

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 TO QUESTIONS RAISED AT
HEARINGS ON AUGUST 3, 2000

The United States Postal Service hereby provides its response to questions raised at the hearings on August 3, 2000 (witness Patelunas) at Tr. 35/16382.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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QUESTION: Tr.35/16382. "In Cost Segment 14.1 of the Postal Service version of the updated roll forward calculations, there is a separate line for Total Day Net Costs. Are these costs the costs incurred for using the Eagle Network to transport Priority and First-Class during the day?...Also in Segment 14.1, the Eagle Air Network costs increased 42 percent compared to the 1998 costs -- that is, \$252 million in '99 versus \$177 million '98. Can you explain what occurred between FY '98 and '99 to cause this increase?"

RESPONSE:

The separate line for Total Day Net Costs (\$171,664 thousand) represents the total of accounts 53521, 53523, 53525, 53527, 53529, and 53529. These accounts were established in FY 1998 to accrue the costs of dedicated air transportation operating during the daytime. In FY 1998, these accounts, totaling \$32,260 thousand were included in the passenger air cost pool. (See witness Meehan's Cost Segment 14 B Workpaper, Inputs - Costs). Virtually all of these costs were incurred in PQ 4 because the non-Eagle daytime air operations became fully implemented in July 1998.

In addition to these costs, certain costs associated with Eagle planes used during the daytime were also identified. (See testimony of witness Pickett (USPS-T-19, at 4 to 5 and USPS-LR-I-57). These costs amounted to an additional \$14,869 thousand as shown in the B Workpapers, WS 14.2. In total, B Workpaper 14.3 shows that day time dedicated air costs¹ included \$47,128 thousand (the sum of these two numbers adjusted slightly for rounding).

In FY 1999, the total accrued costs for the daytime accounts (53521 through 53531) were \$171,664 thousand. (See Cost Segment B Workpaper, Inputs - Costs). This total seems reasonable given the fact that daytime air

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operations were in effect year round. The Eagle accounts (53541, 53543 and 53547) increased from \$174,930 thousand in FY 1998 to \$251,963 thousand in FY 1999, a 42 percent increase.

The \$251,963 total, however, includes \$9,319 in Eagle turn costs, \$53,277 in other costs associated with non-Eagle flights that erroneously were charged to the three Eagle accounts, and \$2,246 in charges incurred as part of HASP terminal operations charged to the TNET contract under account 53543. (See Workpaper 14 B, WS 14.2 Adjustments). These costs are removed from the Eagle cost pool in Workpaper 14 B, WS 14.3. This brings the total cost of Eagle down to \$192,079 thousand. This figure is only 14.7 percent above FY 1998. (Compare Workpaper 14 B, WS 14.3 for 1998 and 1999.) The increase is largely the result of inflation, incidental expenses (such as aircraft repositioning costs due to weather), and the addition of an Eagle flight connecting Salt Lake City and Portland to the Eagle hub.

In FY 1999, the costs associated with the daytime operations from the six daytime air accounts and the re-allocated Eagle costs described above were assigned to a new cost pool called DAYNET and HASP. This cost pool also included an estimate of the cost of using WNET planes (under the new August 1999 contract) during the daytime. This estimate, \$2,645 thousand (see 1999 Workpaper 14 B, WS 14.2 Adjustments), was subtracted from the WNET accounts 53545 and 53546.

¹ Total actual total costs include a day net share of excise tax costs, which were not separately identified in the model. These costs are assigned to cost pools on the basis of linehaul costs incurred.

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In summary, the DAYNET and HASP cost pool includes five sets of costs:

- (1) costs from accounts 53521 through 53531,
- (2) costs of Eagle planes turned during the daytime from 53541, 53543, and 53547,
- (3) costs of non-Eagle daytime flights erroneously assigned to accounts 53541, 53543, and 53547,
- (4) HASP terminal handling costs from 53543, and
- (5) the cost of WNET "turns" from 53545 and 53546.

The total amount of expense in FY 1999 in the DAYNET and HASP cost pool was \$248,621 thousand.

DAYNET and HASP operations are not designed to service mail with an overnight commitment (see USPS-T-19, at 4). Rather than rely on the Passenger Air TRACS distribution keys, the Postal Service developed quarterly distribution keys using its Commission-approved CNET methodology (see USPS-T-19, at 3). Using data from the ACDACS system, the Postal Service developed estimates of the pound-miles of mail by ACT tag moving on non-CNET dedicated air flights during the daytime. Next, the Postal Service weighted Passenger Air and Eagle TRACS distribution keys at the ACT tag level by these pound-mile estimates to obtain a distribution key for DAYNET and HASP costs. These keys distribute \$145,661 thousand (58.6 percent) to First-Class Mail and \$74,436 thousand (29.9 percent) to Priority Mail. The remaining \$28,521 thousand are distributed to other classes of mail including \$16,675 thousand to international mail (see 1999 Workpaper 14 B, WS 14.4).

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 cursive script, appearing to read "Susan M. Duchek", is written over a horizontal line.

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