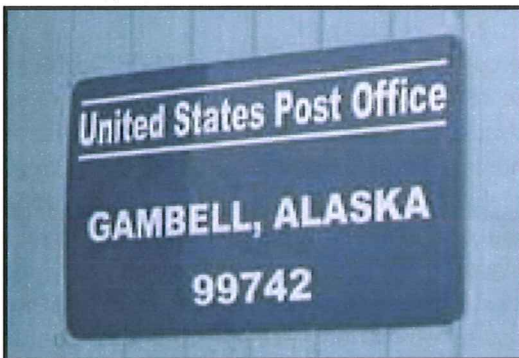




Intra-Alaska Mail Service by Air

Mail Service in Alaska: Established by law (39 USC 5402) the United States Postal Service (USPS) is required to perform its mail delivery mission of “providing universal service at universal rates” to all persons in the United States. Since many Alaskan communities are not accessible by road, in order to meet its mission to deliver mail to all persons in Alaska, the USPS uses air transportation to deliver *all* mail to these destinations.



There are two categories of intra-state mail delivery in Alaska: priority rate mail (First Class, Priority, and Express Mail) and non-priority rate mail (Parcel Post). Bypass mail is a type of mail that falls within the non-priority rate category. Priority-rate mail, which travels by air to most locations within the U.S., constitutes about 6% to 7% of the total Alaska intra-state mail. The remainder of the mail is non-priority rate mail, which travels under the label of parcel post—the USPS’s *ground-based* delivery service. The main difference is that this mail travels by air in Alaska rather than surface route. That is to say, shippers pay surface transportation postage rates, but the USPS uses air service to move that mail. The cost to the USPS to transport this mail by air far exceeds the revenue from postage paid by customers (i.e., the USPS moves the mail at a considerable financial loss). About 20% of non-priority mail is handled just as it would be anywhere else in the US; it is received and

handled at *any* Post Office in Alaska and is delivered to its in-state destination. The remaining 80% of the non-priority mail ships as “bypass mail.”



Bypass Mail: Bypass mail is unique to Alaska. Bypass mail is prepared so as not to require handling in a postal facility—mail is able to move directly from shipper to customer without passing through a Post Office, hence it “bypasses” the postal facilities. Mail shipped under this category has specific requirements that distinguish it from regular non-priority mail, such as the minimum weight of the shipment, the packaging and sizing requirements, the locations at which this mail can be accepted, and the locations where this mail is authorized for delivery. The bypass mail program was established to address a couple of issues:

- Alaska had a shortage of facility/mail handling space. Providing the ability to move mail without being handled in a postal facility alleviates the stresses put on the existing limited facilities.
- Bypass mail creates a more expeditious transfer between shipper and customer.

Bypass mail shipments originate in Anchorage and Fairbanks only. Service is currently provided to 19 regional hubs and 130-140 destination bush locations. Five mainline carriers transport mail to the regional hubs, and 20-25 bush carriers transport mail to the bush locations presently.



The minimum weight of each shipment must be at least 1,000 pounds, and the shipment must be palletized. Shippers apply in advance with the USPS to send goods via bypass mail. Qualified shippers become responsible for weighing the shipment, affixing all postage and labels, and tendering the shipment directly to the air carrier. The air carrier then becomes responsible for delivering the shipment to the final addressee at the bush destination.



Current Events affecting Alaska's Mail System:

The USPS's position on bypass mail is that the agency is committed to the program, recognizes its valuable purpose, and currently has no plans to end it. Bypass mail volume is on the rise, even though first class & priority mail volumes have decreased drastically. However, the USPS is run much like a private business (as mandated by Congress) and, in light of its financial situation, must aggressively search for cost savings (aka loss avoidances). The USPS was approximately \$2 billion in the red nationwide in 2008. In Alaska, the USPS pays air carriers approximately \$155 million each year to deliver mail at a loss of nearly \$60 million annually. Since bypass mail makes up approximately 75% of Alaska's mail volume, this loss can be largely attributed to bypass mail.

The need to reduce losses led to the USPS hub expansion proposal (introduced in late 2007), which would increase the number of hubs statewide. The cost savings of hub expansion are

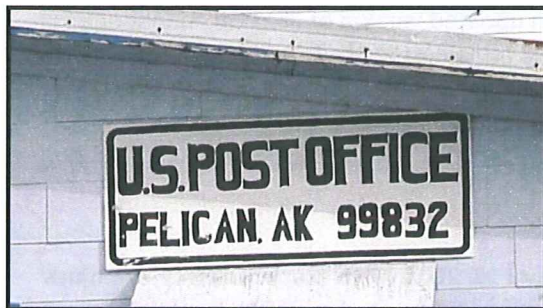
realized by converting a bush location into a hub, thereby reducing the rates paid to move mail to that location. The rate the USPS pays carriers to transport mail depends on the size of aircraft used, which generally correlates with the destination being served (hub vs. bush point). As a general rule, mainline (larger) aircraft carry mail to hubs and smaller aircraft carry mail to smaller bush destinations. The USPS pays lower mainline rates to air carriers for mail delivery to hubs. The USPS pays for service to bush locations at the more expensive bush rates (approximately 7-8 times more expensive than mainline rates).

The current hub expansion proposal is looking at nine top candidates in three geographic regions of Alaska for designation as new hubs. These top candidate communities are Hooper Bay, Chevak, Togiak, Sand Point, Shishmaref, Wales, Savoonga, Kiana, and Noorvik. Only one new hub would be designated for a geographic region. The hub expansion proposal began with a year-long consultation period with affected communities, air carriers, and other stakeholders, which is now concluded for top candidate locations. The USPS proposed Savoonga as a new hub in February 2009. A year-long public comment period, ending in February 2010, is in effect for the proposed Savoonga postal hub before any final decision is made. Even should Savoonga (or any location) be designated as a new hub, there is no guarantee that a mainline carrier will choose to provide service to that location.





In addition to seeking loss reductions through the addition of hubs, the USPS has also made efforts to cut its costs by making greater use of surface transportation modes. Examples include the use of hovercraft in the Bethel area and the trucking of mail from Fairbanks to Deadhorse for subsequent air delivery to Barrow and other northern communities. While these changes have provided the USPS with some loss avoidance realizations, the effects on customers, the public, and the mail carriers may not be equally appreciated.



Working to Create a More Effective and Efficient System:

The Alaska Department of Transportation & Public Facilities (DOT&PF) has established a work group specifically to address postal hub considerations as part of the Alaska Aviation System Plan (AASP). The work of this group is targeted at coordination between the DOT&PF and the USPS on infrastructure and funding priorities at Alaska's airports. Air carrier input is fundamental to understanding infrastructure needs and limitations, and participation by the carriers has been supportive of the collaboration. Through the work group, the following considerations have been identified in regards to the proposed hub expansion:

USPS-Identified Benefits of New Postal Hubs

- Financial loss reductions for the USPS.
- Improvement of the "bottleneck" in mail service created by the existing hub system:
 - Mail volume distributed more widely, reducing mail

accumulation and delivery delays at existing hubs.

- Direct and faster service to new hub communities and bush locations served by the new hub.
- Less handling means less time in transit and less loss/damage potential.
- Opportunity for larger cargo products to be delivered by air via the larger mainline aircraft serving new hub communities.

Community Issues

- While potential new hub communities anticipate an improved level of service, existing hub communities perceive a potential decrease in the level of service and loss of business with the designation of a new hub.
- Bush carriers in an existing hub community could lose business to carriers serving a new hub community and its bush points.



Carrier Issues

- Air carriers often front the cost to construct the USPS-required infrastructure at newly designated hubs. Carriers' infrastructure costs are reimbursed by the USPS through the Federal DOT Intra Alaska mail rate setting process. Air carrier infrastructure needs typically include:



- Available lease lots of adequate size and suitable for construction
- Fuel delivery and storage for mainline and bush carriers
- Deicing chemicals and sand stored on-site
- Buildings with securable space for mail storage
- Runway lengths at many new hub candidate airports are too short and thus discriminate against some mainline carriers that fly larger aircraft.

DOT&PF Issues

- The USPS hub selection has typically not taken into account infrastructure (runway and facilities) requirements or the deficiencies of existing infrastructure.
- The DOT&PF often shoulders the cost of upgrading infrastructure to safely and adequately accommodate air traffic serving a new hub. Infrastructure needs include:
 - Adequate runway length
 - Parking apron and lease lots of adequate size
 - Power availability on lease lots
 - Adequate building and equipment
- Moving DOT&PF funding to upgrade a new hub may divert funding from other critical—possibly life safety—needs elsewhere in the state.



For More Information

An updated version of the USPS handbook PO-508 *Intra-Alaska Mail Service by Air* is anticipated to be published in the near future. The current version can be found at:

<http://www.usps.com/cpim/ftp/hand/as508.pdf>

April 18, 2008 APRN piece “USPS re-examines bypass mail”:

<http://aprn.org/2008/04/18/usps-re-examines-bypass-mail/>

“Contracts for transportation of mail by air.” Title 39 U.S. Code, Sec. 5402 and the Rural Service Improvement Act can be found online at:

http://www.law.cornell.edu/uscode/39/uscode/39_00005402----000-.html



Photo courtesy of Rich Sewell, DOT&PF