

Served: January 30, 1998



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

Issued by the Department of Transportation
on the 26th day of January, 1998

INTRA-ALASKA BUSH
SERVICE MAIL RATES

Docket OST-95-405
(Docket 44445)

**ORDER TO SHOW CAUSE ESTABLISHING
FINAL BUSH SERVICE MAIL RATES**

Summary

By this order the Department proposes to establish new intra-Alaska bush service mail rates for the period April 1, 1998, through March 31, 1999. The rates that are currently in effect were established by Order 97-1-12, served January 22, 1997, for the period April 1, 1997, through March 31, 1998. Those rates will remain in effect as final rates through March 31, 1998, or until a final order is issued with respect to the rates proposed here, whichever is later.

In tentatively setting the new rates in this Order we are implementing procedural and methodological changes that were proposed and fully discussed in show-cause order 97-9-37 and made final in Order 97-11-20.¹

Procedurally, we are adjusting the schedule for responding to the show-cause order by providing a single answer period of 45 days from the service date of the show cause order. Our prior practice was to allow ten days for parties to notify us if they intended to object and an additional 20 days for them to file the substance of their objections. We are discontinuing that practice in favor of a single 45-day answer period.

Methodologically, this order makes three primary changes: separating fuel costs from non-fuel costs on the linehaul portion of the rates; basing the fuel element on the most recent actual costs with no projected increase or decrease; and using a long-term moving average to project non-fuel cost changes.

Background

The proposed final rates, contained in Appendix A, reflect the application of cost adjustment factors, developed in Appendix B, to the basic mail rate structure established by the Department in Order 90-10-34. We have used the carriers' reported operating expenses for the YE 9/30/97, and have increased their unit costs to the mid-point of the new rate period, based on the long-term average annual changes in unit costs. We have also added Hageland's operations to the cost pool. This is appropriate because Hageland has become one of the biggest bush operators in Alaska, and adding its data to the cost pool makes the update more representative of the system. As the Department deems appropriate, additional carriers may be added to or deleted from the pool of update-carriers in the future, so that a representative sample of the bush

¹ The changes are consistent with the recommendations contained in the Final Report on the Review of the Alaska Mail Ratemaking Methodology, issued September 2, 1997.

carriers in Alaska is maintained. In addition, the Alaska Field Office reviewed Yute's Schedule F-2, 298C reports and made certain corrections to the data, particularly those pertaining to departure-related expenses.

The proposed final rates differ from the final rates currently in effect by the amounts shown in the following table:

	<u>YE 3/31/98</u>	<u>YE 3/31/99</u>	<u>% Change</u>
Linehaul Charge per Billing Ton-Mile ²	\$7.8121	\$8.4514	8.18%
Terminal Charge per Pound Originated	\$.4065	\$.3805	(6.40%)

The combination of the proposed linehaul and terminal charges produces proposed rates for the YE 3/31/99 that are 0.3 percent higher than those in effect for the prior period for an 88-mile average length of haul.

Update Methodology

With this rate period we are replacing the methodology under which we have heretofore updated rates on the basis of the most recent year-over-year changes in costs. Instead, for reasons discussed in the September 1997 Final Report and subsequent orders on this subject, supra, we will now use a long-term yearly average of unit cost changes. At this time, we have only nine consecutive years of data for the bush carriers. For subsequent rate periods we will use a full ten-year moving average.

The regression parameters are shown in Appendix G. They indicate that the regression is highly significant and also reasonably reliable, especially for the terminal element. The results indicate that, on average over the last nine years, unit costs have increased annually by 2.73% for the non-fuel linehaul and 3.28% for the terminal element. These results are consistent with economy-wide inflation trends over the last nine years, lending further credence to the regression results and cost methodology. The data for the regressions are presented in Appendices C and D.

The Department tentatively finds and concludes that:

The fair and reasonable final rates of compensation to be paid in their entirety by the Postmaster General pursuant to the provisions of 49 U.S.C. 41901 for the transportation of mail by aircraft having a payload of 7,500 pounds or less, the facilities used and useful therefor, and the services connected therewith, by each holder of a certificate authorizing the transportation of mail by aircraft within the State of Alaska, for the period beginning April 1, 1998, or on the date of issue of a final Department order with respect to the rates proposed here, whichever occurs later, through March 31, 1999, or until further order of the Department, whichever occurs later, are those specified in the attached Appendix A; and

ACCORDINGLY,

1. We direct all interested persons to show cause why the Department should not adopt the foregoing tentative findings and conclusions and fix, determine and publish the proposed final rates specified in Appendix A, for the period beginning either April 1, 1998, or on the date of issue of the final order pertaining to the rates proposed in Appendix A, whichever occurs later, through March 31, 1999, or until further order of the Department, whichever occurs later;
2. We direct all interested persons having objections to the tentative findings and conclusions or to the rates proposed here to file an objection along with all supporting documents within forty five (45) days after the

² The proposed linehaul rates above for the year ending 3/31/99 are the sum of uninflated fuel expense and non-fuel linehaul expense which is based on YE 9/30/97 costs, but include an inflation factor.

date of service of this order. Vague or unsupported objections that do not include all proposed adjustments and backup data will not be accepted;

3. If no objection is filed within the designated time, or if a timely filed objection raises no material issue of fact, we will deem all further procedural steps waived. We then will enter a final order incorporating the tentative findings and conclusions set forth here and establishing the final rates specified in the attached Appendix A;

4. These dockets shall remain open until further order of the Department; and

5. We will serve this order upon all parties on the Service List for this Docket.

By:

CHARLES A. HUNNICUTT
Assistant Secretary for Aviation
and International Affairs

(SEAL)