

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS KAY TO INTERROGATORIES OF
UNITED PARCEL SERVICE
(UPS/USPS-T23-7 - 8)

The United States Postal Service hereby provides the responses of witness Kay to the following interrogatories of United Parcel Service: UPS/USPS-T23-7, filed on March 20, 2000, and UPS/USPS-T23-8, filed on March 22 and renumbered on March 24. It is not clear why two nearly identical questions were filed, but the Postal Service has learned that people who live in glass houses shouldn't even think about stones.

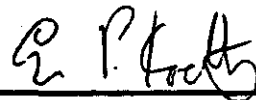
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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April 3, 2000

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UPS/USPS-T23-7. Refer to page 5, lines 12-15, of witness Plunkett's testimony, where he states that "implementation of the Eagle Network enabled the Postal Service to provide much more reliable service for Express and Priority Mail between major markets...." Refer also to the Commission's decision in Docket No. R97-1, at volume 1, pages 221-22, where the Commission attributed the "fixed" costs of the Eagle network exclusively to Express Mail based on witness Takis' testimony that "if Express Mail were eliminated, then the Eagle Network would be shut down, and Priority and First-Class Mail would be diverted onto commercial flights with no degradation of service quality."

(a) In your calculation of incremental costs, did you consider witness Plunkett's statement that the Eagle network "enabled the Postal Service to provide much more reliable service for Express and Priority Mail between major markets"?

(b) Do you agree with this statement by witness Plunkett?

(c) How did the Eagle network's benefit to Express Mail and Priority Mail affect, if at all, your calculation of the network premium?

RESPONSE

(a) No. I was informed that the Eagle network was designed to provide dedicated air transportation for Express Mail so that it could reliably make its service commitment and thus provides overnight operations. Express Mail volumes alone rarely fill the planes, and Priority and First-class are used as filler. There are alternatives to the Eagle network for the prompt transportation of two-day mail, like commercial air (particularly between major markets). No such alternatives exist for Express Mail, and I understand that the network was set up to provide this transportation.

(b) Because Eagle is an overnight network, any mail traveling on Eagle will get the benefit of overnight service. However, this does not mean that Priority Mail would not meet its service standards using alternative means, especially between major markets. Increased service reliability for Priority Mail

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might also be due to the use of Eagle planes during daytime hours (Daynet), which was instituted to provide better service to two and three day mail (see witness Pickett, USPS-T-19, page 4). Costs for Daynet do not enter into the calculation of Eagle premium costs.

(c) The Eagle network's benefit to Priority Mail should not and did not enter into the calculation of the Eagle premium. The Eagle network exists to provide one-day service for Express Mail. This is why the Eagle network premium is assigned to Express Mail. As stated in the response to part (a), Priority Mail is considered filler on the Eagle network, and could meet its service standards, especially between major markets, using other methods of transportation. Witness Takis provided the same reasoning in his testimony (Docket R97-1, USPS-T-41), which has been accepted and utilized by the Commission in their calculation of attributable cost.

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UPS/USPS-T23-8. Refer to pages 13-15 of your testimony, where you discuss the results of your incremental costs analysis for Express Mail and Priority Mail. Refer also to pages 1-2 of witness Pickett's testimony, where he describes the calculation of the network premium for the Eagle network, the Western network, and the Christmas network, and to page 5, lines 12-15, of witness Plunkett's testimony, where he states that "implementation of the Eagle Network ... enabled the Postal Service to provide much more reliable service for Express and Priority Mail between major markets...." Refer also to the Commission's decision in Docket No. R97-1, at volume 1, pages 221- 22, where the Commission attributed the "fixed" costs of the Eagle network exclusively to Express Mail based on witness Takis' testimony that "if Express Mail were eliminated, then the Eagle Network would be shut down, and Priority and First-Class Mail would be diverted onto commercial flights with no degradation of service quality."

(a) In your calculation of incremental costs for Express Mail and Priority Mail, did you consider witness Plunkett's statement that the Eagle network "enabled the Postal Service to provide much more reliable service for Express and Priority Mail between major markets"?

(b) Do you agree with this statement by witness Plunkett?

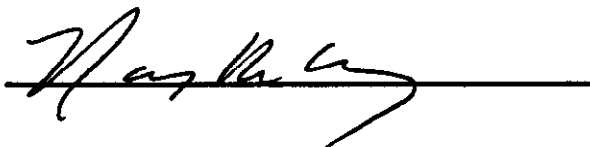
(c) How did the Eagle network's benefit to Express Mail and Priority Mail affect, if at all, your calculation of incremental costs for these subclasses?

RESPONSE

See the response to UPS/USPS-T23-7.

DECLARATION

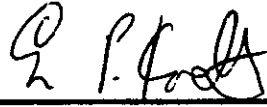
I, Nancy R. Kay, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

A handwritten signature in cursive script, appearing to read "Nancy Kay", is written over a solid horizontal line.

Dated: 4-3-00

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

A handwritten signature in black ink, appearing to read "Eric P. Koetting", written over a horizontal line.

Eric P. Koetting

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