



Order 99-7-16
Served July 28, 1999

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 July, 1999

INTRA-ALASKA MAINLINE
SERVICE MAIL RATES

Docket OST-95-429
(Docket 38961)

ORDER TO SHOW CAUSE ESTABLISHING
FINAL MAINLINE SERVICE MAIL RATES

Summary

By this order the Department proposes to establish new intra-Alaska mainline mail rates for the year ending September 30, 2000. The rates that are currently in effect were established by Order 98-7-3 and finalized by Order 98-9-28, for the year ending September 30, 1999. Those rates will remain in effect as final rates through September 30, 1999, or until a final order is issued with respect to the rates proposed here, whichever is later.

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 Civil Aeronautics Board in Order 82-11-23. We have used the carriers' reported operating expenses for the YE 3/31/99, and have increased their unit costs to the mid-point of the new rate period, based on the long-term (ten-year) average annual changes in unit costs.

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

		<u>YE 9/30/99</u>	<u>YE 9/30/00</u>	<u>% Change</u> ¹
Linehaul Charge per	Priority	\$1.4216	\$1.4049	-1.03%
Billing Ton-Mile: ²	Non-Priority	\$.8606	\$.8505	-1.02%
Terminal Charge per	Priority	\$.2360	\$.2518	6.74%
Pound Originated:	Non-Priority	\$.2027	\$.2163	6.81%

The combination of the proposed linehaul and terminal charges produces proposed rates for the YE 9/30/00 that are 2.2 percent higher than those in effect for the current period for a 463-mile average length of haul.

General Matters

In this order we are continuing to use the methodology first implemented in Order 98-7-3, i.e., calculation of a long term moving average for changes in the mail rate, rather than the more volatile year-over-year determinations. The calculation of the long term moving average is shown in the regression in Appendix D. The results indicate that, on average over the last ten years, unit costs have increased annually by 1.82% for the non-fuel linehaul and 1.14% for the terminal element.

¹ Difference in percentage change between priority and non-priority is due to rounding.

² The proposed linehaul rates above for the year ending 9/30/00 are the sum of YE 3/31/99 non-fuel linehaul expense, with an inflation factor applied, plus uninflated fuel expense.

As shown in Appendix A, the projected linehaul rate is 1.03% lower and the terminal is 6.74% higher than the current rates. The small decrease in the linehaul element is a result of a 22% decrease in fuel expense per ATM from the prior year, offset by a 7.1% increase in the non-fuel expense per ATM. The large increase in the terminal charge is the combined result of a 3.6% increase from the prior year in unit cost per ton enplaned for Alaska Airlines augmented by a 19% increase for Northern Air Cargo. It is not clear what has caused this large unit cost increase for Northern Air Cargo. However, it may be that Northern Air Cargo was unable to match cuts in expense with decreases in tons enplaned. Year-over-year, tons enplaned for the carrier decreased by 11% while expense were almost stable with a 0.5% increase. The small decrease in the linehaul element when combined with the significant increase in the terminal element produces a 2.2% increase in the rate from the prior year for a 463-mile average length of haul.

Future Considerations

We will explore adding Lynden and Alaska Cargo Express to the pool of carriers after this rate period since they operate a significant amount of mainline capacity in Alaska. Adding their data to the cost pool would make the update more representative of the system without unnecessarily burdening it with carriers relatively insignificant in terms of the volume of mail they transport or in their overall size. As the Department deems appropriate, additional carriers may be added to or deleted from the set of carriers in the pool so that a representative sample of the total is maintained. ³

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 exceeding 7,500 pounds, 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 October 1, 1999, or on the date of issue of a final Department order with respect to the rates proposed here, whichever occurs later, through September 30, 2000, 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 October 1, 1999, or on the date of issue of the final order pertaining to the rates proposed in Appendix A, whichever occurs later, through September 30, 2000, 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 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

³ See Order 99-2-19. As a general matter, carriers would be added to the pool when they transport large percentages of mail in the respective bush or mainline categories, and their costs are deemed reliable. As a rule of thumb, our goal would be to include a sufficient number of carriers to capture approximately 90% of the total volume of mail, mainline or bush. Some consideration would also be given to having the same carriers in the pool over time, and to including larger operators in terms of overall revenue irrespective of volume of mail transported.

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

By:

A. BRADLEY MIMS
Acting Assistant Secretary for Aviation
and International Affairs

(SEAL)

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

The electronic version may not include all of the appendices

INTRA-ALASKA CLASS SERVICE MAIL RATES COST ADJUSTMENT FACTORS

(Expenses in Thousands of Dollars)

	Base Year Ended <u>9/30/80</u> ^{1/}	Year Ended <u>3/31/99</u> ^{2/}	Average Annual Change YE <u>3/31/89</u> to YE <u>3/31/98</u> ^{3/}	Midpoint to Midpoint Change ^{4/}	Estimated Unit Cost at <u>4/1/99</u> ^{5/}	Percent Change 1980 Base Year to <u>4/1/99</u> ^{6/}
Aircraft Operating Expenses						
Fuel		\$18,635				
Nonfuel		<u>\$65,965</u>				
Total	\$51,880	\$84,600				
Available Ton-Miles	129,873	184,031				
Unit Cost per Available Ton-Mile						
Fuel		\$.101260	Inflation Not Applicable to Fuel		\$.101260	
Nonfuel		<u>\$.358445</u>	1.82%	2.750%	<u>\$.368302</u>	
Total	\$399469	\$459705			\$469562	17.55%
Aircraft and Traffic Service Expenses	\$51,070	\$54,550				
Tons Enplaned	266,632	195,135				
Unit Cost per Ton Enplaned	\$191.54	\$279.55	1.14%	1.72%	\$284.36	48.46%

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

2/ See Appendix C.

3/ See the regression results in Appendix D. As indicated in Order 97-9-37, we will rely on the most recent fuel costs, and apply no inflation factor to those costs.

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

1.0182 x 1.0091; where 1.0091 is the average annual unit cost increase projected for a 6-month period.

1.0114 x 1.00570; where 1.00570 is the average annual unit cost increase projected for a 6-month period.

5/ Fuel, most recent unit costs of \$.101259; Non-fuel linehaul \$.358447 x 1.0275; Terminal, \$279.55 x 1.0172.

6/ \$.469562 in preceding column divided by \$.399469 in the base period, and \$279.55 in the preceding column divided by \$191.54 in the base period.

INTRA-ALASKA CLASS SERVICE MAIL RATES COST ADJUSTMENT FACTORS

(Expenses in Thousands of Dollars)

	Base Year		Average Annual		Estimated	Percent
	Ended	Year Ended	Change	Midpoint to	Unit Cost at	Change 1980
	<u>9/30/80 1/</u>	<u>3/31/99 2/</u>	YE 3/31/89	Midpoint	4/1/99 5/	Base Year to
			to YE 3/31/98 3/	Change 4/		4/1/99 6/
Aircraft Operating Expenses						
Fuel		\$18,635				
Nonfuel		<u>\$65,965</u>				
Total	\$51,880	\$84,600				
Available Ton-Miles	129,873	184,031				
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Order 82-11-23, updated most recently in Order 97-12-24.

See Appendix C.

See the regression results in Appendix D. As indicated in Order 97-9-37, we will rely on the most recent fuel costs, and apply no inflation factor to those costs.

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

Fuel: $1.0091^{182} \times 1.0091$; where 1.0091 is the average annual unit cost increase projected for a 6-month period.

Non-fuel: $1.00570^{14} \times 1.00570$; where 1.00570 is the average annual unit cost increase projected for a 6-month period.

Fuel, most recent unit costs of \$.101259; Non-fuel linehaul \$.358447 x 1.0275; Terminal, \$279.55 x 1.0172.

\$.469562 in preceding column divided by \$.399469 in the base period, and \$279.55 in the preceding column divided by \$191.54 in the base period.

Aircraft Operating Expenses in Scheduled Service

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	Alaska Airlines				Northern Air Cargo				Grand Total
	<u>737-200</u>	<u>737-400</u>	<u>MD-80</u>	<u>Total</u>	<u>727</u>	<u>DC-6</u>	<u>Hercules</u>	<u>Total</u>	
LINEHAUL COSTS									
Domestic Fuel	\$11,464,000	\$51,632,000	\$61,540,000	\$124,636,000	\$3,648,069	\$4,683,235	\$81,780	\$8,413,084	\$133,049,084
Domestic Non-fuel	<u>\$49,503,000</u>	<u>\$217,942,000</u>	<u>\$242,247,000</u>	<u>\$509,692,000</u>	<u>\$9,858,301</u>	<u>\$8,655,176</u>	<u>\$396,795</u>	<u>\$18,910,272</u>	<u>\$528,602,272</u>
Total	\$60,967,000	\$269,574,000	\$303,787,000	\$634,328,000	\$13,506,370	\$13,338,411	\$478,575 2/	\$27,323,356	\$661,651,356
a-Alaska Blk. Hrs.	18,766	9,804	2,012	30,582	2,304	8,387	120	10,811	41,393
Domestic Total	26,251	154,226	167,542	348,019	4,208	9,052	120	13,380	361,399
a-Alaska Fuel Expense	\$8,195,247	\$3,282,197	\$739,029	\$12,216,473	\$1,997,422	\$4,339,184	\$81,780	\$6,418,386	\$18,634,859
a-Alaska Non-Fuel Expense	<u>\$35,388,111</u>	<u>\$13,854,365</u>	<u>\$2,909,127</u>	<u>\$52,151,603</u>	<u>\$5,397,701</u>	<u>\$8,019,328</u>	<u>\$396,795</u>	<u>\$13,813,824</u>	<u>\$65,965,427</u>
Total	\$43,583,358	\$17,136,562	\$3,648,156	\$64,368,076	\$7,395,123	\$12,358,512	\$478,575	\$20,232,210	\$84,600,286
Available Ton-Miles	88,737,434	49,535,522	9,544,678	147,817,634	15,293,507	20,178,546	741,380	36,213,433	184,031,067
Unit Cost per ATM, Fuel	\$.092354	\$.066259	\$.077428	\$.082646	\$.130606	\$.215039	\$.110308	\$.177238	\$.101259
Unit Cost per ATM, Non-fuel	<u>\$.398796</u>	<u>\$.279685</u>	<u>\$.304790</u>	<u>\$.352810</u>	<u>\$.352941</u>	<u>\$.397419</u>	<u>\$.535211</u>	<u>\$.381456</u>	<u>\$.358447</u>
Total	\$.491150	\$.345944	\$.382218	\$.435456	\$.483547	\$.612458	\$.645519	\$.558694	\$.459706

TERMINAL COSTS

Domestic A/C & Traffic Svc.								\$12,068,930	
Domestic Tons Enplaned								44,219	
a-Alaska Skd. Svc., Expenses				\$43,928,957	1/			\$10,620,735	\$54,549,692
a-Alaska Skd. Svc., Tons Enp.				156,222	1/			38,913	195,135
Unit Cost per Ton Enplaned				\$281.20				\$272.94	\$279.55

Data supplied by carrier in a special report.

Hercules were wet-leased from Lynden. Wet lease payments did not break out fuel separately, which we estimated on the basis of Lynden's Hercules fuel expense as a percentage of its direct expenses for the 6 ME 12/31/99--\$1,662,504/\$9,728,975 * \$478,575 = \$81,780.

Sources: DOT Form 41 Financial Reports, Schedules P-1.2, P-2, P-5, T-3A and T-3C, and ad hoc carrier reports.

YE 3/31/	Order Number	Actual Y		Predicted Y	Residuals	Predicted Y (EXP)	Annual % Increase	Regression Statistics	
		\$/ATM Non-Fuel Linehaul	\$/ATM Non-Fuel Linehaul					Natural Log	Natural Log
1989	91-3-45	\$0.276988	-1.283781	-1.239411	-0.044370	\$0.289555	1.82%	0.88602	
1990	93-1-19	\$0.293476	-1.225959	-1.221336	-0.004623	\$0.294836		0.78503	
1991	93-2-26	\$0.319788	-1.140097	-1.203260	0.063163	\$0.300214		0.76115	
1992	94-12-25	\$0.308645	-1.175564	-1.185185	0.009621	\$0.305690		0.03307	
1993	95-6-17	\$0.313231	-1.160814	-1.167110	0.006296	\$0.311265		11	
1994	95-8-8	\$0.314536	-1.156657	-1.149035	-0.007622	\$0.316942			
1995	96-7-8	\$0.329670	-1.109663	-1.130959	0.021296	\$0.322724			
1996	97-6-27	\$0.316760	-1.149611	-1.112884	-0.036727	\$0.328610			
1997	97-6-27	\$0.327227	-1.117101	-1.094809	-0.022292	\$0.334604			
1998	98-7-3	\$0.334821	-1.094159	-1.076733	-0.017426	\$0.340707			
1999	App. C	\$0.358447	-1.025974	-1.058658	0.032684	\$0.346921			
	1/	2/	3/	4/	5/	6/	7/		

ANOVA

	df	SS	MS	F	Significance F
Regression	1	0.035939	0.035939	32.866590	0.000282
Residual	9	0.009841	0.001093		
Total	10	0.045780			

	Coefficients	Std. Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	-37.191128	6.286852	-5.915700	0.000225	-51.412986	-22.969270
X Variable	0.018075	0.003153	5.732939	0.000282	0.010943	0.025208

1/ Order number from which data is drawn.

2/ Non-fuel linehaul expense per the orders and Appendix C of this order.

3/ The natural log of the preceding column.

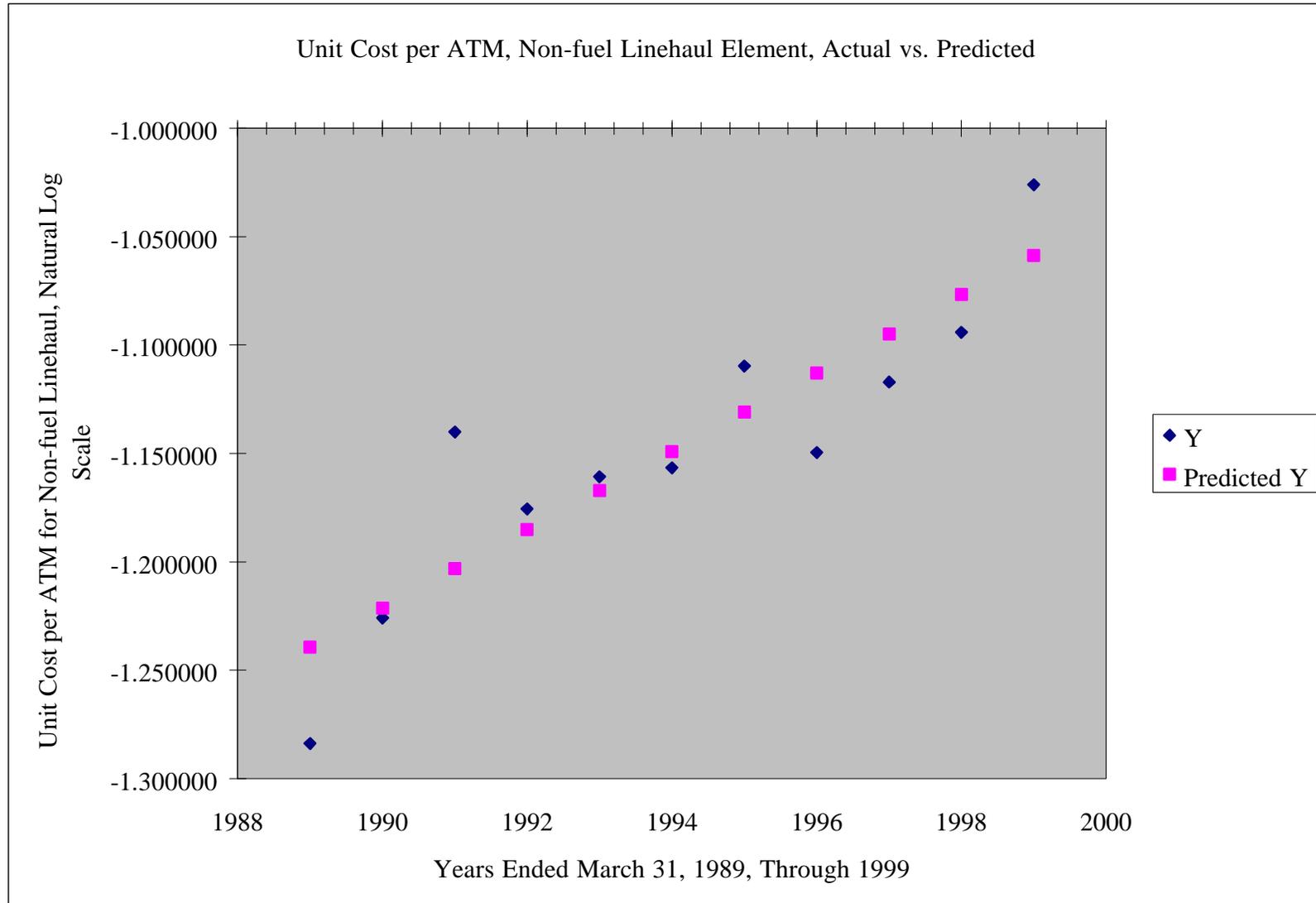
4/ The Y value, in natural log form, produced by the regression.

5/ The difference between predicted and actual, in the two preceding columns.

6/ The predicted Y value in the preceding column, converted back from natural log form.

7/ From the preceding column, any lower value divided by the above value.

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Order Number	Terminal	Terminal	Predicted Y	Residuals	EXP(Y)	Annual Increase	Regression Statistics	
1/	2/	3/	4/	5/	6/	7/	Multiple R	
1989	91-3-45	\$234.86	5.458990	5.475311	-0.016321	\$238.724699	1.14%	0.504053
1990	93-1-19	\$224.13	5.412226	5.486625	-0.074399	\$241.440967		0.254069
1991	93-2-26	\$244.68	5.499951	5.497939	0.002012	\$244.188142		0.171188
1992	94-12-25	\$254.70	5.540086	5.509254	0.030832	\$246.966821		0.067776
1993	95-6-17	\$275.00	5.616771	5.520568	0.096203	\$249.776870		11
1994	95-8-8	\$278.97	5.631104	5.531882	0.099222	\$252.618893		
1995	96-7-8	\$252.48	5.531332	5.543196	-0.011864	\$255.493252		
1996	97-6-27	\$235.13	5.460139	5.554511	-0.094372	\$258.400576		
1997	97-6-27	\$244.69	5.499992	5.565825	-0.065833	\$261.340721		
1998	98-7-3	\$261.63	5.566931	5.577139	-0.010208	\$264.314320		
1999	App. C	\$279.55	5.633181	5.588453	0.044728	\$267.321753		

OVA

	df	SS	MS	F	Significance F
Regression	1	0.014081	0.014081	3.065459	0.113892
Residual	9	0.041342	0.004594		
Total	10	0.055423			

	Coefficients	Std. Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	-17.028687	12.885546	-1.321534	0.218930	-46.177839	12.120465
Variable	0.011314	0.006462	1.750845	0.113892	-0.003304	0.025933

Order number from which data is drawn.

Terminal expense per the orders and Appendix C of this order.

The natural log of the preceding column.

The Y value, in natural log form, produced by the regression.

The difference between predicted and actual, in the two preceding columns.

The predicted Y value in the preceding column, converted back from natural log form.

From the preceding column, any lower value divided by the above value.

Unit Cost per Ton Enplaned, Terminal Element, Actual vs. Predicted

