are unaffected by the presence of mainline operations, which primarily affects bush carriers' load factors and thus unit costs per RTM.

¹⁰ We expect this result for unit costs per RTM, which mail rates should track, because as distance increases from the takeoff, the aircraft quickly accelerates producing more RTMs for a given amount of block time. However, as the aircraft attains cruise speed, costs per RTM should be constant, before ultimately beginning to increase as the payload begins to decrease at extremely long stage lengths.

¹¹ The rate determined by the regression for a 526-mile nonstop flight correspond to Peninsula's historical operating costs on the Anchorage-St. Paul-St. George-Anchorage route with the same average stage length and a weighted load factor of 43 percent. Also, the rate determined for 157 miles, the average stage length for Frontier's eligible operations, correspond to that computed using the old single-rate-per mile methodology for Frontier's eligible operations.

These regression results more accurately fit the mail rate to carrier costs than the previous single-rate-per-RTM calculation. Thus the Department can meet its twin statutory obligations to determine mail rates that accurately fit costs while excluding Peninsula's data from the rate base.¹² With the previous single rate per RTM, long-haul flights were overpaid and short-haul flights were underpaid, and introducing a taper, therefore, represents an improvement to the earlier class rate methodology.

ISSUE 2: SEPARATE RATE FOR TWIN OTTERS

Appeal for Special Class Rate for Twin Otters

ERA is the only carrier operating the Twin Otter, by far the most expensive 19-seat Part 121 aircraft on a unit cost-per-RTM basis, as shown in Appendix A to Order 2004-2-12. ERA argues that the Department should give special recognition to the significantly higher costs of its slower Twin Otters by creating a separate rate for them, instead of merging its costs into those of other Part 121 operators. We believe that such a merging of ERA's Twin Otters costs with those of Frontier's Beech 1900s would accomplish nothing, and the competitive pressure of being paid rates based partly on less expensive B-1900s would not encourage ERA to be more efficient, because only the "inefficient" Twin Otters can safely land and takeoff at the short-runway airports ERA currently serves.

ERA also contends that establishing the proposed single rate in Order 2004-2-12 runs counter to RSIA's goals of promoting service with Part 121 aircraft. If the Department recognized the Twin Otter's special cost and operating characteristics, the Postal Service would be able to pay more appropriate rates for each routing served, *i.e.*, higher in those markets served by ERA, lower in those served by Peninsula or Frontier with faster aircraft. In addition, with the higher rates reflective of its costs, ERA might extend the use of its Part 121 Twin Otters to smaller Part 135 markets, a goal of RSIA. (While ERA's Twin Otters cost more per RTM than Frontier's Beech 1900s, they cost less per RTM than the currently effective rate of \$11.1627 for Part 135 aircraft.) Under current circumstances, with only a single (low) Part 121 rate for all intra-Alaska operations, ERA has made clear it intends to eventually ground its Twin Otters and replace them with single-engine Part 135 aircraft.

On April 13, Peninsula submitted a late-filed comment on ERA's "addendum" of April 2, amplifying its earlier comments that a separate rate should be established for ERA's Twin Otters. We will accept these late-filed comments. Peninsula argues that the Department did not have the statutory authority to establish a separate rate for ERA's Twin Otters. It stated that RSIA provided that whatever Part 121 bush rate was established by the Department must apply to all Part 121 carriers providing bush service. Because RSIA is silent on authorizing any rate other than the three required by RSIA, it argues that the Department does not have the authority to create a rate for "short-runway airports." (Page 2.)

¹² Although Peninsula's data are excluded from the calculation of the rate, no party argues that it should not be eligible for bush mail payment.

Decision

Historically the Department has preferred not to carve out additional mail rates, even though it had authority to do so. The Department tentatively dismissed the need to establish a separate Twin Otter rate in Order 2003-10-10.

Regarding the issue of whether [data for] the 19-seat Twin Otter should be assigned to the 121 cost pool and be treated like other, faster 19-seat aircraft, the law provides no statutory basis for excluding the Twin Otter [data]. We believe that on a policy basis, the Twin Otter [data] should be included as well. Although the Twin Otter is much slower than Metros or Beech 1900s, over a short stage-length that slower speed is not a factor to either operating costs or passengers. Also, the payload of the Twin Otters, which greatly exceeds that of the typical single-engine bush aircraft, should make them competitive with the other 121 aircraft for short-stage-length operations. (Page 12.)

While the law does not require us to exclude or set a separate rate for Twin Otter operations, we believe that as a policy matter the data now before us contravene our earlier policy conclusion. Appendix A of Order 2004-2-12 shows that ERA's Twin Otters costs of \$908.71 per hour were less than Peninsula's Metros of \$1,022.47 and slightly more than Frontier's B-1900 costs of \$860.82. Likewise, ERA's load factor (on line 26) of 52.99 percent was slightly higher than for either Peninsula's or Frontier's 19-seaters. Nevertheless, despite these similar characteristics ERA's unit costs per RTM, line 22, were almost double those for Peninsula and Frontier. The only explanation for these apparently conflicting results may be speed -- the Twin Otter covers substantially fewer miles and therefore, with constant load factor, produces many fewer RTMs in a given amount of time. We had expected in Order 2003-10-10 that ERA's unit cost and those of other Part 121 operators would converge for very short stage lengths. In other words, if the slower Twin Otter chose to compete in markets with faster aircraft, it would be ERA's management decision and the carrier should not receive any special protection. However, as can be seen from the separate cost regressions for Frontier and ERA, we find that ERA's costs are significantly higher than those for Frontier, even for its relatively short stage lengths of under 100 miles, and more than half of ERA's bush markets are, in fact, less than 100 miles from the regional hub.¹³

However, different unit costs are not by themselves sufficient grounds for establishing a separate mail rate, or in this case a subset of the Part 121 rate, because a class rate aims to use the pressure of having all comparable costs included in a class rate average to encourage carriers to lower their operating expenses. Carriers with above average costs either reduce their costs or leave the market, while low-cost carriers expand. If we created separate mail rates for each carrier with higher costs, there would be less such across-the-board pressure for carriers to reduce their costs.

Fortunately, we have historical guidance for when to establish separate class rates. When the Civil Aeronautics Board created a separate rate for Reeve Aleutian Airways in the Aleutians, as

¹³ Under the two separate rates we are establishing here, at 50 miles Frontier would be paid \$8.67 per RTM, and ERA \$12.65.

discussed by ERA, one prerequisite was Reeve's significantly higher costs. Order 82-5-73 also mentioned another prerequisite.

Reeve primarily operates to and from points in the Aleutian Islands and Anchorage. No other carrier, certificated or noncertificated, operates in that same general area, **and** [emphasis added] Reeve has a virtual monopoly on air service within its route system. (Page 8.)

Thus, two separate but related criteria must be considered before the Department would establish a separate class rate. In the historical example, because Reeve itself did not operate in regions other than the Aleutians, it was clear that its own costs were a good proxy for the higher costs of operating in that geographic region. That criterion, by itself, was not sufficient to establish a separate class rate for Reeve, because if other carriers had, in fact, operated in the Aleutians in addition to Reeve, the higher costs they incurred of operating in that region would have been included in their system costs, and thus applied to regions outside the Aleutians. In effect, the higher cost of operating in the Aleutians would have been double-counted. Because no other carrier operated in the Aleutians, the CAB was confident it would not overcharge the Postal Service by establishing a separate rate for the Aleutians. Notwithstanding arguments from carriers at various times, since these criteria were not met we have not established separate mail rates for the North Slope or Southeast Alaska where parties have argued that operating costs might exceed the statewide average. To establish regional class rates under current conditions in Alaska, all carriers operating in more than one region would have to create separate regional cost reports to replace the system reports they currently submit.

The criteria cited for creating a special rate for Reeve are met for ERA's Twin Otters operating at short-runway airports: (1) ERA does not operate its Twin Otters into any airports also served by Peninsula or Frontier's 19-seaters,¹⁴ and (2) other operators do not fly any of their 19-seaters into ERA's short-runway airports. Stated differently, the Twin Otters, like Reeve, appear to have a monopoly¹⁵ where they operate. Reeve's high costs were driven by the operational necessity of operating in the Aleutians; the high cost of ERA's Twin Otters is driven by the operational necessity of using short take-off and landing (STOL) aircraft, which are very slow. Indeed, the operational barrier presented by the short-runway airports is even stronger than was the case for Reeve, where other carriers were free to compete without obtaining special aircraft type. In this sense, the short-runway distinction is similar to the provision that RSIA created for expensive

¹⁴ It does operate its Twin Otters into Kenai and Homer, where ERA also operates its mainline aircraft, but we have excised those operations from the calculation of the rate, and those Twin Otter operations merely fill holes in ERA's mainline schedule in those markets.

¹⁵ Part 135 aircraft operate into ERA's short-runway airports. However, because they are not Part 121 aircraft, because RSIA required a separate rate for Part 121 aircraft, and because having a short or long runway has no bearing on the cost of operating most Part 135 aircraft, we do not believe their operations should change the need for a separate rate.

amphibious aircraft required to serve water points.¹⁶ In addition, the status quo in Alaska is less affected by creating a separate rate for Twin Otters than by applying the lower rates based largely on Frontier's Beech 1900 operations to ERA's short-runway airports -- where they could never land. Finally, RSIA encourages expanded operations with Part 121 aircraft. Operating the Twin Otter into those short-runway airports provides the only practical possibility for those communities to realize Part 121 service. The techniques for calculating ERA's rate are the same we have used for Frontier. Under our policy of excising all data for bush service where there is mainline service, we have excised ERA's Twin Otter operations between Anchorage and Kenai, and between Anchorage and Homer.

We note that establishing a separate Part 121 rate for short-runway airports in conjunction with the rate taper should be expense neutral for the Postal Service. With no rate taper and with Peninsula's long-haul costs excluded from the rate calculation, the costs of Era's Twin Otter service (which was both short-haul and to short-runway airports), would have been applied to very long haul markets.

Finally, in response to Peninsula's late-filed comments, we note that RSIA did not rescind the Department's longstanding authority to establish separate class rates. Congress could not have anticipated every impact of RSIA. Under the circumstances, for the policy reasons discussed, we believe that it is appropriate for the Department to exercise its existing authority to set additional class rates to meet the goals of the new legislation.

ISSUE 3: EXPENSE MARKUPS AND INFLATION ¹⁷

Capacity-Related Expense Adjustment

The capacity-related-expense adjustment reflects carrier overhead expenses that cannot be directly assigned to any one aircraft or cost component. Typically, the Department has calculated capacity-related expense as a percentage of all other operating expense, and applied that percentage on a pro rata basis to all other direct and indirect expenses. The Postal Service contends that ERA's capacity-related markup of 27 percent appears unrealistically high. It notes that Frontier's markup is 10.07 percent and Peninsula's 14.09 percent, and ERA's 27 percent was also higher than it reported for previous annual periods. The Postal Service is concerned that the 27 percent figure may reflect ERA's mainline operations¹⁸ and that because capacity-related expense is reported as simply one line item on ERA's financial reports, there is minimal transparency as to where this number comes from.

We direct ERA to review its data within two weeks of the service date of this order and advise us of the results. If the carrier finds errors, we will revise the rates for the Twin Otter accordingly.

¹⁶ Before RSIA there was only a single bush rate. ERA's expensive Twin Otters still cost less, on average, than the current single-rate for Part 135 aircraft. By requiring the Department to carve out a separate, less expensive 121 rate, implementing RSIA requires that we now recognize the higher costs of the Twin Otters *vis a vis* other Part 121 19-seat aircraft, not compared to those of Part 135 operators.

¹⁷ The Postal Service objected to the way we calculated the markups. The carriers had no objections.

¹⁸ ERA conducts extensive operations with mainline aircraft, in addition to its Twin Otter operations that we are considering here. However, mainline carriers such as Alaska Airlines actually have lower overhead expenses than small operators, which cannot spread such fixed costs over large operations.

While we note that other bush carriers reported higher capacity-related adjustments than ERA,¹⁹ the Postal Service's point may be well taken, because the weighted average for all the bush carriers was 13.26 percent.

Return and Tax Allowance and Inflation

Any rate must make a reasonable provision for return and tax that provides an opportunity for the carriers to make a profit on their investment. In the last base-rate investigation, the carriers submitted special reports showing their balance sheets/investments that were a preliminary requirement before the Department could begin a very complicated procedure to determine the return and tax allowance. As discussed at length in Order 2004-2-12, instead of revisiting that here, we have simply used the percentage that return and tax represented of total operating expense. Since previously the allowance was 9.46 percent of all expenses, we have again applied that percentage here.

The Postal Service endorses the idea of simply using a markup, but suggests that five percent plus interest would be a more appropriate figure. It notes that the Department uses a five percent figure plus interest in its essential air service calculations, and that the three Alaskan carriers reporting detailed income statements -- Northern Air Cargo (NAC), Lynden Air Cargo (LAC), and Everts Air Cargo (EAC) -- report a return of less than two percent of operating expense.

The Postal Service also has concerns about the updating of the rate for inflation. Historically, after base-rate investigations were concluded, in order to extend the "shelf life" of the rates, the Department has annually increased the rate for an estimate of inflation. The Postal Service inquires about the Department's plans for such updates, and also proposes that the methodology used in the previous updates, linehaul costs per block hour, unweighted for size of aircraft or carrier load factor, be replaced by changes in unit costs per RTM.

We have decided to continue with the 9.46 percent markup for return and tax for several reasons. No carrier has commented on inflation updates. RSIA provides that the Department will use show-cause procedures to conduct a base-rate investigation every two years. Under those circumstances, the burden of undergoing annual updates for inflation may exceed their benefit. Also, more than a year has passed since the midpoint of the current base period, January 1, 2003, which is the point at which an inflation update would be calculated. It would be difficult at this juncture, with annual data not becoming available until well after June 30, 2004, for us to calculate an inflation update. The difference between the Postal Service's recommendation of five percent plus interest, and the return element of 9.46 percent may be a close approximation of the inflation factor and should allow us to discontinue those updates.

The Postal Service also contends that the historical 9.46 percent level is overstated because when that rate was developed in the last investigation, the Department artificially increased the rate to five percent for those carriers whose data were unavailable or incomplete, or whose profits were negative, and then included those results in determining the system average. However, including

¹⁹ Yute reported capacity-related expense as 28.10 percent, and Village as 30.14 percent. Both are strictly Part 135 carriers, unlike ERA, which operates entirely under Part 121.

returns that are too low or even negative is obviously inappropriate when establishing a regulatory base. Instead of arbitrarily assigning five percent to such carriers' results, the Department alternatively could have merely excluded them from the rate. Had the Department taken that course, the return of 9.46 percent would have been even greater.

It is inappropriate to compare the essential air service (EAS) program's five-percent regulatory markup plus interest and the 9.46 percent applied here. Return allowance in the EAS program must provide for passenger, freight, as well as mail service. The comparison assumes that the investment base required to support passenger and freight operations is the same as for mail operations. Also, the conditions under which the return and tax allowance is applied for the EAS program is substantially different than here. The EAS program is conducted on a competitive-bid basis, and the critical calculations for those carriers choosing to make proposals are projected revenues and expenses, which can differ significantly among carriers. Further, the five-percent markup is a statutory minimum -- carriers cannot ask for more. Under the EAS program, carriers decide whether they wish to bid on a particular route. Mail, on the other hand, is such an essential portion of many carriers' intra-Alaska operations that they cannot readily choose to not participate. Also, if a carrier is certificated, it has a duty to provide the service (carry the mail), which is not the case for carriers when they submit their EAS bids.

The Postal Service uses the two-percent markup of return over expenses earned by NAC, LAC, and EAC, as a touchstone to argue that the five-percent-plus-interest figure they propose is reasonable. However, all three carriers cited by the Postal Service are mainline, all-cargo carriers, whose operations are significantly different than the bush passenger carriers. Because they carry no passengers, mail makes up a larger portion of their business.

We placed a 60-day notice in the Federal Register that would require the bush carriers to provide more detailed income statements.²⁰ A potential, ancillary benefit of having those statements recurrently reported would be the information they provide about earnings generated by bush carriers across Alaska. It may be that, assuming those reports are ultimately required, review of those reports may offer additional insight in reexamining return and tax allowances.

Circuitry Adjustment

Order 2004-2-12 introduced a circuitry adjustment for the first time, to reflect the fact that the Postal Service pays carriers on the basis of nonstop-great-circle miles -- the shortest possible distance between two points -- regardless of how the aircraft was actually routed. As a result, carriers were systematically underpaid because carriers' expenses are developed on the basis of the number of RTMs the carrier actually flew, which necessarily must be equal to or greater than total nonstop RTMs, which are the basis for the Postal Service's payout.

The Postal Service took particular exception to the addition of a circuitry markup.

²⁰ The requirement was put in place in response to RSIA's concern that carriers would overstate their passenger and freight traffic in order to qualify for mail.

The Postal Service is concerned that this markup unfairly increases the rate beyond reasonable compensation and encourages carriers to fly more circuitous, less efficient routings. The carriers submit their schedules based on the direct flights that match the routings of mail, so the Postal Service pays based on the great circle miles of the direct distance between the origin and destination of the mail. This eliminates problems of knowing exactly what routing a carrier chooses to fly on a particular day. Any deviation from their schedule is the carriers' business choice and not something the Postal Service is required to subsidize. For example, if a carrier departing A has a load of mail for C but stops at B solely because it has passengers and freight for that destination, adding a circuitry factor unfairly charges the Postal Service a mark up which subsidizes these other services. There is an even greater potential for this problem under the RSIA because the marketplace is becoming much more passenger driven. As a result, routings will defer to what is most convenient for passenger operations and not necessarily what is most efficient for mail delivery. (Page 11).

We appreciate the Postal Service's position that it must, for sound administrative reasons, pay carriers on the basis of great-circle miles. This allows the Postal Service to not consider the actual routing of the aircraft and encourages carriers, if possible, to operate on a nonstop basis. We agree that when carriers choose to fly other than nonstop turnaround service, it is the carriers' business decision. We disagree that applying a circuitry factor would cause the Postal Service to subsidize the carriers' passenger or freight operations. We will use the Postal Service's own example and assume that a carrier routes an aircraft A to B to C to A, as well as its assumption that there is no mail delivered to "B." In other words, the only reason the carrier serves "B" is to carry passengers. Even under those circumstances, a rate based on that entire route might well be lower than if the carrier in fact had routed its only mail service on a nonstop turnaround basis between A and C, thus eliminating any circuitry. This would, in fact, be the case if the impact of the higher overall load factor resulting from serving the passenger-only point at "B" exceeded the circuitry of serving that point. When carriers decide how to route their aircraft they often calculate the tradeoff between load factor and circuitry. If there is mail as well as passengers going to "B," it is even more likely that the Postal Service is benefiting, overall, from the carriers' business decision review of the circuitry/load factor tradeoff. Simply put, if all of the carriers operated mail service on a nonstop, turnaround basis to each village, the basis on which the Postal Service would have us pay the carriers, the efficiency of linear routes would be lost, and the mail rates would be substantially greater than the marginal increase produced by our including a circuitry-factor adjustment. With the class rate mechanism in place, and each carrier paid on the basis of nonstop miles no matter how it routes its aircraft, each carrier's business decision will likely produce lower overall costs for the Postal Service.

The Postal Service is also concerned that Peninsula's circuitry factor is negative -- a mathematical impossibility. We note that Peninsula's data have been removed from the calculation of the rate, for other reasons, so the issue, as a practical matter, is moot. Nevertheless, we are very concerned about faulty data, and we direct Peninsula to work closely with the Department's Bureau of Transportation Statistics to correct this obvious error. The T-100 reports have been used in this investigation for the first time. If such errors by Peninsula or other carriers continue to occur, we will consider taking action to ensure that they do not re-occur.

Finally the Postal Service argues (page 11) that the several markups applied in Order 2004-2-12 for capacity-related, circuitry, and return and tax, should be additive and not multiplicative. We do not believe that it is reasonable to use this approach in a costing methodology. Under the EAS program cited by the Postal Service, return is applied to all expenses except interest, including capacity-related expense and including any implicit circuitry. Essentially the Postal Service is arguing that those expenses should be treated as “below the line” items, just as the Department treats interest expense in the EAS program.²¹ The Postal Service does not explain why capacity-related expenses are unique and why the carriers should receive no return on those expenses, and its argument also is arithmetically incorrect. The 9.46 percent amount is determined by dividing return and tax by total linehaul expenses, including a pro rata portion of capacity-related expense. It would be inconsistent to take the 9.46 percent figure thus derived and then apply it differently. Conversely, we could have taken return and tax as a percentage of all non-capacity-related expenses, but the percentage would then be higher.

Third Party Liability Insurance

Third party liability insurance was discussed in footnote (13) of Order 2004-2-12. It reflects the possibility that an aircraft might cause damage to a third party unrelated to either the first and second parties (carrier and customer), such as a building or another airline. The Postal Service contends that it should not be required to compensate the carriers for this expense.

This [third party liability insurance] expense does not protect or benefit the Postal Service in any way, but only protects the carrier in the event of an accident. The cost incurred by the carrier for third party liability insurance should be borne solely by the carrier. At the most, the Postal Service should pay no more than the portion of the insurance that can be attributable to mail only. (Pages 11 and 12.)

The Department requires all carriers to have third party liability insurance before they operate aircraft. If they do not have such insurance, it is illegal for them to operate. We agree with the Postal Service that it should pay no more than a pro rata portion of this expense. However, it is clear from Appendix A of Order 2004-2-12 that that is the case. The unit cost per RTM of mail is derived by dividing scheduled linehaul expenses, Line 17, by Line 21, scheduled RTMs of all traffic (passengers, freight, and mail), and the resulting rate is applied to billable mail RTMs only. The Postal Service correctly asserts that this expense was not recognized in the previous bush investigation. However, it was not possible in the last investigation to include third party liability insurance because the carriers did not separately report this expense. Rather, at that time it was submerged with passenger liability insurance, which we have consistently excluded. Under the Department’s revised reporting for intra-Alaska carriers, carriers now report third party liability insurance as a separate line item on Schedule F-2.

²¹ Carriers finance their operations by borrowing funds from either creditors or investors. Were we to apply a return markup to interest expense, we would be paying a profit on borrowing costs. Under that scenario, a carrier could drive up its costs *ad infinitum* by borrowing more money and would be compensated, not only for the resulting interest expense, but also would receive a 5-percent-profit markup to boot.

ISSUE 4: CRITERIA UNDER WHICH THE PART 121 RATE APPLIES

In its filing dated March 11, Tanana Air Service objected that “the Postal Service is still tendering mail to carriers that do not publish schedules in the OAG for public dissemination, but only for Postal Service use.” (Page 1.) The carrier further noted that RSIA (39 U.S.C. 5402 (a)(16)) defines scheduled service to mean:

- (A) flights are operated in common carriage available to the general public under a published schedule;
- (B) flight schedules are announced in advance in systems specified by the Postal Service, **in addition** [emphasis added] to the Official Airline Guide [OAG] or the air cargo equivalent of that Guide;
- (C) flights depart whether full or not; and
- (D) customers contract for carriage separately on a regular basis.

Tanana objected that because the Postal Service is not relying on the OAG as the statute requires, carriers have no means of knowing what rate they will be paid at any point in time. There will be no way for a carrier to question any payment received when the rate is changed without notice by the Postal Service. In its March 15 comments, the Postal Service notes that, according to Order 2003-10-10, the Part 121 rate would apply where at least one round trip per week is scheduled and operated with Part 121 bush aircraft. The Postal Service reiterates its “clear pronouncement in Fairbanks that any after-the-fact adjustment of rates arising out of the substitution of 121 aircraft for 135 aircraft (or the addition of a 121 aircraft as an extra section) would only be for the single day the 121 aircraft operated.”

Decision

Department representatives attended the Fairbanks meeting with representatives of the Postal Service and many carriers when this issue came up.²² Based on the record in this case, we affirm from the context of Order 2033-10-10 that both the schedule and the operation must be with qualified Part 121 aircraft. Scheduling a Part 135 aircraft and then operating the service with a Part 121 aircraft on an *ad hoc* basis by one carrier should not cause every carrier in that market to be paid the lower rate. The first part of the Postal Service’s comments above appear to endorse that dual requirement, but the latter part beclouds the issue further.

As background, the Department has tried to add transparency and remove regulatory uncertainty from the intra-Alaska mail system. The Postal Service and the small operators providing mail

²² The Postal Service in footnote (2) of its comments states that the Department’s representative to the Alaska Air Carrier’s Association meeting in Anchorage on March 3, had stated that “in his opinion the requesters had made a sufficient argument for reconsideration [of Order 2004-2-12] and that he was in favor of accepting their arguments... [and] he acknowledged that he was waiting on the comments of the Postal Service prior to developing a new rate and that he expected a new, higher bush rate to be published in the mid-May timeframe.” The Postal Service acknowledges that the Department’s representative mentioned on several occasions that he was not the final decisionmaker. The Postal Service does not mention that he also said that all of his opinions were extremely hypothetical at that time because although the carriers had already submitted initial formal comments, he and the Department had not yet had the benefit of reviewing the Postal Service’s comments, which were submitted on March 15. This proceeding, however, must be based on a formal written record of what the different parties have filed in the docket, and we have relied only on those formal comments in making our decision.

service operate in a difficult commercial environment, and transparency is in the interest of all parties. Pursuant to this policy, we have largely eliminated retroactively adjustable mail rates, so that a carrier will know when it operates any flight what rate it is being paid by the Postal Service that day for that flight, as it does for any other customer. The Postal Service in its comments above has stated that in a market where only Part 135 aircraft were scheduled it would only apply the Part 121 rate in the market for the period a carrier operated a Part 121 aircraft. Clearly the carrier operating the Part 121 aircraft on a specific day knows what aircraft type it is operating, but that is not the case for the other carriers, who can only know in advance what their rate will be by reviewing other carriers' published schedules.²³

We affirm our earlier tentative position requiring that there be a minimum of one round trip a week, both scheduled and operated, before the 121 rate could be applied. We modify that position by allowing the Postal Service to pay the carrier that did not schedule but in fact operated a Part 121 aircraft the Part 121 rate. However, it would be unfair to apply that rate to other carriers for even a single day. This provision will protect the Postal Service from being over charged, on even a short-term basis, by carriers attempting to manipulate the system by scheduling Part 135 aircraft but operating Part 121 equipment.²⁴

The Consolidated Carriers argue that the Department should revise its standard outlined in Order 2003-10-10, and restated above, to require more than one scheduled and operated flight per week. They argue that RSIA encouraged Part 121 service "where such operations are consistent with the needs of the community." (Page 9) This issue was addressed in Order 2003-10-10. Also, they argue that the higher frequency standard is needed in view of the recent confusion as to how much service is needed. We believe our resolution discussed above will resolve that issue.

In sum, we find that carriers must schedule and operate qualified Part 121 equipment at least one time a week for the Part 121 rate to apply. If a carrier operates but does not schedule a Part 121 aircraft in a particular week, that carrier, but no other, will be paid the Part 121 rate by the Postal Service.

ISSUE 5: SHOULD ALL-CARGO OPERATORS HAVE A SPECIAL CLASS RATE?

Arctic Transportation Service, Inc., (ATS) filed comments dated March 12, 2004. It argued that freight carriers should continue to receive the higher Part 135 rate when a Part 121 bush rate otherwise applies in a market.

ATS notes that RSIA "does not contain language directing the USPS to pay the new 121 bush passenger rate to nonmail freight carriers qualified on a city pair route, when a 121 bush passenger carrier enters the market." ATS goes on to note that all-cargo operators transport

²³ Also, consistent with the language of RSIA quoted above, and with the practice of enhancing transparency, it should be in schedules available to other carriers as well as the Postal Service, especially the Official Airline Guide.

²⁴ The obverse of this could also happen -- carriers could schedule a Part 121 aircraft in a market and either not operate or operate a minimal amount of Part 135 equipment so as to harm its competitors. We would view this as an extremely serious violation of our rules and subject to enforcement action by the Department under its rules prohibiting predatory conduct.

critical infrastructure materials to bush villages with Part 135 Shorts Skyvans and Casa 212s that, because of their bulk, cannot be transported with Part 121 bush aircraft. In terms of equity, even when operating these aircraft all-cargo operators are not categorized as bush part 121 passenger carriers. In addition, RSIA reserves a freight pool, separate and distinct from the passenger pool, for carriers that transported the most freight into a market, so a separate class rate would not be inconsistent with that provision.²⁵

Tentative Decision

The Postal Service does not comment on this issue. ATS is correct that the Department could allow the 135 rate to continue to apply to freight carriers even after a Part 121 bush passenger carrier enters the market. As noted in subsection 5402 (h)(6)(B):

The Secretary shall establish a bush rate based on data collected under subsection (k) from 121 bush passenger carriers. Such rates shall be paid to all bush passenger [emphasis added] carriers operating on city pair routes in the State of Alaska where a 121 bush passenger carrier is tendered nonpriority bypass mail.

However, as discussed earlier, there are high hurdles for creating a separate mail rate.²⁶ ATS has produced no information showing that all-cargo aircraft have higher unit costs than other similar-size aircraft. Indeed, there is contravening evidence because for many years when determining mail rates we have weighted freight RTMs at 0.75, and passengers and mail at 1, in view of our determination that freight has lower cost-causative properties than those other classes of traffic. In addition, RSIA clearly did not favor all-cargo operators by affording qualifying freight carriers a lower percentage of mail (20 percent vs. 70 percent) than qualifying passenger carriers. Finally, we are tentatively not convinced to establish two different mail rates in the same market at the same time, since that would provide a competitive advantage to one group of carriers over another. In this order, the Department has fine-tuned the mail rates to take account of the higher cost of operating in short-haul markets. We note that ATS itself has an average stage length of 65 miles, so excising Peninsula's 416 miles average stage length by itself, in addition to our applying our new mileage taper, will assist ATS, and all-cargo carriers in general, to continue to provide their valuable service, especially to their closer-in airports.

ISSUE 6: MILEAGES TO BE APPLIED TO RATES

We received comments from Northern Air Cargo and Hageland Aviation that the Postal Service was using mileages different from, and, in fact, always less than, those used by the Department. Part 247, of title 14 of the code of Federal Regulations, requires carriers to rely on airport-to-airport mileages from the Bureau of Transportation Statistics, and any "rule, regulation, or order of the Department pursuant thereto." The new miles used by the Postal Service may, from

²⁵ To qualify for the 70 percent of the mail reserved for passenger carriers in individual markets, carriers must transport at least 20 percent of the passengers in a market, and to qualify for the 20 percent freight pool, carriers must transport at least 25 percent of the freight in a market. In addition, during a transition period, the remaining carriers are placed in the residual pool (10 percent) for all carriers that do not qualify for either of the other two pools.

²⁶ ATS is not asking for the creation of a separate freight rate *per se*, but is asking that different rates apply to carriers in the same city-pair market at the same time.

technological advances, be more accurate than the BTS mileages the carriers are required to use. Nevertheless, we have calculated all of the rates based on BTS mileages, and the carriers would be systematically underpaid if this continued. The Postal Service must resume using the official BTS mileages in its applying all rates. In the meantime, we suggest the Postal Service work with BTS, and we anticipate using the results of those discussions in our next base-rate investigation.

ISSUE 7: INTER-VILLAGE MAIL

As discussed at length in Order 2003-10-10, Issue 2, while RSIA speaks of using the volume of inter-village passengers and freight, as well as that originating from the hub or acceptance point, to determine which carriers qualify for mail tender, it has been necessary for technical reporting reasons to ignore inter-village volumes. Since that time, BTS has developed a potential solution for the T-100 Report that would allow the Department to follow the letter as well as the spirit of the law. We are enclosing, as Appendix C, a proposed BTS Reporting Directive that handles this issue. We invite comments.

ACCORDINGLY,

1. We set the mail rate for qualified 19-seat Part 121 aircraft, except as provided in ordering paragraph (2) below, at the rate set forth in the regression equation in Appendix A and applied to the great-circle miles between hub or acceptance point and the bush village at issue, effective on the first Saturday beginning after the service date of this order, until further Department action;²⁷
2. We set the mail rate for qualified 19-seat, Part 121 operating at short-runway airports (under 4,000 feet) not served by other Part 121 aircraft at the rates set forth in the regression equation in Appendix B and applied to the great-circle miles between the hub or acceptance point and the bush village at issue, effective on the first Saturday beginning after the service date of this order, until further Department action;²⁸
3. We direct all parties to show cause within 30 days of the service date of this order, with 15 days thereafter for rebuttal, why these final rates should not continue through the conclusion of the next base-rate investigation;
4. In order for the Part 121 rate to apply, a carrier must schedule in the Official Airline Guide and operate a minimum of one round trip per week with qualified Part 121 aircraft, as discussed in the order;
5. We make final the issues of capacity-related expense, circuitry, third party liability, and return and tax as discussed in the order,

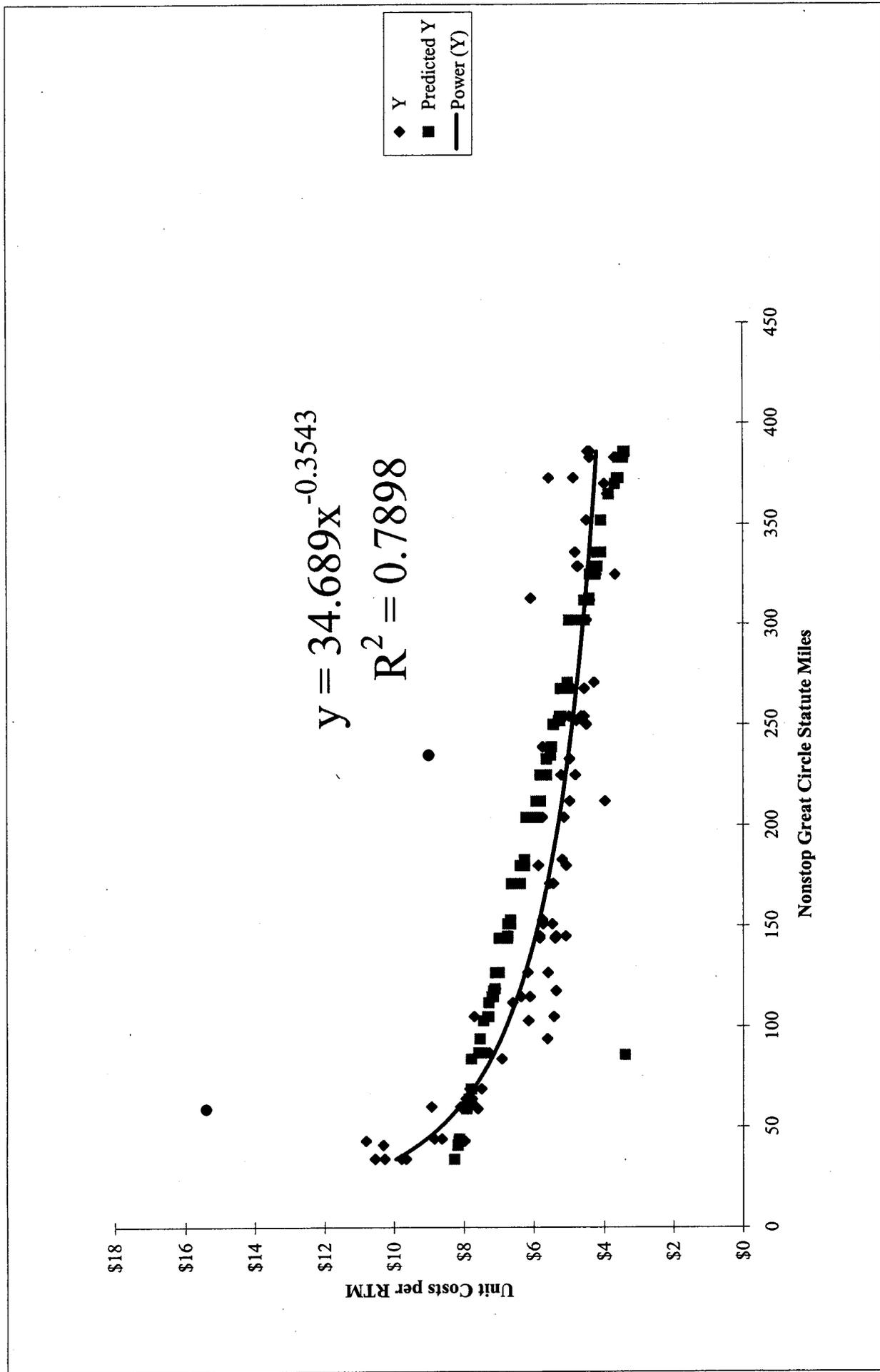
²⁷ The lowest applicable rate should apply.

²⁸ The lowest applicable rate should apply. In other words, the Part 135 rate, currently \$11.1627 per RTM, will apply at short-runway airports where that rate is less than the "Twin Otter" rate, until we can calculate a Part 135 rate.

6. We direct Era Aviation, Inc., to review its data within two weeks of the service date of this order, as discussed in the order, and advise us of the results;
7. We direct all parties within 30 days of the service data of this order, and with 15 days thereafter for rebuttal, to show cause why we should not make final our decision to not establish a separate rate for freight operations;
8. We direct the Postal Service to immediately resume using the same miles in the application of the mail rate as were used by the Department in determining the mail rate, and request that it work with the Bureau of Transportation Statistics to develop a common data base;
9. We direct the parties to show cause why the traffic reporting directive in Appendix C should not be issued; and
10. We will serve this on the parties to this proceeding.

By:

KARAN K. BHATIA
Assistant Secretary for Aviation
And International Affairs, X-1



Frontier Flying Service, Costs per RTM Determined by Regression

		Nonstop	<u>1/</u>	<u>2/</u>	<u>3/</u>	<u>4/</u>			Nonstop	<u>1/</u>	<u>2/</u>	<u>3/</u>	<u>4/</u>
		Miles	Costs	Predicted	Residuals	Percent			Miles	Costs	Predicted	Residuals	Percent
			Per RTM	Costs/RTM						Per RTM	Costs/RTM		
GAL	NUL	34	\$10.55	\$9.94	\$0.60	6.05%	GAL	TAL	145	\$5.37	\$5.95	-\$0.58	-9.72%
KAL	NUL	34	\$9.65	\$9.94	-\$0.30	-2.97%	TAL	GAL	145	\$5.10	\$5.95	-\$0.85	-14.31%
NUL	GAL	34	\$10.26	\$9.94	\$0.32	3.20%	BRW	NUI	151	\$5.48	\$5.86	-\$0.39	-6.59%
NUL	KAL	34	\$9.79	\$9.94	-\$0.16	-1.60%	NUI	BRW	151	\$5.73	\$5.86	-\$0.13	-2.24%
ENN	FAI	41	\$10.30	\$9.31	\$1.00	10.69%	BET	HPB	153	\$5.75	\$5.84	-\$0.09	-1.46%
ANI	HCR	43	\$10.80	\$9.15	\$1.65	18.08%	BRW	UMT	171	\$5.45	\$5.61	-\$0.16	-2.89%
HCR	ANI	43	\$7.98	\$9.15	-\$1.17	-12.79%	UMT	BRW	171	\$5.55	\$5.61	-\$0.06	-1.05%
GAL	RBY	44	\$8.85	\$9.08	-\$0.23	-2.50%	BRW	PIZ	180	\$5.87	\$5.51	\$0.36	6.47%
RBY	GAL	44	\$8.64	\$9.08	-\$0.44	-4.82%	PIZ	BRW	180	\$5.08	\$5.51	-\$0.43	-7.73%
ATK	BRW	59	\$15.41	\$8.18	\$7.23	88.39%	AET	FAI	183	\$5.19	\$5.48	-\$0.28	-5.20%
BRW	ATK	59	\$7.61	\$8.18	-\$0.57	-7.02%	BRW	SCC	204	\$5.14	\$5.27	-\$0.13	-2.47%
NUI	SCC	60	\$8.10	\$8.13	-\$0.03	-0.34%	SCC	BRW	204	\$5.76	\$5.27	\$0.49	9.22%
SCC	NUI	60	\$8.93	\$8.13	\$0.80	9.80%	AIN	NUI	212	\$3.98	\$5.20	-\$1.22	-23.37%
GAL	KAL	61	\$7.74	\$8.08	-\$0.34	-4.26%	UMT	BTI	212	\$4.98	\$5.20	-\$0.22	-4.21%
KAL	GAL	61	\$7.73	\$8.08	-\$0.35	-4.36%	FAI	RBY	225	\$5.22	\$5.09	\$0.13	2.55%
NUI	UMT	64	\$7.95	\$7.95	\$0.00	0.02%	RBY	FAI	225	\$4.82	\$5.09	-\$0.27	-5.30%
UMT	NUI	64	\$7.78	\$7.95	-\$0.17	-2.14%	ANI	GAL	233	\$4.99	\$5.03	-\$0.04	-0.86%
GAL	HSL	69	\$7.84	\$7.74	\$0.10	1.26%	ANC	ENN	235	\$8.99	\$5.01	\$3.97	79.25%
HSL	GAL	69	\$7.50	\$7.74	-\$0.24	-3.06%	FAI	ARC	239	\$5.74	\$4.98	\$0.76	15.25%
HSL	NUL	84	\$6.91	\$7.22	-\$0.30	-4.22%	FYU	BTI	250	\$4.51	\$4.90	-\$0.40	-8.14%
AIN	BRW	87	\$7.28	\$7.13	\$0.15	2.15%	DLG	HOM	252	\$4.79	\$4.89	-\$0.10	-2.09%
BRW	AIN	87	\$7.36	\$7.13	\$0.23	3.29%	HOM	DLG	252	\$4.61	\$4.89	-\$0.28	-5.76%
PIZ	AIN	94	\$5.62	\$6.94	-\$1.32	-19.02%	AKP	FAI	254	\$4.57	\$4.88	-\$0.30	-6.24%
TAL	RBY	103	\$6.15	\$6.71	-\$0.56	-8.40%	FAI	AKP	254	\$5.20	\$4.88	\$0.32	6.55%
SCC	UMT	105	\$7.71	\$6.67	\$1.04	15.60%	FAI	HSL	254	\$4.99	\$4.88	\$0.11	2.29%
UMT	SCC	105	\$5.43	\$6.67	-\$1.24	-18.58%	HSL	FAI	254	\$4.66	\$4.88	-\$0.22	-4.46%
AKP	AET	112	\$6.60	\$6.52	\$0.08	1.24%	FAI	GAL	268	\$4.91	\$4.79	\$0.12	2.56%
BTI	SCC	115	\$6.36	\$6.46	-\$0.10	-1.49%	GAL	FAI	268	\$4.57	\$4.79	-\$0.22	-4.54%
SCC	BTI	115	\$6.11	\$6.46	-\$0.35	-5.40%	AIN	SCC	271	\$4.29	\$4.77	-\$0.48	-10.08%
HSL	KAL	118	\$5.37	\$6.40	-\$1.03	-16.10%	FAI	NUL	302	\$4.78	\$4.59	\$0.19	4.17%
BET	HCR	119	\$7.10	\$6.38	\$0.72	11.26%	NUL	FAI	302	\$4.50	\$4.59	-\$0.09	-1.90%
FAI	TAL	127	\$6.17	\$6.23	-\$0.07	-1.09%	BRW	BTI	312	\$4.40	\$4.53	-\$0.13	-2.97%
TAL	FAI	127	\$5.60	\$6.23	-\$0.64	-10.21%							
FAI	FYU	144	\$5.83	\$5.96	-\$0.13	-2.20%							
FYU	FAI	144	\$5.40	\$5.96	-\$0.56	-9.47%							
AKP	NUI	145	\$5.83	\$5.95	-\$0.12	-2.07%							

Frontier Flying Service, Costs per RTM Determined by Regression

		<u>1/</u>	<u>2/</u>	<u>3/</u>	<u>4/</u>	
	Nonstop	Costs	Costs		Residual	
	<u>Miles</u>	<u>Per RTM</u>	<u>Per RTM</u>	<u>Residuals</u>	<u>Percent</u>	
BTI	BRW	312	\$4.47	\$4.53	-\$0.06	-1.42%
FAI	ENA	313	\$6.07	\$4.53	\$1.54	34.07%
FAI	KAL	325	\$3.68	\$4.47	-\$0.79	-17.61%
KAL	FAI	325	\$4.22	\$4.47	-\$0.25	-5.57%
ANC	HCR	329	\$4.73	\$4.45	\$0.28	6.38%
HCR	ANC	329	\$4.76	\$4.45	\$0.31	6.99%
FAI	UMT	336	\$4.82	\$4.42	\$0.40	9.10%
UMT	FAI	336	\$4.09	\$4.42	-\$0.33	-7.50%
KAL	ANC	352	\$4.50	\$4.34	\$0.16	3.57%
HOM	BET	365	\$3.91	\$4.29	-\$0.38	-8.95%
HSL	ANC	370	\$4.00	\$4.27	-\$0.27	-6.40%
FAI	SCC	373	\$5.56	\$4.26	\$1.30	30.66%
SCC	FAI	373	\$4.87	\$4.26	\$0.61	14.33%
FAI	NUI	383	\$4.41	\$4.22	\$0.19	4.61%
NUI	FAI	383	\$3.70	\$4.22	-\$0.51	-12.20%
BTI	FAI	386	\$4.40	\$4.20	\$0.20	4.70%
FAI	BTI	386	\$4.47	\$4.20	\$0.27	6.32%

1/ Costs per RTM were developed in Appendices A-2 and A-3.

2/ Predicted costs per RTM apply the regression results to nonstop miles. The Postal Service must apply the regression results to the nonstop, great-circle miles, from the regional hub or acceptance point to the bush destination.

3/ Residuals shows the difference between the two preceding columns.

4/ Preceding column divided by the column preceding that one.

Frontier Flying Service, Development of Costs per RTM per Eligible
B-1900 Sgment, YE 6/30/03

<u>Origin</u>	<u>Dest.</u>	Nonstop	Completed	Blk.	Segment	<u>RTMs</u>	<u>ATMs</u>	Costs
		<u>Miles</u>	<u>Departures</u>	<u>Min.</u>	<u>Costs</u>			<u>Per RTM</u>
		<u>1/</u>	<u>2/</u>	<u>3/</u>	<u>4/</u>	<u>5/</u>	<u>6/</u>	<u>7/</u>
GAL	NUL	34	320	6,520	\$93,542	8,869.8	20,503	\$10.55
KAL	NUL	34	226	4,213	\$60,444	6,264.3	14,480	\$9.65
NUL	GAL	34	268	5,314	\$76,240	7,428.4	17,172	\$10.26
NUL	KAL	34	277	5,237	\$75,135	7,677.9	17,748	\$9.79
ENN	FAI	41	1	24	\$344	33.4	77	\$10.30
ANI	HCR	43	5	132	\$1,894	175.3	405	\$10.80
HCR	ANI	43	4	78	\$1,119	140.2	324	\$7.98
GAL	RBY	44	16	354	\$5,079	573.9	1,327	\$8.85
RBY	GAL	44	10	216	\$3,099	358.7	829	\$8.64
ATK	BRW	59	3	155	\$2,224	144.3	334	\$15.41
BRW	ATK	59	4	102	\$1,463	192.4	445	\$7.61
NUI	SCC	60	247	6,825	\$97,918	12,081.8	27,928	\$8.10
SCC	NUI	60	261	7,945	\$113,987	12,766.6	29,511	\$8.93
GAL	KAL	61	243	6,519	\$93,528	12,084.2	27,934	\$7.74
KAL	GAL	61	281	7,531	\$108,047	13,973.9	32,302	\$7.73
NUI	UMT	64	22	636	\$9,125	1,147.9	2,653	\$7.95
UMT	NUI	64	21	594	\$8,522	1,095.7	2,533	\$7.78
GAL	HSL	69	84	2,581	\$37,030	4,725.1	10,923	\$7.84
HSL	GAL	69	77	2,265	\$32,496	4,331.3	10,012	\$7.50
HSL	NUL	84	2	66	\$947	137.0	317	\$6.91
AIN	BRW	87	13	468	\$6,714	922.0	2,131	\$7.28
BRW	AIN	87	15	546	\$7,833	1,063.9	2,459	\$7.36
PIZ	AIN	94	1	30	\$430	76.6	177	\$5.62
TAL	RBY	103	1	36	\$516	84.0	194	\$6.15
SCC	UMT	105	3	138	\$1,980	256.8	594	\$7.71
UMT	SCC	105	5	162	\$2,324	428.0	989	\$5.43
AKP	AET	112	1	42	\$603	91.3	211	\$6.60
BTI	SCC	115	271	11,266	\$161,633	25,406.8	58,730	\$6.36
SCC	BTI	115	258	10,299	\$147,760	24,188.0	55,913	\$6.11
HSL	KAL	118	1	36	\$516	96.2	222	\$5.37
BET	HCR	119	1	48	\$689	97.0	224	\$7.10
FAI	TAL	127	12	534	\$7,661	1,242.4	2,872	\$6.17
TAL	FAI	127	15	606	\$8,694	1,553.0	3,590	\$5.60
FAI	FYU	144	153	7,301	\$104,747	17,961.3	41,519	\$5.83
FYU	FAI	144	133	5,875	\$84,289	15,613.4	36,092	\$5.40
AKP	NUI	145	1	48	\$689	118.2	273	\$5.83
GAL	TAL	145	8	354	\$5,079	945.7	2,186	\$5.37
TAL	GAL	145	1	42	\$603	118.2	273	\$5.10
BRW	NUI	151	217	10,198	\$146,311	26,712.8	61,749	\$5.48
NUI	BRW	151	216	10,624	\$152,423	26,589.7	61,465	\$5.73
BET	HPB	153	3	150	\$2,152	374.2	865	\$5.75
BRW	UMT	171	19	1,006	\$14,433	2,648.7	6,123	\$5.45
UMT	BRW	171	20	1,079	\$15,480	2,788.1	6,445	\$5.55
BRW	PIZ	180	6	360	\$5,165	880.5	2,035	\$5.87
PIZ	BRW	180	3	156	\$2,238	440.2	1,018	\$5.08
AET	FAI	183	1	54	\$775	149.2	345	\$5.19
BRW	SCC	204	17	1,013	\$14,534	2,827.2	6,535	\$5.14
SCC	BRW	204	15	1,001	\$14,361	2,494.6	5,767	\$5.76
AIN	NUI	212	1	48	\$689	172.8	400	\$3.98

Frontier Flying Service, Development of Costs per RTM per Eligible
B-1900 Sgment, YE 6/30/03

Origin	Dest.	Nonstop	Completed	Blk.	Segment	Costs	RTMs	ATMs	Costs
		Miles	Departures	Min.					Per RTM
		<u>1/</u>	<u>2/</u>	<u>3/</u>		<u>4/</u>	<u>5/</u>	<u>6/</u>	<u>7/</u>
UMT	BTI	212	1	60		\$861	172.8	400	\$4.98
FAI	RBY	225	8	534		\$7,661	1,467.4	3,392	\$5.22
RBY	FAI	225	14	863		\$12,381	2,568.0	5,936	\$4.82
ANI	GAL	233	1	66		\$947	189.9	439	\$4.99
ANC	ENN	235	1	120		\$1,722	191.6	443	\$8.99
FAI	ARC	239	1	78		\$1,119	194.8	450	\$5.74
FYU	BTI	250	6	384		\$5,509	1,222.9	2,827	\$4.51
DLG	HOM	252	7	480		\$6,887	1,438.1	3,324	\$4.79
HOM	DLG	252	2	132		\$1,894	410.9	950	\$4.61
AKP	FAI	254	1	66		\$947	207.1	479	\$4.57
FAI	AKP	254	6	450		\$6,456	1,242.4	2,872	\$5.20
FAI	HSL	254	1	72		\$1,033	207.1	479	\$4.99
HSL	FAI	254	4	269		\$3,859	828.3	1,915	\$4.66
FAI	GAL	268	620	46,338		\$664,811	135,459.4	313,129	\$4.91
GAL	FAI	268	607	42,223		\$605,773	132,619.1	306,563	\$4.57
AIN	SCC	271	1	66		\$947	220.9	511	\$4.29
FAI	NUL	302	13	1,066		\$15,294	3,200.6	7,399	\$4.78
NUL	FAI	302	9	695		\$9,971	2,215.8	5,122	\$4.50
BRW	BTI	312	1	78		\$1,119	254.4	588	\$4.40
BTI	BRW	312	4	317		\$4,548	1,017.4	2,352	\$4.47
FAI	ENA	313	2	216		\$3,099	510.3	1,180	\$6.07
FAI	KAL	325	3	204		\$2,927	794.9	1,837	\$3.68
KAL	FAI	325	17	1,325		\$19,010	4,504.2	10,412	\$4.22
ANC	HCR	329	4	354		\$5,079	1,072.8	2,480	\$4.73
HCR	ANC	329	7	623		\$8,938	1,877.5	4,340	\$4.76
FAI	UMT	336	3	276		\$3,960	821.8	1,900	\$4.82
UMT	FAI	336	1	78		\$1,119	273.9	633	\$4.09
KAL	ANC	352	1	90		\$1,291	287.0	663	\$4.50
HOM	BET	365	2	162		\$2,324	595.1	1,376	\$3.91
HSL	ANC	370	1	84		\$1,205	301.6	697	\$4.00
FAI	SCC	373	31	3,654		\$52,424	9,426.6	21,790	\$5.56
SCC	FAI	373	29	2,991		\$42,912	8,818.4	20,385	\$4.87
FAI	NUI	383	1	96		\$1,377	312.2	722	\$4.41
NUI	FAI	383	7	564		\$8,092	2,185.6	5,052	\$3.70
BTI	FAI	386	257	24,817		\$356,049	80,872.9	186,946	\$4.40
FAI	BTI	386	264	25,887		\$371,401	83,075.7	192,038	\$4.47

1/ Great circle miles.

2/ Per T-100 Segment Report.

3/ Also known as ramp-to-ramp time, when aircraft began moving under its own power, taxi time plus flight time.

4/ Preceding column multiplied by \$14.347/block minute. \$14.347 is the total cost per block minute per Order 2004-2-12, Appendix A, for Frontier's B-1900s.

5/ Completed departures * nonstop miles * 1.8845. 1.8845 was derived in Appendix A-3, and is the average capacity per mile, in tons, reported by Frontier on its T-100 Segment Report for the YE 6/30/03, for its eligible segments.

6/ ATMs * 43.26%. 43.26% is the average load factor reported by Frontier for its eligible segments, and was determined in Appendix A-3.

7/ Segment costs divided by RTMs.

Note: All Data in Appendix A-2 is based on either the T-100 Segment Report, or from Appendix A-3.

Frontier Flying Service, Scheduled Service Only, Segment Only, YE 6/30/03, Service Class F Only.

Origin	Dest.	Nonstop	Completed	Aircraft	(Count)	(Pounds)	(Pounds)	(Pounds)	Revenue Ton Miles, (Total Wtd. For Freight)				ATMs		
		Miles	Departures	Miles	Pax.	Freight	Mail	Capacity	Pax.	Fr. @.75	Mail	Total			
		1/	1/	2/	1/	1/	1/	1/	3/	4/	5/	6/	7/		
INELIGIBLE: Frontier Segments EXCLUDED from Calculation of Bush Mail Rate for B-1900s.															
ANC	ANC	0	1	0	2	0	0	3,800	0.0	0.0	0.0	0.0	0		
GAL	GAL	0	1	0	4	0	7	3,800	0.0	0.0	0.0	0.0	0		
ENA	ANC	60	2	120	13	90	0	7,600	78.0	2.0	0.0	80.0	228		
ANI	BET	94	291	27,354	2,362	18,020	7,374	1,105,734	22,202.8	635.2	346.6	23,184.6	51,969		
BET	ANI	94	66	6,204	517	2,941	9,969	250,800	4,859.8	103.7	468.5	5,432.0	11,788		
ANC	HOM	117	244	28,548	828	10,908	4,220	927,200	9,687.6	478.6	246.9	10,413.1	54,241		
HOM	ANC	117	246	28,782	1,041	3,097	8,186	934,800	12,179.7	135.9	478.9	12,794.5	54,686		
ANC	FAI	261	1,481	386,541	14,274	183,675	19,312	5,626,808	372,551.4	17,977.2	2,520.2	393,048.8	734,298		
FAI	ANC	261	1,486	387,846	15,202	163,321	6,783	5,639,528	396,772.2	15,985.0	885.2	413,642.4	735,958		
ANC	ANI	318	636	202,248	5,588	58,325	182,292	2,392,221	177,698.4	6,955.3	28,984.4	213,638.1	380,363		
ANI	ANC	318	408	129,744	4,172	13,411	19,289	1,539,961	132,669.6	1,599.3	3,067.0	137,335.8	244,854		
ANC	DLG	329	347	114,163	2,266	19,944	22,837	1,307,904	74,551.4	2,460.6	3,756.7	80,768.7	215,150		
ANC	GAL	329	306	100,674	2,259	40,375	174,946	1,153,391	74,321.1	4,981.3	28,778.6	108,081.0	189,733		
DLG	ANC	329	339	111,531	2,333	3,165	0	1,279,088	76,755.7	390.5	0.0	77,146.2	210,410		
GAL	ANC	329	288	94,752	1,632	9,192	409	1,081,247	53,692.8	1,134.1	67.3	54,894.1	177,865		
ANC	BET	399	363	144,837	3,945	32,621	12,180	1,314,132	157,405.5	4,880.9	2,429.9	164,716.3	262,169		
BET	ANC	399	585	233,415	4,654	11,850	5,115	2,146,029	185,694.6	1,773.1	1,020.4	188,488.1	428,133		
BRW	FAI	503	2	1,006	1	0	0	7,171	50.3	0.0	0.0	50.3	1,804		
		7,092		1,997,765								1,883,714.0		3,753,650	
		Average State Length		282								Ton Load Factor		50.18%	

Note: This first page contains those reported, scheduled B-1900 segments excluded from the mail calculation as ineligible. (See Issue 1 of the order).

Frontier Flying Service, Scheduled Service Only, Segment Only, YE 6/30/03, Service Class F Only.

Origin	Dest.	Nonstop	Completed	Aircraft	(Count)	(Pounds)	(Pounds)	(Pounds)	Revenue Ton Miles, (Total Wtd. For Freight)				ATMs
		Miles	Departures	Miles	Pax.	Freight	Mail	Capacity	Pax.	Fr. @.75	Mail	Total	
		1/	1/	2/	1/	1/	1/	1/	3/	4/	5/	6/	7/
ELIGIBLE: Frontier Segments INCLUDED in Calculation of Bush Mail Rate for B-1900s.													
GAL	NUL	34	320	10,880	2,228	37,283	69,269	1,216,000	7,575.2	475.4	1,177.6	9,228.1	20,672
KAL	NUL	34	226	7,684	851	8,858	16,489	858,800	2,893.4	150.6	280.3	3,286.7	14,600
NUL	GAL	34	268	9,112	1,597	2,502	8,201	1,018,400	5,429.8	42.5	139.4	5,601.1	17,313
NUL	KAL	34	277	9,418	1,525	9,947	19,753	1,052,600	5,185.0	169.1	335.8	5,647.6	17,894
ENN	FAI	41	1	41	10	165	0	3,800	41.0	3.4	0.0	43.5	78
ANI	HCR	43	5	215	18	15	2,356	19,000	77.4	0.3	50.7	128.3	409
HCR	ANI	43	4	172	34	12	20	15,200	146.2	0.3	0.4	146.8	327
GAL	RBV	44	16	704	99	2,086	9,590	60,800	435.6	45.9	211.0	681.0	1,338
RBV	GAL	44	10	440	43	1,141	2,117	38,000	189.2	25.1	46.6	254.6	836
ATK	BRW	59	3	177	12	0	0	11,225	70.8	0.0	0.0	70.8	331
BRW	ATK	59	4	236	13	25	3,483	15,200	76.7	0.7	102.7	180.0	448
NUI	SCC	60	247	14,820	808	9,675	6,574	938,600	4,848.0	290.3	197.2	5,262.9	28,158
SCC	NUI	60	261	15,660	973	24,714	209,581	991,800	5,838.0	741.4	6,287.4	12,681.5	29,754
GAL	KAL	61	243	14,823	983	20,619	41,393	923,400	5,996.3	628.9	1,262.5	7,730.4	28,164
KAL	GAL	61	281	17,141	1,587	3,985	6,778	1,067,800	9,680.7	121.5	206.7	9,978.6	32,568
NUI	UMT	64	22	1,408	88	3,591	298	83,600	563.2	114.9	9.5	658.9	2,675
UMT	NUI	64	21	1,344	84	3,850	2,635	79,800	537.6	123.2	84.3	714.3	2,554
GAL	HSL	69	84	5,796	173	4,075	25,720	319,200	1,193.7	140.6	887.3	2,186.5	11,012
HSL	GAL	69	77	5,313	144	1,141	687	292,600	993.6	39.4	23.7	1,046.8	10,095
HSL	NUL	84	2	168	6	690	0	7,600	50.4	29.0	0.0	72.1	319
AIN	BRW	87	13	1,131	23	0	109	49,400	200.1	0.0	4.7	204.8	2,149
BRW	AIN	87	15	1,305	87	1,151	17,324	57,000	756.9	50.1	753.6	1,548.0	2,480
PIZ	AIN	94	1	94	0	0	1,348	3,800	0.0	0.0	63.4	63.4	179
TAL	RBV	103	1	103	6	0	474	3,800	61.8	0.0	24.4	86.2	196
SCC	UMT	105	3	315	1	1,300	0	11,400	10.5	68.3	0.0	61.7	599
UMT	SCC	105	5	525	6	288	72	19,000	63.0	15.1	3.8	78.1	998
AKP	AET	112	1	112	1	0	210	3,800	11.2	0.0	11.8	23.0	213
BTI	SCC	115	271	31,165	1,504	25,051	14,379	1,029,800	17,296.0	1,440.4	826.8	19,203.1	59,214
SCC	BTI	115	258	29,670	1,267	28,401	176,266	980,400	14,570.5	1,633.1	10,135.3	25,930.6	56,373
HSL	KAL	118	1	118	0	0	85	3,800	0.0	0.0	5.0	5.0	224
BET	HCR	119	1	119	14	0	144	3,800	166.6	0.0	8.6	175.2	226
FAI	TAL	127	12	1,524	44	1,285	2,178	45,600	558.8	81.6	138.3	758.3	2,896
TAL	FAI	127	15	1,905	145	39	92	57,000	1,841.5	2.5	5.8	1,849.2	3,620
FAI	FYU	144	153	22,032	440	6,876	61,000	581,400	6,336.0	495.1	4,392.0	11,099.3	41,861
FYU	FAI	144	133	19,152	294	982	0	505,400	4,233.6	70.7	0.0	4,286.6	36,389

Frontier Flying Service, Scheduled Service Only, Segment Only, YE 6/30/03, Service Class F Only.

Origin	Dest.	Nonstop	Completed	Aircraft	(Count)	(Pounds)	(Pounds)	(Pounds)	Revenue Ton Miles, (Total Wtd. For Freight)				ATMs
		Miles	Departures	Miles	Pax.	Freight	Mail	Capacity	Pax.	Fr. @.75	Mail	Total	
		1/	1/	2/	1/	1/	1/	1/	3/	4/	5/	6/	7/
AKP	NUI	145	1	145	0	791	402	3,800	0.0	57.3	29.1	72.2	276
GAL	TAL	145	8	1,160	75	39	234	30,400	1,087.5	2.8	17.0	1,106.6	2,204
TAL	GAL	145	1	145	5	72	150	3,800	72.5	5.2	10.9	87.3	276
BRW	NUI	151	217	32,767	1,098	16,162	16,403	824,600	16,579.8	1,220.2	1,238.4	18,733.4	62,257
NUI	BRW	151	216	32,616	1,045	5,503	5,333	820,800	15,779.5	415.5	402.6	16,493.7	61,970
BET	HPB	153	3	459	2	0	267	11,400	30.6	0.0	20.4	51.0	872
BRW	UMT	171	19	3,249	66	2,277	2,515	72,200	1,128.6	194.7	215.0	1,489.6	6,173
UMT	BRW	171	20	3,420	64	648	246	76,000	1,094.4	55.4	21.0	1,157.0	6,498
BRW	PIZ	180	6	1,080	1	767	8,665	22,800	18.0	69.0	779.9	849.6	2,052
PIZ	BRW	180	3	540	6	320	0	11,400	108.0	28.8	0.0	129.6	1,026
AET	FAI	183	1	183	1	0	0	3,800	18.3	0.0	0.0	18.3	348
BRW	SCC	204	17	3,468	30	1,993	786	64,600	612.0	203.3	80.2	844.6	6,589
SCC	BRW	204	15	3,060	31	1,318	4,401	56,992	632.4	134.4	448.9	1,182.1	5,813
AIN	NUI	212	1	212	2	0	0	3,800	42.4	0.0	0.0	42.4	403
UMT	BTI	212	1	212	2	49	0	3,800	42.4	5.2	0.0	46.3	403
FAI	RBV	225	8	1,800	55	1,916	2,727	30,400	1,237.5	215.6	306.8	1,706.0	3,420
RBV	FAI	225	14	3,150	112	228	1,552	53,200	2,520.0	25.7	174.6	2,713.8	5,985
ANI	GAL	233	1	233	1	17	875	3,800	23.3	2.0	101.9	126.7	443
ANC	ENN	235	1	235	10	165	0	3,621	235.0	19.4	0.0	249.5	425
FAI	ARC	239	1	239	15	0	0	3,800	358.5	0.0	0.0	358.5	454
FYU	BTI	250	6	1,500	30	1,354	1,914	22,800	750.0	169.3	239.3	1,116.2	2,850
DLG	HOM	252	7	1,764	40	154	0	26,600	1,008.0	19.4	0.0	1,022.6	3,352
HOM	DLG	252	2	504	18	0	0	7,600	453.6	0.0	0.0	453.6	958
AKP	FAI	254	1	254	2	0	0	3,800	50.8	0.0	0.0	50.8	483
FAI	AKP	254	6	1,524	1	1,248	8,190	22,800	25.4	158.5	1,040.1	1,184.4	2,896
FAI	HSL	254	1	254	1	0	727	3,800	25.4	0.0	92.3	117.7	483
HSL	FAI	254	4	1,016	53	0	15	15,200	1,346.2	0.0	1.9	1,348.1	1,930
FAI	GAL	268	620	166,160	5,459	117,958	178,245	2,353,919	146,301.2	15,806.4	23,884.8	182,040.8	315,425
GAL	FAI	268	607	162,676	5,719	17,440	43,140	2,305,690	153,269.2	2,337.0	5,780.8	160,802.7	308,962
AIN	SCC	271	1	271	2	95	0	3,800	54.2	12.9	0.0	63.9	515
FAI	NUL	302	13	3,926	105	2,241	769	49,023	3,171.0	338.4	116.1	3,540.9	7,402
NUL	FAI	302	9	2,718	66	15	83	34,200	1,993.2	2.3	12.5	2,007.4	5,164
BRW	BTI	312	1	312	0	14	0	3,800	0.0	2.2	0.0	1.6	593
BTI	BRW	312	4	1,248	5	0	0	15,118	156.0	0.0	0.0	156.0	2,358
FAI	ENA	313	2	626	13	90	0	7,401	406.9	14.1	0.0	417.5	1,158
FAI	KAL	325	3	975	9	0	167	11,361	292.5	0.0	27.1	319.6	1,846
KAL	FAI	325	17	5,525	100	250	475	64,526	3,250.0	40.6	77.2	3,357.7	10,485
ANC	HCR	329	4	1,316	26	165	0	15,008	855.4	27.1	0.0	875.8	2,469

Frontier Flying Service, Scheduled Service Only, Segment Only, YE 6/30/03, Service Class F Only.

Origin	Dest.	Nonstop	Completed	Aircraft	(Count)	(Pounds)	(Pounds)	(Pounds)	Revenue Ton Miles, (Total Wtd. For Freight)				
		Miles	Departures	Miles	Pax.	Freight	Mail	Capacity	Pax.	Frnt. @.75	Mail	Total	ATMs
		<u>1/</u>	<u>1/</u>	<u>2/</u>	<u>1/</u>	<u>1/</u>	<u>1/</u>	<u>1/</u>	<u>3/</u>	<u>4/</u>	<u>5/</u>	<u>6/</u>	<u>7/</u>
HCR	ANC	329	7	2,303	53	155	600	26,248	1,743.7	25.5	98.7	1,861.5	4,318
FAI	UMT	336	3	1,008	6	3,616	192	11,150	201.6	607.5	32.3	689.5	1,873
UMT	FAI	336	1	336	0	31	0	3,800	0.0	5.2	0.0	3.9	638
KAL	ANC	352	1	352	4	0	0	3,734	140.8	0.0	0.0	140.8	657
HOM	BET	365	2	730	29	1,184	0	7,592	1,058.5	216.1	0.0	1,220.6	1,386
HSL	ANC	370	1	370	6	0	0	3,800	222.0	0.0	0.0	222.0	703
FAI	SCC	373	31	11,563	184	9,341	5,122	108,042	6,863.2	1,742.1	955.3	9,125.0	20,150
SCC	FAI	373	29	10,817	134	880	691	105,613	4,998.2	164.1	128.9	5,250.2	19,697
FAI	NUI	383	1	383	2	896	0	3,788	76.6	171.6	0.0	205.3	725
NUI	FAI	383	7	2,681	34	35	457	26,560	1,302.2	6.7	87.5	1,394.7	5,086
BTI	FAI	386	257	99,202	1,815	13,939	38,330	950,784	70,059.0	2,690.2	7,397.7	79,474.4	183,501
FAI	BTI	386	264	101,904	1,795	94,810	60,512	974,348	69,287.0	18,298.3	11,678.8	94,689.6	188,049

5,721	897,413	Average Capacity/Mile (Tons)	1.8845
Average State Length	157		

731,586.2	1,691,157
Ton Load Factor	43.26%

8/

9/

10/

1/ Per T-100 Segment Report, Scheduled Service, YE 6/30/03, B-1900 aircraft.

2/ Nonstop Miles * Completed Departures.

3/ Revenue Ton Miles of Passengers: (Passenger Count * Nonstop Miles * 200 pounds)/ 2,000 [to put on a ton basis].

4/ RTMs of Freight: (Pounds of Freight * Nonstop Miles * .75)/ 2,000. As discussed in Order, freight is weighted at .75.

5/ RTMs of Mail: (Pounds of Mail * Nonstop Miles)/2,000.

6/ Total RTMs: passenger + freight + mail.

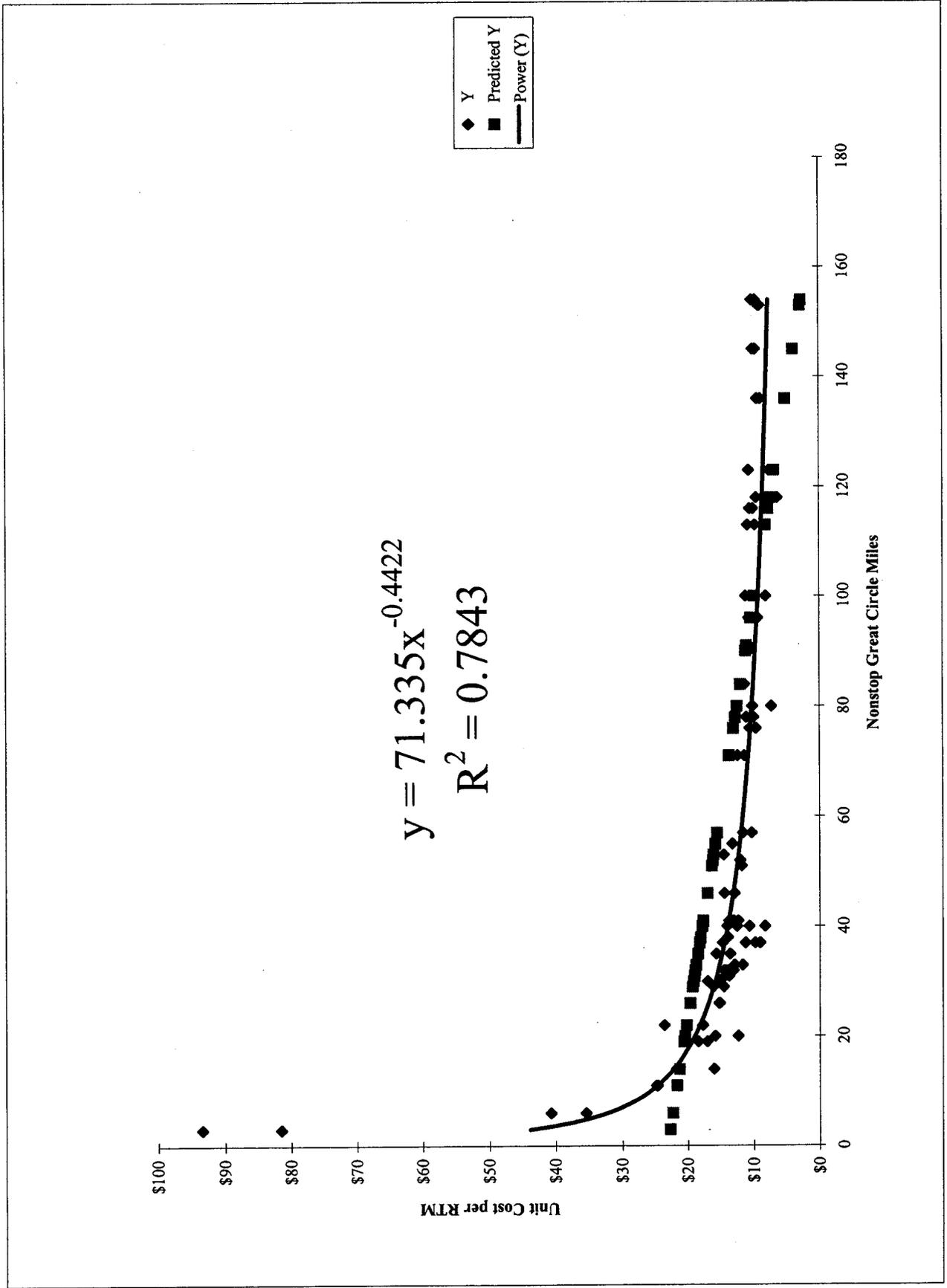
7/ Available Ton Miles (ATMS): (Capacity * Nonstop Miles)/2,000.

8/ Aircraft Miles: Sum of Aircraft Miles divided by Sum of Departures Completed.

9/ Sum of ATMs divided by sum of aircraft miles.

10/ Ton Load Factor: Sum of RTMs (passenger, freight, and mail) divided by Sum of ATMs.

Note: This last page contains only those reported, scheduled T-100 B-1900 segments for the mail calculation, counted as eligible, as discussed in Issue 1.



ERA Aviation, Costs per RTM Determined by Regression

		1/	2/	3/	4/			1/	2/	3/	4/		
Origin	Dest.	Nonstop Miles	Costs Per RTM	Predicted Costs/RTM	Residuals	Residual Percent	Origin	Dest.	Nonstop Miles	Costs Per RTM	Predicted Costs/RTM	Residuals	Residual Percent
KKH	KWK	3	\$81.52	\$43.89	\$37.63	46.16%	TNK	MYU	37	\$11.30	\$14.45	-\$3.15	-27.87%
KWK	KKH	3	\$93.53	\$43.89	\$49.64	53.08%	WTL	KKH	37	\$9.09	\$14.45	-\$5.36	-59.02%
OOK	TNK	6	\$40.72	\$32.30	\$8.42	20.68%	CYF	OOK	38	\$13.97	\$14.28	-\$0.31	-2.21%
TNK	OOK	6	\$35.44	\$32.30	\$3.14	8.85%	BET	EEK	40	\$14.07	\$13.96	\$0.11	0.79%
GNU	PTU	11	\$24.85	\$24.71	\$0.14	0.56%	EEK	BET	40	\$12.58	\$13.96	-\$1.38	-10.95%
PTU	GNU	11	\$24.65	\$24.71	-\$0.05	-0.22%	KWK	WTL	40	\$10.72	\$13.96	-\$3.24	-30.22%
NME	OOK	14	\$16.09	\$22.21	-\$6.11	-37.99%	WTL	KWK	40	\$8.36	\$13.96	-\$5.60	-66.90%
OOK	NME	14	\$21.80	\$22.21	-\$0.40	-1.85%	BET	WTL	41	\$13.61	\$13.81	-\$0.20	-1.47%
HPB	VAK	19	\$18.47	\$19.40	-\$0.94	-5.06%	MYU	OOK	41	\$13.09	\$13.81	-\$0.72	-5.50%
VAK	HPB	19	\$17.12	\$19.40	-\$2.28	-13.34%	OOK	MYU	41	\$13.77	\$13.81	-\$0.04	-0.30%
CYF	KPN	20	\$15.90	\$18.97	-\$3.07	-19.29%	WTL	BET	41	\$12.40	\$13.81	-\$1.41	-11.37%
KPN	CYF	20	\$12.39	\$18.97	-\$6.58	-53.11%	GNU	KWN	46	\$12.95	\$13.12	-\$0.17	-1.32%
SCM	VAK	22	\$17.76	\$18.18	-\$0.42	-2.37%	KWN	GNU	46	\$14.47	\$13.12	\$1.35	9.33%
VAK	SCM	22	\$23.63	\$18.18	\$5.44	23.04%	CYF	WWT	51	\$11.86	\$12.54	-\$0.68	-5.76%
CYF	NME	26	\$15.21	\$16.89	-\$1.68	-11.05%	KWN	PTU	52	\$12.11	\$12.43	-\$0.32	-2.64%
NME	CYF	26	\$15.27	\$16.89	-\$1.62	-10.61%	PTU	KWN	52	\$12.03	\$12.43	-\$0.40	-3.33%
HPB	SCM	29	\$14.59	\$16.09	-\$1.50	-10.31%	VAK	WWT	53	\$14.61	\$12.33	\$2.28	15.62%
SCM	HPB	29	\$16.18	\$16.09	\$0.09	0.54%	CYF	WTL	55	\$13.27	\$12.13	\$1.15	8.64%
NME	WWT	30	\$15.23	\$15.85	-\$0.63	-4.11%	KPN	WTL	57	\$11.64	\$11.94	-\$0.29	-2.52%
WWT	NME	30	\$17.04	\$15.85	\$1.19	6.97%	WTL	KPN	57	\$10.35	\$11.94	-\$1.59	-15.34%
OOK	WWT	31	\$14.40	\$15.63	-\$1.23	-8.53%	BET	KWN	71	\$11.45	\$10.83	\$0.62	5.39%
WWT	OOK	31	\$13.80	\$15.63	-\$1.83	-13.26%	KWN	BET	71	\$12.46	\$10.83	\$1.63	13.09%
EEK	KWN	32	\$14.33	\$15.41	-\$1.08	-7.55%	BET	KKH	76	\$9.67	\$10.51	-\$0.84	-8.73%
KWN	EEK	32	\$13.90	\$15.41	-\$1.51	-10.86%	KKH	BET	76	\$10.61	\$10.51	\$0.10	0.90%
TNK	WWT	32	\$13.13	\$15.41	-\$2.27	-17.31%	EEK	GNU	78	\$10.03	\$10.39	-\$0.36	-3.57%
WWT	TNK	32	\$14.52	\$15.41	-\$0.89	-6.14%	GNU	EEK	78	\$11.12	\$10.39	\$0.73	6.54%
KPN	KWK	33	\$12.92	\$15.20	-\$2.27	-17.60%	BET	KWK	80	\$7.35	\$10.27	-\$2.93	-39.88%
KWK	KPN	33	\$11.73	\$15.20	-\$3.47	-29.55%	KWK	BET	80	\$10.17	\$10.27	-\$0.10	-0.98%
KKH	KPN	35	\$13.65	\$14.81	-\$1.16	-8.48%	PTU	EEK	84	\$11.41	\$10.06	\$1.36	11.88%
KPN	KKH	35	\$15.74	\$14.81	\$0.93	5.93%	BET	CYF	90	\$10.72	\$9.75	\$0.97	9.01%
KKH	WTL	37	\$9.88	\$14.45	-\$4.57	-46.27%	CYF	BET	90	\$10.77	\$9.75	\$1.02	9.44%
MYU	TNK	37	\$14.79	\$14.45	\$0.34	2.28%	OOK	KUK	91	\$10.70	\$9.71	\$0.99	9.26%

ERA Aviation, Costs per RTM Determined by Regression

<u>Origin</u>	<u>Dest.</u>	<u>Nonstop Miles</u>	<u>1/ Costs Per RTM</u>	<u>2/ Predicted Costs/RTM</u>	<u>3/ Residuals</u>	<u>4/ Residual Percent</u>
BET	KPN	96	\$10.73	\$9.48	\$1.25	11.66%
BET	WWT	96	\$9.50	\$9.48	\$0.02	0.24%
KPN	BET	96	\$9.98	\$9.48	\$0.50	4.98%
WWT	BET	96	\$9.39	\$9.48	-\$0.09	-0.94%
BET	NME	100	\$8.17	\$9.31	-\$1.14	-13.94%
NME	BET	100	\$11.20	\$9.31	\$1.90	16.92%
BET	OOK	113	\$9.79	\$8.82	\$0.98	9.96%
OOK	BET	113	\$10.90	\$8.82	\$2.08	19.08%
BET	GNU	116	\$10.55	\$8.72	\$1.83	17.36%
GNU	BET	116	\$10.09	\$8.72	\$1.38	13.64%
BET	TNK	118	\$6.39	\$8.65	-\$2.26	-35.36%
TNK	BET	118	\$9.56	\$8.65	\$0.91	9.50%
BET	PTU	123	\$7.63	\$8.49	-\$0.87	-11.40%
PTU	BET	123	\$10.72	\$8.49	\$2.22	20.75%
BET	VAK	136	\$9.45	\$8.13	\$1.32	14.02%
VAK	BET	136	\$8.95	\$8.13	\$0.83	9.23%
BET	SCM	145	\$9.72	\$7.90	\$1.83	18.78%
SCM	BET	145	\$10.08	\$7.90	\$2.18	21.66%
BET	HPB	153	\$9.02	\$7.71	\$1.31	14.48%
HPB	BET	153	\$9.19	\$7.71	\$1.48	16.11%
BET	MYU	154	\$9.71	\$7.69	\$2.02	20.79%
MYU	BET	154	\$10.22	\$7.69	\$2.53	24.77%

1/ Costs per RTM were developed in Appendices B-2 and B-3.

2/ Predicted costs per RTM apply the regression results to nonstop miles.

The Postal Service must apply the regression results to the nonstop, great-circle miles, from the regional hub or acceptance point to the bush destination.

3/ Residuals shows the difference between the two preceding columns.

4/ Preceding column divided by the column preceding that one.

ERA Aviation, Development of Costs per RTM per Eligible
Twin Otter Segment, YE 6/30/03

Origin	Dest.	Nonstop	Completed	Block	Segment			Costs
		Miles	Departures	Minutes	Costs	ATMs	RTMs	Per RTM
		1/	2/	3/	4/	5/	6/	7/
KKH	KWK	3	198	2,189	\$33,101	906	406	\$81.52
KWK	KKH	3	247	3,133	\$47,375	1,130	507	\$93.53
OOK	TNK	6	223	2,463	\$37,244	2,041	915	\$40.72
TNK	OOK	6	268	2,576	\$38,952	2,453	1,099	\$35.44
GNU	PTU	11	138	1,705	\$25,782	2,315	1,038	\$24.85
PTU	GNU	11	27	331	\$5,005	453	203	\$24.65
NME	OOK	14	27	275	\$4,158	577	258	\$16.09
OOK	NME	14	5	69	\$1,043	107	48	\$21.80
HPB	VAK	19	282	4,473	\$67,638	8,172	3,663	\$18.47
VAK	HPB	19	206	3,029	\$45,802	5,970	2,676	\$17.12
CYF	KPN	20	24	345	\$5,217	732	328	\$15.90
KPN	CYF	20	25	280	\$4,234	763	342	\$12.39
SCM	VAK	22	6	106	\$1,603	201	90	\$17.76
VAK	SCM	22	4	94	\$1,421	134	60	\$23.63
CYF	NME	26	226	4,040	\$61,090	8,962	4,017	\$15.21
NME	CYF	26	19	341	\$5,156	753	338	\$15.27
HPB	SCM	29	151	2,888	\$43,670	6,679	2,993	\$14.59
SCM	HPB	29	217	4,603	\$69,603	9,598	4,302	\$16.18
NME	WWT	30	178	3,676	\$55,586	8,145	3,650	\$15.23
WWT	NME	30	9	208	\$3,145	412	185	\$17.04
OOK	WWT	31	17	343	\$5,187	804	360	\$14.40
WWT	OOK	31	3	58	\$877	142	64	\$13.80
EEK	KWN	32	40	829	\$12,536	1,952	875	\$14.33
KWN	EEK	32	161	3,237	\$48,948	7,858	3,522	\$13.90
TNK	WWT	32	5	95	\$1,437	244	109	\$13.13
WWT	TNK	32	1	21	\$318	49	22	\$14.52
KPN	KWK	33	228	4,396	\$66,473	11,476	5,143	\$12.92
KWK	KPN	33	189	3,308	\$50,021	9,513	4,264	\$11.73
KKH	KPN	35	10	216	\$3,266	534	239	\$13.65
KPN	KKH	35	11	274	\$4,143	587	263	\$15.74
KKH	WTL	37	189	3,123	\$47,224	10,666	4,780	\$9.88
MYU	TNK	37	205	5,070	\$76,665	11,569	5,185	\$14.79
TNK	MYU	37	191	3,610	\$54,588	10,779	4,831	\$11.30
WTL	KKH	37	141	2,143	\$32,405	7,957	3,566	\$9.09
CYF	OOK	38	1	24	\$363	58	26	\$13.97
BET	EEK	40	79	2,010	\$30,394	4,820	2,160	\$14.07
EEK	BET	40	194	4,414	\$66,745	11,836	5,305	\$12.58
KWK	WTL	40	13	252	\$3,811	793	355	\$10.72
WTL	KWK	40	8	121	\$1,830	488	219	\$8.36
BET	WTL	41	189	4,767	\$72,083	11,819	5,297	\$13.61
MYU	OOK	41	27	655	\$9,904	1,688	757	\$13.09
OOK	MYU	41	29	740	\$11,190	1,813	813	\$13.77
WTL	BET	41	253	5,814	\$87,915	15,821	7,091	\$12.40
GNU	KWN	46	76	2,047	\$30,953	5,332	2,390	\$12.95
KWN	GNU	46	91	2,739	\$41,417	6,384	2,862	\$14.47
CYF	WWT	51	3	82	\$1,240	233	105	\$11.86
KWN	PTU	52	17	484	\$7,319	1,348	604	\$12.11
PTU	KWN	52	150	4,242	\$64,145	11,897	5,332	\$12.03
VAK	WWT	53	1	35	\$529	81	36	\$14.61
CYF	WTL	55	1	33	\$499	84	38	\$13.27
KPN	WTL	57	10	300	\$4,536	869	390	\$11.64

ERA Aviation, Development of Costs per RTM per Eligible
Twin Otter Segment, YE 6/30/03

WTL	KPN	57	3	80	\$1,210	261	117	\$10.35
BET	KWN	71	95	3,491	\$52,788	10,287	4,611	\$11.45
KWN	BET	71	89	3,560	\$53,832	9,638	4,320	\$12.46
BET	KKH	76	76	2,524	\$38,166	8,810	3,948	\$9.67
KKH	BET	76	73	2,660	\$40,223	8,462	3,793	\$10.61
EEK	GNU	78	8	283	\$4,279	952	427	\$10.03
GNU	EEK	78	5	196	\$2,964	595	267	\$11.12
BET	KWK	80	69	1,833	\$27,717	8,419	3,773	\$7.35
KWK	BET	80	59	2,171	\$32,828	7,199	3,227	\$10.17
PTU	EEK	84	9	390	\$5,897	1,153	517	\$11.41
BET	CYF	90	277	12,080	\$182,665	38,023	17,042	\$10.72
CYF	BET	90	72	3,155	\$47,708	9,883	4,430	\$10.77
OOK	KUK	91	1	44	\$665	139	62	\$10.70
BET	KPN	96	277	12,898	\$195,035	40,558	18,178	\$10.73
BET	WWT	96	47	1,938	\$29,305	6,882	3,084	\$9.50
KPN	BET	96	213	9,221	\$139,434	31,187	13,978	\$9.98
WWT	BET	96	233	9,495	\$143,577	34,116	15,291	\$9.39
BET	NME	100	78	2,881	\$43,564	11,897	5,332	\$8.17
NME	BET	100	55	2,786	\$42,128	8,389	3,760	\$11.20
BET	OOK	113	275	13,760	\$208,069	47,396	21,243	\$9.79
OOK	BET	113	345	19,208	\$290,450	59,460	26,650	\$10.90
BET	GNU	116	146	8,077	\$122,135	25,831	11,577	\$10.55
GNU	BET	116	32	1,694	\$25,615	5,662	2,538	\$10.09
BET	TNK	118	73	2,489	\$37,637	13,138	5,888	\$6.39
TNK	BET	118	45	2,295	\$34,703	8,099	3,630	\$9.56
BET	PTU	123	20	848	\$12,823	3,752	1,682	\$7.63
PTU	BET	123	15	894	\$13,518	2,814	1,261	\$10.72
BET	VAK	136	270	15,688	\$237,223	56,005	25,102	\$9.45
VAK	BET	136	344	18,932	\$286,276	71,355	31,981	\$8.95
BET	SCM	145	230	14,661	\$221,693	50,865	22,798	\$9.72
SCM	BET	145	172	11,368	\$171,899	38,038	17,049	\$10.08
BET	HPB	153	116	7,236	\$109,418	27,069	12,132	\$9.02
HPB	BET	153	96	6,105	\$92,316	22,402	10,041	\$9.19
BET	MYU	154	343	23,187	\$350,618	80,564	36,109	\$9.71
MYU	BET	154	<u>288</u>	20,499	\$309,972	<u>67,646</u>	<u>30,319</u>	\$10.22

1/ Great circle miles.

2/ Per T-100 Segment Report.

3/ Also known as ramp-to-ramp time, when aircraft began moving under its own power, taxi time plus flight time.

4/ Preceding column multiplied by \$15.1213/block minute. \$15.1213 is the total cost per block minute per Order 2004-2-12, Appendix A, for ERA's Twin Otters, adjusted for revised capacity related percent of 26.80% vs. 27.00%.

5/ Completed departures * nonstop miles * 1.5252. 1.5252 was derived in Appendix B-3, and is the average capacity per mile, in tons, reported by ERA on its T-100 Segment Report for the YE 6/30/03, for its eligible segments.

6/ ATMs * 44.82%. 44.82% is the average load factor reported by ERA for its eligible segments, and was determined in Appendix B-3.

7/ Segment costs divided by RTMs.

Note: All Data in Appendix B-2 is based on either the T-100 Segment Report, or from Appendix B-3.

ERA Aviation, Eligible and Ineligible Data for Calculation of Bush Mail Rate for Short Runway Airports.

Origin	Dest.	Nonstop	Completed	Aircraft	(count)	(Pounds)	(Pounds)	(Pounds)	Revenue Ton Miles, (Total Wtd. For Freight)				ATMs
		Miles	Departures	Miles	Pax.	Freight	Mail	Capacity	Pax.	Frnt.@.75	Mail	Total	
		<u>1/</u>	<u>1/</u>	<u>2/</u>	<u>1/</u>	<u>1/</u>	<u>1/</u>	<u>1/</u>	<u>3/</u>	<u>4/</u>	<u>5/</u>	<u>6/</u>	<u>7/</u>

INELIGIBLE: Era Aviation Segments EXCLUDED from Calculation of Bush Mail Rate for Twin Otters

ANC	ENA	60	2,918	175,080	31,912	125,043	8,790	9,907,638	191,472.0	2,813.5	263.7	194,549.2	297,229
ENA	ANC	60	2,914	174,840	31,709	39,442	23,248	10,671,177	190,254.0	887.4	697.4	191,838.9	320,135
ENA	HOM	64	1	64	11	0	0	2,997	70.4	0.0	0.0	70.4	96
HOM	ENA	64	<u>1</u>	<u>64</u>	0	0	0	5,297	0.0	0.0	0.0	<u>0.0</u>	<u>170</u>
ANC	HOM	117	1,653	193,401	14,503	90,571	14,435	5,077,485	169,685.1	3,973.8	844.4	174,503.4	297,033
HOM	ANC	117	1,651	193,167	15,176	28,526	65,928	5,707,312	177,559.2	1,251.6	3,856.8	182,667.6	333,878
ANC	CDV	160	27	4,320	343	1,947	400	208,980	5,488.0	116.8	32.0	5,636.8	16,718
ANC	ILI	195	20	3,900	93	34	1,106	48,990	1,813.5	2.5	107.8	1,923.8	4,777
ILI	ANC	195	20	3,900	124	0	0	61,640	2,418.0	0.0	0.0	2,418.0	6,010
		9,205		748,736							753,608.0		1,276,045
		Average Stage Length		81							Ton Load Factor		59.06%
				<u>8/</u>									<u>9/</u>

Note: T-100 Segment report, data source.

Note: This page contains those reported, scheduled T-100 Twin Otter segments excluded from the mail calculation as ineligible. There was mainline service on these segments.

Origin	Dest.	Nonstop	Completed	Aircraft	(count)	(Pounds)	(Pounds)	(Pounds)	Revenue Ton Miles, (Total Wtd. For Freight)				ATMs
		Miles	Departures	Miles	Pax.	Freight	Mail	Capacity	Pax.	Frnt.@.75	Mail	Total	
		1/	1/	2/	1/	1/	1/	1/	3/	4/	5/	6/	7/
ELIGIBLE: Era Aviation Segments INCLUDED for Calculation of Bush Mail Rate for Twin Otters													
KKH	KWK	3	198	594	44	0	0	529,980	13.2	0.0	0.0	13.2	795
KWK	KKH	3	247	741	132	18	280	732,109	39.6	0.0	0.4	40.0	1,098
OOK	TNK	6	223	1,338	44	0	0	631,824	26.4	0.0	0.0	26.4	1,895
TNK	OOK	6	268	1,608	77	0	0	852,118	46.2	0.0	0.0	46.2	2,556
GNU	PTU	11	138	1,518	59	0	59	396,400	64.9	0.0	0.3	65.2	2,180
PTU	GNU	11	27	297	42	0	0	81,721	46.2	0.0	0.0	46.2	449
NME	OOK	14	27	378	19	0	230	77,121	26.6	0.0	1.6	28.2	540
OOK	NME	14	5	70	3	0	0	14,831	4.2	0.0	0.0	4.2	104
HPB	VAK	19	282	5,358	112	0	11	820,427	212.8	0.0	0.1	212.9	7,794
VAK	HPB	19	206	3,914	102	0	612	593,138	193.8	0.0	5.8	199.6	5,635
CYF	KPN	20	24	480	0	0	0	63,722	0.0	0.0	0.0	0.0	637
KPN	CYF	20	25	500	1	0	0	67,937	2.0	0.0	0.0	2.0	679
SCM	VAK	22	6	132	10	0	0	18,028	22.0	0.0	0.0	22.0	198
VAK	SCM	22	4	88	15	0	32	12,052	33.0	0.0	0.4	33.4	133
CYF	NME	26	226	5,876	93	0	8	618,513	241.8	0.0	0.1	241.9	8,041
NME	CYF	26	19	494	28	0	0	56,299	72.8	0.0	0.0	72.8	732
HPB	SCM	29	151	4,379	82	0	0	444,766	237.8	0.0	0.0	237.8	6,449
SCM	HPB	29	217	6,293	80	0	4	626,873	232.0	0.0	0.1	232.1	9,090
NME	WWT	30	178	5,340	47	0	35	515,963	141.0	0.0	0.5	141.5	7,739
WWT	NME	30	9	270	6	1	4	24,465	18.0	0.0	0.1	18.1	367
OOK	WWT	31	17	527	9	0	0	48,787	27.9	0.0	0.0	27.9	756
WWT	OOK	31	3	93	8	0	0	7,637	24.8	0.0	0.0	24.8	118
EEK	KWN	32	40	1,280	25	0	0	107,835	80.0	0.0	0.0	80.0	1,725
KWN	EEK	32	161	5,152	106	0	28	499,089	339.2	0.0	0.4	339.6	7,985
TNK	WWT	32	5	160	11	0	0	16,067	35.2	0.0	0.0	35.2	257
WWT	TNK	32	1	32	0	0	0	2,479	0.0	0.0	0.0	0.0	40
KPN	KWK	33	228	7,524	195	0	3	613,952	643.5	0.0	0.0	643.5	10,130
KWK	KPN	33	189	6,237	293	0	64	518,589	966.9	0.0	1.1	968.0	8,557
KKH	KPN	35	10	350	13	45	268	25,226	45.5	0.6	4.7	50.8	441
KPN	KKH	35	11	385	5	0	0	30,741	17.5	0.0	0.0	17.5	538
KKH	WTL	37	189	6,993	47	0	5	567,291	173.9	0.0	0.1	174.0	10,495
MYU	TNK	37	205	7,585	53	1	0	607,075	196.1	0.0	0.0	196.1	11,231
TNK	MYU	37	191	7,067	54	25	0	571,890	199.8	0.3	0.0	200.1	10,580
WTL	KKH	37	141	5,217	42	0	0	352,815	155.4	0.0	0.0	155.4	6,527

ERA Aviation, Eligible and Ineligible Data for Calculation of Bush Mail Rate for Short Runway Airports.

Origin	Dest.	Nonstop	Completed	Aircraft Miles	(count)	(Pounds)	(Pounds)	(Pounds)	Revenue Ton Miles, (Total Wtd. For Freight)				ATMs
		Miles	Departures		Pax.	Freight	Mail	Capacity	Pax.	Frnt.@.75	Mail	Total	
		1/	1/	2/	1/	1/	1/	1/	3/	4/	5/	6/	7/
CYF	OOK	38	1	38	0	0	0	2,679	0.0	0.0	0.0	0.0	51
BET	EEK	40	79	3,160	231	5,627	37,711	183,925	924.0	84.4	754.2	1,762.6	3,679
EEK	BET	40	194	7,760	1,026	711	8,882	638,254	4,104.0	10.7	177.6	4,292.3	12,765
KWK	WTL	40	13	520	8	0	0	35,181	32.0	0.0	0.0	32.0	704
WTL	KWK	40	8	320	4	0	0	19,350	16.0	0.0	0.0	16.0	387
BET	WTL	41	189	7,749	419	14,340	34,003	426,317	1,717.9	220.5	697.1	2,635.4	8,739
MYU	OOK	41	27	1,107	46	0	580	80,967	188.6	0.0	11.9	200.5	1,660
OOK	MYU	41	29	1,189	30	9	17	85,797	123.0	0.1	0.3	123.5	1,759
WTL	BET	41	253	10,373	1,826	1,147	3,042	788,676	7,486.6	17.6	62.4	7,566.6	16,168
GNU	KWN	46	76	3,496	119	26	20	220,398	547.4	0.4	0.5	548.3	5,069
KWN	GNU	46	91	4,186	173	0	17	238,419	795.8	0.0	0.4	796.2	5,484
CYF	WWT	51	3	153	2	0	0	7,955	10.2	0.0	0.0	10.2	203
KWN	PTU	52	17	884	36	0	0	46,705	187.2	0.0	0.0	187.2	1,214
PTU	KWN	52	150	7,800	169	0	60	437,441	878.8	0.0	1.6	880.4	11,373
VAK	WWT	53	1	53	0	0	0	2,579	0.0	0.0	0.0	0.0	68
CYF	WTL	55	1	55	0	0	0	2,879	0.0	0.0	0.0	0.0	79
KPN	WTL	57	10	570	21	0	0	29,062	119.7	0.0	0.0	119.7	828
WTL	KPN	57	3	171	2	0	0	6,937	11.4	0.0	0.0	11.4	198
BET	KWN	71	95	6,745	647	12,111	66,796	369,826	4,593.7	322.5	2,371.3	7,287.4	13,129
KWN	BET	71	89	6,319	543	619	5,146	309,190	3,855.3	16.5	182.7	4,054.5	10,976
BET	KKH	76	76	5,776	857	4,494	21,346	370,592	6,513.2	128.1	811.1	7,452.4	14,082
KKH	BET	76	73	5,548	575	113	2,308	216,540	4,370.0	3.2	87.7	4,460.9	8,229
EEK	GNU	78	8	624	6	0	0	20,504	46.8	0.0	0.0	46.8	800
GNU	EEK	78	5	390	20	0	0	15,649	156.0	0.0	0.0	156.0	610
BET	KWK	80	69	5,520	874	2,925	15,270	351,093	6,992.0	87.8	610.8	7,690.6	14,044
KWK	BET	80	59	4,720	399	25	1,915	201,640	3,192.0	0.8	76.6	3,269.4	8,066
PTU	EEK	84	9	756	16	0	0	33,659	134.4	0.0	0.0	134.4	1,414
BET	CYF	90	277	24,930	1,042	15,599	67,949	630,088	9,378.0	526.5	3,057.7	12,962.2	28,354
CYF	BET	90	72	6,480	554	526	1,522	237,518	4,986.0	17.8	68.5	5,072.2	10,688
OOK	KUK	91	1	91	10	0	0	3,497	91.0	0.0	0.0	91.0	159
BET	KPN	96	277	26,592	1,272	13,078	78,325	760,032	12,211.2	470.8	3,759.6	16,441.6	36,482
BET	WWT	96	47	4,512	507	2,474	18,776	223,009	4,867.2	89.1	901.2	5,857.5	10,704
KPN	BET	96	213	20,448	1,526	4,019	4,636	632,511	14,649.6	144.7	222.5	15,016.8	30,361
WWT	BET	96	233	22,368	1,740	244	7,259	720,728	16,704.0	8.8	348.4	17,061.2	34,595
BET	NME	100	78	7,800	773	1,177	15,020	337,249	7,730.0	44.1	751.0	8,525.1	16,862
NME	BET	100	55	5,500	425	1	3,234	180,792	4,250.0	0.0	161.7	4,411.7	9,040

Origin	Dest.	Nonstop	Completed	Aircraft	(count)	(Pounds)	(Pounds)	(Pounds)	Revenue Ton Miles, (Total Wtd. For Freight)				ATMs	
		Miles	Departures	Miles	Pax.	Freight	Mail	Capacity	Pax.	Frnt.@.75	Mail	Total		
		<u>1/</u>	<u>1/</u>	<u>2/</u>	<u>1/</u>	<u>1/</u>	<u>1/</u>	<u>1/</u>	<u>3/</u>	<u>4/</u>	<u>5/</u>	<u>6/</u>	<u>7/</u>	
BET	OOK	113	275	31,075	2,193	15,279	62,209	743,809	24,780.9	647.4	3,514.8	28,943.2	42,025	
OOK	BET	113	345	38,985	2,846	29,660	4,992	1,106,535	32,159.8	1,256.8	282.0	33,698.7	62,519	
BET	GNU	116	146	16,936	559	10,282	61,389	330,914	6,484.4	447.3	3,560.6	10,492.2	19,193	
GNU	BET	116	32	3,712	194	616	1,448	97,916	2,250.4	26.8	84.0	2,361.2	5,679	
BET	TNK	118	73	8,614	1,102	3,162	17,073	418,425	13,003.6	139.9	1,007.3	14,150.8	24,687	
TNK	BET	118	45	5,310	489	4,808	1,620	136,372	5,770.2	212.8	95.6	6,078.5	8,046	
BET	PTU	123	20	2,460	187	1,164	8,610	85,704	2,300.1	53.7	529.5	2,883.3	5,271	
PTU	BET	123	15	1,845	84	118	1,305	44,039	1,033.2	5.4	80.3	1,118.9	2,708	
BET	VAK	136	270	36,720	1,823	30,970	108,471	776,847	24,792.8	1,579.5	7,376.0	33,748.3	52,826	
VAK	BET	136	344	46,784	2,768	6,122	10,567	1,140,619	37,644.8	312.2	718.6	38,675.6	77,562	
BET	SCM	145	230	33,350	533	14,177	132,414	522,711	7,728.5	770.9	9,600.0	18,099.4	37,897	
SCM	BET	145	172	24,940	1,095	849	7,923	550,627	15,877.5	46.2	574.4	16,498.1	39,920	
BET	HPB	153	116	17,748	1,235	9,691	92,870	615,613	18,895.5	556.0	7,104.6	26,556.1	47,094	
HPB	BET	153	96	14,688	744	1,707	3,507	327,024	11,383.2	97.9	268.3	11,749.4	25,017	
BET	MYU	154	343	52,822	1,641	23,637	151,179	803,991	25,271.4	1,365.0	11,640.8	38,277.2	61,907	
MYU	BET	154	288	44,352	2,033	13,649	13,728	897,121	31,308.2	788.2	1,057.1	33,153.5	69,078	
		9,562		673,314	Average Capacity/Mile (Tons)			1.5252			460,255		1,026,946	
		Average Stage Length		70						Ton Load Factor		44.82%		

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1/ Per T-100 Segment Report, Scheduled Service, YE 6/30/03, Twin Otter aircraft.

2/ Nonstop Miles * Completed Departures.

3/ Revenue Ton Miles of Passengers: (Passenger Count * Nonstop Miles * 200 pounds) / 2,000 [to put on a ton basis].

4/ RTMs of Freight: (Pounds of Freight * Nonstop Miles * .75) / 2,000. As discussed in Order, freight is weighted at .75.

5/ RTMs of Mail: (Pounds of Mail * Nonstop Miles) / 2,000.

6/ Total RTMs: passenger + freight + mail.

7/ Available Ton Miles (ATMS): (Capacity * Nonstop Miles) / 2,000.

8/ Aircraft Miles: Sum of Aircraft Miles divided by Sum of Departures Completed.

9/ Sum of ATMs divided by sum of aircraft miles.

10/ Ton Load Factor: Sum of RTMs (passenger, freight, and mail) divided by Sum of ATMs.

Note: The last page contains only those reported, scheduled T-100 Twin Otter segments for the mail calculation, counted as eligible, as discussed in Issue 1.

**DEPARTMENT OF TRANSPORTATION
BUREAU OF TRANSPORTATION STATISTICS
OFFICE OF AIRLINE INFORMATION
ALASKA MAIL RATES**

ALASKA ACCOUNTING AND REPORTING DIRECTIVE

No. 3

Issue Date: May, 2004

Effective Date:

T-100 REPORTS

The Bureau of Transportation Statistics (BTS) has a plan for counting inter-village traffic for mail tender purposes. The air carriers will continue to report nonstop segment and on-flight market data as actually operated as prescribed in 14 CFR Part 241. What will change is the market file that BTS sends to the United States Postal Service (USPS) for mail tender purposes. BTS will reassign the inter-village enplaned passengers and freight to bush mail markets, enabling the air carrier to receive credit for its inter-village traffic. BTS will edit the data to ensure that the enplaned passengers and freight for the Special USPS file equals the enplaned passengers and freight on the carriers' regular T-100 submission.

Carriers that wish to have inter-village enplanements reassigned to a mail market must provide BTS with a list of their inter-village markets and the corresponding mail markets for reassignment. BTS will post this list on the BTS web site as official notification to all parties. Carriers objecting to a particular reassignment should submit a written objection stating the reason for the objection to Bernard.stankus@bts.gov. The objection will be coordinated with OST and USPS in order to decide the issue.

Two examples of improper reassignment of enplanements:

1. Enplanement was not at village point but rather at a mail hub, where the carrier did not meet mail tender threshold.
2. There was no geographic or routing relationship for the reassignment of enplanements from a village to the named mail market. (If a carrier submits an objection based on this reason, the objection must include a more appropriate market which to reassign the inter-village enplanements.)

This action is taken under authority delegated in 14 CFR Part 385.19(b) of the Department's Organizational Regulations. If you have any questions or comments, you may contact Bernie Stankus 202-366-4387.

Donald W. Bright
Assistant Director
Airline Information