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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

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

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO INTERROGATORIES OF
UNITED PARCEL SERVICE REDIRECTED
FROM WITNESS TAYMAN
(UPS/USPS-T6-1-6)

The United States Postal Service hereby provides the responses of witness Patelunas to the following interrogatories of United Parcel Service: UPS/USPS-T6-1-6, filed on October 10, 2001, and redirected from witness Tayman.

It should be noted that some of the responses contain cost figures from USPS-LR-J-94, which has not yet been filed, pending a ruling on the Postal Service's motion for protective conditions. As the Postal Service's motion made clear, however, not all figures contained in that library reference or in the PRC version of that library reference, USPS-LR-J-99, are considered confidential, including the figures cited in the attached responses. The Postal Service had asked that the entirety of the library references be placed under protective conditions because of the difficulty of producing properly working, redacted electronic versions. If the Postal Service's motion for protective conditions is granted, however, it intends to work cooperatively with all parties who gain access to the materials to allow the *non-confidential* information contained in the library references to be freely used in interrogatories, responses, hearings and briefs, without the necessity of placing numerous items under seal.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys

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October 26, 2001

**RESPONSE OF UNITED STATES POSTAL SERVICE
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UPS/USPS-T6-1. Refer to USPS-LR-J-49, spreadsheet "Prg_01_s.XLS", page "FY 01 Other Programs."

- (a) Confirm that the increase in Delivery Confirmation Scanning costs for FY2001 over FY2000 is \$8,030,000 for Cost Segment 3. If not confirmed, explain.
 - (i) Describe in detail how this figure was estimated. Include citations for inputs.
 - (ii) Describe the clerk activities that are included in this increased cost, the estimated time for each clerk activity, and the volume of each clerk activity.
- (b) Confirm that the increase in Delivery Confirmation Scanning costs for FY2001 over FY2000 is \$14,603,000 for Cost Segment 6/7. If not confirmed, explain.
 - (i) Describe in detail how this figure was estimated. Include citations for inputs.
 - (ii) Describe the carrier activities that are included in this increased cost, the estimated time for each carrier activity, and the volume of each carrier activity.

Response:

- (a) Confirmed.
 - (i) The Cost Segment 3 figure was estimated using the methodology employed in the testimony of witness Davis, USPS-T-30 in Docket No. R2000-1. Activity transaction times were developed, operational and volume assumptions were made and the scanner deployment schedule was utilized to estimate the number of workhours. The Clerk/Mailhandler workhour rates shown in Exhibit H of USPS-LR-J-49 were then applied to these workhour estimates to generate the total dollar amounts.
 - (ii) The clerk/mailhandler activities in this cost include: initializing the scanners, Box Section clerk delivery scanning, Box Section clerk attempted delivery scanning, Window clerk delivery scanning, Window

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Response continued:

clerk acceptance scanning, Window clerk affixing label, Accountable clerk at end of the day and customer inquiries.

(b) Confirmed.

- (i) The Cost Segment 6/7 figure was estimated using the methodology employed in the testimony of witness Davis, USPS-T-30 in Docket No. R2000-1. Activity transaction times were developed, operational and volume assumptions were made and the scanner deployment schedule was utilized to estimate the number of workhours. The City Carrier workhour rates shown in Exhibit H of USPS-LR-J-49 were then applied to these workhour estimates to generate the total dollar amounts.
- (i) The City Carrier activities in this cost include: initializing the scanners, carrier delivery scanning, clearing with Accountable clerk at end of the day and carrier attempted delivery scanning.

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UPS/USPS-T6-2. Refer to USPS-LR-J-49, spreadsheet "Prg_01_s.XLS", page "FY 01 Other Programs."

- (a) Confirm that the increase in C/S 3 costs for FY2001 over FY2000 from the Postal Service handling PMPC activities is \$146,800,000. If not confirmed, explain.
 - (i) Describe in detail how this figure was estimated. Include citations for inputs.
 - (ii) Is this cost also included in the testimony of witness Hatfield, USPS-T-18? Explain in detail, including citations to witness Hatfield's testimony and workpapers.
- (b) Confirm that the increase in C/S 14 costs for FY2001 over FY2000 from the Postal Service handling PMPC activities is \$259,500,000. If not confirmed, explain.
 - (i) Describe in detail how this figure was estimated. Include citations for inputs.
 - (ii) Does this amount include any FedEx contract costs? If so, specify which costs and explain.
 - (iii) Is this cost also included in the testimony of witness Hatfield, USPS-T-18? Explain in detail, including citations to witness Hatfield's testimony and workpapers.

Response:

- (a) Confirmed.
 - (i) The costs are all the labor costs required to operate the PMPC network in house. Labor workhours were developed on a site-by-site basis using the information available for each site. Actual FY 2000 originating and destinating volumes for each site were used along with assumed site specific productivities to calculate the workhours for each site. The workhours for the sites were summed to a total and the Clerk/Mailhandler workhour rates shown in Exhibit H of USPS-LR-J-49 were then applied to the total workhours to generate the total dollar amounts.

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Response continued:

The total annualized amounts for the PMPC in-house transition were estimated to be \$211,600,000. Of the total transition costs, 9 APs were to occur in FY 2001 and 4 APs in FY 2002; thus, nine-thirteenths of these amounts were FY 2001 expenses. Applying the nine-thirteenths factor yields the total of \$146,800,000 for FY 2001. In the rollforward model, these amounts are applied to Component 35 (Mail Processing) and distributed to Priority Mail. Please refer to USPS-LR-J-4, Section 2, Part A, page 217 for the amount, and Section 2, Part B, page 468 for the distribution.

- (ii) No, this cost is not included in the testimony of witness Hatfield, USPS-T-18. As described in USPS-T-18, Section 1, witness Hatfield's testimony only includes changes in purchased transportation costs that are the result of implementation of the FedEx transportation agreement. His testimony does not address any issues relating to cost segment 3.
- (b) Confirmed.
- (i) The total annualized transportation amounts for the PMPC in-house transition were estimated to be \$374,900,000, of which \$295,000,000 was for Domestic Air and \$79,900,000 was for Highway. Of the total transition

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Response continued:

costs, 9 APs were to occur in FY 2001 and 4 APs in FY 2002; thus, nine-thirteenths of these amounts were FY 2001 expenses. Applying the nine-thirteenths factor yields the total of \$259,500,000, the Domestic Air amount of \$204,200,000, and the Highway amount of \$55,300,000 for FY 2001. In the rollforward model, these amounts are applied to Component 142 (Domestic Air) and Component 143 (Highway) and distributed to Priority Mail. Please refer to USPS-LR-J-4, Section 2, Part A, page 216 for the amounts, and Section 2, Part B, page 468 for the distribution. The Domestic Air expenses include the dedicated air cost to replace service formerly performed by Emery Worldwide Airlines, Inc. (EWA) and the cost for actual volume formerly sent by EWA to commercial airlines. Also included in Domestic Air are the savings opportunities that exist in better utilizing back-haul space on the dedicated network. The Highway savings were developed using the transportation schedules formerly operated by EWA.

The total Domestic Air costs of \$295,500,000 is the combined impact of the following (difference from \$295.5 million is due to rounding):

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Response continued:

	(millions)
Dedicated	\$ 216
MIA-SJU	\$ 9
SEA-ANC	\$ 2
ASYS	\$ 78
Backhaul	\$ -27
Feeder Service	\$ 17.

The first amount is for dedicated air to replace service formerly performed by Emery. The Miami to San Juan segment is required because insufficient commercial lift is available between these locations. The Seattle to Anchorage costs must be included because under the Emery contract, the Postal Service provided lift from Seattle to Anchorage for Emery and was reimbursed for those costs. The ASYS is calculated from the total gross weight Emery actually sent to commercial airlines, as opposed to dedicated air or surface. The backhaul savings is mail formerly flown commercially that will travel on the return trip of the dedicated network. The Feeder costs are calculated for local surface transportation between the PMPCs.

The Highway costs were calculated assuming that highway contract route transportation would be used at all sites. The costs were calculated by determining the local miles and the long haul/ inter PMPC miles

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Response continued:

required to replace the transportation formerly provided by EWA. Using highway contract route estimates of the rate per mile with the required miles and a Spotter Service estimate of \$1,550,000 yielded a total surface transportation cost of \$79,900,000.

- (ii) No.
- (iii) Witness Hatfield's testimony includes the portion of this cost that is related to purchased air transportation. Specifically, library reference USPS-LR-J-94, Table 102 at line 4 contains \$204,200,000 of the \$259,500,000 increase in Cost segment 14 costs. USPS-LR-J-94 is being withheld pending a ruling on the Postal Service's motion for protective conditions. As that motion made clear, however, not all data from the LR, including the figure cited in this response, are considered proprietary. This figure is included in the estimation of *status quo* costs as described by witness Hatfield (USPS-T-18, Section III.A.4 and Section III.B.5).

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UPS/USPS-T6-3. Refer to USPS-LR-J-49, spreadsheet "Prg_01_s.XLS", page "FY 02

Other Programs."

- (a) Confirm that the increase in C/S 3 costs for FY2002 over FY2001 from the Postal Service handling PMPC activities is \$64,800,000. If not confirmed, explain.
 - (i) Describe in detail how this figure was estimated. Include citations for inputs.
 - (ii) Is this cost also included in the testimony of witness Hatfield, USPS-T-18? Explain in detail, including citations to witness Hatfield's testimony and workpapers.
- (b) Confirm that the increase in C/S 14 costs for FY2002 over FY2001 from the Postal Service handling PMPC activities is \$125,400,000. If not confirmed, explain.
 - (i) Describe in detail how this figure was estimated. Include citations for inputs.
 - (ii) Does this amount include any FedEx contract costs? If so, specify which costs and explain.
 - (iii) Is this cost also included in the testimony of witness Hatfield, USPS-T-18? Explain in detail, including citations to witness Hatfield's testimony and workpapers.
- (c) Confirm that the increase in C/S 14 costs for FY2002 over FY2001 from the FedEx contract is \$57,500,000. If not confirmed, explain.
 - (i) Describe in detail how this figure was estimated. Include citations for inputs.
 - (ii) Does this amount represent the increase in C/S 14 costs over what would have been incurred in the absence of the FedEx contract? If not, explain what this amount represents.
 - (iii) Is this cost also included in the testimony of witness Hatfield, USPS-T-18? Explain in detail, including citations to witness Hatfield's testimony and workpapers.
- (d) Confirm that the decrease in C/S 16 costs for FY2002 over FY2001 from the elimination of the PMPC contract is \$347,676,000. If not confirmed, explain.
 - (i) Describe in detail how this figure was estimated. Include citations for inputs.
 - (ii) Does this amount represent the amount that would have been paid to operate the PMPC network had the PMPC contract not been terminated? If not, explain what this amount represents.
 - (iii) Is this cost also included in the testimony of witness Hatfield, USPS-T-18? Explain in detail, including citations to witness Hatfield's testimony and workpapers.

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Response:

- (a) Confirmed.
 - (i) Please refer to the response to UPS/USPS-T6-2(a). The FY2002 amount is the total shown in that response multiplied by four-thirteenths. The FY2002 amount is also the total minus the FY2001 amount shown in that response.
 - (ii) No, this cost is not included in the testimony of witness Hatfield, USPS-T-18. As described in USPS-T-18, Section 1, witness Hatfield's testimony only includes changes in purchased transportation costs that are the result of implementation of the FedEx transportation agreement. His testimony does not address any issues relating to cost segment 3.

- (b) Confirmed.
 - (i) Please refer to the response to UPS/USPS-T6-2(b). The FY2002 amount is the total shown in that response multiplied by four-thirteenths. The FY2002 amount is also the total minus the FY2001 amount shown in that response.
 - (ii) No.
 - (iii) Witness Hatfield's testimony includes the portion of this cost that is related to purchased air transportation. Specifically, library reference USPS-LR-J-94, Table 102 at line 4 contains \$90,800,000 of the \$125,400,000 increase in Cost segment 14 costs. USPS-LR-J-94 is being withheld pending a ruling on the Postal Service's motion for protective conditions. As that

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motion made clear, however, not all data from the LR, including the figure cited in this response, are considered proprietary. This figure is included in the estimation of *status quo* costs as described by witness Hatfield (USPS-T-18, Section III.A.4 and Section III.B.5).

(c) Confirmed.

(i) – (iii) This cost is included in witness Hatfield's testimony. In fact, witness Hatfield's testimony is the source of this figure. Specifically, the sum of the columns labeled "Ground Handling" and "Additional Highway" in USPS-T-18, Table G at line 28 or library reference USPS-LR-J-94, Table 400 at line 28 is \$57,500,000. USPS-LR-J-94 is being withheld pending a ruling on the Postal Service's motion for protective conditions. As that motion made clear, however, not all data from the LR, including the figure cited in this response, are considered proprietary. These figures represent the additional ground handling and highway costs resulting from the implementation of the FedEx transportation agreement. The development of these figures is described in witness Hatfield's testimony (USPS-T-18, Section VI.B.2-3).

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Response continued:

- (d) Confirmed.
 - (i) This amount represents the estimated Postal Service payment savings to EWA resulting from the termination of the contract.
 - (ii) Yes.
 - (iii) No, this cost is not included in the testimony of witness Hatfield, USPS-T-18. As described in USPS-T-18, Section 1, witness Hatfield's testimony only includes changes in purchased transportation costs that are the result of implementation of the FedEx transportation agreement. His testimony does not address any issues relating to cost segment 16.

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UPS/USPS-T6-4. Refer to USPS-LR-J-49, spreadsheet "Prg_01_s.XLS", page "FY 03 Other Programs."

- (a) Confirm that the increase in C/S 14 costs for FY2003 over FY2002 from the FedEx contract is \$10,247,000. If not confirmed, explain.
 - (i) Describe in detail how this figure was estimated. Include citations for inputs.
 - (ii) Does this amount represent the increase in C/S 14 costs over what would have been incurred in the absence of the FedEx contract? If not, explain what this amount represents.
 - (iii) Is this cost also included in the testimony of witness Hatfield, USPS-T-18? Explain in detail, including citations to witness Hatfield's testimony and workpapers.
- (b) Explain why there is not a line item entry for PMPC in-house activities.
- (c) Explain why there is not a line item entry for termination of the PMPC contract.

Response:

- (a) Confirmed.
 - (i) – (iii) This cost is included in witness Hatfield's testimony. In fact, witness Hatfield's testimony is the source of this figure. Specifically, the sum of the columns labeled "Air Transportation" and "Ground Handling" in USPS-T-18 Table H at line 28 or library reference USPS-LR-J-94, Table 401 at line 28 is \$10,247,000. USPS-LR-J-94 is being withheld pending a ruling on the Postal Service's motion for protective conditions. As that motion made clear, however, not all data from the LR, including the figure cited in this response, are considered proprietary. These figures represent the additional air transportation and ground handling costs that result from the implementation of the FedEx transportation agreement. The development of these figures is described in witness Hatfield's testimony (USPS-T-18, Section VI.B.1-2).

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Response continued:

- (b) There are no PMPC in-house transition costs for FY2003 because the transition is expected to be completed in FY2002.
- (c) It is my understanding that no estimates for these termination costs are included in the Request.

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UPS/USPS-T6-5. Refer to USPS-LR-J-49, spreadsheet "Prg_01_s.XLS", page "Cost Reductions."

- (a) Confirm that the reduction in C/S 14 costs for FY2002 over FY2001 of \$136,120,000 is a result of the FedEx contract.
- (c) Describe in detail how this figure was estimated. Include citations for inputs.
- (d) Describe in detail the source of these savings.
- (e) Is this cost also included in the testimony of witness Hatfield, USPS-T-18? Explain in detail, including citations to witness Hatfield's testimony and workpapers.

Response:

- (a) Confirmed.
- (c) – (e) This savings is included in witness Hatfield's testimony. In fact, witness Hatfield's testimony is the source of this figure. The column labeled "Air Transportation" in USPS-T-18 Table H at line 28 or library reference USPS-LR-J-94, Table 401 at line 28 is a reduction of \$136,120,000. USPS-LR-J-94 is being withheld pending a ruling on the Postal Service's motion for protective conditions. As that motion made clear, however, not all data from the LR, including the figure cited in this response, are considered proprietary. This figure represents the reduction in air transportation costs that results from implementation of the FedEx transportation agreement. The development of this figure is described in witness Hatfield's testimony (USPS-T-18, Section VI.B.1).

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UPS/USPS-T6-6. Refer to USPS-LR-J-49, spreadsheet "Prg_01_s.XLS", page "Cost Reductions."

- (a) Confirm that the reduction in C/S 14 costs for FY2003 over FY2002 of \$147,000 is a result of the FedEx contract.
- (b) Describe in detail how this figure was estimated. Include citations for inputs.
- (c) Describe in detail the source of these savings.
- (d) Is this cost also included in the testimony of witness Hatfield, USPS-T-18? Explain in detail, including citations to witness Hatfield's testimony and workpapers.

Response:

- (a) Confirmed.
- (b) – (d) This savings is included in witness Hatfield's testimony. In fact, witness Hatfield's testimony is the source of this figure. The column labeled "Additional Highway" in USPS-T-18 Table H at line 28 or library reference USPS-LR-J-94, Table 401 at line 28 is a reduction of \$147,000. USPS-LR-J-94 is being withheld pending a ruling on the Postal Service's motion for protective conditions. As that motion made clear, however, not all data from the LR, including the figure cited in this response, are considered proprietary. This figure represents the reduction in additional highway costs that results from implementation of the FedEx transportation agreement. The development of this figure is described in witness Hatfield's testimony (USPS-T-18, Section VI.B.3).

DECLARATION

I, Richard Patelunas, declare under penalty of perjury that the foregoing answers to interrogatories are true and correct to the best of my knowledge, information, and belief.

Richard Patelunas

Dated: 10/26/01

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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October 26, 2001