

BEFORE THE
POSTAL RATE COMMISSION

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OFFICE OF THE SECRETARY

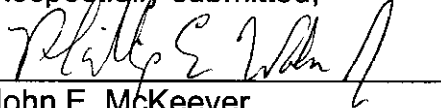
POSTAL RATE AND FEE CHANGES, 2000

DOCKET NO. R2000-1

ANSWERS OF UNITED PARCEL SERVICE WITNESS
KEVIN NEELS TO THE FIRST INTERROGATORIES
AND REQUESTS FOR PRODUCTION OF DOCUMENTS
OF THE ASSOCIATION OF PRIORITY MAIL USERS, INC.
(APMU/UPS-T3-1 through 6)
(July 3, 2000)

Pursuant to the Commission's Rules of Practice, United Parcel Service hereby files and serves the answers of UPS witness Kevin Neels to the following interrogatories and requests for production of documents of the Association of Priority Mail Users, Inc.: APMU/UPS-T3-1 through 6.

Respectfully submitted,



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APMU/UPS-T3-1.

At page 4 of your testimony you state that the Commission's "attribution [of dedicated air network premium costs solely to Express Mail in Docket No. R97-1] was based upon Postal Service witness Takis' statement that if Express Mail were eliminated, the Eagle network would be shut down and the Priority Mail and First Class Mail moving on that network would be diverted onto commercial flights with no degradation in service quality."

- a. Would you agree that in Docket No. R97-1 witness Takis' testimony represented new evidence concerning the basic reason for the existence of the Eagle Network? Please explain fully any disagreement.
- b. Please cite all testimony by any witness, including those of UPS, which offered in Docket No. R97-1 a refutation to the cited testimony of witness Takis.
- c. Is your testimony in this docket offered as rebuttal to the testimony of witness Takis in Docket No. R97-1?
- d. Is it your opinion that the Commission's acceptance of witness Takis' testimony in Docket No. R97-1 was in error? Please explain any affirmative answer.

Answer to APMU/UPS-T3-1.

(a) No. In his R97-1 testimony, Mr. Takis stated in footnote 6 on page 12 that "It is my understanding that Priority and First-Class Mail are 'filler' on the Eagle network,

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and could meet their service standards if they traveled on standard commercial flights.”

He may have had evidence upon which to base his “understanding,” but he did not present this evidence in his testimony.

(b) I am not aware of any testimony offered in R97-1 to refute the assertions of Mr. Takis.

(c) I am offering testimony in this proceeding in response to the testimony of Postal Service witnesses Pickett and Bradley. See my testimony, UPS-T-3, at page 4, lines 11-21.

(d) I have not evaluated the relevant evidence presented in R97-1 or formed any opinion regarding the appropriateness of the Commission’s decision. My testimony addresses the decision the Commission will make in this case.

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APMU/UPS-T3-2.

At page 10 of your testimony, lines 1-2, you refer to the DC-9-15 as having 2,808 cubic feet of available capacity, and at lines 7-8, you refer to the capacity of a 727-100, the smaller of the two versions used by the Postal Service, as having "a capacity of at most 4,850 cubic feet." You also mention, at lines 10-11, "Beechcraft 1900s with a capacity per aircraft of 819 cubic feet." Finally, at line 16, you discuss the possibility of "the smaller Metro III, which has a capacity of 625 cubic feet." For each of these four types of aircraft — *i.e.*, for the 727-11, the DC-9-15, the Beechcraft 1900, and the Metro III — please provide all data in the possession of yourself, your firm, or UPS concerning the cost of acquiring and operating these four different types of aircraft.

Answer to APMU/UPS-T3-2.

I am unaware of what data UPS may possess regarding the cost of acquiring and operating the four aircraft types cited in the interrogatory.

I have made inquiries among staff at my firm involved in transportation projects regarding data in their possession that falls within this request. In response they have produced a variety of different reports and computer printouts reflecting different dates, sources, and groupings of aircraft. A copy of this material is being made available as Library Reference UPS-LR-5.

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APMU/UPS-T3-3.

At page 8, lines 10-11, of your testimony you state that "[s]maller aircraft are generally less expensive to operate than larger aircraft." Please provide all studies, reports, and other evidence on which you rely to support this statement.

Answer to APMU/UPS-T3-3.

See my response to interrogatories APMU/UPS-T3-2 and USPS/UPS-T3-10(a).

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APMU/UPS-T3-4.

Please provide all data in the possession of yourself, your firm, or UPS responsive to the following questions:

- a. (i) How much more does it cost to acquire and operate a Beechcraft 1900, with a capacity of 819 cubic feet, in comparison to a Metro III, with a capacity of 625 cubic feet?
- (ii) What is the incremental cost of acquiring and operating a Beechcraft, with a 819 cubic foot capacity, over the cost of acquiring and operating a Metro III; *i.e.*, what is the incremental cost of the additional 194 cubic feet (819 - 625) provided by the Beechcraft 1900 in comparison to the Metro III?
- b. (i) How much more does it cost to acquire and operate a DC-9-15, with a capacity of 2,808 cubic feet, in comparison to a Beechcraft 1900, with capacity of 819 cubic feet?
- (ii) What is the incremental cost of acquiring and operating a DC-9-15, with 2,808 cubic foot capacity, over the cost of acquiring and operating a Beechcraft 1900, *i.e.*, what is the incremental cost of the additional 1,989 cubic feet (2,808 - 819) provided by the DC-9-15 in comparison to the Beechcraft 1900?
- c. (i) How much more does it cost to acquire and operate a 727-100, with a capacity of 4,850 cubic feet, in comparison to a DC-9-15, with capacity of 2,808 cubic feet?

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- (ii) What is the incremental cost of acquiring and operating a 727-100, with 4,850 cubic foot capacity, over the cost of acquiring and operating a DC-9-15; *i.e.*, what is the incremental cost of the additional 2,042 cubic feet (4,850 - 2,808) provided by the 727-100 in comparison to the DC-9-15?

Answer to APMU/UPS-T3-4.

- (a)-(c) See my response to interrogatory APMU/UPS-T3-2.

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APMU/UPS-T3-5.

- a. Is it your testimony that the incremental cost of acquiring additional capacity, via use of larger aircraft of the types discussed in your testimony, is greater than the Postal Service's cost when it uses commercial airlines?
- b. If your answer is affirmative, please provide all studies, reports or other evidence in the possession of yourself, your firm, or UPS which can be used to make such comparisons and support your testimony.
- c. If your answer is affirmative, but not supported by data, please explain the basis for any conclusion that sizing of the current fleet of aircraft on the Eagle and Western Networks is not economic and in the best interests of the Postal Service.

Answer to APMU/UPS-T3-5.

(a) I have not analyzed the relationship between the incremental cost of acquiring additional capacity via use of larger aircraft and the Postal Service's cost when it uses commercial airlines.

(b)-(c) Not applicable.

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APMU/UPS-T3-6.

At page 3, lines 13-15, of your testimony, you state that “[t]he costing procedures for these dedicated air networks impute to each pound-mile of mail carried on them a cost equal to what it would have cost to transport the mail through the commercial air system.” As a hypothetical, suppose it can be shown that the incremental cost of additional capacity via the use of larger aircraft of the type discussed in your testimony is less than the cost of using commercial airlines for the same amount of capacity.

- a. Would you support charging First-Class and Priority Mail the lower incremental cost, as opposed to the imputed costs now charged?
- b. Please explain why you would or would not support such an approach.

Answer to APMU/UPS-T3-6.

(a) No.

(b) As I explain on pages 3-11 of my testimony, I believe that the dedicated air networks have been sized to meet the needs of Priority Mail. I do not believe it is the case that Priority Mail is being carried on an incremental basis, and hence I do not think it would be appropriate to assign only incremental costs to Priority Mail.

However, I also believe it would be appropriate to charge to incremental mail a cost equal to what it would cost to transport this mail on the commercial air system, even if this cost were higher than the incremental cost of using larger aircraft.

To explain my reasoning in a way independent of any disagreements over why the dedicated air networks exist, let me define the “base” mail as the mail for which the

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dedicated air networks exist, and the “incremental” mail as the mail carried on these networks either as a “filler” on a space available basis, *or* because on an incremental basis it may be less expensive to lease slightly larger aircraft than to carry the mail on the commercial air network. To determine what costs should be assigned to the base mail, one must consider the conceptual “experiment” of removing the base mail from the system entirely, and calculating what costs would then disappear from the system. Without the base mail, the dedicated air networks would not exist. All of the incremental mail would have to travel on the commercial air network. Thus, the cost savings from elimination of the base mail would be the difference between the total cost of the dedicated air network, and the cost of moving incremental mail carried on that network on the commercial system instead.

Under the hypothetical situation posed in the interrogatory, the Postal Service as a whole does realize some savings from the expansion of the dedicated air networks to accommodate incremental mail. However, the possibility for those savings exists only because of the existence of the base mail.

DECLARATION

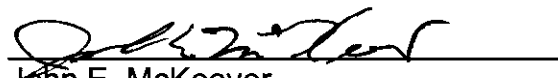
I, Kevin Neels, hereby declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.


Kevin Neels

Dated: 7/3/08

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.


John E. McKeever
Attorney for United Parcel Service

Dated: July 3, 2000
Philadelphia, Pa.