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Order 2001-3-5

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



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on the 6th day of March, 2001

INTRA-ALASKA MAINLINE SERVICE  
MAIL RATES

AND

REEVE TERRITORIAL RATE

Dockets OST-95-429-141

AND

CAB 38574

**ORDER TERMINATING THE REEVE TERRITORIAL RATE**

**Summary**

By this order the Department is terminating the Reeve territorial rate set by Order 81-1-41 and making the intra-Alaska mainline mail rate apply to the Aleutians as it does to the rest of Alaska.

**Background**

On December 5, 2000, Reeve Aleutian Airways, Inc. (Reeve) ceased providing scheduled air service. The Reeve territorial rate established by Order 81-1-41, January 8, 1981, has applied in the Aleutians up until now. This rate was constructed 20 years ago on the basis of Reeve's costs when it was the only mainline carrier operating in the Aleutians, so the underlying base for constructing the rate has disappeared.

The Department has not updated the Reeve rate in almost 20 years because Reeve never petitioned the Department to make an inflation adjustment. Also, special factors present when the rate was created no longer apply. For example, when the territorial rate was established, Reeve was the only carrier operating in the Aleutians, it did not operate outside the Aleutians, and the aircraft types used by Reeve that were severely weight limited due to the long stage lengths and few alternate airports have since been replaced.

Now, of course, Reeve is not operating scheduled service, while Alaska Airlines and Northern Air Cargo both operate in the Aleutians, but with different aircraft types than Reeve operated. The intra-Alaska mainline rate in some respects now exceeds the Reeve rate, even though the Reeve territorial rate was initially carved out from the rest of Alaska to account for Reeve's higher costs, at the time, of operating in the Aleutians.<sup>1</sup> By letter to the carriers and the Postal Service dated December 19, 2000, the Department affirmed that the Reeve territorial rate would continue to apply in the Aleutians until further Department action, notwithstanding that Reeve had ceased scheduled operations. The letter also requested comments about phasing out the Reeve rate. Options specifically addressed were to end the Reeve rate altogether at a pre-agreed to date; make the higher intra-Alaska mainline priority rate apply to priority mail service in the Aleutians and have the higher Reeve rate apply as the non-priority rate until the non-priority rate exceeded the Reeve rate; and selectively phase out the Reeve rate in specific markets. We have now received comments from Alaska Airlines and the Postal Service.

#### **Comments of Alaska Airlines**

Alaska Airlines filed its comments on February 7, 2001. Alaska unequivocally states "the passage of more than two decades as well as Reeve Aleutian's cessation of operations leaves no doubt that the Reeve Rate is an anachronism and should be abolished. The manner and timing ....are the only issues that warrant discussion." The carrier focused on the Anchorage-Dutch Harbor market, the only market it serves in the Aleutians. The carrier states "The Anchorage-Dutch Harbor market poses a number of operational challenges and, on an individual market basis, is almost certainly more costly to serve than the "average" intra-Alaska market. Yet the per pound rate Alaska receives for the carriage of priority mail under the outmoded Reeve Rate is less than 70 percent of that which Alaska would receive to carry the same priority mail" if the intra-Alaska mainline rate were applied. Moreover, the carrier states that the vast majority of mail transported by Alaska and Peninsula in the Anchorage-Dutch Harbor market is priority mail. Finally, the carrier notes that the increased mail revenue that it would receive would contribute to an improvement in the economics of its Anchorage-Dutch Harbor operation and, at some point, possibly contribute to increased service by the carrier. In conclusion, Alaska proposes that the intra-Alaska mainline rate should become the exclusive rate for Dutch Harbor on April 1, coincident with the next quarterly fuel adjustment.

Alaska Airlines also commented, as a matter of principle, on "certain [Postal Service] contracting arrangements that may be under consideration in these and other markets." Namely, Alaska understands that informal arrangements are being evaluated under which mail service would be provided "by a combination of intra-Alaska bush mail rates [and bush carriers] and some limited supplementary contract arrangements to accommodate the volumes of non-priority bypass mail." Alaska Airlines is not so concerned with this issue

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<sup>1</sup> The current mainline rate, as set by Order 2000-11-9, is as follows: Priority linehaul, \$1.9129 per ton-mile; Non-Priority linehaul, \$1.1581 per ton mile. The Priority terminal charge is \$503.80 per ton enplaned, and the Non-Priority terminal charge is \$433 per ton enplaned. The Reeve rate set by Order 81-1-41 is \$1.224 per ton-mail and \$470 per ton enplaned and does not have Priority and Non-Priority elements.

in the Aleutians, but would vigorously oppose the extension of any such arrangements to other intra-Alaska markets in which the equitable tender provisions of 39 U.S.C. Section 101 (f) apply when service is offered at least three times per week.

#### **Comments of the United States Postal Service**

The Postal Service feels that the Department “should establish the current mainline rates (for priority and non-priority service) in the interim period. The Postal Service, unlike Alaska Airlines, does not specify a particular date, but clearly favors applying the intra-Alaska mainline rate quickly.

Beyond the interim period, the Postal Service is concerned that “any one regulated rate [i.e., either the intra-Alaska mainline or bush rate] for the entire Aleutian chain will not lead to a fair and desirable outcome for the carriers and the USPS. “Under any rate-setting system, the USPS’s primary concern is to ensure that the Aleutians receive reliable and dependable” mail service. A regulated rate based on the average costs to serve the chain “would not adequately attract and compensate carriers to service the more remote and difficult to reach, smaller mail volume Aleutian communities. Not only would carriers not find it profitable to operate in these markets, but, as a consequence, the USPS would not be able to provide dependable and adequate service to these communities.” In addition, the Postal Service believes that currently there is no cost basis for developing regional rates in the Aleutians. Relying on Reeve’s most recent costs as a basis for establishing new regional rates is invalid because “Reeve’s latest costs are not necessarily reflective of operations to the Aleutians, as it had modified its operations before it ceased operations.”

The Postal Service would like to examine “market-specific contract rates” that would attract carriers to operate in markets with smaller volume flows while also ensuring that service is adequate, reliable, and dependable. The Postal Service is proposing a contract system for the Aleutians beyond the interim period, but it has not yet finalized the design of how it would operate. It is currently evaluating several alternatives for contracting service to the Aleutian chain beyond the interim period and “would like to discuss its ideas with DOT and the carriers.”

#### **Decision**

All parties agree that the Reeve territorial rate should end. While Alaska Airlines indicates that it would accept April 1 as the transition date, the Postal Service is silent on the date. However, there is no justification for extending the non-compensatory Reeve rate beyond the time needed for an orderly transition. Service to most markets in the Aleutians is now provided with bush-only aircraft, and so the much higher intra-Alaska bush rate applies. However, at Dutch Harbor Peninsula Airways has equalized to the Reeve rate for its service with bush aircraft. Peninsula is entitled to the higher rate, and by offering a higher rate Peninsula may be able to expand service and reduce some apparent capacity shortfalls in the market. We will therefore terminate the Reeve rate

effective five days after the service date of this order, and incorporate the Aleutians in the intra-Alaska mainline and bush mail rate system that is applied to the rest of Alaska.<sup>2</sup>

We note the Postal Service's comment that its primary concern is to ensure that the Aleutians receive reliable and dependable mail service and that the mail rates must be high enough to attract and compensate carriers to serve the more remote, smaller Aleutian communities. In that context, the Postal Service has asked that we meet with it and the parties to discuss market specific contracting and perhaps other options for service in the Aleutians. Given these outstanding issues in the Aleutians and the Postal Service's request, we will arrange to meet with the Postal Service, the carriers, and the State of Alaska to examine mail issues in the Aleutians.

**ACCORDINGLY,**

1. The Department terminates the Reeve territorial rate effective (5) days after the service date of this order. The intra-Alaska mainline and bush rates will apply from that effective date in the Reeve territory;
2. Docket OST-429, "Intra Alaska Mainline Service Mail Rates" will remain open until further order of the Department;
3. We will close Docket 38574, "Petition of Reeve Aleutian Airways, Inc., for a Fuel Surcharge Applicable to the Carriage of Mail"; and
4. We shall serve this order upon parties on the Service List for these Dockets.

By:

**Susan McDermott**  
Deputy Assistant Secretary for Aviation  
and International Affairs

(SEAL)

*An electronic version of this document is available on the World Wide Web  
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<sup>2</sup> By Orders 88-4-56 and 89-9-21 the Department clarified that the bush mail rate applied throughout Alaska, including the Aleutians, whenever service with mainline aircraft was not present.