

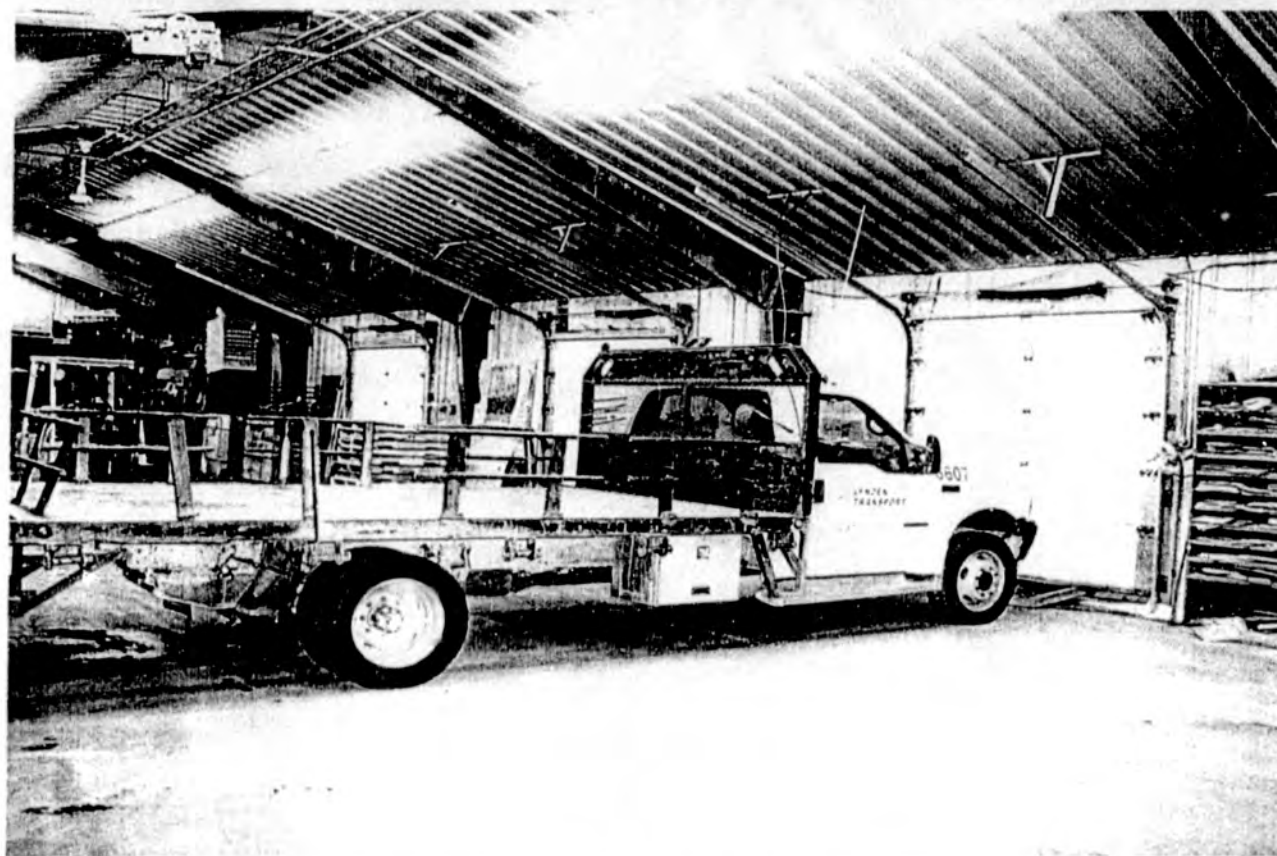
ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

3016 SCOMM 136: HOUSE SPEC. COMM. ON EC. DEV. ON TRADE, TOURISM '05-²⁰²'06



Business Plan

Lynden Transport Prudhoe Bay Facility





Business Plan

Surface Network Requirements

- **Trailer Specifications – Thermo King –
Spectrum: Multi-Temperature Systems**
 - Dry
 - Freeze
 - Chill



Business Plan

THERMO KING – SPECTRUM SB

Spectrum: Multi-Temperature Systems





Business Plan

Projected Mail Volume

- **IHNP – 1,718,236 lbs. per year** *In house Non-Product*
 - **Bypass – 8,502,728 lbs. per year** *frozen marked frozen & chilled not guaranteed*
 - **Average of 10,220,964 lbs. per year**
 - **Average of 196,557 lbs. per week**
 - **Average of 28,079 lbs. per day**
-



Business Plan

FY05 cost for Air Transportation (FAI-BRW)

- **Average of 10,220,964 lbs. (IHNP & Bypass) per year**
 - **Current air rate per pound of .66 (mainline non-pri rate)**
 - **10,220,964 lbs. x .66 = \$ 6,745,836**
-



Business Plan

Projected Cost of Surface Transportation (BRW additional mail):

- **10,220,964 lbs of non-pri rate mail**
 - **Negotiated rate = \$.11762 per lb**
 - **Projected ccst x 10,220,964 lbs =
\$1,202,189 per annum**
-



Business Plan

Projected Air Service Cost

- **(SCC – BRW) 10,220,964 lbs x \$.41
(mainline non-pri rate) = \$ 4,190,595**



Business Plan

Annual Projected Savings

- **The approximate cost to perform this service currently \$ 6,745,836 annually**
 - **The projected cost combined surface/air \$5,392,784 annually**
 - **Projected savings \$1,353,052 annually**
-



Business Plan

USPS Actions on Proposal

- **Community meeting held in BRW - 8/24/2005**
 - **Community meeting held in FAI - 9/23/2005**
 - **Meeting with FNSB and Fairbanks Mayoral offices – 11/22/2005**
 - **Telecon held with FNSB, Fairbanks mayoral office and Congressional offices – 3/15/2006**
 - **Business Plan – shared with public since public meetings, including updates**
-



Service Standard/Transit Windows

Current

- **Service Standard – 5-7 days**
 - **Transit window**
 - **Air: End of second day following day of tender**
 - **Subject to transfer to alternate carrier for transport**
 - **Bush: End of day following day of receipt**
-



Service Standard/Transit Windows

Proposed

- **Service Standard – 5-7 days**
 - **Transit window**
 - **Truck: End of day following day of tender**
 - **Air: End of second day following day of tender**
 - **Bush: End of day following day of tender**
-



Successful Mode Conversions

Dutch Harbor – March 1992

- Diverted all non-priority rate mail to surface type container ship**



Successful Mode Conversions

Passenger Service THEN

- Alaska Airlines – one flight daily, one flight six days a week**
- Cost of 'Y' fare one way ticket - \$537.00**
- Cost of 7 day advance one way ticket - \$447.00**

Passenger Service NOW

- PenAir – five flights a day – 30 passenger aircraft**
 - Cost of 'Y' fare one way ticket - \$527.00**
 - Cost of 7 day advance one way ticket - \$457.00**
-



Successful Mode Conversions

Other Past Surface Diversions In Alaska

- Anchorage – Kodiak
- Anchorage – Juneau
- Anchorage – Skagway
- Anchorage – Haines
- Fairbanks – Prudhoe Bay/Deadhorse
- King Salmon – South Naknek
- Anchorage – Cordova
- Sitka – Port Alexander
- Bethel – Nunapitchuk
- Bethel – Napaskiak
- Bethel – Akiak
- Bethel – Napakiak
- Bethel – Tuluksak
- Bethel – Kwethluk
- Bethel - Kasigluk
- Bethel – Akiachak



Conclusion

- **Change in mail flow transparent to customer**
- **Modal change does not affect service standard**
- **Does not affect bush service to communities**
- **EAS protects passenger service to BRW**
- **Perishable and food type commodities protected**
- **USPS decreases losses in AK allowing continuation of stable consistent air transportation to residents**

Fairbanks Daily News-Miner

Barrow bypass mail plan contested

By SAM BISHOP News-Miner Washington Bureau

Saturday, September 03, 2005 - WASHINGTON--Mail destined for Barrow on flights from Fairbanks and Anchorage may soon be trucked first to Prudhoe Bay and then flown the shorter distance to save money, under a new U.S. Postal Service plan.

Several air carriers and the North Slope Borough aren't happy about the change, which postal officials presented at a meeting in Barrow on Aug. 24. A second meeting will be held in Fairbanks on Sept. 22. Dispatching Barrow's mail out of Prudhoe would kill many of the passenger and freight flights that connect the community to Fairbanks and Anchorage several times a day, according to Dennis Packer, chief administrative officer of the North Slope Borough.

"They want to put this region back to where it was in the 1960s," Packer said of the Postal Service's plan. Bob Churchill, postal operations manager for northern Alaska, said a transportation group based at the Postal Service's headquarters in Washington, D.C., drafted the proposal as a money-saver.

"They have an obligation to put mail on surface transportation, because of the economics, whenever they can," he said.

Churchill said the transportation group estimated the trucking plan would create a net savings to the Postal Service of over \$2 million a year.

Robert Ragar, traffic and cargo director for Fairbanks-based Everts Air Cargo, said the change would be bad news economically for Fairbanks. His company flies mail and freight to Barrow five days a week. Without the mail, his company and others will have to curtail or eliminate connecting flights from Fairbanks, he said.

"There's a lot of money that flows through Fairbanks that's going to be affected by this shift," he said.

"Fairbanks stands to lose quite a bit."

Alaska Airlines, the only mail carrier with passenger service on large aircraft serving Barrow, has 14 jet flights a week into the community of 4,350. Alaska currently stops in Fairbanks for mail and passengers, but Packer said that could end if the Postal Service plan is approved.

Alaska, Everts and Northern Air Cargo distributed a letter in Barrow to spark attendance at the meeting last month. About 150 people showed up, Packer said.

"We, the three mainline carriers that have served this community for many years, want to continue to do so with the same frequency and at a cost as inexpensive as possible," the letter stated. "If this change in Barrow's bypass mail actually takes place, our service to your community will be severely degraded."

Bill Fowler, president of Northern Air Cargo in Anchorage, said the proposal won't even save money.

Fowler, whose company also flies bypass mail and freight into Barrow five days a week, said the Postal Service pays about \$6.4 million a year to Northern Air Cargo, Everts Air Cargo and Alaska Airlines to carry "bypass" mail to Barrow from Anchorage and Fairbanks. Bypass mail is an Alaska-only program through which people can send pallets of goods, many perishable or frozen, from Anchorage or Fairbanks to Bush villages at parcel post rates.

Barrow is 500 air miles from Fairbanks and 720 air miles from Anchorage. But it's only 200 miles from the Prudhoe Bay airport, at Deadhorse.

So flying the mail out of Deadhorse would chop \$2.4 million from the Postal Service's air shipment costs, Fowler said.

However, the Postal Service still must pay to truck about 10 million pounds of mail annually to Deadhorse and process it there, he said.

"You can't do that on \$300,000," Fowler said. That's the difference between the \$2.4 million savings on air transportation and the \$2.1 million net savings that postal officials are claiming, Fowler said.

He figures the net savings would be closer to \$600,000 to \$800,000, but only for the first year.

The following year, the true costs of the plan would appear when the U.S. Department of Transportation recalculates the rate that the Postal Service must pay air carriers to haul bypass mail, Fowler said.

That rate, set statewide, is based on all the air carriers' actual costs to fly the mail.

Putting a plane at Deadhorse would cost Northern Air Cargo about \$1.2 million a year, Fowler said. "That's just for us. Everts is in exactly the same boat. Alaska (Airlines) is in the same boat."

"Those additional costs are going to be reflected in the (statewide) mail rate the next year," he said.

That means the Postal Service will be paying more statewide to deliver mail on large aircraft, known as mainline carriers, he said.

Churchill, with the Postal Service, said he doesn't necessarily disagree with Fowler, but suggested he may be describing a worst-case scenario. There's no way to tell how many carriers would put aircraft at Deadhorse, Churchill said.

"The first piece would be to establish the ground transportation," he said. "Then it opens up for air carriers who want to participate in that market."

"I'm not sure until we get to that step that we would know" what the effects on statewide rates for mainline bypass mail would be, Churchill said.

Packer and Fowler both said the trucking plan violates the Postal Service's obligation to provide modern mail service to Alaska's communities. When Congress privatized the Postal Service, giving it a monopoly and cutting off taxpayer support, postal officials promised to maintain service in Alaska, Fowler said.

"And now they're just trying to back out of it," he said.

Fowler acknowledged that the Postal Service, in part because of bypass mail, is spending far more money in Alaska than it is collecting in postage. "Well of course they are," he said. But that balances out across the nation, he said.

Packer said the bypass mail program was part of an agreement with Congress.

"The whole idea of bypass mail was to stimulate economies in rural Alaska," he said. "What the post office is proposing here is just the opposite. By their actions, transportation costs will go up and there will be less service."

Sen. Ted Stevens, R-Alaska and the architect of the bypass system, has declined to get into this latest dispute.

"It's my understanding that it's under the purview of the Postal Service to do this," said Courtney Schikora Boone, Stevens' spokeswoman. "Their job is to get the mail to places like Barrow as efficiently as possible and meet the requirements of the mail system."

That response has angered North Slope residents, Packer said.

"We're upset with our congressional delegation, who are sitting on the sidelines on their hands, not interceding on our behalf," Packer said.

Because the evidence indicates the plan won't save money, Packer said he suspects political reasons for the change and the lack of protest from the congressional delegation.

Most executives with Alaska mainline carriers of bypass mail—Lynden, Northern Air Cargo, Alaska Airlines and Everts—have been long-time supporters of Stevens.

Seattle-based Alaska Airlines' numerous executives and large political action committee have sent many thousands of dollars to Stevens' re-election efforts over the years.

Among the owners of the Alaska-based mainline carriers, though, Lynden President Jim Jansen has been the most politically active. He contributed more than \$38,000 to mostly Republican candidates in federal elections from 2002 through the present, according to the Political MoneyLine data on the Web. About \$3,500 of that went to Stevens' Northern Lights Political Action Committee.

Fowler contributed \$3,000 during that time, half of which went to Stevens' re-election committee, according to the Web data. Robert Everts, of Everts Air Cargo, contributed \$8,500 to Republicans, though Stevens wasn't among them.

Lynden appears most likely to benefit from the Postal Service's new plan because its trucking division already hauls the mail between Anchorage, Fairbanks and Prudhoe Bay, Packer said.

By postal regulation, Lynden has first rights to serve any changes on the Dalton Highway route, Packer said.

The company has lost some of its other, private North Slope oil field work recently. Carlile Enterprises Inc. won the ConocoPhillips contract to truck supplies up the Dalton Highway to the Kuparuk oil field about 18 months ago, a contract previously held by Lynden, confirmed Tom Hendrix Jr. of Anchorage, who handles new business development for Carlile. Carlile already had the contract to supply BP, the other major North Slope operator.

But Jansen, Lynden's president, said Friday that the high cost of bypass mail is the sole reason for the Postal Service's trucking plan.

"Ted Stevens continues to remind the air carriers that if we don't find a way to get the costs down, we're going to lose the system," Jansen said. "That's what is driving this."

Jansen said the potential expansion of his Dalton Highway trucking contract with the Postal Service has nothing to do with the company's other North Slope business.

"This is a Postal Service decision, not a Lynden decision," he said.

The expanded Deadhorse mail contract isn't guaranteed, Jansen said, but he believes Lynden will get it. Hendrix said Carlile would not protest that decision.

"My understanding of the postal regulations are that they have the right to award that to the incumbent carrier," Hendrix said. "Competitive bid is always preferable, but they are the incumbent and they've been carrying the mail for quite some time. ... We're not challenging that."

Washington, D.C., reporter Sam Bishop can be reached at (202) 662-8721 or sbishop@newsminer.com.

Commentary by George N. Ahmaogak, Sr.
Mayor, North Slope Borough
September 16, 2005

Special to the Anchorage Daily News

People living in Bush communities know that nothing hurts the local economy and quality of life as much as cuts in passenger air service. That's why North Slope residents feel like they are staring down the barrel of a gun. At the other end is an unlikely assailant – the U.S. Postal Service.

Like other rural hubs, Barrow has had daily jet service for more than two decades. This link to the outside world has made possible everything from medevac service to fresh produce. But passenger traffic alone can't support this vital part of our community infrastructure. The postal service plays a pivotal role in our regional economy through a longstanding service called bypass mail. It allows shippers to deliver their goods directly to air freight handlers, bypassing the post office. Shippers not only save time with bypass mail, they get a cheaper rate for this fast service through the post office. The program has always been a money-loser for the post office, but it has made a big difference in the quality of life for Bush residents.

Bypass mail was started in the 1970s to deliver bulk freight in a way that would also stimulate growth in Alaska's tough rural economy. The high speed, low cost and minimal handling of bypass mail suddenly put consumer goods within reach of the family budget. It put fresh vegetables and other perishables on store shelves for the first time. And the revenues it added on passenger flights brought air travel into the modern age for hub communities like Barrow. Our economy grew up around the bypass mail service, and frankly, we still depend on it.

The post office has decided to change its bypass mail delivery plan for the North Slope. Instead of flying bypass and other non-priority mail from Fairbanks to Barrow, the post office will now truck it up the Haul Road, warehouse it in Deadhorse, and fly it over to Barrow on periodic cargo flights. They expect to save a substantial amount of money with this change, but they have never shown a cost analysis of any sort to justify this claim. One of the major air cargo companies has run the numbers and concluded that any savings will be short-term and could actually increase costs for the USPS in the long haul.

The community impacts, however, will be permanent and severe. It will send us back to 1960s-era passenger air service. Imagine the economic and social costs to any of Alaska's major cities if air transport suddenly reverted to the smaller planes and less frequent schedules of 40 years ago. It would be a disaster. We don't know exactly how bad it will be for Barrow and the surrounding villages, but the consequences will make any postal service savings look insignificant.

Among the likely impacts are:

- Reduction from the current 12 passenger jet flights per week to as few as four. Bypass mail accounts for more than 60 percent of all cargo, and the loss of this revenue on passenger flights will force Alaska Airlines to decrease service and significantly increase airfares.
- People coming to Barrow on business will have fewer options, longer stays and higher expenses. The same will be true for residents headed out of Barrow and the villages. Tourism will be hurt by all of these changes. Recruitment of some professional and technical employees will suffer.
- Cargo flights will be cut back. There are currently three cargo carriers flying 10 times per week from Fairbanks. Northern Air Cargo estimates this will shrink to four flights per week, slowing shipments and raising costs.
- Food expenses will increase sharply, and fresh foods will have to survive a long, pounding ride up the haul road and an additional wait in Deadhorse.

Fairbanks will also feel the pinch from this change in service. Ten million pounds of bypass mail per year will no longer pass through the Fairbanks airport. Northern Air Cargo expects to lay off a dozen employees as a result, and they are just one of the three bypass mail carriers. At the same time, reduced passenger flight service is likely to divert thousands of passengers annually from Barrow directly to Anchorage. Fairbanks will lose those travel dollars too.

We understand the pressures on the postal service to cut costs – we've sliced our municipal budget for six years in a row. But instead of coming to us as partners in community service with a shared problem to address, the USPS never made a move to inform us of their plan. We found out about it from the airlines. When we started asking the postal service for information, we were stonewalled with assurances that it was just an idea under consideration. We were not allowed into the process or asked for our input.

We finally convinced postal officials to hold a public hearing in Barrow, but when they showed up, their plan was ready to go out to bid. They came here only to explain it. They had no idea how it might affect passenger or cargo service, and they were more than a little surprised to find a room packed with 150 worried citizens.

If the postal service is going to break a crucial link in our connection to the world, they should be required to do it in an honorable way. Instead, their plan ignores any and all community impacts. It has been carried off without any public process. The agency refuses even to justify its own conclusions. It all adds up to an arbitrary decision by a monopoly operator, and it will hurt Alaskan communities.

We all look forward to getting our mail. There are always bills and catalogs, but there is also the element of surprise – you never know what you'll get. From now on, people in

Barrow and surrounding villages will think about that element of surprise a little differently. We'll remember that you never know what the postal service will bring, and you never know what it will take away.

###

Boroughs, carriers soured over Barrow bypass mail change

By Rob Stapleton

Alaska Journal of Commerce

Publication Date: 04/15/06

"This is a transportation modal change, it in no way changes the bypass mail system," said Steve Deaton, a mail specialist with the postal service. "Barrow bypass mail will continue to be accepted in Fairbanks, as it is now, and it will continue to be delivered to addressee at final destination within the mail class service standard, as it is now. This does not constitute a change in the bypass mail system - just the internal mail flow between authorized acceptance point and authorized delivery destination."

Deaton indicated that the postal service had notified the state's congressional delegation about the service change, but not the carriers.

Officials from the North Slope Borough also voiced their frustration with the recent postal service announcement.

"We have spoken with everyone possible about our concerns and the impacts that a reduction in the quality to bypass mail service will have on the North Slope," said Dennis Roper, the government and external affairs manager for the North Slope Borough. "Mayor (Edward) Itta flew back to (Washington), D.C. I have been there three times, and we are in contact daily with the congressional delegation, and no one has listened."

Roper said that a reduction in service such as frequency changes by Alaska Airlines will cause the seat fares to increase and will have an impact on necessary travel to and from Barrow.

"Our plan is to document the negative impacts of this decision, and present the facts to our congressional delegation," Roper said. "And we are sure that it is going to be more important than \$1.3 million."

Alaska Airlines spokesperson Amanda Tobin said the airline is committed to service to Barrow and Deadhorse, but had not formulated a schedule based on the postal service's change.

"This may mean that Barrow passengers will have to fly from Anchorage for our service, but we do not have a schedule yet," Tobin said.

NAC is also confident that the tide will change.

"We will recoup the money on this in maybe 12 to 18 months," Fowler said. "But in the meantime, this will affect our shipping schedules."

According to both Fowler and Rager, the bypass mail system to Barrow has

been working effectively, according to the provisions of the Rural Services Improvement Act.

RSIA is an act crafted by Sen. Ted Stevens, R-Alaska, to change the tendering of the mail to both all-freight and passenger airlines. RSIA requires airlines or air taxi operators carry passengers in order to receive mail. Before the act, air carriers were carrying mail alone and not offering passenger service. This cut into the mail being tendered to the carriers because there were more carriers.

Alaska, Everts, NAC and Lynden were grandfathered in as mainline bypass mail carriers when the act passed in 2002.

Rob Stapleton can be reached at rob.stapleton@alaskajournal.com.

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Sounder Opinion

Advertising ...



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ncy term that simply means

The Arctic Sounder gets shared when it arrives at the office or a home in the community.

An advertising industry rule of thumb is that for every edition of a community newspaper purchased by a reader, at least two additional people in the household or the office read it.

That means if 2,000 people buy a copy of The Arctic Sounder today, at least 6,000 people will read it. If your advertising message is in that edition, you have tripled your connection with the people who buy and read The Arctic Sounder.

Then there's "word-of-mouth." That's the "buzz" that comes from people talking about your message. That multiplies the impact of your advertising message.

So, with your advertising message - product, service or idea - in The Arctic Sounder, you've clearly tapped into the community marketplace.

Also, let's not overlook the fact that you've also formed a profitable partnership with the messenger - The Arctic Sounder, where people care about you, your business and your community.

And, of course, we deliver. Quyaanaqpak!

Bypass mail changes would be bad news

The U.S. Postal Service announced last fall it was considering a cost-cutting change to the way some mail is delivered to Barrow and three North Slope villages.

Instead of shipping bulk mail from Fairbanks by air, the plan was to truck it to Deadhorse, then put it on planes to Barrow.

The announcement caused a lot of local concerns, and most North Slope organizations sent letters of opposition to the USPS and our congressional delegation.

A public hearing in Barrow drew well over 100 people who gave the Postal Service representatives an earful. Then everything got quiet.

The Postal Service went back to the drawing board, and we all hoped the plan would end up in the Bad Idea file.

Well, now the USPS is back and it is still committed to its original plan. It has struck a deal with Lynden Transport to truck all bypass mail to Deadhorse. And USPS officials are talking with major air carriers about the Deadhorse-Barrow leg of the route.

If air carriers agree to ship the mail from Deadhorse for just under 12 cents a pound, then the new system for bypass mail will go into effect within months. The USPS expects to have an answer from air carriers this week.

Bypass mail is a special type of air shipment for bulk goods



North Slope
Mayor's Corner

By Edward S. Itta

on pallets that bypass the post offices, going straight from the sender to the air carrier.

The bypass program started in the 1970s as a way to keep air fares affordable by adding more mail volume to passenger flights.

The Postal Service has always lost money on the program, and Congress has told it to

cut the losses. Quite a few other communities in the state have seen changes similar to the proposal for the Fairbanks-Barrow route.

The new shipping program could have big effects on everything from Alaska Airlines passenger service to the quality of fresh produce and dairy products in our stores.

We can be sure that this freight will get to Barrow and the villages a day or two slower than it does now, and it will have to survive a long ride up the Haul Road.

If the stores have to ship perishable goods some other way, we will all see our grocery bills take a big jump.

The larger question is how the end of bypass air shipments from Fairbanks will affect passenger service in and out of Barrow.

Bypass mail accounts for more than 60 percent of all cargo on passenger flights from Fairbanks. This loss of revenue could force Alaska Airlines to cut back on its flight schedule and raise fares. Last fall, that's what they said was likely to happen.

There is one possibility for

avoiding this disaster.

Another federal program guarantees a certain level of passenger service to rural communities.

Maybe the loss of bypass mail revenue could be replaced by a subsidy under the Essential Air Service program, which may protect Barrow from loss of passenger flights.

But even if we hang on to the same number of flights, will fares hold steady or suddenly increase?

Will Deadhorse become a stop on the Fairbanks-Barrow flight?

And what about the types of aircraft used on this new route? Will smaller, slower planes replace the Boeing 737 jets if the bypass-mail system changes?

We are very interested in the answers to these and many other questions, but the Postal Service is focused only on the mail.

The passenger air carriers are not saying much for the time being, and communities are left scrambling for information. Sen. Lisa Murkowski's office has taken a particular interest in this issue, and I appreciate the help of her staff in trying to improve the flow of information between the USPS and the communities.

I am very concerned about the long-term effects of this change in service.

Bypass mail was created to make local economies stronger. If it is eliminated, the economies of Barrow, Wainwright, Atkasuk and Point Lay will suffer.

The question is whether or not the savings to the Postal Service justify the economic damage to our communities. I do not believe that they do, and I will keep you informed as we learn more about this controversial plan.

Fairbanks borough files protest over bypass mail change

By Rob Stapleton,
Alaska Journal of Commerce
Publication Date: 03/12/06

The Fairbanks North Star Borough filed an appeal with the U.S. Department of Transportation over the U.S. Postal Service's business plan to change how Barrow receives its bypass mail.

The plan, released the week of March 2, shows how the postal service will save money by trucking mail to Prudhoe Bay and then flying it to Barrow. However, affected parties in Barrow and Fairbanks say it does not address the potential spoilage of deliveries of perishables and related storage fees, nor how the communities served will be affected by the switch.

The borough's appeal, filed March 6, said that because the mail will be trucked as nonpriority mail, a different category, Barrow will be forced out of the bypass mail system. The appeal asks the DOT, which sets the rates the carriers charge the postal service, not to accept the proposal.

The plan to truck bypass mail - a special form of nonpriority mail that goes from a shipper to its recipient, bypassing the post office - from Fairbanks to Prudhoe Bay using the Dalton Highway would save the postal service \$1.3 million a year. The mail will then be flown from Prudhoe Bay's airport in Deadhorse to Barrow. Currently, bypass mail is flown from Fairbanks to Barrow.

Air carriers were to have until March 11 to file their plans with the postal service to fly from Prudhoe Bay's Deadhorse airport to Barrow to carry the mail trucked from Fairbanks.

The postal service's plan would use Lynden Transport for Dalton Highway route instead of the current system that utilizes Alaska Airlines, Northern Air Cargo or Everts Air Cargo. Lynden currently has a contract with the postal service as a vendor for moving mail to Deadhorse from Fairbanks.

The postal service says it loses \$100 million a year on bypass mail deliveries to rural Alaska. Because of this, the postal service has proposed the surface route despite pleas from the communities affected, as well as, the air carriers and the Fairbanks North Star and the North Slope boroughs.

According to Steve Deaton, a bypass mail specialist for the postal service in Alaska, all the postal service is waiting on before making a decision on the switch to trucking is for an airline to come forward with plans to fly mail from Deadhorse to Barrow.

Potential delays worry residents

Concerns by Barrow residents and their only major grocery and dry goods store, the Alaska Commercial Co., have many wondering what will happen if bypass mail, which now comes daily, should take a week or more to get to Barrow.

Postal officials say that the mail will only be in Deadhorse for no more than three days before being flown to Barrow.

"We are going to take a wait-and-see approach right now," said Michelle Adams, logistics manager for the AC Co. "Our concern is that there is no chill and freeze facility at the Deadhorse airport," she said, regarding spoilage or thawing.

Postal service official Deaton says that Lynden has a facility in Prudhoe Bay and that others have offered to store the mail. The postal service's business plan, however, does not reflect any expenses for storage or handling.

North Slope Borough government affairs specialist David Harding says the Borough is dead-set against this plan.

"Every community, organization and government entity on the North Slope has testified against this proposal," he said. "It is beginning to look like (postal service officials) aren't listening to the people."

Frontier Flying Service is the only air carrier that has regularly scheduled flights from Deadhorse to Barrow and are the heir apparent to carry some of the mail. Officials with Frontier did not return the Journal's calls.

Adams said that AC believes that the mainline mail air carriers, like Alaska Airlines, Northern Air Cargo and Everts, won't let Frontier be the sole carrier moving bypass mail and will probably pick up the service.

All carriers agree that flying any leg of a trip to Prudhoe will cause them to lose money, which will be reflected in their costs. Those costs will be factored into their filings with the DOT, which sets the rates for hauling the mail based on the carriers' expenses.

Carriers like NAC said their increased expenses would ultimately be reflected as an increase in costs in the overall bypass mail system. The postal service, however, has said any increase won't show up for at least five years.

Although carriers report their costs for delivering the mail yearly to the DOT, and these costs are what determine the price paid for carrying mail, the postal service thinks that after five years the communities will reduce the amount of bypass mail they receive and switch to more expensive commercial air freight. Although the postal service will pay the carriers higher rates, the quantities of mail will drop, thus cutting expenses to the postal service for bypass mail in the future.

Comments by Deaton to this effect were made at a USPS public meeting in

Fairbanks in July 2005.

Statements by AC's Adams tend to support this view.

"After five years, we will probably switch to air freight for our service and drop bypass altogether," she said. AC has already done some test flights of perishable goods from Seattle, but dropped it because of the expense and hassle.

Rob Stapleton can be reached at rob.stapleton@alaskajournal.com.

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September 1, 2005

Honorable Ted Stevens
United States Senate
522 Hart Senate Office Building
Washington, D.C. 20510

Via. Fax. 202.224.2354

Dear Senator Stevens:

The North Slope Borough is staring at one of the biggest economic disasters we may ever experience, and frankly

I am alarmed by the U.S. Postal Service plan for a significant change in bypass mail service between Fairbanks and Barrow. I believe this plan could have impacts on Barrow and the nearby villages that are far more severe than just the speed or cost of mail delivery. These impacts include:

- a) reduced passenger air service and greatly increased fares;
- b) sharply increased costs for perishable food shipments;
- c) a variety of effects if mail is barged along the arctic coast in the summer and dispatched by Rollagon on snow roads in the winter.

As you know, passenger air service from Barrow is currently kept affordable by inclusion of bypass mail in the passenger/cargo mix. Roughly one-third of revenue on passenger flights is derived from mail. The USPS plan to truck mail from Fairbanks to Deadhorse eliminates that revenue and leaves no alternative for the airlines but to make it up through additional passenger and freight charges. It is quite possible that the loss of bypass mail will force Alaska Airlines to reduce service to Barrow. An impact of that magnitude should not be left solely to the discretion of the postal service.

The cost of shipping frozen and perishable foods to Barrow and the villages will also skyrocket under this new program. There is no requirement for the postal service to keep bypass mail frozen; in fact, its only mandate is to keep all mail at a temperature above 33 degrees. This means that any foods requiring specific temperature controls will no longer be eligible for shipment by mail. Significantly higher freight rates for these foods will inevitably result.

Your staff has informed us of a potential USPS option to cover the Deadhorse-Barrow leg by barge or Rollagon, depending on the season. This is very troubling and clearly has not been well thought out. To adopt such a plan without any discussions about the potential harm to subsistence whaling by regular barge traffic or the social impacts of a snow road connecting Deadhorse and Barrow will have my constituents up in arms. There are permitting issues, environmental issues and community impacts that must be dealt with long before any service is finalized. The USPS clearly has not consulted with anyone locally as they created this plan.

Cost-saving measures are something we all understand. But the USPS's new bypass mail scheme for Barrow and nearby villages could harm much more than our mail service. Yet we have not had so much as a courtesy call from the postal service to inform us of their intentions. They should know that this is not the way to do business in the Arctic, or anywhere, for that matter.

The North Slope Borough has supported development and worked hard to modernize our communities. With this one action, the postal service could send us back to the 1960s in terms of air travel and food importation. Such a move works counter to your efforts in establishing a science support facility and a new hospital on the North Slope, in that qualified personnel will find these institutions less attractive if air services are compromised.

If any agency other than the postal service floated a proposal with such far-reaching community impacts, they would be subject to public notice requirements, comment periods and other constraints aimed at protecting the public's interests. Because this USPS decision impacts much more than the simple delivery of mail, it seems to me that the agency should not be allowed to unilaterally call the shots.

You have been a great friend to our people, Senator. You have always been sensitive to our concerns. We are told the postal service intends to begin this reduced service in as little as six weeks. I would deeply appreciate it if you could encourage them to slow their process and fully engage with us, since their actions will have much more serious consequences than a simple slowing of the mail.

Sincerely,

George N. Ahmaogak, Sr.
Mayor

Senator Ted Stevens
April 19, 2005

- 2 -

cc:	Jacob Adams, ASRC	Via. Fax. 852-2763
	Max Ahgcak, UTC	Via. Fax. 852-4459
	Hazel Pebley, NVB	Via. Fax. 852-8844
	Mayor Nathaniel Olemaun, Jr., City of Barrow	Via. Fax. 852-5871
	Mayor George Paneak, City of Anaktuvuk Pass	Via. Fax. 661-3613
	Mayor Lon Sonsalla, City of Kaktovik	Via. Fax. 640-6314
	Mayor Thomas Nukapigak, City of Nuiqsut	Via. Fax. 480-6928
	Mayor Lydia Agnasagga, City of Wainwright	Via. Fax. 763-2811
	Mayor Elizabeth Hollingsworth, City of Atkasuk	Via. Fax. 633-6812

Bypass mail changes would be bad news

NSB Mayor's Corner
by Mayor Edward S. Itta
March 17, 2006

The U.S. Postal Service announced last fall it was considering a cost-cutting change to the way some mail is delivered to Barrow and three North Slope villages. Instead of shipping bulk mail from Fairbanks by air, the plan was to truck it to Deadhorse, then put it on planes to Barrow. The announcement caused a lot of local concerns, and most North Slope organizations sent letters of opposition to the USPS and our Congressional delegation. A public hearing in Barrow drew well over 100 people who gave the postal service representatives an earful.

Then everything got quiet. The postal service went back to the drawing board, and we all hoped the plan would end up in the Bad Idea file. Well, now the USPS is back and they are still committed to their original plan. They have struck a deal with Lynden Transport to truck all bypass mail to Deadhorse, and they are talking with major air carriers about the Deadhorse-Barrow leg of the route.

If air carriers agree to ship the mail from Deadhorse for just under \$.12 a pound, then the new system for bypass mail will go into effect within months. The USPS expects to have an answer from air carriers this week.

Why is it called bypass mail?

Bypass mail is a special type of air shipment for bulk goods on pallets that bypass the post office, going straight from the sender to the air carrier. The bypass program started in the 1970s as a way to keep air fares affordable by adding more mail volume to passenger flights. The postal service has always lost money on the program, and

Congress has told them to cut their losses. Quite a few other communities in the state have seen changes similar to the proposal for the Fairbanks-Barrow route.

How will this change affect our communities?

The new shipping program could have big effects on everything from Alaska Airlines passenger service to the quality of fresh produce and dairy products in our stores. We can be sure that this freight will get to Barrow and the villages a day or two slower than it does now, and it will have to survive a long ride up the Haul Road. If the stores have to ship perishable goods some other way, we will all see our grocery bills take a big jump.

The larger question is how the end of bypass air shipments from Fairbanks will affect passenger service in and out of Barrow. Bypass mail accounts for more than 60 percent of all cargo on passenger flights from Fairbanks, and this loss of revenue could force Alaska Airlines to cut back on its flight schedule and raise fares. Last fall, that's what they told us was likely to happen.

There is one possibility for avoiding this disaster. Another federal program guarantees a certain level of passenger service to rural communities. Maybe the loss of bypass mail revenue could be replaced by a subsidy under the Essential Air Service program, which may protect Barrow from loss of passenger flights. But even if we hang on to the same number of flights, will fares hold steady or suddenly increase? Will Deadhorse become a stop on the Fairbanks-Barrow flight? And what about the types of aircraft used on this new route? Will smaller, slower planes replace the 737 jets if the bypass mail system changes?

We are very interested in the answers to these and many other questions, but the postal service is focused only on the mail. The passenger air carriers are not saying much for the time being, and communities are left scrambling for information. Senator Lisa Murkowski's office has taken a particular interest in this issue, and I appreciate the help

of her staff in trying to improve the flow of information between the USPS and the communities.

I am very concerned about the long-term effects of this change in service. Bypass mail was created to make local economies stronger. If it is eliminated, the economies of Barrow, Wainwright, Atkasuk and Point Lay will suffer. The question is whether or not the savings to the postal service justify the economic damage to our communities. I do not believe that they do, and I will keep you informed as we learn more about this controversial plan.

###

FED TIME
ROPER

* Bypass-Mail *

ROPER
COPI

Bypass Mail Surface Diversion Fairbanks-Barrow route

Background, Plan and Impacts

*Prepared by
North Slope Borough Mayor's Office
Government & External Affairs*

Bypass Mail - Background

- **USPS moves approx. 10 million lbs. of bypass mail per year between Fbx-Brw on three mainline carriers.**
 - Mail accounts for approx. 60% of load to Barrow.
- **Lynden Transport trucks mail Anc-Fbx and Fbx-Pbay/Nuiqsut.**
- **USPS is trying to reduce its \$50-\$60 million annual deficit in Alaska.**

Bypass Mail - The USPS Plan

- **Replace Fbx-Brw mainline air shipments with Fbx-Deadhorse truck haul and Deadhorse-Brw air shipment.**
 - Determine cost effectiveness of surface diversion.
 - Negotiate truck haul contract with Lynden Transport (current Fbx-Prudhoe surface mail hauler).
 - Request bids on Deadhorse staging / air shipment to Barrow.
- **Plan does not include analysis of any economic impacts except cost of mail delivery.**
- **USPS says it will save \$2.1 million per year, but refuses to release any figures used in its cost estimates, preventing any third party analysis.**

Bypass Mail - Community Impacts

- **Passenger air service will be affected** in one or more ways:
 - Loss of 60% of cargo will cause substantial fare hikes.
 - Passenger jet schedules will be cut back severely. Current weekly schedule of 12 flights (14 in summer) may be cut back to as few as four. Jet service may be replaced by smaller, slower aircraft.
 - Barrow-Fairbanks jet service may no longer be viable.
- **Passenger air service will return to 1960s-era service levels** in terms of speed, frequency and convenience.
- **Cargo service will likewise suffer from reduced schedules.**
- **Perishables will be degraded** by Haul Road travel and up to two days delay in delivery.
- **Our local economy will be significantly harmed.**
- **All of this...for what purpose?**

Bypass Mail - Questionable Savings

- **Where are the savings?**
 - Mainline carriers are paid \$.64/lb for bypass mail Fbx-Brw.
 - Deadhorse-Brw rate is \$.40/lb.
 - Cost of trucking Fbx-Deadhorse is estimated at \$.15/lb.
 - This leaves \$.09/lb (\$900,000 on 10 million lbs/yr.) to cover contractor costs of new facilities/staging/warehousing in Deadhorse. USPS plans no facilities or personnel in Deadhorse.
 - Current rates do not account for air carriers flying empty one-way to Deadhorse.
- **The USPS plan does not add up.**

If rates are adjusted after Year One to make up for higher costs (USDOT sets rates each year based on actual costs), the plan could end up costing USPS more than it does now.
- **The economy of Barrow and affected villages will be permanently damaged.**

North Slope Borough

OFFICE OF THE MAYOR

P.O. Box 69
Barrow, Alaska 99723
☎ 907 852-2611 ext. 200
Fax: 907 852-0337



D12
FY1
11-2-01

George N. Ahmaogak, Sr., Mayor

November 1, 2005

FEO. 1.15.16
A/PASS MAIL

Dianna Horbochuk
Alaska District Manager
USPS
3720 Barrow Street
Anchorage, Alaska 99599-0001

Dear Dianna Horbochuk,

The North Slope Borough continues to be concerned with the proposal put forth by the Postal Service to redirect by-pass mail from the current Fairbanks to Barrow route, to a truck haul up the haul road to Deadhorse and then fly the mail to Barrow. A public meeting was held on August 24th in Barrow with the Postal Service and nearly 150 concerned citizens attended. All were opposed to this proposed change.

The Postal Service presentation provided no accurate information, and in their words, the post office, without a negotiated contract with a trucking company to move the estimated 10 million pounds of mail up the haul road, is only guessing at the actual cost savings. The same holds true for the movement of mail from Deadhorse to Barrow. The post office does not have a contract in place to move the mail from Deadhorse and therefore any potential cost savings is only a guess. The issue here will be the extra handling and breaking down of palletized freight to place on smaller commuter aircraft. The lack of definitive costs to move the mail by truck and then by air leaves us to believe that the mail system will be degraded and will increase costs.

The lack of dependable, reliable air service for freight and passenger service will negatively impact commerce. Higher prices for passenger service will be passed on to tourists, scientists, schools, industry and general government business. Alaska Airlines now serves Barrow with 14 flights a week and Northern Air Cargo with five to eight flights a week. The borough is aware that these flights will be substantially reduced to as few as four flights a week by Alaska Air and to one by Northern Air Cargo.

You see, the air carriers depend upon the mail to offset their ever-increasing costs. That was the mandate for bypass mail to begin with. Lower the impacts of travel to "Bush" Alaska, so as to open the States frontier to commerce. Unfortunately, just the opposite will occur should the postal service plan be put into effect. This will put us back to the 1960's in terms of access to the rest of the State.

At the August 24th meeting a request for the postal service business plan that outlines this proposal was made. Again at the Fairbanks meeting held September 22nd, the business plan was requested. The business plan finally arrived in Barrow on October 20th. An analysis of this plan does not change the concerns that the North Slope Borough nor the citizens who testified against the plan on August 24th. No single concern in opposition of the Post Office plan is a "deal breaker." However, one needs to look at the totality of the plan to understand that it is fatally flawed and is not economically viable to pursue.

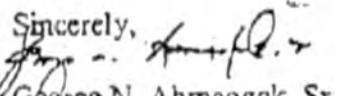
Specifically, the following concerns and flaws have yet to be adequately addressed in the Postal Services Business Plan.

- It will impact passenger service by forcing the airlines to shift schedules and reduce scheduled service in and out of Barrow. It may also cause the loss of 737-jet service, replacing it with smaller planes. Currently 14 Alaska Air flights a week service Barrow. This will be reduced to as few as four.
- Bypass mail helps to keep airfares affordable, and the loss of bypass mail will cause significant increases in airfares. This will hurt local government, businesses and individuals.
- The availability and price of fresh produce and frozen foods will increase from this plan, especially in the villages.
- This Plan will isolate our communities, not expand the economic potential of the North Slope.
- This Plan will make it impossible to recruit hospital staff for the new hospital. It will make it impossible to recruit teachers for our village schools due to the increase in cost for travel and commodities.
- The Plan indicates that mail will only be moved three days a week from Deadhorse to Barrow, further delaying mail deliveries and increasing the risk of spoilage.
- Cutting costs is fine, but the USPS should not be allowed to implement a plan that has so many impacts beyond mail service that harm the quality of life in our communities.

- The Dalton Highway is nothing more than an industrial gravel one-lane road, with already heavy traffic. This will add another day to the delivery of mail to North Slope residents.
- Increase in costs to conduct business off slope in terms of traveling to Anchorage due to reduced flights and the reduced ability to maintain infrastructure caused by delays in ordering parts and material.
- Impacts to the economic situation in our communities due to the inability of tourists to travel at a reasonable expense to Barrow.
- Inability of scientists to travel economically to Barrow to make use of the new Global Weather Science Facility being built with federal dollars.
- This plan only increases the chances for mail delays because now an air carrier will have to move mail from Deadhorse and Barrow, that combined are only available 70% of the time due to weather. This can be confirmed through the FAA.
- All of these issues are our concerns, because we live here. This plan will make it more difficult to maintain a reasonable quality of life.

It is Public Policy of the Federal Government that they provide infrastructure for transportation systems to serve commerce, the public health and private individuals throughout the United States and the provision or subsidization of air transportation in places where there are no roads but where there is a significant human population.

The development of this Public Policy regarding the support of a transportation system in the State of Alaska, primarily in "Bush" Alaska has evolved, and known as the By-Pass Mail System". The present system must continue as presently structured. A reply to our concerns and issues outlined above is warranted.

Sincerely,

George N. Ahmaogak, Sr.
Mayor

CC: Dennis Roper, Government Affairs
Senator Stevens at
Senator Murkowski
Congressman Young
Governor Murkowski
Representative Reggie Joule
Senator Donny Olson
Amy Cook, NAC

202-224-2354
907-276-4081
907-271-5950
907-465-3532
907-465-4586
907-465-4821

Message

Page 1 of 1

Suzanne McNabb

From: Suzanne McNabb on behalf of Dennis Roper
Sent: Monday, May 09, 2005 12:29 PM
To: Marla Berg (E-mail)
Subject: FW: Postal Service Letter

Dennis, David, Marla -

Email from Dennis Packer to Dennis Roper and Karla Kolash
Re: Postal Service Letter.

Packer forwarded email from Senator Stevens' staffer to Mayor Ahmaogak regarding Bypass Mail.

Smc

-----Original Message-----

From: Dennis Packer
Sent: Monday, May 09, 2005 11:16 AM
To: Dennis Roper; Karla Kolash
Subject: FW: Postal Service Letter

FYI

-----Original Message-----

From: Margaret Opie
Sent: Saturday, May 07, 2005 11:31 AM
To: Dennis Packer
Subject: FW: Postal Service Letter

FYI

-----Original Message-----

→ **From:** Bertosen, Todd (Stevens) [mailto:Todd_Bertosen@stevens.senate.gov]
Sent: Wednesday, May 04, 2005 3:31 PM
To: Margaret Opie
Subject: Postal Service Letter

Dear Mayor Ahmaogak,

→ I just wanted to let you know that Senator Stevens recently met with the Postal Service to address the concerns you had about the possibility of trucking mail to Deadhorse. The Postal Service has agreed to slow down this process and to meet with the residents of Barrow to address your concerns. I will continue to stay on top of this situation and welcome any comments you may have in the future. I hope to see you at IWC in Korea this year.

Thank you.

Todd Bertosen
Legislative Assistant
Office of Senator Ted Stevens
202-224-4403

6/14/2005

1 of 1

North Slope Borough

OFFICE OF THE MAYOR

P.O. Box 69
BARROW, ALASKA 99723
☎ 907 852-2611 ext. 200
Fax: 907 852-0337



George N. Ahmaogak, Sr., Mayor

April 19, 2005

Via Fax 202.224.2354

Honorable Ted Stevens
United States Senate
522 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Stevens:

I am alarmed by the U.S. Postal Service plan for a significant change in bypass mail service between Fairbanks and Barrow. I believe this plan could have impacts on Barrow and the nearby villages that are far more severe than just the speed or cost of mail delivery. These impacts include:

- a) reduced passenger air service and greatly increased fares;
- b) sharply increased costs for perishable food shipments;
- c) a variety of effects if mail is barged along the arctic coast in the summer and dispatched by Rolligon on snow roads in the winter.

As you know, passenger air service from Barrow is currently kept affordable by inclusion of bypass mail in the passenger/cargo mix. Roughly one-third of revenue on passenger flights is derived from mail. The USPS plan to truck mail from Fairbanks to Deadhorse eliminates that revenue and leaves no alternative for the airlines but to make it up through additional passenger and freight charges. It is quite possible that the loss of bypass mail will force Alaska Airlines to reduce service to Barrow. An impact of that magnitude should not be left solely to the discretion of the postal service.

The cost of shipping frozen and perishable foods to Barrow and the villages will also skyrocket under this new program. There is no requirement for the postal service to keep bypass mail frozen; in fact, its only mandate is to keep all mail at a temperature above 33 degrees. This means that any foods requiring specific temperature controls will no longer be eligible for shipment by mail. Significantly higher freight rates for these foods will inevitably result.

Senator Ted Stevens
April 19, 2005

- 2 -

Your staff has informed us of a potential USPS option to cover the Deadhorse-Barrow leg by barge or Rollagon, depending on the season. This is very troubling and clearly has not been well thought out. To adopt such a plan without any discussions about the potential harm to subsistence whaling by regular barge traffic or the social impacts of a snow road connecting Deadhorse and Barrow will have my constituents up in arms. There are permitting issues, environmental issues and community impacts that must be dealt with long before any service is finalized. The USPS clearly has not consulted with anyone locally as they created this plan.

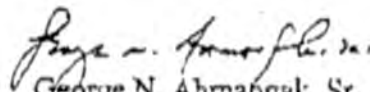
Cost-saving measures are something we all understand. But the USPS's new bypass mail scheme for Barrow and nearby villages could harm much more than our mail service. Yet we have not had so much as a courtesy call from the postal service to inform us of their intentions. They should know that this is not the way to do business in the Arctic, or anywhere, for that matter.

The North Slope Borough has supported development and worked hard to modernize our communities. With this one action, the postal service could send us back to the 1960s in terms of air travel and food importation. Such a move works counter to your efforts in establishing a science support facility and a new hospital on the North Slope, in that qualified personnel will find these institutions less attractive if air services are compromised.

If any agency other than the postal service floated a proposal with such far-reaching community impacts, they would be subject to public notice requirements, comment periods and other constraints aimed at protecting the public's interests. Because this USPS decision impacts much more than the simple delivery of mail, it seems to me that the agency should not be allowed to unilaterally call the shots.

You have been a great friend to our people, Senator. You have always been sensitive to our concerns. We are told the postal service intends to begin this reduced service in as little as six weeks. I would deeply appreciate it if you could encourage them to slow their process and fully engage with us, since their actions will have much more serious consequences than a simple slowing of the mail.

Sincerely,


George N. Ahmabgak, Sr.
Mayor

20F3

6.

3.

Senator Ted Stevens
April 19, 2005

cc:	Jacob Adams, ASRC	Via Fax 852-2763
	Max Ahgeak, UIC	Via Fax 852-4459
	Hazel Pebley, NVB	Via Fax 852-8844
	Mayor Nathaniel Olemaun, Jr., City of Barrow	Via Fax 852-5871
	Mayor George Paneak, City of Anaktuvuk Pass	Via Fax 661-3613
	Mayor Lon Sonsalla, City of Kaktovik	Via Fax 640-6314
	Mayor Thomas Nukapigak, City of Nuiqsut	Via Fax 480-6928
	Mayor Lydia Agnasagga, City of Wainwright	Via Fax 763-2811
	Mayor Elizabeth Hollingsworth, City of Atkasuk	Via Fax 633-6812

North Slope Borough
OFFICE OF THE MAYOR

P.O. Box 69
BARROW, ALASKA 99723
☎ 907 852-2611 ext. 200
Fax: 907 852-0337

March 10, 2005

George N. Akmaogak, Sr., Mayor

Honorable Ted Stevens
United States Senate
522 Hart Senate Office Building
Washington, D.C. 20510

FAX transmission
(202) 224-2354

907-562-1940-Roper 2pgs



Dear Senator Stevens:

As you know, providing commercial air service in rural areas is extremely challenging. Insurance rates, low passenger counts, distances between communities and many other factors contribute to a really tough market environment. Mail transfer has helped significantly, and the carriers in our region appreciate your many efforts to strengthen the rural mail service over the years.

With passage of the Rural Service Improvement Act (RSIA) two years ago, Bush carriers hoped for greater stability in the system through recognition of full-service carriers who meet the passenger, freight and mail delivery needs in our remote communities. Those who claim the mail routes and ignore the larger air service needs were supposed to find it harder under RSIA to deprive established, full-service carriers of the crucial income associated with mail shipment.

While our communities are seeing tangible benefits from RSIA, the Postal Service has taken actions that hurt older, established air carriers flying under Part 135 rules. The Postal Service has given waivers to at least one carrier to serve communities for which they were not eligible, since they did not provide sufficient passenger service to meet the requirements. And although those waivers have expired, there have been no operational changes to correct this error.

The waiver strategy has generated big savings for the Postal Service because the waivers are going to Part 121 carriers who fly the mail at a lower rate than the 135 Bush carriers. But it has also undercut the intent of the law, and it has put the largest Barrow-based carrier, Cape Smythe Air Service, at some financial risk.

We hope that you can sort out the issues in a way that protects both the spirit of competition and the needs of the long-time Bush carriers who have served our region and other rural areas faithfully and continuously for decades.

FAXED
3-11-05

DENNIS ROPER
-8896 2pp/3m.

1 OF 2

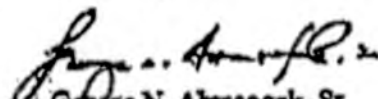
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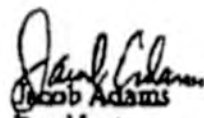
You may want to review whether the Postal Service is the appropriate agency to issue waivers, since its interest in cost savings may easily take precedence over its commitment to the intent of RSPA. Perhaps waivers could be handled solely by DOT, which might be expected to do a better job of judging waiver requests on a policy basis.

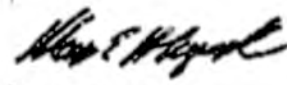
Cape Smythe has served the passenger, freight and mail shipment needs of communities in northern and northwestern Alaska since 1977. They are Native-owned; they employ locally; they pay local taxes; and they are struggling for survival in a cutthroat industry sector. They are the kind of air carrier that is needed in rural Alaska, but they find it very difficult to compete in some of their markets when they are up against carriers operating under exceptions to the law.

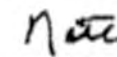
We appreciate your dedication to rural air service over many years, and we hope you can help to make the system even more durable under the challenging conditions of the rural economy.

Sincerely,


George N. Ahmaogak, Sr.
Mayor
North Slope Borough


Jacob Adams
President
Arctic Slope Regional Corporation


Max Ahgeak
President
Ukpogvik Inupiat Corporation


Nate Olemann
Mayor
City of Barrow

STATE OF ALASKA SENATE

2005

Source
SR 4

Senate
Resolve No.
3



Relating to the plans of the United States Postal Service to discontinue air shipment of bypass mail between Fairbanks, Alaska, and Barrow, Alaska.

BE IT RESOLVED BY THE SENATE:

WHEREAS air shipment of bypass mail is a longstanding United States Postal Service practice for fourth-class mail delivery in remote areas of Alaska; and

WHEREAS air shipment of bypass mail has enabled Alaska shippers of frozen or perishable goods to transport these products from Fairbanks, Alaska, to communities on the North Slope of Alaska without significant risk of spoilage; and

WHEREAS air shipment of bypass mail has increased the amount of freight on commercial carriers, which has kept passenger fares significantly lower than they would be without the alternative revenue provided by bypass mail freight; and

WHEREAS the United States Postal Service has announced its intention to ship bypass mail by truck from Fairbanks, Alaska, to Deadhorse, Alaska, for transshipment to Barrow, Alaska, and the North Slope communities; and

WHEREAS this plan will end bypass mail shipment of frozen or perishable goods from Fairbanks, Alaska, to Barrow, Alaska, because of the additional time it takes to ship by

truck and because the United States Postal Service is not required to provide for or guarantee delivery of frozen or perishable goods in time to prevent spoilage; and

WHEREAS this change in postal service will cause a substantial increase in the cost of frozen and perishable food in the North Slope communities; and

WHEREAS this change in postal service will cause a substantial increase in airfares in and out of Barrow, Alaska; and

WHEREAS the United States Postal Service has not attempted to explain its plan to the affected communities or to consult with the affected communities about its plan; and

WHEREAS a change in postal service that affects many costs and services beyond mail delivery should not be made without consulting the affected communities;

BE IT RESOLVED that the Alaska State Senate urges the United States Postal Service to delay any change in its current bypass mail system between Fairbanks, Alaska, and Barrow, Alaska, until it consults with the communities that would be affected by the change and understands the full impact of the change.

COPIES of this resolution shall be sent to John E. Potter, Postmaster General and CEO of the United States Postal Service; and the Honorable Ted Stevens and the Honorable Lisa Murkowski, U.S. Senators, and the Honorable Don Young, U.S. Representative, members of the Alaska delegation in Congress.

BARROW BYPASS TRUCKING ISSUE

What is Bypass Mail?

- The term bypass is defined as bulk standard mail that is prepared by the mailer so as to bypass postal facility processing and for delivery directly to the recipient by the air carrier. The Intra-Alaska Bypass Mail system was established 30 years ago to ensure universal delivery of mail to every home and business in Alaska and to support affordable passenger and non-mail freight service to rural communities throughout Alaska. Grocery stores, restaurants and other large order shippers are the primary customers of the bypass mail system.
- Four mainline carriers transport bypass mail from bypass acceptance points (Anchorage or Fairbanks) to hub points. From there, mail and passengers are further transported to the final destination. Three of those four carriers provide service to Barrow, Alaska Airlines, Everts Air Cargo and Northern Air Cargo. Currently, all hub points except Barrow are served out of Anchorage.

What is the USPS plan to change the system?

Currently, Barrow Bypass and Non-Priority mail is flown directly from the acceptance point (Fairbanks) to the hub point (Barrow) by a mainline carrier. On June 5, 2006 the USPS plans to use the haul road to truck the 11 million pounds of Bypass and Non-Priority mail destined for Barrow, Wainwright, Atkasuk and Pt. Lay to Deadhorse. In Deadhorse, the mail must be met by mainline carriers to be flown to Barrow. The air carriers still have to fly to Deadhorse, as no mainline carrier has aircraft based in Deadhorse. **The basis for this change is cost-savings.**

What are the core objections?

- **Savings projections are highly suspect.** Following significant pressure, the USPS produced a redacted fixed-price contract with Lynden Transport (the incumbent trucking contractor for Deadhorse). The USPS claims a \$1.3M/year savings. The term of the contract is through 2008, and USPS regulations allow a revisitation of the contract at anytime in the event that the carrier experiences unexpected costs. The fixed price is paid even if there are fewer pounds than the projected volume (11,272,300 lbs/yr). The incumbent trucking contractor has been hired to perform duties outside the scope of trucking that include "a mail flow monitoring system" in Deadhorse, the cost and scope of additional duties have not been disclosed. The USPS initially referred to the trucking proposal as a "cost savings" but was later described as a "cost deferment" by David Lindlief USPS Manager of Transportation Services in Fairbanks on September 21, 2005.
- **Potential savings are short term.** The DOT sets the rates for the USPS based on the air carriers' expenses. There is a 12-18 month lag in the recalculation of the rate. In the first 12-18 months, the air carriers will not be compensated appropriately for the cost of the new operational expenses. The mainline carriers serving Barrow must reposition aircraft to Deadhorse (an empty leg) to meet the mail for delivery from Deadhorse to Barrow. Once adjusted to a fair rate, the addition of trucking will cost the USPS more money than the current system at the expense of the degradation in service and quality of product for Barrow. The USPS is taking advantage of a non-priority mail rate that is in the system, but not appropriate for the addition of over 11 million pounds of bypass mail at a location that is not an acceptance point.

- **Passenger and freight service will be reduced.** The three mainline carriers estimate a 33% reduction in flights to Barrow. While the USPS measures quality of service based on mail delivery windows, the communities of Barrow, Pt. Lay, Atkasuk and Wainwright measure quality of service based on frequency. This reduction of Barrow's connections to Anchorage and Fairbanks will ~~not~~ be insufficient for the hospital, the school district, the utilities and individuals needing freight and passenger seats. Additionally, residents and business people traveling to and from Barrow will have significantly fewer flights.
- **Quality of groceries will be degraded.** The mainline air carriers currently have 72 hours to deliver the mail from Fairbanks to Barrow. When trucked, the 72-hour clock will not start until the mail is received in Deadhorse. It will take at minimum an additional 24 hours to reach Deadhorse; there will be greater spoilage and damage due to the additional time, additional handling, rough conditions on the haul road, and greater potential for freezing. This loss will lead to higher costs in stores. Bypass shippers have experience with the proposed zone controlled vans and have voiced concerns because of frozen produce and damage they have already experienced on the haul road for Barter Island and Nuiqsit mail. Additionally, the reliability due to **bad weather** on the North Slope will be degraded. Currently air carriers need good weather only in Fairbanks and Barrow to deliver the mail. Add trucking and there must be good weather in Deadhorse to pick up the mail, in Barrow to deliver the mail, **and** on the haul road. The USPS does not accept claims on bypass mail.
- **Fairbanks loses landing fees and jobs.** The Fairbanks International Airport estimates a loss of \$230,000 to \$240,000 per year from landing fees and fuel flow fees. Alaska Airlines will have to over-fly Fairbanks due to new routing. Fairbanks business people who provide services to Barrow will have to travel through Anchorage and stay overnight in Barrow due to reduced flights. These costs will negatively impact the ability of Fairbanks to compete for the work, or to provide services to Barrow at the current prices. Fairbanks is the sole acceptance point for Barrow, the only other mail **hub** in the bypass system served from Fairbanks is Galena, but mail for Galena can be accepted in Anchorage **or** Fairbanks. Fairbanks' logistical significance to the North Slope will be severely damaged by the loss of the Barrow Bypass mail.
- **The Intent of RISA is undermined:** The Alaska By-Pass Mail legislation of 1977 sponsored by Senator Ted Stevens was recently clarified and defined in an amendment referred to as the 'Rural Service Improvement Act of 2002', or RSIA. Specifically, in § 1, ¶(b) 9, RSIA states:

‘(9) The Intra-Alaska Bypass Mail system, created by Congress and operated by the United States Postal Service under section 5402 of title 39, U.S.C., with input from the Department of Transportation, connecting hundreds of rural and isolated communities within the State, is a critical piece of the Alaska and national transportation system. The system is like a 4-legged stool, designed to—‘(A) provide the most affordable means of delivering food and everyday necessities to these rural and isolated communities; ‘(B) establish a system whereby the Postal Service can meet its *obligations* to deliver mail to every house and business in America; ‘(C) *support affordable and reliable passenger service*; and ‘(D) *support affordable and reliable non-mail freight service*.



Bypass Mail Trucking Proposal Issues

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Barrow Bypass Trucking Proposal Issues

The USPS will lose a minimum of 400,000 each year. The USPS will pay \$2.4M less to the mainline air carriers the first year; however, they will also pay for trucking (estimated at \$1.5M), for additional USPS personnel in Deadhorse to receive and monitor the mail (estimated \$200,000), and for the increase in the rate once adjusted to the air carriers higher expenses due to operating at a higher cost in Deadhorse and flying an empty leg (\$826,000 line haul plus \$500,000 handling at Prudhoe – net to USPS = \$626,000 greater cost than currently experiencing).

Reliability in air service will be degraded. The weather on the North Slope is bad. Currently air carriers need good weather only in Fairbanks and Barrow to deliver the mail. If the mail is trucked, there must be good weather in Deadhorse to pick up the mail, good weather in Barrow to deliver the mail, and good weather on the haul road. Based on 2 years historical data, we anticipate an increase in cancellations due to weather from an average of 8/year to 29/year.

Passenger and freight service will be reduced. Northern Air Cargo, Alaska Airlines, and Everts estimate a 33% reduction in flights. While the USPS measures quality of service based on mail delivery windows, the communities of Barrow, Pt. Lay, Atkasuk and Wainwright measure quality of service based on frequency. This reduction of Barrow's connections to Anchorage and Fairbanks will be insufficient for the hospital, the school district, the utilities and individuals needing freight. Additionally, residents and business people traveling to and from Barrow will have significantly fewer flights.

Quality of groceries will be degraded. The mainline air carriers have 72 hours to deliver the mail from Fairbanks to Barrow. If trucked, the 72 hour clock will not start until the mail is received by the carriers in Deadhorse. It will take a minimum of 48 additional hours to reach Barrow; there will be greater spoilage and damage due to the additional time, additional handling, rough conditions on the haul road, and greater potential for freezing. This loss will lead to higher costs in stores. Bypass shippers have experience with the proposed zone controlled vans and have voiced concerns because of frozen produce and damage they have already experienced on the haul road for Barter Island and Nuiqsut mail.

Fairbanks loses landing fees and jobs. The Fairbanks

International Airport estimates a loss of \$230,000 to \$240,000 per year from landing fees and fuel flow fees based on information provided by each of the mainline air carriers. There will be approximately 12 jobs lost at Northern Air Cargo alone. Fairbanks business people who provide services to Barrow will have to travel through Anchorage and overnight in Barrow due to reduced flights. These costs will negatively impact the ability of Fairbanks to compete for the work, or to provide services to Barrow at the current prices.

The Intent of RISA is undermined: Title 39 > Part I > Chapter 1 > § 101 of the U.S. Postal Policy reads in part:

a) The United States Postal Service shall be operated as a basic and fundamental service provided to the people by the Government of the United States, authorized by the Constitution, created by Act of Congress, and supported by the people. The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities. The costs of establishing and maintaining the Postal Service shall not be apportioned to impair the overall value of such service to the people.

(b) The Postal Service shall provide maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining. No small post office shall be closed solely for operating at a deficit, it being the specific intent of the Congress that effective postal services be insured to residents of both urban and rural communities.

Further, and more important, the Alaska By-Pass Mail legislation of 1977 sponsored by Senator Ted Stevens was recently clarified and defined in an amendment referred to as the 'Rural Service Improvement Act of 2002', or RSIA. Specifically, in § 1, ¶(b) 9, RSIA states:

'(9) The Intra-Alaska Bypass Mail system, created by Congress and operated by the United States Postal Service under section 5402 of title 39, U.S.C., with input from the Department of Transportation, connecting hundreds of rural and isolated communities within the State, is a critical piece of the Alaska and national transportation system. The system is like a 4-legged stool, designed to—

'(A) provide the most affordable means of delivering food and everyday necessities to these rural and isolated communities;

'(B) establish a system whereby the Postal Service can meet its **obligations** to deliver mail to every house and business in America;

'(C) **support affordable and reliable passenger service; and**

'(D) **support affordable and reliable non-mail freight service.**

'(10) Without the Intra-Alaska Bypass Mail system—

'(A) ...

'(B) **food, medicine, freight and every day necessities and passenger service for these rural and isolated communities would cost several times the current level.**

'(11) ...

'(12) ... it is in the best interest of the Postal Service, the residents of Alaska and the United States—

'(A) ...

'(B) **to ensure that residents of rural and isolated communities in Alaska continue to have affordable, reliable, and safe passenger service;**

'(C) **to ensure that residents of rural and isolated communities in Alaska continue to have affordable, reliable, and safe non-mail freight service;**

'(D) to encourage that intra-Alaska air carriers move toward safer, more secure, and more reliable air transportation under the Federal Aviation Administration's guidelines and in accordance with part 121 of title 14, Code of Federal Regulations, where such operations are supported by the needs of the community;

...

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Visits to this Site.

**BY-PASS MAIL, THE UNITED STATES POST OFFICE, THE U.S.
DEPARTMENT OF TRANSPORTATION AND STATED PUBLIC POLICY**

It is the **Public Policy** of the Federal Government that they provide infrastructure for a transportation system to serve commerce, the public health and private individuals throughout the United States. This policy is expressed in the development and upkeep of roads and bridges in most of the United States and the provision or subsidization of air transportation in places where there are no roads but where there is significant human habitation. Support for this infrastructure is provided to a great degree by the Federal Highway Trust Fund with funds coming from the collection of taxes on fuel.

For many years the development of Public Policy regarding the support of a transportation system in the State of Alaska has evolved, in one aspect, into what is colloquially known as the "By-Pass mail system".

In recognition of the unique situation we have in Alaska, no roads to speak of, and the large number of inhabitants in the road-less areas of Alaska, it has been Public Policy to provide the transportation infrastructure through subsidization of air transport, both as to freight and passengers, by equal distribution of mail among the air carriers just as the mail subsidized the pony express, the stage coach routes and airlines in the early days.

In the wisdom of our legislators the responsibility of transportation infrastructure was assigned to the U.S. Post Office in Alaska and other areas lacking a road system – an obligation that went along with the Post Office's quasi-franchise allowing the U. S. Post Office to be the exclusive mail carrier for all of the United States. Further, in the wisdom of our Senator Stevens, who intimately understands the plight of our inhabitants of Alaska's vast road-less area, the By-Pass mail system was established **to insure a stable transportation system for freight, mail and passengers with reasonable frequency and at affordable costs to the user.** Barrow and their surrounding communities have been served well by three of the four mainline carriers, Alaska, Northern Air Cargo and Everts Air Cargo under this system.

The **obligation** imposed by the Public Policy on the U. S. Post Office **places the Post Office in a regulated arena when it comes to air transport of mail in Alaska – it's the law.** The U. S. Post Office, by this maneuver, trucking the Barrow mail to Deadhorse, is taking a first step in removing Barrow's mail from the By-Pass system. If mail is moved overland it is not subject to the regulations (laws) of the By-Pass system and the benefits of the By-Pass system to the "stranded communities" are lost. Simply put, the U. S. Post Office is opting out of its obligation, an obligation that is inseparable from its quasi-franchise (a monopoly) to be the sole provider of mail service in the United States.

Introduction

The United States Postal Service (USPS) proposed a change in the way that bypass mail is transported between Fairbanks and Barrow, Alaska. USPS believes the change will result in significant savings. This proposal will have significant impacts on the affected communities. Our analysis indicates that USPS has underestimated costs, and overestimated savings, from the proposal.

The current system sees bypass mail shipped by three mainline air carriers, one of which, Alaska Airlines, also serves as a passenger carrier. The system of transporting bypass mail by air to Barrow allows passenger carriers to offer more frequent and more affordable service. Frequent air service with a passenger-cargo mix also improves the availability of perishable goods and professional services to North Slope communities.

There are currently approximately 9.8 million pounds of bypass mail flown to Barrow each year. Bypass mail shippers dictate the type of load being sent, and there is a wide variety of goods mailed. Some items are frozen, some liquid, some dry. Some have maximum stacking heights. Package density ranges from high (e.g. tools) to very low (potato chips). There is rarely a shipment that is all frozen, or all dry; most loads are a mix of several different types of cargo requiring attention to packing and separation. Often a load requires multiple temperature zones in which to hold goods for the up to three days (72 hours) required for delivery to Barrow.

The USPS proposal changes the routing of bypass mail from the air (Fairbanks to Barrow) to a mixed mode (ground from Fairbanks to Deadhorse and air from Deadhorse to Barrow). The proposal would employ trucks to move bypass mail up the North Slope Haul Road to Deadhorse, where it will be unloaded, then reloaded on to an airplane for movement to Barrow and outlying villages.

Key issues

The key questions and issues related to the USPS proposed change are outlined below.

1. How many pounds of bypass mail will fit in one 53-foot trailer heading up the North Slope Haul Road?

USPS estimates 30,000 to 35,000 pounds per truckload. Our estimate is 16,600 pounds per truckload. We calculated as follows.

- Inside capacity of each truckload: The maximum inside dimensions available for shipping bypass mail in trailers is regulated by USPS contract, and by length restrictions on the North Slope Haul Road. Alaska allows only single trailers on this road. The maximum size trailer allowed by these twin conditions is 53' long,

8' wide, and 6' high (height restriction due to postal regulation) giving a total of 2,544 cubic feet of capacity per truckload.

- An Alaska trucking company estimated that they could fit 26 pallets in a trailer packed 56' long, 8' wide and 8' high. This comes to an estimated 130 cubic ft per pallet. Note that this is not the size of an actual pallet of bypass mail; actual pallet size if stacked 6' high is 80 cubic feet, so the 130 cubic feet represents the capacity necessary for each pallet. Using this industry estimate as a base we allowed 20 pallets per truckload packed 53' long, 8' wide and 6' high.
- Northern Air Cargo averaged the weight of a pallet of bypass mail over several months and came up with an average weight of 850 pounds per pallet. Alaska Airlines reported 9.5 pounds per cubic foot for their bypass mail in 2004, which translates to an average 760 pounds per pallet. For purposes of this calculation, we used the higher figure provided by Northern Air Cargo.
- 850 pounds per pallet x 20 pallets per truckload = 16,634 pounds per truckload

How much will it cost to truck bypass mail to Deadhorse and fly it to Barrow?

The current USPS rate from Fairbanks to Deadhorse is \$1.58 per mile for 800 cubic feet of freight. This amount is a partial truckload; the contract allows the carrier to move other freight at the carrier's rate in conjunction with bypass mail shipment.

Estimating Trucking Cost Method #1:

Utilizing USPS rate of \$1.58 per mile for 800 cubic feet of space, we estimate a rate of \$5.02 per mile for 2,544 cubic feet of space. The current \$1.58 per mile rate the USPS uses is to hire a smaller truck, and it is to hire *part* of a truck. Our estimate is the rate it would cost to hire the *entire* truck. All variable and fixed costs such as drivers, equipment, etc., are presumably included in the USPS per mile rate.

- $2,544 / 800 = 3.18$
- $3.18 \times 1.58 = \$5.02$

The trip to Deadhorse is 501 miles one way. 501 miles times \$5.02 per mile gives us our estimate of an average cost of \$2,513 per truckload of bypass mail.

We believe it will actually cost the USPS more than this amount, because the new contract will require temperature-controlled trailers with the ability to separate temperature zones. We have obtained estimates that there would be an increase of roughly 20 percent in cost for these temperature-controlled trailers, potentially raising the cost per mile to \$6.00, for an average cost of over \$3,000 per truckload.

Estimating Trucking Cost Method #2:

We collected cost estimates from four reputable trucking companies currently operating in Alaska. These companies provided information on the condition that the number presented be an aggregate and that their names not be divulged. The average of the four estimates equals \$3,573 per truckload.

3. How many truckloads will it take to move 10 million pounds of bypass mail to Deadhorse?

The USPS estimates that it will take 365.25 trips per year. We estimate that it will take more than 600 truckloads. Our estimate is based on the weight per truckload calculated under section 1 above.

4. What is the total cost of trucking bypass mail from Fairbanks to Deadhorse?

The USPS estimates 365 trips at \$1,000 per trip = \$365,000

We estimate 600 trips at \$2,500 per trip = 1,500,000

5. What will be the increase in air carrier line haul rate?

The US Department of Transportation calculates reimbursement rates for line haul, based on information provided by the air carriers. Air carriers supply USDOT with the costs of doing business in Alaska; DOT staff review the information and set the reimbursement rate. When there is an increase to the cost of doing business in Alaska, there will be an increase in the rate of reimbursement.

Unlike other USPS decisions to reroute bypass mail from air to ground, this proposal will affect the line haul rate. The proposal is not a typical because a road does not connect Fairbanks and Barrow; air carriers will still need to deliver the mail from Deadhorse to Barrow. The air carriers will need to reposition an aircraft to Deadhorse or station an aircraft in Deadhorse.

Flying empty or with partial loads is very expensive, as is stationing and staffing an aircraft in Deadhorse. Either option will increase the air carrier costs by \$1.3 to \$1.8 million per year. We estimate the carriers' added operating costs would increase USPS costs by \$826,000 per year, using the following calculation:

- a) There will be 2.6% reduction in Available Ton Miles based on a 33% reduction in the number of flights to Barrow
- b) The reduction in the number of flights to Barrow will result in a 1% reduction in air carrier expenses.
- c) It currently costs \$156 million to fly 201 million Available Ton Miles
- d) It will end up costing \$154 million to fly 196 million Available Ton Miles
- e) The current unit cost of .7761 will increase to .7857 (201/156 to 196/154), a .0096 increase in the unit cost
- f) The increase in the unit cost represents a 1.2% increase in unit cost (.0096/.7761)
- g) The 1.2% increase will raise the statewide average rate per pound from \$0.58 to \$0.587
- h) The 1.2% increase will raise the total USPS linehaul cost by \$826,000 (.007 x 118 million pounds)

In addition, there is a possibility that mainline carriers will find it too costly to operate in the Deadhorse to Barrow run. If mainline carriers drop out then a bush carrier could step up to the plate and move the bypass mail by air from Deadhorse to Barrow at the Bush rate, significantly more expensive than the mainline rate.

6. Will there be an increase in damaged goods reaching Barrow customers?

There are no solid numbers available to demonstrate that damage to goods will increase under the proposed change in the bypass mail system. There are indications that damage will increase:

- There is an additional load and reload. In Deadhorse, goods will have to be unloaded from the truck and reloaded on to the plane.
- Goods will sit for longer before reaching their final destination. The 72 hours to delivery starts in Deadhorse under the proposed plan, already a full day after the goods were shipped.
- Maintaining temperature control in Deadhorse (between unloading and loading) may be more challenging than maintaining temperature control pending loading in Fairbanks.
- The North Slope Haul Road is an industrial road, with major sections unpaved, which will increase vibration impacts to loads.

7. Will there be an economic impact to Fairbanks?

Yes. There will be an estimated loss of roughly \$240,000 in landing fees at Fairbanks International Airport. (Source: briefing paper to Murkowski from Mayor Whitaker)

The following estimates of economic losses assume that Alaska Airlines will reduce the number of flights between Barrow and Fairbanks. While it is not certain that this will happen it is apparent that some change will need to occur. Each Alaska Airline passenger plane between Fairbanks and Barrow is currently subsidized through the bypass mail system, at an average of \$3,200 per flight. [Alaska Airlines receives \$2 million in bypass mail from Fairbanks to Barrow. This amount divided by 656 flights per year equals \$3,200 per flight.]

Fairbanks will experience a loss of North Slope Borough residents traveling to Fairbanks. While there are no hard numbers on NSB resident spending while in Fairbanks, we know anecdotally that when residents of rural Alaska visit the urban centers they shop, take taxis, see doctors, take care of business, eat at restaurants, go to the movies, etc, etc. Residents of the NSB undoubtedly spend millions of dollars in the FNSB every year.

Fairbanks will experience a loss of an estimated 2,800 visitor days. These visitors are those tourists visiting Alaska who want to make a day trip to the Barrow to see the "top of the world". (source Alaska Airlines) Loss of these visitor days will result in \$260,000 per year in direct spending and an additional \$80,000 in indirect spending for a total of

\$340,000 per year in lost revenue. This estimate is extremely conservative. (Source: FNSB Economist Kathryn Dodge)

The Fairbanks Convention and Visitor's Bureau estimates that the average visitor spends \$240 per day in Fairbanks. There is no reason to think that visitors from the North Slope would spend any differently. Based on this number the potential loss to FNSB is \$672,000. (Source: FCVB)

There are a number of potential losses that are not easily quantifiable, but are nonetheless important. There is the potential for a loss in regional connectivity, accessibility of cultural events, and economic opportunity. Business people and health care professionals will find it more difficult to travel between Barrow and Fairbanks if there are no longer two flights per day. Those who do travel will face increased costs due to the requirement for additional overnight stays.

Sources

Documents (Copies available upon request)

- **Business Plan**, USPS Draft
- **Report: U.S. Postal Service: The Service's strategy for Realigning Its Mail Processing Infrastructure Lacks Clarity, Criteria, and Accountability**, GAO
- **Alaska Senate Resolve 3**: Relating to the plans of the United States Postal Service to discontinue air shipment of bypass mail between Fairbanks, Alaska, and Barrow, Alaska.
- **Linehaul increase estimate**, John Eckles, Sr. Director, Finance & Administration, Northern Air Cargo.
- **RSIA 2002 PowerPoint**, USPS
- **USPS Intra-Alaska Mail service by air: Instructions for certified carriers and bypass shippers**, USPS handbook
- **U.S. POSTAL SERVICE The Service's Strategy for Realigning Its Mail Processing Infrastructure Lacks Clarity, Criteria, and Accountability**, General Accounting Office, April 2005
- **Regional Plan for NW Alaska**, Appendix C Mail Delivery and Aviation in Alaska, DOT October 2005
- **Dalton Highway Master Plan**, State of Alaska DOT

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BUSINESS PLAN
Western Area DN, Seattle Branch

Updated 02/28/2006

AREA:	Western	
TYPE OF PROJECT:	Air to Surface Mode Conversion – Fairbanks to Barrow	
FACILITIES EFFECTED:	Anchorage GMF 4141 Postmark Drive Anchorage, AK 99502-9998	Fairbanks GMF 5400 Mail Trail Fairbanks, AK 99709-9998
	Barrow Main PO 8080 Eben Hobson Street Barrow, AK 99723-9998	Prudhoe CPO 100 Sage River Rd. Prudhoe Bay, AK 99734

OBJECTIVE:

Currently, all Bypass & In-House Non-PRI (IHNP) volume is being moved northbound by three (3) certificated air carriers. They are Everts Air Cargo (3Y), Northern Air Cargo (D1), and Alaska Airlines (AS). It is proposed that we add additional surface legs between Fairbanks and Prudhoe, AK, Deadhorse Airport (SCC). This would reduce the number of Great Circle Miles operated by the air carriers, thus reducing the overall aggregate Air/Surface transportation cost.

The approximate total cost to perform this service (air/surface) is currently \$6.9 million dollars annually. The projected savings are anticipated to be approximately \$1.3 million annually (see page 8). This plan has been designed to meet current Bypass/IHNP service commitments.

PROCUREMENT PLAN:

Deployment Requirements:

- Principle transportation service for all Kaktovik and Nuiqsut non-priority rate mail is currently provided on Highway Contract Route (HCR) 99730, Fairbanks GMF, AK, to Prudhoe Bay CPO, AK. The schedule frequency requirements will be designed to ensure all additional Bypass & IHNP volumes are captured (see attached schedule). Upon arrival at the SCC Airport, the mail would be tendered to the appropriate mainline air carrier for dispatch on the second leg (Air) between Deadhorse Airport, AK (SCC) and Barrow, AK (BRW).
- The Western Area DN will conduct meetings with all mainline carriers that operate within the Alaska regulated environment to ensure air carrier schedules will support the proposed mode conversion. Historical mail volume data will be presented along with preferred service requirements from SCC to BRW to operate at a minimum of two (2) flights per week, per RSIA. Further planning discussions will include additional equipment and facility options available to the air carriers.

- The planning phase will include outlining USPS expectations of a commitment of at least one year of service from any capable carrier that elects to enter this market. This will allow time for the participants to realistically analyze market forces and prevent premature departures from service without making an earnest attempt to succeed.
- Carriers will be requested to respond within 10 days to the USPS with their intentions and those who agree to meet the minimum requirements will be required to file their intended schedules with the Official Air Guide and the Western Area DN, Anchorage. These schedules must be filed a minimum of 28 days in advance of the projected startup date. During this 28 day period the schedules will be schemed by the Western Area DN office, Anchorage into the SAMS-AK non-priority mail dispatch system to provide routings for tender of mail out of Fairbanks to the destination. Upon startup date, dispatch personnel in FAI will utilize the SAMS-AK non-priority mail dispatch system to assign mail to carriers operating from SCC to BRW on an equitable tender basis. Payment will be affected by the Postal Service based on existing Intra Alaska mail rates based on volumes captured by SAMS-AK. Volume reports and monitoring will also be accomplished via SAMS-AK.
- All participating carriers will be required to provide secure mail storage facilities in SCC as well as BRW. During the 28 day schedule filing period, carriers will be required to notify the Manager, TANS, Alaska District, of their existing or proposed facility arrangements, and approval of these facilities will be accomplished prior to startup date. Upon approval of the facilities, the Manager, TANS, will notify the Western Area DN office, Anchorage, of the completion of this process.
- ▪ A mail flow monitoring system in SCC will need to be established. This tracking system will ensure that on-hand volumes, transported volumes, flight delays and cancellations are monitored on a daily bases. The Anchorage Cluster has requested that a small portion of the proposed air savings be allotted to the SCC CPO to perform these duties. Another option would be to have these requirements negotiated into the surface suppliers' contract.
- The Western Area DN office, Anchorage, with support of Anchorage District/Plant would need to schedule a meeting with Bypass Shippers and Barrow, AK addressees and residents to go over changes to the transportation network. The meeting would reassure shippers/residents that service performance would not diminish and that their product would move over the road in climate control equipment (trailers) to ensure quality of the product. This would also allow shippers to provide feedback and suggestions to the proposed network.
- The DN would need to give air carriers 30 days notice prior to terminating air service.

NORTHBOUND PROFILE

No significant change in processing is required and employee schedules will not be affected. The allotted time necessary to weigh and verify Bypass mail would be reduced as a result of this function being completed at one (1) surface location versus three (3) air carrier locations.

1) Bypass Mail

Present: Bypass mail from Fairbanks is currently dispatched by air on an equitable tender basis to three Mainline Air Carriers that perform scheduled service to Barrow. The three (3) carriers are Alaska (AS), Northern Air Cargo (D1) and Everts Air Cargo (3Y). The Bypass shipper phones the PO Bypass clerk daily with the estimated number of pallets and weight

for each shipment. This information is input into the SAMS-AK database by the clerk and the system will designate which air carrier to route the mail to, based on equitable tender. The clerk then phones the shipper and schedules a time to meet at the designated air carrier's facility to verify and weigh each pallet for shipment. The shipper is responsible for transporting the Bypass mail to the Air Carrier's facility. The clerk meets the shipper at the designated air carrier, weighs each pallet, and enters the information into the SAMS-AK database which prints a label with the carrier, weight, and day of delivery.

Proposed: The procedures would remain the same as above however all mail would be routed to one surface carrier's facility for verification and dispatch.

2) IHNP Mail

Present: IHNP from Fairbanks is currently dispatched by air on an equitable tender basis to three Mainline Air Carriers that perform scheduled service to Barrow. The three (3) carriers are Alaska (AS), Northern Air Cargo (D1) and Everts Air Cargo (3Y). IHNP is received daily from local AO's, Stations and Branches, local shipper's and on vans received from Anchorage GMF and Seattle BMC. The mail collected from the AO's, and Station and Branches is processed on Tour III operations at the Fairbanks GMF. Outside pieces are placed on nutting trucks and a routing label is applied by the Tour I SAMS-AK clerk. The sackables are processed by 0500 and once sacked they are sent over to the SAMS-AK system for a routing label to be affixed. The Tour II clerk applies the routing label and stages the mail in the drive through for the appropriate air carrier by no later than 0530. The air carrier's pickup mail twice a day; once between the hours of 0530-0700 for Priority mail and all available IHNP mail and the second trip between the hours of 1300-1500 for the remainder of IHNP mail processed that day. Tour II operation unloads the Seattle and Anchorage vans and are normally finalized by 0930. The mail comes into the building via a belt and onto a donut, where a clerk sorts the mail to the appropriate slide. The Barrow mail is collected by a clerk and taken directly over to the SAMS-AK system and processed with a routing tag. This operation is completed by 1030 and the mail is then staged in the drive through for the appropriate carrier. From 1030-1430 mail is received from three (3) shippers (SAMS Club, Fred Meyer & Wal-Mart) by a postal driver. The mail is taken to the SAMS-AK system and routed with a dispatch tag. The routed mail is staged in the drive through for the appropriate carrier no later than 1500.

Proposed: The above processing procedures would remain the same; however, the surface carrier would be required to pickup IHNP at the Fairbanks GMF and be ready for dispatch by 1530.

SOUTHBOUND PROFILE - BYPASS/IHNP

Present: IHNP from Barrow is currently dispatched by air on an equitable tender basis to three Mainline Air Carriers that perform scheduled service to Fairbanks. The three (3) carriers are Alaska (AS), Northern Air Cargo (D1) and Everts Air Cargo (3Y).

Proposed: No Change to present service suggested at this time. Further analysis will be conducted once we have determined the Air Carriers intent on performing proposed northbound service.

(Table 1.1)

NORTHBOUND – TOTAL IHNP POUNDS – FAI-BRW

LBS.	COST	WEEK BEGIN	WEEK END
37,515	\$24,759.90	1/12/05	1/28/05
29,150	\$19,239.00	1/29/05	2/04/05
20,017	\$13,211.22	2/05/05	2/11/05
27,270	\$17,998.20	2/12/05	2/18/05
26,408	\$17,429.28	2/19/05	2/25/05
42,726	\$28,199.16	2/26/05	3/04/05
28,090	\$18,539.40	3/05/05	3/11/05
30,751	\$20,295.66	3/12/05	3/18/05
30,728	\$20,280.48	3/19/05	3/25/05
32,168	\$21,230.88	3/26/05	4/01/05
29,375	\$19,387.50	4/02/05	4/08/05
29,494	\$19,466.04	4/09/05	4/15/05
31,478	\$20,775.48	4/16/05	4/22/05
27,228	\$17,970.48	4/23/05	4/29/05
24,877	\$16,418.82	4/30/05	05/06/05
38,435	\$25,367.10	5/07/05	5/13/05
26,794	\$17,684.04	5/14/05	5/20/05
28,445	\$18,773.70	5/21/05	5/27/05
28,198	\$18,610.68	5/28/05	6/03/05
32,465	\$21,426.90	6/04/05	6/10/05
28,469	\$18,789.54	6/11/05	6/17/05
33,528	\$22,128.48	6/18/05	6/24/05
27,948	\$18,445.68	6/25/05	7/01/05
20,729	\$13,681.14	7/02/05	7/08/05
26,457	\$17,461.62	7/09/05	7/15/05
65,933	\$43,515.78	7/16/05	7/22/05
31,854	\$21,023.64	7/23/05	7/29/05
46,059	\$30,398.94	7/30/05	8/05/05
52,583	\$34,704.78	8/06/05	8/12/05
69,245	\$45,701.70	8/13/05	8/19/05
34,964	\$23,076.24	8/20/05	8/26/05
30,200	\$19,932.00	8/27/05	9/02/05
26,152	\$17,260.32	9/03/05	9/09/05
30,583	\$20,184.78	9/10/05	9/16/05
31,377	\$20,708.82	9/17/05	9/23/05
30,426	\$20,081.16	9/24/05	9/30/05
36,979	\$24,406.14	10/01/05	10/07/05
26,023	\$17,175.18	10/08/05	10/14/05
37,409	\$24,689.94	10/15/05	10/21/05
33,193	\$21,907.38	10/22/05	10/28/05
1,321,723	\$872,337.18	40 Weeks	

1,321,723 lbs. ÷ 40 weeks = 33,043 average lbs. per week

33,043 lbs. x 52 weeks = 1,718,236 lbs. per year

1,718,236 lbs. per year x \$.66 current per lb. rate = \$1,134,036 per yr

(Table 1.2)

NORTHBOUND – TOTAL BYPASS POUNDS – FAI-BRW

LBS.	COST	WEEK BEGIN	WEEK END
188,804	\$124,610.64	1/22/05	1/28/05
135,989	\$89,752.74	1/29/05	2/04/05
150,074	\$99,048.84	2/05/05	2/11/05
209,111	\$138,013.26	2/12/05	2/18/05
134,446	\$88,734.36	2/19/05	2/25/05
161,492	\$106,584.72	2/26/05	3/04/05
140,669	\$92,841.54	3/05/05	3/11/05
139,588	\$92,128.08	3/12/05	3/18/05
164,773	\$108,750.18	3/19/05	3/25/05
161,524	\$106,605.84	3/26/05	4/01/05
188,781	\$124,595.46	4/02/05	4/08/05
119,173	\$78,654.18	4/09/05	4/15/05
169,638	\$111,961.08	4/16/05	4/22/05
177,524	\$117,165.84	4/23/05	4/29/05
136,717	\$90,233.22	4/30/05	05/06/05
145,426	\$95,981.16	5/07/05	5/13/05
174,122	\$114,920.52	5/14/05	5/20/05
133,788	\$88,300.08	5/21/05	5/27/05
183,709	\$121,247.94	5/28/05	6/03/05
159,069	\$104,985.54	6/04/05	6/10/05
182,801	\$120,648.66	6/11/05	6/17/05
186,250	\$122,925.00	6/18/05	6/24/05
170,282	\$112,386.12	6/25/05	7/01/05
137,887	\$91,005.42	7/02/05	7/08/05
119,907	\$79,138.62	7/09/05	7/15/05
167,077	\$110,270.82	7/16/05	7/22/05
199,471	\$131,650.86	7/23/05	7/29/05
154,716	\$102,112.56	7/30/05	8/05/05
163,770	\$108,088.20	8/06/05	8/12/05
164,150	\$108,339.00	8/13/05	8/19/05
193,085	\$127,436.10	8/20/05	8/26/05
154,761	\$102,142.26	8/27/05	9/02/05
140,098	\$92,464.68	9/03/05	9/09/05
146,623	\$96,771.18	9/10/05	9/16/05
175,408	\$115,769.28	9/17/05	9/23/05
165,514	\$109,239.24	9/24/05	9/30/05
200,267	\$132,176.22	10/01/05	10/07/05
188,683	\$124,530.78	10/08/05	10/14/05
165,708	\$109,367.28	10/15/05	10/21/05
189,684	\$125,191.44	10/22/05	10/28/05
6,540,559	\$4,316,768.94	40 Weeks	

6,540,559 lbs. ÷ 40 weeks = 163,514 average lbs. per week

163,514 lbs. x 52 weeks = 8,502,728 lbs. per year

8,502,728 lbs. per year x \$.66 current per lb. rate = \$5,611,800 per yr

AFFECTED CONTRACTORS:

1. HCR 99730 – Lynden Transport
2. 3Y – Everts Air Cargo
3. D1 – Northern Air Cargo
4. AS – Alaska Airlines

PURCHASE TYPE:

An agreement has been negotiated with the incumbent on HCR 99730 to perform the service.

CONCERNS:

The USPS has conducted public meetings to review carrier, customer and community concerns. All identified concerns were discussed with participants and taken into consideration prior to final decisions.

SUMMARY:

The current cost of transporting bypass/IHNP volumes by air is excessive. By using a combination of surface and air, significant savings per annum can be realized. The impact of this change on the Fairbanks GMF is minimal and is more than justified by the cost reduction. Implementing this mode conversion will provide transportation that meets CETs and CTs at a substantially reduced cost.

CURRENT COST (000)

NORTHBOUND: FAI-BRW (IHNP & By-Pass)

Surface Transportation

HCR 99730 \$ 127 ¹

Air Transportation

3Y(Everts Air Cargo) \$2,249 ²

D1 (Northern Air Cargo) \$2,249 ³

AS (Alaska Airlines) \$2,248 ⁴

Subtotal Current Northbound Cost \$6,873

SOUTHBOUND: BRW-FAI (IHNP & By-Pass)

Surface Transportation

HCR 99730 \$ 0

Air Transportation

3Y(Everts Air Cargo) \$ 42 ⁵

D1 (Northern Air Cargo) \$ 42 ⁶

AS (Alaska Airlines) \$ 42 ⁷

Subtotal Current Southbound Cost \$ 126

Total Current Cost \$6,999

PROPOSED COST (000)

NORTHBOUND: FAI-BRW (IHNP & By-Pass)

Surface Transportation

HCR 99730 \$ 1,326 ⁸

Air Transportation

3K (Everett's Air Cargo) \$ 1,397 ⁹

D1 (Northern Air Cargo) \$ 1,397 ¹⁰

AS (Alaska Airlines) \$ 1,397 ¹¹

Subtotal Proposed Northbound Cost \$5,517

SOUTHBOUND: BRW-FAI (IHNP & By-Pass)

Surface Transportation

HCR 99730 \$ 0 ¹²

Air Transportation

3Y (Everts Air Cargo) \$ 42 ¹³

D1 (Northern Air Cargo) \$ 42 ¹⁴

AS (Alaska Airlines) \$ 42 ¹⁵

Subtotal Proposed Southbound Cost \$126

Total Proposed Cost \$5,643

Total Projected Savings \$1,356

Footnotes 1 - 15, See Attachment A

ATTACHMENT A (Footnotes 1 - 15)

1. HCR 99730 - $\$1.62072$ (current RPM) X 501.0 miles (O/W) = $\$811.98$ (per O/W)
X 156.54 (frequency) = $\$127,107.57$ *
2. Everts Air Cargo (3Y) - 3,406,988 lbs. (equitable tender FAI-BRW) X $\$.66$ (mainline non-pri rate)
= $\$2,248,612.08$
3. Northern Air Cargo (D1) - 3,406,988 lbs. (equitable tender FAI-BRW) X $\$.66$ (mainline non-pri rate)
= $\$2,248,612.08$
4. Alaska Airlines (AS) - 3,406,988 lbs. (equitable tender FAI-BRW) X $\$.66$ (mainline non-pri rate)
= $\$2,248,612.08$
5. Everts Air Cargo (3Y) - 63,787 lbs. (equitable tender BRW-FAI) X $\$.66$ (mainline non-pri rate)
= $\$42,099.42$
6. Northern Air Cargo (D1) - 63,787 lbs. (equitable tender BRW-FAI) X $\$.66$ (mainline non-pri rate)
= $\$42,099.42$
7. Alaska Airlines (AS) - 63,787 lbs. (equitable tender BRW-FAI) X $\$.66$ (mainline non-pri rate)
= $\$42,099.42$
8. HCR 99730 - 11,272,300 lbs. (estimated annual lbs.) X $\$.11762$ (offered rate per lb.)
= $\$1,325,847.93$
9. Everts Air Cargo (3Y) - 3,406,988 lbs. (equitable tender SCC-BRW) X $\$.41$ (mainline non-pri rate)
= $\$1,396,865.08$
10. Northern Air Cargo (D1) - 3,406,988 lbs. (equitable tender SCC-BRW) X $\$.41$ (mainline non-pri rate)
= $\$1,396,865.08$
11. Alaska Airlines (AS) - 3,406,988 lbs. (equitable tender SCC-BRW) X $\$.41$ (mainline non-pri rate)
= $\$1,396,865.08$
12. HCR 99730 - All costs for north and south bound service are shown under footnote #8,
northbound surface transportation, HCR 99730
13. Everts Air Cargo (3Y) - 63,787 lbs. (equitable tender BRW-FAI) X $\$.66$ (mainline non-pri rate)
= $\$42,099.42$
14. Northern Air Cargo (D1) - 63,787 lbs. (equitable tender BRW-FAI) X $\$.66$ (mainline non-pri rate)
= $\$42,099.42$
15. Alaska Airlines (AS) - 63,787 lbs. (equitable tender BRW-FAI) X $\$.66$ (mainline non-pri rate)
= $\$42,099.42$

* The current HCR surface transportation between Fairbanks and Prudhoe Bay only provides one-way mail service for Prudhoe Bay, Nuiqsut and Kaktovik, AK. The proposed service would provide six (6) day per week, round trip mail service thus improving the service profile to those communities.

39 U.S.C.A. § 5402

qualified carriers that provide service between the hub point being bypassed and the destination point, based on the volume of nonpriority bypass mail on both routes.

(3)(A) The Postal Service shall determine the bypass mail bush points and hub points described under paragraph (2)(B) after consultation with the State of Alaska and the affected local communities and air carriers.

(B) Any changes in the determinations of the Postal Service under subparagraph (A) shall be made--

(i) after consultation with the State of Alaska and the affected local communities and air carriers; and

(ii) after giving 12 months public notice before any such change takes effect.

(4)(A) Except as provided under subparagraph (B) and paragraph (5), the Postal Service shall select only existing mainline carriers to provide nonpriority bypass mail service between an acceptance point and a hub point in the State of Alaska.

(B) The Postal Service may select a carrier other than an existing mainline carrier to provide nonpriority bypass mail service on a mainline route in the State of Alaska if--

(i) the Postal Service determines (in accordance with criteria established in advance by the Postal Service) that the mail service between the acceptance point and the hub point is deficient and provides written notice of the determination to existing mainline carriers to the hub point; and

(ii) after the 30-day period following issuance of notice under clause (i), including notice of inadequate capacity, the Postal Service determines that deficiencies in service to the hub point have not been eliminated.

(C) A providing carrier selected under subparagraph (A) may subcontract the transportation of nonpriority bypass mail to another existing mainline carrier when additional or substitute aircraft are temporarily needed to meet the delivery schedule of the Postal Service or the carrier's operating requirements. The providing carrier shall remain responsible for the mail from origin through destination.

(5)(A) The Postal Service shall offer equitable tender of nonpriority bypass mail to a new 121 mainline passenger carrier entering a mainline route in the State of Alaska, if the carrier--

(i) meets the requirements of subsection (g)(1)(D)(ii); and

(ii) has provided at least 75 percent of the number of insured passenger seats as the number of available passenger seats being provided by the mainline passenger carrier providing the greatest number of available passenger seats on that route for the 6 months immediately