

BEFORE THE
POSTAL RATE COMMISSION

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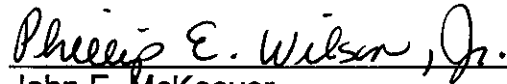
POSTAL RATE AND FEE CHANGES, 2000

DOCKET NO. R2000-1

ANSWERS OF UNITED PARCEL SERVICE
WITNESS NEELS TO UNITED STATES
POSTAL SERVICE INTERROGATORIES
(USPS/UPS-T3-1 through 13)
(June 16, 2000)

Pursuant to the Commission's Rules of Practice, United Parcel Service hereby files and serves the answers of UPS witness Neels to the following interrogatories of the United States Postal Service: USPS/UPS-T3-1 through 13.

Respectfully submitted,



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**ANSWER OF UNITED PARCEL SERVICE WITNESS NEELS
TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE**

USPS/UPS-T3-1. On page 28, lines 13-15 of your testimony, you state: "I would expect emergency contract and exceptional service movements to contain, on average, a mail mix with higher proportions of Express Mail, Priority Mail, and First Class Mail than do regular movements". Do you have any data to support your expectation? If so, please provide copies of all such data.

Response to USPS/UPS-T3-1.

We requested such data, but it has not been produced. Had the Postal Service produced data on these movements, I would have evaluated that data.

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USPS/UPS-T3-2. Please refer to page 29, line 19 and page 30, lines 1-2, of your testimony. You state: "As noted in the A.T. Kearney Data Quality Study, published TRACS procedures provide inspectors with too much discretion in how they select items for testing and thereby allow operational pressures to bias the sample". Please confirm that you are referring to the sentence on page 86 of the Data Quality Study Summary Report, which states "In particular, the item selection procedures in TRACS appear to involve significant data collector's discretion". If you do not confirm, please provide the specific quotation to which you are referring from the Data Quality Study.

Response to USPS/UPS-T3-2.

Confirmed.

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USPS/UPS-T3-3. Please refer to your discussion of the TRACS sample design on page 35, lines 16-20 of your testimony. Please confirm that by 'mail mix', you are referring to the cubic-foot-miles by mail category. If not confirmed, please provide a precise definition for your usage of the term 'mail mix'.

Response to USPS/UPS-T3-3.

Not confirmed. I am referring to the proportion of cubic-foot-miles by mail category, where the sum of the proportions for all of the mail categories equals 1 or 100%.

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USPS/UPS-T3-4. On page 7, lines 1-3, of your testimony you state:

“...the upgrading of capacity that occurred was the result of a Postal Service decision made in advance of the request for bids, and not in response to low bids received for higher capacity aircraft.”

(a) Is it your understanding that the Postal Service did not know that 727s were likely to produce low bids when it solicited service for the WNET? Please explain.

(b) Is it your testimony that the Postal Service did not have the experience to understand the market for cargo aircraft in 1999? Please explain.

Response to USPS/UPS-T3-4.

(a) The point I was making in the quoted section is that the Postal Service structured the bid specifications for WNET in such a way that a prospective contractor could respond only by offering 727s. My basis for this understanding is the response of Postal Service witness Bradley to UPS/USPS-T22-9(b) (Tr. 8/3268):

The requirements for the Western Network solicitation did not specify the type of aircraft. Rather, I was told that it required containers that were compatible with the “A-2” container. DC-9s are not compatible with this type of container as they apparently carry “A-6” containers.

This decision was made before bids were actually received, and hence before the Postal Service knew with certainty what those bids would be. My testimony does not address the Postal Service’s understanding or expectations regarding what bids it may have received in response to alternatively structured bid specifications, or the accuracy of those expectations.

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(b) I have not testified as to the extent of the Postal Service's experience with, or understanding of, the market for cargo aircraft.

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USPS/UPS-T3-5. When discussing the premium associated with the Western network, is it your understanding that the premium is associated with the cost of overnight operations only? Please explain any answer other than an unqualified "yes".

Response to USPS/UPS-T3-5.

Yes. However, that makes no difference to my testimony.

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USPS/UPS-T3-6. On page 7, beginning at line 4, you discuss a document from 1995 provided by witness Pickett.

- (a) Is it your understanding that the matters which might have given rise to the “concerns” expressed in that document were unaffected by events between 1995 and 1999? Please explain.
- (b) Please state all events from 1995 to 1999 that you understand may have affected the decision to “expand and upgrade the network”.
- (c) Is it your understanding that the discussions in the document relate to overnight WNET operations alone, daytime WNET operations alone, or both overnight and daytime WNET operations? Please explain.
- (d) Please confirm that the document in question refers only to WNET operations and not to Eagle operations. If not confirmed, please explain.

Response to USPS/UPS-T3-6.

(a) The document in question, dated November 24, 1995, states that “The primary purpose of the new WNET is to improve the performance of Priority Mail.” In response to UPS/USPS-T19-4(c)-(e) (Tr. 6/2548-54), which asked why the Postal Service added a number of new points to WNET on May 27, 1997, Postal Service witness Pickett states that one of the reasons for this change in the network was “to provide improved service for Priority Mail.” His response implies that the concerns expressed in the November, 1995, document continued at least into 1997.

(b) See my response to USPS/UPS-T3-6(a).

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- (c) The document does not specify the types of operations to which it refers.
- (d) Confirmed.

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USPS/UPS-T3-7. In one of the documents cited on page 7 of your testimony, the author twice mentions "later departure times" for aircraft in a new WNET. Is it your understanding that later departure times must have occurred solely within the scope of overnight WNET operations? Please explain fully.

Response to USPS/UPS-T3-7.

See my response to USPS/UPS-T3-6(c).

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USPS/UPS-T3-8. With regard to WNET, you conclude on page 7, "the network was not sized primarily...for Express Mail." You further note that "the Western network as it is presently configured exists to accommodate Priority Mail as much as to accommodate Express Mail."

- (a) Are you referring to
 - (1) the overnight WNET?
 - (2) the daytime WNET?
 - (3) both the overnight and daytime WNET?
- (b) In your opinion, is an overnight air network needed to "accommodate" a product with an overnight delivery guarantee? Please explain fully.
- (c) Is an overnight network needed to "accommodate" a non-guaranteed product with a two-day intercity service commitment? Please explain fully.

Response to USPS/UPS-T3-8.

- (a) The overnight WNET. However, that makes no difference to my testimony.
- (b) That depends. For some combinations of origins and destinations it would be possible to provide overnight service using surface transportation. If, however, the service were offered between points sufficiently distant, an overnight air network would be needed.
- (c) It may be needed if the network is necessary to meet that product's service standard. Over certain distances it would be difficult to provide delivery reliably

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and economically using only surface transportation. Whether a daytime air network could meet delivery needs in such situations would depend upon the frequency and departure times of the daytime air service, the priority the product received in dispatch, and both the magnitude and variability of other demands on the available cargo space. The question cannot be answered in general, but only in the context of the specific facts of the situation. An overnight network might not be "needed" if the provider of the service interpreted the absence of a guarantee as an authorization to ignore its published delivery standards.

In any event, whether or not an overnight network is "needed" to meet a two-day product's service commitment, if the network is configured in a certain way in order to provide transportation for a non-guaranteed two day product, that product should share in the cost of the network with any other product whose needs also contributed to the network's configuration.

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USPS/UPS-T3-9. Please refer to the "Executive Summary" document provided by witness Pickett. At the bottom of the first page of that document, it says that the capacity to move First Class and Express Mail "must be retained under the expanded WNET." Is it your testimony that the capacity of the WNET was not sized, as you use the term, for First-Class Mail? Please explain.

Response to USPS/UPS-T3-9.

I noted the statement cited in the text of this interrogatory. I also noted that the figures contained in USPS-T-1, Tables 8 and 9, indicate that First Class Mail constitutes a significant fraction of the volume carried on both the Eagle and the Western networks. However, I thought it likely that these networks would carry some mail on an incremental, as-space-is-available basis, if only because random fluctuations in volumes would be likely at times to make extra space available. Collectively, Priority, Express, and First Class account for a very large majority of the volume carried on the Western network, leaving little mail in this incremental role. For this reason, I thought it unlikely that the network was sized to carry the combination of Priority, Express and First Class.

It is my view that the capacity of WNET was sized for Priority and Express rather than for Priority, Express, and First Class, both for the reason cited above, as well as because of the fact that the former position was conservative in the sense that it represented less of a departure from the Commission's decision in R97-1.

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USPS/UPS-T3-10. On page 8 of your testimony you state that:

"Smaller aircraft are generally less expensive to operate than larger aircraft."

- (a) To what specific expenses are you referring?
- (b) Are smaller aircraft faster than larger aircraft?
- (c) If a smaller aircraft is substantially slower than a larger aircraft, is it your opinion that such a shortcoming is irrelevant in the operation of an overnight network? Please explain.

Response to USPS/UPS-T3-10.

(a) In a general sense, I am referring to all costs of operation and ownership. In a broad sense, the efficiency of an aircraft can be measured by its cost per units of capacity. Smaller aircraft generally have less useable capacity than larger aircraft. If they also have higher costs, operators could substitute larger aircraft for smaller aircraft, simultaneously enjoying increased capacity and reduced cost. For this reason, high cost, low capacity aircraft will tend to be eliminated from the fleet. Among the remaining aircraft, there will be a tendency for cost to increase with size.

Focusing more narrowly on operating expenses, there is also a positive association between size and cost. Larger aircraft tend to burn more fuel. They tend also to have higher crew costs. In passenger operations, for example, crew size increases with aircraft size. Pilot wages also tend to increase with aircraft size. Maintenance costs will tend to be higher simply because there is more to maintain. A

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three or four engine aircraft is likely, for example, to incur higher engine maintenance expenses than a two engine aircraft.

Having noted these general tendencies, however, I agree that there may well be circumstances in which specific smaller aircraft may be more costly than larger aircraft. A spike in fuel prices could raise the operating cost of a smaller and less efficient aircraft above those of a larger and more efficient aircraft. Nonetheless, an operator might retain the smaller aircraft in its fleet in anticipation of a later decline in fuel prices. Differences in stage length, crew seniority, or maintenance requirements might create situations in small aircraft block hour costs reported by one operator to exceed the large aircraft costs reported by a different operator, or even by the same operator.

(b) It depends upon the specific aircraft models being compared. In an effort to be responsive, however, I will note that among aircraft types in general commercial use, jet aircraft are generally larger and faster than turboprop aircraft. The expansion of the regional jet fleet is currently narrowing the size gap between the two categories, however.

(c) The relevance of a smaller aircraft's possible slower speed would depend upon the routing over which it is used. Obviously, the longer the flight, the more significant any difference in the speed of the aircraft will be. Given a sufficiently long haul and a sufficiently slow aircraft, it might not be possible for the aircraft to arrive in time for the next day's dispatch. In such a case, the "shortcoming" cited above would be relevant.

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USPS/UPS-T3-11. Please refer to your discussion of the Eagle network beginning on page 9, line 15.

- (a) Is it your understanding that Express Mail always constitutes 24 percent of the load on the Eagle network? Please explain.
- (b) Is it your understanding that the overnight Eagle network is sized for the average percentage of volume of Express Mail on the network as a whole? Please explain.
- (c) If Express Mail constituted 50 percent of the load on an inbound Eagle 727-200 flight 50 percent of the time, would you recommend using a DC9-15? Please explain.
- (d) If Express Mail constituted 50 percent of the load on an outbound Eagle 727-200 flight 50 percent of the time, would you recommend using a DC9-15? Please explain.

Response to USPS/UPS-T3-11.

(a) No. I understand that Express Mail constituted 24 percent of the load on the Eagle network in Base Year 1998.

(b) No. As I state in my testimony, I believe that the size of the overnight Eagle network reflects the volume both of Express Mail and of Priority Mail. I am unsure what is meant by "sized for the average percentage of volume." The absolute size of the aircraft has to be sufficient to carry the absolute volume of mail. I do not understand how one would relate the size of the aircraft to a proportion or fraction.

(c) No. Witness Pickett states in his response to UPS/USPS-T19-6 (Tr. 6/2558) that the capacity of a 727-200 is 6,805 cubic feet, and that the capacity of a DC-

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9-15 is 2,808 cubic feet. By this measure, a DC-9-15 would not have sufficient capacity to carry the Express Mail load, much less any Priority Mail that might also be on board.

(d) See my response to USPS/UPS-T3-11(c).

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USPS/UPS-T3-12. Please refer to Table 1, on page 6 of your testimony, entitled "Base Year Eagle and Western Network Volume Percentages by Mail Class". Please confirm that these are pound-mile percentages and not volume (piece) percentages, by mail class. If not confirmed, please provide a detailed explanation of how volume (piece) percentages were obtained.

Response to USPS/UPS-T3-12.

Confirmed.

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USPS/UPS-T3-13. Please refer to Table 4 on page 23 of your testimony, to your workpaper CS14_NXW.XLS, and to the table attached to this interrogatory. Please confirm that the attached table provides an accurate summary of your development of the highway costs shown in Table 4. If you do not confirm, please provide a summary with the same level of detail as in the attachment.

If you do confirm, please attach the attachment to this question to your response.


Response to USPS/UPS-T3-13.

Confirmed.

	Attachment to USPS/UPS-T3-13					
	INTRASCF HIGHWAY	INTERSCF HIGHWAY	INTRABMC HIGHWAY	INTERBMC HIGHWAY	ALL OTHER HIGHWAY	TOTAL HIGHWAY
FIRST-CLASS MAIL:						
SINGLE-PIECE LETTERS	106,860	110,685	15,970	12,347	2,500	248,361
PRESORT LETTERS	32,159	48,877	9,054	5,179	1,284	96,552
SINGLE-PIECE CARDS	1,450	2,289	331	274	43	4,387
PRESORT CARDS	807	976	165	389	34	2,371
TOTAL FIRST-CLASS	141,276	162,828	25,519	18,188	3,860	351,671
PRIORITY MAIL	101,164	101,240	17,824	7,126	2,245	229,598
EXPRESS MAIL	10,495	5,917	1,184	35	151	17,781
MAILGRAMS	-	-	-	-	-	-
PERIODICALS:						
IN-COUNTY	58	-	-	-	1	59
OUTSIDE COUNTY:						
REGULAR	44,601	41,761	23,644	39,562	21,294	170,862
NON-PROFIT	10,225	9,518	5,451	9,075	2,186	36,454
CLASSROOM	412	373	220	368	22	1,395
TOTAL PERIODICALS	55,297	51,652	29,315	49,005	23,502	208,771
STANDARD MAIL (A):						
SINGLE-PIECE RATE	2,880	6,393	5,118	6,968	1,155	22,514
COMMERCIAL STANDARD:						
ENHANCED CARR RTE	20,621	5,395	7,870	8,376	1,236	43,499
REGULAR	57,972	31,760	48,933	60,650	13,673	212,988
TOTAL COMMERCIAL	78,594	37,155	56,803	69,026	14,909	256,487
AGGREGATE NONPROFIT:						
NONPROF ENH CARR RTE	1,573	1,338	682	1,355	239	5,187
NONPROFIT	9,588	5,632	9,040	9,401	1,944	35,605
TOTAL NONPROFIT	11,161	6,970	9,723	10,756	2,183	40,792
TOTAL STANDARD (A)	92,634	50,517	71,644	86,749	18,248	319,793
STANDARD MAIL (B):						
PARCELS ZONE RATE	71,788	21,056	86,982	62,019	5,406	247,251
BOUND PRINTED MATTER	13,086	3,724	16,574	11,791	5,085	50,260
SPECIAL STANDARD	7,934	2,720	13,830	18,028	2,019	44,531
LIBRARY MAIL	2,698	1,737	2,495	2,909	239	10,078
TOTAL STANDARD (B)	95,506	29,237	119,880	94,746	12,749	352,119
US POSTAL SERVICE	698	981	593	613	53	2,937
FREE MAIL	924	1,939	607	324	40	3,834
INTERNATIONAL MAIL	3,820	5,027	2,424	2,485	273	14,030
TOTAL VOLUME VARIABLE	501,814	409,337	268,989	259,271	61,121	1,500,532

DECLARATION

I, Kevin Neels, hereby declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.


Kevin Neels

Dated: June 16, 2000

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document by first class mail, postage prepaid, in accordance with Section 12 of the Commission's Rules of Practice.

Phillip E. Wilson, Jr.
Phillip E. Wilson, Jr.
Attorney for United Parcel Service

Dated: June 16, 2000
Philadelphia, Pa.