



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

Issued by the Department of Transportation
on the 17th of November, 2016

**INTRA-ALASKA MAINLINE
SERVICE MAIL RATES**

Under 49 U.S. C. 41901 *et seq.*

**Docket OST-2003-14695
(Docket OST-95-429)**

**ORDER TO SHOW CAUSE ESTABLISHING NEW
MAINLINE SERVICE MAIL RATES**

Summary

By this Order, the Department proposes to establish new intra-Alaska mainline¹ mail rates for the next annual period, beginning on or about December 10, 2016. The rates that are currently in effect were established by Order 2015-6-26, adjusted by Order 2016-5-12 for the fuel costs for the quarter ended December 31, 2015. The cost pool consists of the mainline operations of five carriers: Alaska Airlines (AS, Alaska), Corvus Airlines, Inc. (7H, Corvus),² Lynden Air Cargo (L2, Lynden), Northern Air Cargo (NC, NAC), and Tatonduk Outfitters, Ltd., d/b/a Everts Air Cargo (5V, Everts). Alaska, Corvus, Lynden, and NAC currently provide all of their service with mainline aircraft; and Everts provides most of their service with mainline equipment.³ As shown in the Appendices, we have separated the bush traffic and expenses from the mainline for each carrier that provided both mainline and bush services. Furthermore, in Appendix E, PenAir fell below the one percent threshold for mail RTMs, so we have excluded that carrier from the calculations.

¹ Mainline aircraft are defined as aircraft with more than 7,500 pounds payload, and mainline mail is mail transported on mainline aircraft. The United States Postal Service pays lower rates for mainline than bush mail to reflect the greater efficiency of large aircraft when transporting higher loads.

² Ravn Alaska, formerly known as HoTH, Inc. is a regional airline holding company whose wholly-owned subsidiaries include Corvus Airlines Inc. (formerly Era Aviation, Inc.), Hageland Aviation Services, Inc., and Frontier Flying Service, Inc. From this point forward, "7H" will designate flying by Corvus/Era, "H6" by Hageland, and "2F" by Frontier Flying Service. It is noted that Frontier now operates on-demand cargo services only, and has released its IATA designator "2F", although at the time of this Order, the Bureau of Transportation Statistics still associates this code with Frontier Flying Service.

³ The Dash 8-100 aircraft operated by Corvus/Era are mainline aircraft, as they have more than 7,500 pounds of payload. In prior years, we excluded Corvus/Era from the calculation of the mainline mail rate because it transported less than one percent of Intra-Alaska mainline mail.

Background

Because mail rates are made effective on a final, prospective basis, but are based on historical unit costs, the Department projects what costs will be in the forthcoming year based on ten years of data – if ten years of data are available. Until Order 2004-8-26 was issued, the Department estimated the long-term cost trend based on a ten-year moving average that included only NAC and Alaska,⁴ the only two carriers for which we had ten years of data. Order 2004-8-26 temporarily abandoned the use of a ten-year trend for a five-year trend – the entire period for which we had data for the four carriers⁵ then constituting the mainline cost pool – but added a successive year with each new annual update until, as contemplated by Order 2004-8-26, we had a full ten years. We propose to maintain the use of a ten-year trend by adding the most recent year, March 31, 2016, and dropping the earliest year, March 31, 2006. Further, we have added year-ended March 31, 2015, data into the analysis, which is discussed in the General Matters section.

The proposed 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 and traffic for the year ended March 31, 2016. When the final Order is issued, we will update unit costs of fuel for the most recent quarter available at that time. We have increased the carriers' non-fuel unit costs and their terminal unit costs to the mid-point of the new rate period based on the long-term (ten-year) annual change in unit costs for all of the carriers.⁶

Results of the Updated Data

The proposed line-haul and terminal rates differ from the rates currently in effect by the amounts shown in the table:

		Order 2016-5-12	Proposed ⁷	Increase (%) ⁸
Line-haul, \$/RTM ⁹	Priority	\$3.3828	\$3.5712	5.57
	Non-priority	\$2.0479	\$2.1620	5.57
Terminal, \$/Pound Enplaned	Priority	\$0.4238	\$0.4316	1.84
	Non-priority	\$0.3641	\$0.3708	1.84

⁴ The long-term trend at one time had been based on the expenses of only Alaska and NAC, even though a total of four carriers – (Alaska, NAC, Lynden, and Everts) transported sufficient volumes of mainline mail that their traffic and expense data were included in calculating annual unit costs, because other than for Alaska and NAC, ten years of data were not available.

⁵ Alaska, NAC, Everts, and Lynden.

⁶ The final rates will rely on unit fuel costs for the quarter ended June 30, 2016.

⁷ Includes fuel expense for the quarter ended December 31, 2015.

⁸ Any difference between Priority and Non-priority is due to rounding.

⁹ The proposed line-haul rates are the sum of the non-fuel line-haul expense, with a 10-year average inflation factor applied, and the most recent fuel expense unadjusted for inflation.

General Matters

Appendix E shows all the mail transported by carriers operating mainline equipment within Alaska for the year ended March 31, 2016. Consistent with longstanding policy, the Department has tentatively excluded from the line-haul calculation for that period the data of all aircraft types transporting less than one percent of intra-Alaska mainline revenue ton miles (RTMs) of mail, and from the terminal calculation the data of those carriers enplaning less than one per cent of intra-Alaska mainline mail tons enplaned. As with the last order, that means excluding the unit costs of PenAir's Saab 340 and Everts' EMB-120 (Brasilia), and including NAC's 737-300.

To determine the long-term trends, we propose to continue our practice of separately regressing annual unit costs against the corresponding years, in this instance the ten-year period from April 1, 2007, through March 31, 2016. Due to the timing of the last Order issued, the most current data used was year-ended March 31, 2014. To reflect the latest and most relevant costs of the carriers, we inserted the year-ended March 31, 2015, data into the regression analysis, so the most recent ten years of cost data would be reflected. The results of both the linehaul and terminal regressions are shown in Appendices C-1 and C-2. As is longstanding practice, we will not retroactively recreate the results of the years 2007 through 2015 if an aircraft type is included or excluded in the most current year analysis. Such an adjustment would have only a *de minimis* effect, and would not be representative of the composition of ratemaking in prior years.

Non-fuel Linehaul Results

Appendix C-1, non-fuel linehaul, shows an average annual increase of 3.78 percent in unit costs over the ten-year period with a T-Value of 4.96, indicating a high degree of confidence in the upward trend in the proposed non-fuel line haul costs. The average annual increase in the long-term trend has decreased from 4.22 percent per Order 2015-6-26, to 3.78 percent in this Order.

Fuel Expense

Like the last update, we calculated the unit cost of fuel by relying on fuel expenses for Alaska, NAC, and Lynden reported on Form 41 Schedule P12 that all major carriers routinely submit to the Department's Office of Airline Information. The current calculations again rely on Form 41, Schedule P12, which show the costs and gallons for Scheduled Intra-Alaska operations. As usual, we did not apply this to Everts because the Schedule P12 does not differentiate fuel expense by aircraft type or between Avgas and Jet-A. Everts operated various aircraft burning significant amounts of each fuel type, with each fuel type differing in price; thus, it would be inappropriate to apply an average price per gallon for that carrier. For Everts, we will continue our practice of relying on unit fuel costs per aircraft type as reported on Schedule P5.1. Because Lynden, unlike the other carriers, has only one aircraft type operating in Alaska, we determined its fuel burn by dividing its intra-Alaska gallons burned in scheduled service by intra-Alaska scheduled block hours.

Terminal Results

As shown in Appendix C-2, the terminal regression calculated an average annual increase of 2.46 percent in unit costs over the ten-year period, with a T-Value of 5.04, indicating a high degree of confidence in the upward trend in unit terminal costs. Unit terminal costs have increased by 1.84 percent, from \$478.33 per ton in Order 2015-6-26 to \$487.14 in 2016, as shown in Appendix B of this Order.

ACCORDINGLY,

1. We direct all interested persons to show cause, no later than ten (10) days after the service date of this Order, why the Department should not adopt the foregoing tentative findings and conclusions and fix, determine and publish the proposed final annual rates specified in Appendix A, to be effective on or about December 10, 2016, subject to the quarterly fuel adjustment, as discussed. Vague or unsupported Answers that do not include all proposed adjustments and backup data will not be accepted;
2. If no objections are filed within the designated time, or if no timely-filed objection raises material issues of fact, we hereby delegate authority to the Director, Office of Aviation Analysis, to make the above rates final;
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:

JENNY T. ROSENBERG
Acting Assistant Secretary for
Aviation and International Affairs

(SEAL)

An electronic version of this document is available at
<http://www.regulations.gov>

Intra-Alaska Class Service Mail Rates

Effective: 1/ On or about December 10, 2016

Column	(1)	(2)	(3)	(4)	(5)
	<u>Base Year Rates 2/</u>	<u>Adjustment Factors 3/</u>	<u>Proposed Final Rates 4/</u>	<u>Current Rate, Order 2016-5-12</u>	<u>Change from Prior Rate 5/</u>

Linehaul Charge per Billing Ton-Mile

Priority	\$1.1969	198.37%	\$3.5712	\$3.3828	5.57%
Non-priority	\$0.7246	198.37%	\$2.1620	\$2.0479	5.57%

Terminal Charge per Pound Originated

Priority	\$0.1697	154.33%	\$0.4316	\$0.4238	1.84%
Non-priority	\$0.1458	154.33%	\$0.3708	\$0.3641	1.84%

1/ Both the current and proposed linehaul rates below include fuel expense for the quarter ended December 31, 2015, the most current data available at this time. As discussed in the body of the Order, we anticipate including fuel expense for the quarter ended June 30, 2016, in the final Order.

2/ Per Order 82-11-23.

3/ See Appendix B.

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

5/ Any differences due to rounding.

Intra-Alaska Class Service Mail Rates Cost Adjustment Factors

	(1)	(2)	(3)	(4)	(5)	(6)
	Base Year Ended <u>9/30/80</u> 1/	Year Ended <u>3/31/16</u> 2/	Average Annual Change YE <u>3/31/07</u> to YE <u>3/31/16</u> 3/	Midpoint to Midpoint Change 4/	Estimated Unit Cost at <u>4/1/17</u> 5/	Percent Change 1980 Base Year to <u>4/1/17/</u>
Unit Cost per Available Ton-Mile						
Fuel		\$0.32120	na	na	\$0.48269	
<u>Nonfuel</u>		\$0.67072	3.78%	5.74%	\$0.70922	
Total	\$0.399469	\$0.99192			\$1.19191	198.37%
Unit Cost per Ton Enplaned	\$191.54	\$469.67	2.46%	3.72%	\$487.14	154.33%

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

2/ See Appendix D-1. For nonfuel, we used YE March 31, 2016; for fuel expense, we used Order 2016-5-12, App. C.

3/ See the regression results in Appendix C.

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.

1.0378×1.0189 , where 1.0189 is the average annual unit cost increase projected for a 6-month period.

1.0246×1.0123 where 1.0246 is the average annual unit cost increase projected for a 6-month period.

5/ Column (2) multiplied by column (4), except for fuel. As indicated in Order 97-9-37, we will rely on the most recent fuel costs, with no inflation factor. Fuel for the QE 12/31/15 is the most recent available at this time, but we anticipate in the final order adding fuel for the QE 6/30/16.

6/ \$1.19191 in preceding column divided by \$.399469 in the base period, and \$487.24 in the preceding column divided by \$191.54 in the base period.

Calculation of the Linehaul Portion of the 10-Year Trend: 5V, L2, NC, 7H, AS

Order Number	YE 3/31/	Actual Y		Natural Log		Predicted EXP (Y)	Predicted Annual Increase
		\$/ATM Non-Fuel Linehaul	\$/ATM Non-Fuel Linehaul	Predicted Y	Residuals		
2007-8-26	2007	0.4924	-0.70846	-0.6487	-0.05975918	0.5227244	
2008-9-3	2008	0.51562	-0.6623852	-0.6116	-0.05078337	0.5424812	3.78%
2009-9-1	2009	0.57542	-0.5526551	-0.5745	0.0218478	0.5629847	3.78%
2010-8-7	2010	0.61927	-0.4792139	-0.5374	0.058189979	0.5842631	3.78%
2011-9-6	2011	0.62396	-0.471669	-0.5003	0.028635901	0.6063457	3.78%
2012-9-26	2012	0.63249	-0.4580909	-0.46321	0.005115071	0.629263	3.78%
2013-12-8	2013	0.68257	-0.3818902	-0.42611	0.04421677	0.6530465	3.78%
2015-6-19	2014	0.75548	-0.28040	-0.38901	0.108607986	0.6777289	3.78%
	2015	0.65482	-0.42339	-0.35191	-0.07148099	0.7033441	3.78%
New	2016	0.67072	-0.39940	-0.31481	-0.08458997	0.7299275	3.78%

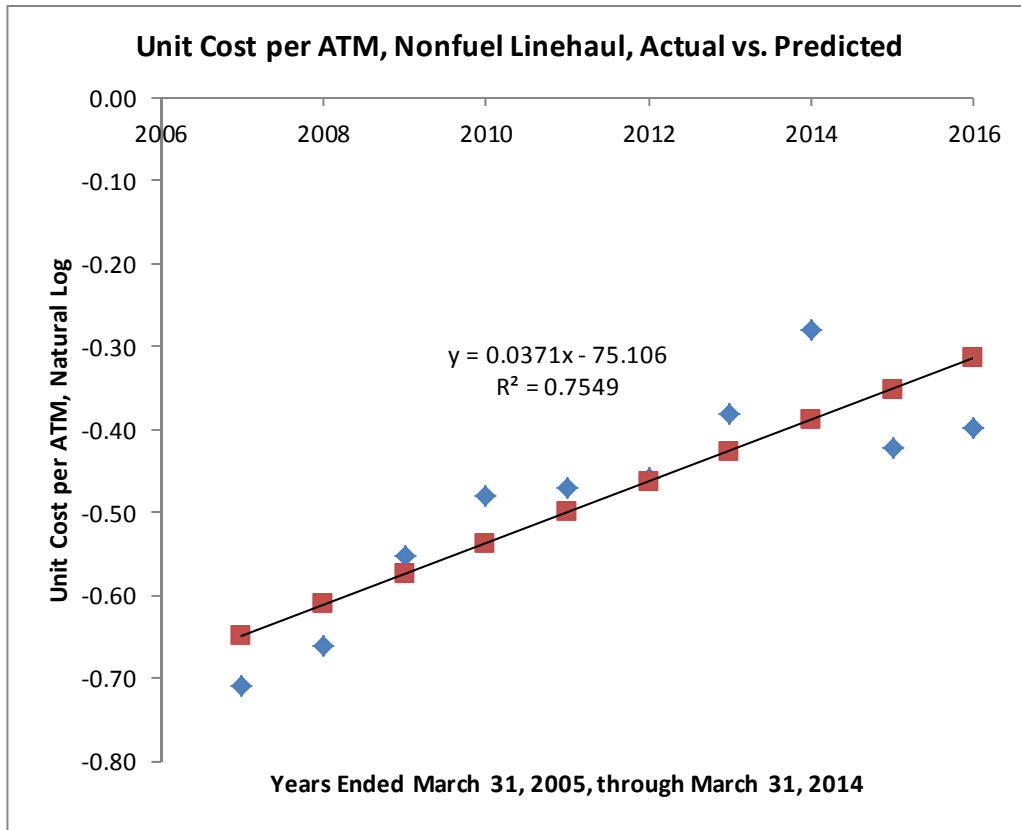
ANOVA

	df	SS	MS	F	Significance F
Regression	1	0.113547562	0.1135476	24.63371	0.001102412
Residual	8	0.036875501	0.0046094		
Total	9	0.150423063			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	-75.1063475	15.03548619	-4.9952723	0.001059	-109.778241	-40.434454
X Variable 1	0.037098977	0.007474756	4.9632361	0.001102	0.01986216	0.0543358

Regression Statistics

Multiple R	0.868823768
R Square	0.75485474
Adjusted R Squ	0.724211583
Standard Error	0.067892839
Observations	10



Calculation of the Terminal Portion of the 10-Year Trend: AS, L2, 5V,NC, and 7H

Order Number	YE 3/31	Actual Y Natural Log			Residuals	EXP (Y)	Annual Increase
		\$/Ton Enp. Terminal	\$/Ton Enp. Terminal	Predicted Y			
2007-8-26	2007	\$368.53	5.909522	5.878166	0.031356164	357.1536	
2008-9-3	2008	\$363.29	5.895201	5.902506	-0.007304806	365.9533	2.46%
2009-9-1	2009	\$386.29	5.956588	5.926846	0.029742224	374.9699	2.46%
2010-8-7	2010	\$384.09	5.950877	5.951186	-0.000308745	384.2086	2.46%
2011-9-6	2011	\$368.85	5.910390	5.975526	-0.065135715	393.6750	2.46%
2012-9-26	2012	\$386.70	5.957649	5.999866	-0.042216685	403.3746	2.46%
2013-12-8	2013	\$418.88	6.037584	6.024206	0.013378345	413.3132	2.46%
2015-6-19	2014	\$440.17	6.087161	6.048546	0.038615376	423.4967	2.46%
	2015	\$411.56	6.019955	6.072886	-0.052930594	433.9310	2.46%
New	2016	\$469.67	6.152030	6.097226	0.054804436	444.6225	2.46%

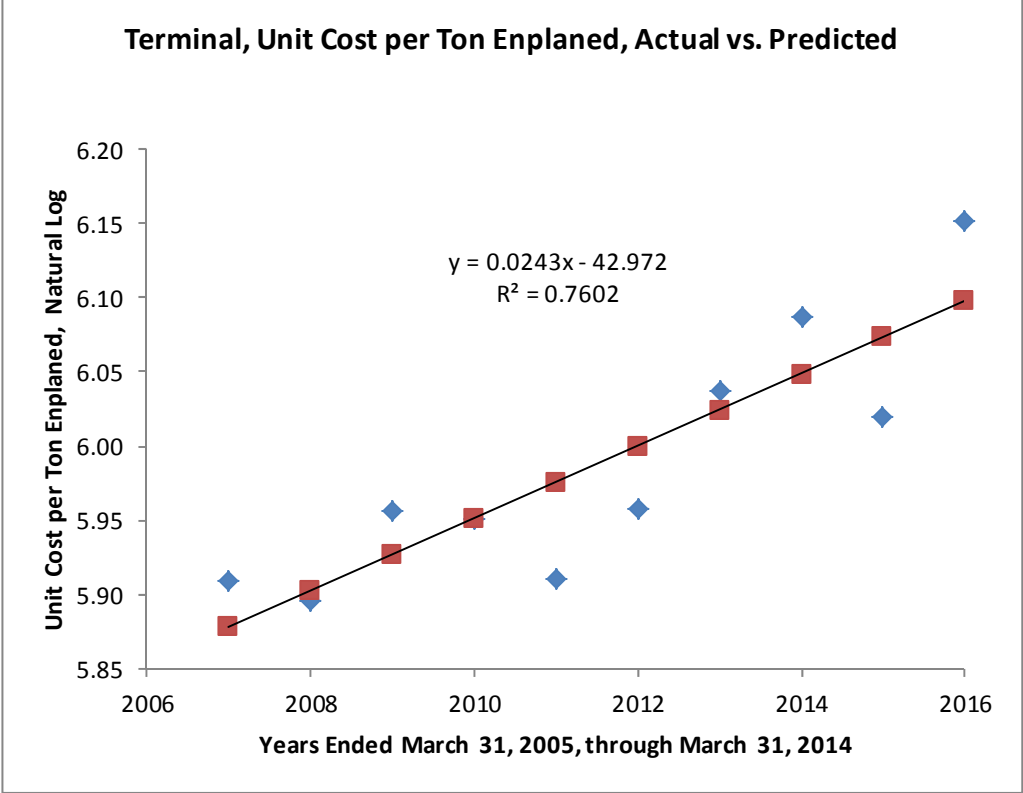
ANOVA

	df	SS	MS	F	Significance F
Regression	1	0.048875815	0.048876	25.35468	0.001007444
Residual	8	0.015421476	0.001928		
Total	9	0.064297291			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	-42.97215335	9.723250587	-4.41953	0.002228	-65.39400941	-20.550297
X Variable 1	0.02433997	0.004833826	5.035343	0.001007	0.013193147	0.0354868

Regression Statistics

Multiple R	0.871867863
R Square	0.76015357
Adjusted R Squ	0.730172767
Standard Error	0.043905404
Observations	10



Operating Expenses and Unit Costs, Intra-Alaska Mainline Operations, Year Ended March 31, 2016

Linehaul Calculations

	Total	Alaska	Corvus/Era	Lynden	Northern Air Cargo		Everts	
		AS	7H	L2	NC	NC	5V	5V
		#617	#483	#556	#619	#620	#218	#640
		737-400	Dash 8	Hercules	737-300	737-200	DC-6	DC-9-30
Fuel		\$96,367,000	\$7,794,277	\$4,833,328	\$4,504,841	\$8,490,045	\$5,686,664	\$5,408,883
<u>N-Fuel</u>		\$209,625,000	\$31,294,190	\$26,410,544	\$6,364,825	\$11,217,778	\$9,269,195	\$8,737,175
Σ Domestic 1/		\$305,992,000	\$39,088,467	\$31,243,872	\$10,869,666	\$19,707,823	\$14,955,859	\$14,146,058
Intra-AK Skd. BH 2/		21,512	15,356	1,442	698	4,597	2,369	2,703
Σ Domestic 3/		71,500	20,398	3,124	2,555	5,241	3,433	2,812
Intra-AK Fuel		\$28,993,663	\$5,867,679	\$2,231,005	\$1,230,677	\$7,446,811	\$3,924,179	\$5,199,221
<u>Intra-AK N-Fuel</u>		\$63,069,273	\$23,558,858	\$12,190,782	\$1,738,805	\$9,839,368	\$6,396,366	\$8,398,501
Total		\$92,062,936	\$29,426,537	\$14,421,787	\$2,969,482	\$17,286,179	\$10,320,545	\$13,597,722
Intra-AK S-ATMs 2/		113,634,240	12,027,641	9,468,884	3,952,004	23,793,305	6,772,932	16,944,666
\$/ATM, Fuel		\$0.255149	\$0.487850	\$0.235614	\$0.311406	\$0.312979	\$0.579391	\$0.306835
<u>\$/ATM, N-Fuel</u>		\$0.555020	\$1.958726	\$1.287457	\$0.439981	\$0.413535	\$0.944401	\$0.495643
Total		\$0.810169	\$2.446576	\$1.523071	\$0.751387	\$0.726514	\$1.523792	\$0.802478
IntraAK Mail RTMs 2/	20,707,709	4,218,368	301,177	2,988,788	691,912	5,575,430	2,371,668	4,560,366
RTM % of Total	100.00%	20.371%	1.454%	14.433%	3.341%	26.924%	11.453%	22.023%
\$/ATM, Fuel	\$0.32168	\$0.05198	\$0.00709	\$0.03401	\$0.01040	\$0.08427	\$0.06636	\$0.06757
<u>\$/ATM, N-Fuel</u>	\$0.67072	\$0.11306	\$0.02848	\$0.18582	\$0.01470	\$0.11134	\$0.10816	\$0.10916
Wtd. \$/ATM, Total	\$0.99240	\$0.165040	\$0.035570	\$0.219830	\$0.025100	\$0.195610	\$0.174520	\$0.176730

Terminal Calculations

		Alaska	Corvus/Era	Lynden	Northern Air Cargo	Everts
		AS	7H	L2	NC	5V
Terminal Expense 4/			\$7,876,298		\$21,149,614	\$13,297,992
Tons Enplaned 5/			46,121		32,437	30,733
Intra-AK Skd. Svc. Exp. 6/		\$50,276,162		\$4,090,648		
Intra-AK Skd. Svc. Tons 6/		160,000		9,559		
\$/Ton Enplaned		\$314.23	\$170.77	\$427.94	\$652.02	\$432.69
Intra-AK Mail Tons 7/	46,909	8,986	969	6,234	14,056	16,664
Mail Tons % of Total	100.00%	19.156%	2.066%	13.290%	29.964%	35.524%
Wtd. \$/Ton Enplaned	\$469.67	\$60.19	\$3.53	\$56.87	\$195.37	\$153.71

1/ Form 41, Schedule P5 for AS, L2, NC, and 3Z; Form 298C, Schedule F-2 for 7H. Excludes Alaska Airlines' Latin operation.

2/ Per T-100 Segment Report.

3/ Intra-Alaska Schedule only, T-100 Segment report, i.e., exclude Alaska Airlines' Latin operation.

4/ Sources are Schedule P12, #6900 for NC, and Schedule F2, Departure Related and Capacity Related for Corvus/Era.

5/ T-100 Market Report, carrier total. Excludes Alaska Airlines' Latin operation.

6/ Reflects special reports filed by Alaska Airlines and Lynden Air Cargo.

7/ Appendix E.

Exclude Operations Below the One Percent Threshold, YE 3-31-16

T-100 Segment, Linehaul Results, Intra-Alaska Mail Revenue Ton Miles (RTMs)

		Mainline Aircraft Only			Intra-AK, Mail RTMs	
Carrier		Aircraft	Intra-AK,		Mainline-Only Carriers	
<u>Code</u>	<u>Carrier</u>	<u>Type</u>	<u>Mail RTMs</u>	<u>Percentage</u>		
NC	NAC	620	5,584,211	25.3%	NC	6,280,460
5V	Everts	640	4,568,899	20.7%	AS	4,318,577
AS	Alaska	617	4,218,368	19.1%	L2	3,041,948
L2	Lynden	556	3,041,948	13.8%		
5V	Everts	218	2,375,563	10.8%	<u>Everts, Main+Bush</u>	
KS	PenAir	456	1,000,674	4.5%	79	4,181
NC	NAC	619	696,249	3.2%	218	2,375,563
7H	Corvus/Era	483	301,177	1.4%	416	13,989
5V	Everts	650	108,765	0.5%	479	7,216
AS	Alaska	614	87,888	0.4%	640	4,568,899
7H	Corvus/Era	405	21,396	0.1%	650	108,765
5V	Everts	416	13,989	0.1%		7,078,613
AS	Alaska	612	11,077	0.1%		
5V	Everts	479	7,216	0.0%		
5V	Everts	79	4,181	0.0%	<u>Corvus/Era, Main+Bush</u>	
AS	Alaska	634	536	0.0%	405	21,396
AS	Alaska	888	708	0.0%	483	301,177
			22,042,845	100%		322,573
					<u>PenAir, Main+Bush</u>	
					456	1,000,674
					459	1,087,136
						2,087,810
<u>Order</u>	<u>Quarter</u>	<u>Mainline</u>	<u>Total</u>			
	QE 03-31-2016	7,845	78,891			
	QE 12-31-2015	11,504	219,769			
	QE 09-30-2015	22,208	294,556			
	QE 06-30-2015	18,099	251,794			
		59,656	845,010			

T-100 Market, Terminal Results, Enplaned Mail, Exclude Those Carriers

Enplaning less than 1% of Mainline Mail

Carrier	Intra-AK, ^{2/} Mail Tons	Intra-AK Mail RTMs		Adjusted Mail Tons	% of Total
		Main A/C ^{3/}	All A/C ^{4/}		
5V	16,924	7,053,227	7,078,613	16,863	35.779%
AS	8,986	4,318,577	4,318,577	8,986	19.066%
NC	14,056	6,280,460	6,280,460	14,056	29.823%
L2	6,234	3,041,948	3,041,948	6,234	13.227%
7H	969	301,177	322,573	905	1.920%
KS	3,050	59,656	2,087,810	87	0.185%
Total	50,219	21,055,045	23,129,981	47,131	100.00%

1/ See quarterly fuel updates below.

2/ T-100 Market Report.

3/ T-100 Segment Report, all mainline aircraft, including those mainline aircraft enplaning less than 1 percent of Mail RTMs.

4/ T-100 Segment Report, all aircraft, mainline and bush.

Year Ended March 31, 2016

 Calculation of Terminal Expenses for Ravn Alaska

<u>Carrier</u>	<u>Schedule F-2</u>	<u>Expense</u>	<u>Payload in Tons</u>	<u>Unit Cost</u>
Corvus/Era	Departure/Station Related	\$8,220,161		
Corvus/Era	Capacity/Administrative Related	<u>\$12,630,701</u>		
		\$20,850,862	73,534	\$283.55
Frontier	Departure/Station Related	\$4,432		
Frontier	Capacity/Administrative Related	<u>\$17,642</u>		
		\$22,074	894	\$24.69
Hageland	Departure/Station Related	\$13,268,750		
Hageland	Capacity/Administrative Related	<u>\$9,557,782</u>		
		\$22,826,532	129,743	\$175.94
	Total, All Three Carriers	\$43,699,468	204,171	\$214.03
	Payload, Tons, Corvus' Dash 8, The Only Mainline Aircraft		61,434	
	Expenses, Allocated by Dash 8, The Only Mainline Aircraft		\$13,148,719	