

Order 2004-9-14  
Served: September 14, 2004



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

Issued by the Department of Transportation  
on 14<sup>th</sup> day of September, 2004

INTRA-ALASKA MAINLINE  
SERVICE MAIL RATES

Docket OST-2003-14695

ORDER ESTABLISHING AD HOC FUEL ADJUSTMENT  
AND QUARTERLY FUEL COST ADJUSTMENTS

**Summary**

By this order the Department grants the petition of Northern Air Cargo (NAC) to make an *ad hoc* adjustment for fuel to the mail rate tentatively set by Order 2004-8-26. This order also establishes a routine, quarterly-update procedure for the fuel portion of the mail rate's linehaul element, until further notice.

**Background**

The Department annually updates the intra-Alaska mainline mail base rate established by Order 82-11-23. In 1997, after consultation with all parties, the Department made several significant adjustments to the update methodology: new rates would become effective six months after the end of the reporting period with inflation projected on the basis of long-term trends instead of year-over-year changes; rates would be updated once a year instead of every six months; rates would generally no longer be subject to retroactive adjustment; and the long-term inflation trend would not be applied to fuel costs.<sup>1</sup> Consistent with that approach, Order 2004-8-26 tentatively established new mainline mail rates based on data for the year ended March 31, 2004, to be effective October 1, 2004.<sup>2</sup>

That order also indicated that we would address NAC's petition, dated May 21, 2004, requesting that we re-introduce quarterly fuel adjustments to the mainline mail rate. In its submission, NAC indicated that its price per gallon had increased by 21 percent since March 31, 2004, the end of the reporting period, and, given our annual updates of mail along with the six-month lag from the end of the reporting period to the next annual update, there would be a lag of 18 months, until October 1, 2005, before those higher fuel costs would be recognized.

<sup>1</sup> There was no clear, long-term trend in price that could predict future prices with any degree of confidence.

<sup>2</sup> Objections are due by September 13, and we will deal with any objections in a subsequent order after the due date for objections. This order deals only with the fuel-adjustment issue.

## Decision

The Department has traditionally made adjustments to mail rates for fuel price changes. Most recently, Order 99-12-15, December 17, 1999, began quarterly fuel adjustments that were subsequently terminated by Order 2002-8-7, August 12, 2002, when fuel costs had stabilized. There have been no objections to NAC's May 21 petition for a fuel adjustment to the mail rate tentatively set by Order 2004-8-26. The largest increase in prices occurred in the quarter ended June 30, 2004. Using second quarter 2004 fuel cost data (which have just been filed by NAC and the other carriers) suggests a 4.89 percent increase in the linehaul rate shown by Appendix A to Order 2004-8-26. This calculation is based on the same methodology used in the previous fuel adjustment instituted by Order 99-12-15. While these higher fuel costs would, of course, ultimately be reflected in the next annual update, scheduled to be effective October 1, 2005, the carriers would not have those costs recognized for 15-18 months.<sup>3</sup> The proposed fuel adjustment will simply allow the carriers to recoup the fuel costs on a more timely basis. We will therefore make an *ad hoc* adjustment to the annual rate based on more recent fuel costs, effective October 1, 2004, the beginning of the new annual rate period.

Further, we will reestablish the practice of making quarterly fuel adjustments. The rate may go up or down depending on the changes in fuel costs. For future fuel-related adjustments, since the carriers' traffic and financial data are to be reported 45 days after the end of the accounting period, we will make each quarterly adjustment effective on the first day of the quarter following the end of the prior reporting period. Thus, the fuel data reported for the quarter ended September 30, 2004, will determine the fuel adjustment in the quarter beginning January 1, 2005.

The current annual rate expires September 30, 2004, and Order 2004-8-26 tentatively set new annual rates to be effective October 1, 2004, through September 30, 2005, with objections due September 13, 2004. Therefore, at this time, before considering all the parties' objections and comments, we do not know whether we will establish the rates proposed as final rates. If we finalize the proposed non-fuel linehaul and terminal rates in Order 2004-8-26, then Appendix A to this order shows that the fuel adjustment would result in a 4.89 percent increase to those rates. If we set different final rates than those proposed in Order 2004-8-26, the impact of the fuel adjustment would be higher or lower than 4.89 percent, but the methodology would be identical.

We will not make any changes to non-fuel costs, and we will review the need to continue quarterly fuel adjustments in our next annual update cycle.

Finally, Frontier Airlines has petitioned the Department to have a quarterly fuel adjustment applied to the bush mail rates. We anticipate acting on its request after reviewing the bush data.<sup>4</sup>

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<sup>3</sup> For example, increases in fuel costs incurred in April, May, and June 2004 would not normally be reflected in the rates until October 1, 2005.

<sup>4</sup> Because there are more bush carriers than mainline carriers and some of the carriers are slow in their reporting, a representative sample of results for the June quarter takes longer to compile.

ACCORDINGLY,

1. We reestablish quarterly fuel cost adjustments to the intra-Alaska mainline mail rates as described in this order;
2. Unless the Department acts to finalize different rates than those tentatively set by Order 2004-8-26 before October 1, 2004, the rates in Appendix A will be final from October 1, 2004, until further Department action;
3. This docket shall remain open until further order of the Department; and
4. We will serve this order upon all parties on the Service List for this Docket.

By:

**KARAN K. BHATIA**  
Assistant Secretary for Aviation  
and International Affairs

(SEAL)

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on the World Wide Web at <http://dms.dot.gov>*

**INTRA-ALASKA MAINLINE MAIL**

Prior Orders: 2004-8-26  
 To be Effective: October 1, 2004, until further Department action.

(1)	(2)	(3)	(4)	(5)
<u>Base Year Rates 1/</u>	<u>Adjustment Factors</u>	<u>New Rate 4/</u>	<u>Tentative Rate Per Order 2004-8-26</u>	<u>Change from Prior Rate 5/</u>

**Linehaul Charge per Billing Ton-Mile**

Priority	\$1.1969	114.32% 2/	\$2.4457	4.89%
Non-priority	\$ .7246	114.32% 2/	\$1.4806	4.89%

**Terminal Charge per Pound Originated**

Priority	\$ .1697	62.63% 3/	\$ .2760	0.00%
Non-priority	\$ .1458	62.63% 3/	\$ .2371	0.00%

1/ Per Order 82-11-23

2/ See Appendix B-Main to this order.

3/ Order 2001-7-1

4/ Column (1) increased by column (2).

5/ Any differences between priority and non-priority due to rounding.

**INTRA-ALASKA MAINLINE MAIL COST ADJUSTMENT FACTORS**

	Base Year Ended <u>9/30/80</u>	Unit Costs <u>YE 3/31/04</u>	Unit Costs <u>QE 6/30/04</u>
Unit Cost per Available Ton-Mile			
Fuel	\$.246190 1/	\$.286053 2/	
Nonfuel	<u>\$.570080 3/</u>	<u>\$.570080 3/</u>	
Total	\$.399469	\$.816270	\$.856133
Percentage Change from Base Year		104.34%	114.32% 4/

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1/ Per Order 2002-4-14, Appendix B-Main.

2/ Appendix C-Main to this order.

3/ Order 2001-7-1

4/ \$.660710/\$.399469

