

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, 2001

Docket No. R2001-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS TAKIS TO INTERROGATORIES OF
UNITED PARCEL SERVICE
(UPS/USPS-T19-1-4)

The United States Postal Service hereby provides the responses of witness Takis to the following interrogatories of United Parcel Service: UPS/USPS-T19-1-4, filed on October 10, 2001. A partial objection to UPS/USPS-T19-4 was filed on October 22, 2001.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys

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Chief Counsel, Ratemaking:



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October 24, 2001

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAKIS
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UPS/USPS-T-19-1. Refer to your discussion of the start-up fee for the FedEx transportation agreement on page 8 of your testimony. Explain the business reason for the start-up fee.

UPS/USPS-T-19-1 Response: As I state in my direct testimony, the "start up" fee of \$100 million is a non-recurring fee (in two equal payments) not associated with any specific transportation services. The "business reason" for the start-up fee is that it is part of the negotiated terms between the Postal Service and FedEx for the air transportation described by Witness Spatola (USPS-T-20). Specifically, it represents a portion of the payments from the Postal Service to FedEx for air transportation services.

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UPS/USPS-T19-2. On page 8 of your testimony, UPSP-T-19, line 16, referring to the start-up fee for the FedEx contract, you state that "The payment does not vary with volume...."

- (a) If the FedEx transportation contract were designed to carry less mail volume, would the start-up costs remain at \$100 million? Explain in detail.
- (b) If the FedEx transportation contract were designed to carry 10% less mail volume, would the start-up costs remain at \$100 million? Explain in detail.
- (c) If the FedEx transportation contract were designed to carry 25% less mail volume, would the start-up costs remain at \$100 million? Explain in detail.
- (d) If the FedEx transportation contract were designed to carry 50% less mail volume, would the start-up costs remain at \$100 million? Explain in detail.
- (e) If the FedEx transportation contract were designed to carry more mail volume, would the start-up costs remain at \$100 million? Explain in detail.
- (f) If the FedEx transportation contract were designed to carry 10% more mail volume, would the start-up costs remain at \$100 million? Explain in detail.
- (g) If the FedEx transportation contract were designed to carry 25% more mail volume, would the start-up costs remain at \$100 million? Explain in detail.
- (h) If the FedEx transportation contract were designed to carry 50% more mail volume, would the start-up costs remain at \$100 million? Explain in detail.
- (i) If the FedEx transportation contract did not include the night-time operation, would the start-up costs remain at \$100 million? Explain in detail.
- (j) If the FedEx transportation contract did not include the day-time operation, would the start-up costs remain at \$100 million? Explain in detail.

UPS/USPS-T19-2 (a)-(j) Response: It is impossible to speculate credibly whether the start-up fee would remain at \$100 million under any of the scenarios described in your question. As I noted in my response to UPS/USPS-T19-1, the start-up fee is part of the negotiated terms between the Postal Service and FedEx for the air transportation described by Witness Spatola (USPS-T-20). Presumably, there were many interrelated factors in the minds of the negotiators from both the Postal Service and FedEx which affected the outcome of the negotiations, and it would generally be impossible to know how changes in specific contract parameters might have affected changes in other contract parameters.

The point I make in my testimony is that the start-up fee is clearly not volume variable. As described by Witness Spatola (USPS-T-20), volume will fluctuate on both the day-time and night-time networks in a number of different ways. For example, the contract minimums on each network will increase annually over the life of the contract. Additionally, the capacity requested by the Postal Service can vary significantly by schedule block. Finally, there will be daily "flex" to accommodate short-term variations

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in volume. Despite these different types of changes in volume/capacity, the start-up fee remains constant at \$100 million. Therefore, the \$100 million start-up fee is not a volume variable payment in the contract.

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UPS/USPS-T19-3. *Do you agree that the start-up fee is dependent on the scale of the operations under the FedEx transportation contract? If you do not agree, explain why not.*

UPS/USPS-T19-3 Response: I do not agree. Please see my response to UPS/USPS-T19-2.

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UPS/USPS-T19-4. Provide all termination costs and any continuing costs that the Postal Service has or will incur separately for each of the following contracts: ANET, WNET, TNET, and the PMPC contract. If exact amounts are not available, provide the Postal Service's best available estimates of the termination costs for each contract.

UPS/USPS-T19-4 Response: A partial objection to this interrogatory was filed on October 22, 2001.

It is my understanding that the current aggregate "best available" estimate of termination for convenience costs for the ANET, WNET, and TNET contracts is \$226 million. Furthermore, I do not address PMPC contract termination costs in my testimony, and it is my understanding that no estimates for these termination costs are included in the Request.

DECLARATION

I, William M. Takis, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

WMT

Dated: 10/24/01

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.



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