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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  
TO INTERROGATORIES OF  
AOL-TIME WARNER  
(AOL-TW/USPS-9-17)

The United States Postal Service hereby provides its responses of to the following interrogatories of AOL-Time Warner: AOL-TW/USPS-9-17, filed on October 16, 2001.

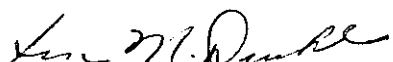
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys

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October 30, 2001

**RESPONSE OF UNITED STATES POSTAL SERVICE TO SECOND SET OF  
INTERROGATORIES FROM AOL-TIME WARNER**

**AOL-TW/USPS-9** Please confirm that the Postal Service's policy is always to transport Periodicals mail by surface and not by air. If not confirmed, please explain. Please explain also if there has been any modification in this policy in recent years.

**RESPONSE**

Generally confirmed that the Postal Service's policy is to transport Periodicals via surface transportation. There are, however, infrequent instances where Periodicals are flown, when no service-responsive surface transportation is available.

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**AOL-TW/USPS-10** Please confirm that if a Periodicals mailer wishes his mail to go by air to a remote location (e.g., Hawaii, Alaska, or from coast to coast) he must purchase his own air transport and enter his mail into the postal system at the other end. If not confirmed, please explain.

**RESPONSE**

There are infrequent instances (e.g., to remote locations in the Alaskan bush) when the Postal Service flies mail when no surface transportation is available.

Also, certain time-sensitive Periodicals are sometimes flown from Seattle to Anchorage. As a general rule, a mailer wishing to expeditiously move its Periodicals to remote locations or across long distances must purchase its own air transport.

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**AOL-TW/USPS-11:** In Docket R2000-1, Time Warner asked the Postal Service to explain why air transportation costs attributed to Periodicals had declined by \$11 million from FY98 to FY99. The Postal Service responded as follows, to interrogatory TW/USPS-6, parts b and c respectively:

“In each quarter of FY 99, Finance provided Logistics with information from TRACS showing the amount of Periodical mail being put on air at originating stops. This information was sent to the field, under a Vice President’s signature, via the Area Vice Presidents, in order to stimulate focus on the Postal Service’s commitment to keeping surface mail off of air transport.”

And:

“The Postal Service continues to collect and transmit information on cases where Periodicals mail is found on airplanes. The Postal Service is committed to sustaining the reductions in the air transportation of Periodicals mail achieved in FY 99.”

- a. Does the Postal Service still have a “commitment to keeping surface mail off of air transport”? If no, please explain why not.
- b. Was the Postal Service, in FY2000, “committed to sustaining the reductions in the air transportation of Periodicals mail achieved in FY 99”? If no, please explain why not.
- c. Did the specific initiatives described in the interrogatory answer cited above continue through FY2000? If no, please explain which initiatives were discontinued and why.
- d. Please describe all efforts the Postal Service currently makes to assure that Periodicals mail is not put on airplanes unless there is no other transportation alternative.
- e. Please describe all efforts the Postal Service currently makes to assure that Standard A mail is not put on airplanes unless there is no other transportation alternative.

**RESPONSE**

- a. See the response to AOL-TW/USPS-9.
- b. Yes.
- c. Yes. However, the Postal Service recognizes that there are circumstances when flying Periodicals may not be undesirable. Consider the situation in which Periodicals are sorted on a flat sorting machine (FSM)

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immediately before the sorting of First-Class flats. In order to avoid intermingling Periodicals with First-Class, the FSM would have to be swept between these two runs. This would result in increased labor costs being attributed to the Periodicals mail being swept. It may be the case that not sweeping the Periodicals may result in the incurrence of lower mail processing and transportation costs.

d. See the response to (c) above.

e. There is no such program since Standard A mail does not normally receive handling and routing consistent with dispatch to expedited modes of transportation. It is possible, however, that operational failures or instances such as described in the response to part c above, result in Standard Mail being transported via air.

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**AOL-TW/USPS-12**

- a. Please confirm that in FY2000 the Postal Service, according to USPS-T-11, is attributing \$27.168 million in air transportation to Periodicals, more than twice the amount attributed in FY99.
- b. Please confirm that in FY2000 the Postal Service, according to USPS-T-11, is attributing \$32.369 million in air transportation to Standard A mail, more than in any previous fiscal year.
- c. Please explain all reasons known to the Postal Service why Periodicals and Standard A mail continue to have air transportation costs attributed to them, in spite of the Postal Service's "commitment to keeping surface mail off of air transport." For each reason listed, please provide an estimate, if available, of how much that particular reason contributed to the high attributions of air transport costs to Periodicals and Standard A in FY2000. If no estimates are available, please indicate at least whether each reason given is a major or minor contributor to the high costs.

**RESPONSE**

- a. Confirmed, for Base Year 2000. Please note that the cited figure does not include costs from Alaska Nonpreferential air service. It is unclear, however, that this increase is the result of putting more Periodicals on air transportation. Some of the increase is the result of increases in operating costs such as a 66 percent increase in jet fuel costs, some are due to increased use of dedicated air, some to increased labor costs, and some to higher attribution levels.
- b. Confirmed, for Base Year 2000. Please note that the cited does not include costs from Alaska Nonpreferential air service. It is unclear, however, that this increase is the result of putting more Standard A mail on air transportation. Some of the increase is the result of increases in operating costs such as a 66 percent increase in jet fuel costs, some are due to increased use of dedicated air, some to increased labor costs, and some to changes in attribution levels.

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With regard to prior years, the Postal Service reviewed cost segment 14 results from 1992 through 1999. This review indicates that Standard A air costs (other than Alaska Nonpref) were indeed greatest in BY 2000 ; however, the percentage of air costs distributed to Standard A (or third-class) actually exceeded the BY 2000 percentage in two years, FY 1993 and FY 1994.

The history of the percentage of air costs distributed to Standard A or third-class is as follows:

FY 1992	1.8%
FY 1993	2.6%
FY 1994	2.5%
FY 1995	1.9%
FY 1996	1.8%
FY 1997	2.1%
FY 1998	2.3%
FY 1999	2.2%
BY 2000	2.4%

c. Air transportation costs are attributed to Periodicals and Standard A to the extent that these classes of mail appear on sampled flights in TRACS and in other similar distribution studies. Since these studies are statistical in nature, some of the magnitude of the BY 2000 numbers cited may be due to sampling variation. This is true of the FY 1999 statistics as well.

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As a statistical matter, when one compares cost estimates from the two years, one cannot reject the hypothesis that the costs are the same. For Periodicals Mail, a 95 percent confidence interval around the 1999 estimate gives an upper bound of \$18,569. The lower bound from the corresponding BY 2000 estimate is \$15,347. For Standard A, the upper bound around the 1999 estimate is \$37,235. The lower bound from the corresponding BY 2000 estimate is \$19,544.

Operationally, Periodicals and Standard A mail appear in these samples because these categories of mail are:

- a) intermingled in trays and sacks with First-Class Mail, Priority Mail, Express Mail or international mail that normally receives air transportation,
- b) dispatched to air because it is the only service responsive alternative, or
- c) improperly dispatched to air.

The Postal Service does not have estimates that would indicate which of these factors is more prevalent. As was discussed in response to AOL-TW/USPS-11 (d), with respect to intermingled mail, it should be pointed out that this may not be an undesirable practice. Consider the situation in which Periodicals are sorted on a flat sorting machine immediately before the sorting of First-Class flats. In order to avoid the intermingling, the machine would have to be swept between these two runs. This would result in increased labor costs being attributed to the class of mail being swept.



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**AOL-TW/USPS-13** In view of the Postal Service's R2000-1 interrogatory answer that it "continues to collect and transmit information on cases where Periodicals mail is found on airplanes":

- a. Please describe the specific pieces of information that are (were) collected in instances when Periodicals mail is found being transported on airplanes.
- b. Please provide any relevant data collected on Periodicals being transported by air, if possible in an electronic format.
- c. Please describe any analysis that the Postal Service may have done on this data to determine why Periodicals continue to be put on airplanes. Provide a copy of any report that may have been produced from such analysis.

**RESPONSE**

- a. See TRACS Commercial Air Subsystem Statistical and Computer Documentation, filed as USPS-LR-J29/R2001-1 for information collected on TRACS-Air tests. The same information is collected for all mail sampled, regardless of its subclass.
- b. Data collected on Periodicals, together with data on all mail collected from TRACS Commercial Air tests, are contained in the Z-files in USPS-LR-J29/R2001-1. The data are in an exported PC-SAS format. They can be accessed by using PC-SAS code similar to the code in the footnote of page 32 of the library reference. The variable 'MAILCODE' contains TRACS mail codes. A value 'J' indicates Periodicals.
- c. Each postal quarter, data collected on TRACS-Air tests is analyzed and reports are produced showing time trends of the percent of commercial air costs for transporting Periodicals and Standard Mail. Diagnostic tables are also produced, to help identify facilities from which this mail is being

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dispatched. The diagnostic tables show that most Periodicals and Standard Mail pieces were commingled with other mail in sacks and trays having an 'F' (First-Class) or 'P' (Priority) mail-class indicator on the Destination and Routing Tag. Copies of the reports are distributed to Area Vice Presidents, Managers of Operations Support (Areas), and Plant Managers of P&DCs and P&DFs. Copies of the transmittal memos, reports, tables and charts, for the four quarters of FY 2000, are provided in USPS-LR-J-149.

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**AOL-TW/USPS-14** Please list and describe all types of contractual arrangements under which the Postal Service obtains air transportation and show how much of the costs of each type of contract was attributed to (1) Periodicals and (2) Standard A in FY2000. Please also provide corresponding information for FY98, FY99 and any portion of FY2001 for which data may already be available.

**RESPONSE**

In FY 1998, FY 1999, and Base Year 2000, the Postal Service procured air transportation under contract in a number of ways:

- a) Under the ASYS contract, the Postal Service bought airlift by the pound and pound-mile from commercial airlines, mostly passenger air carriers.
- b) Under numerous contracts, the Postal Service purchased dedicated airlift. These contracts included the WNET contract, the ANET and TNET contracts, and numerous other less extensive contracts.

The WNET contract provided two hub and spoke transportation operations in the western United States. One of these operations operated during the daytime and another during the overnight hours. An additional WNET flight operated between the WNET hub outside Sacramento and the Eagle hub in Indianapolis. The costs of the overnight WNET operation appear in the Cost Segment B workpapers, worksheet 14.4 in the "Western Network" cost pool. The costs of the WNET daytime operations are included in the DAYNET cost pool.

The ANET and TNET contracts provided aviation and ground handling services for two hub and spoke operations, one day, one night. The nighttime operation was the Eagle network. The costs of the ANET and TNET contracts appear in the Eagle and DAYNET cost pools.

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Additional contracts provided point to point transportation and other ad hoc additions to these network operations. These typically appear in the DAYNET cost pool.

Contracts for air taxis provided additional service for a variety of operational needs such as feeding Eagle "spoke" cities, service to remote otherwise inaccessible locations and the like. These appear in the Air Taxi cost pool.

Additionally dedicated air transportation was provided at Christmas time using hub and spoke operations and point to point flights. These costs appear in the Christmas cost pool.

Regional air transportation was provided specifically for Alaska and Hawaii. There are three cost pools covering these expenses. See the Cost Segment 14 B workpapers for details.

Cost Segment 14 B workpapers for prior years are on file with the Commission. Cost Segment B workpapers for FY 2001 are not available. Additional information on forecasted FY 2001 air transportation costs may be obtained from the workpapers of Postal Service witnesses Patelunas (USPS-T-12).

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**AOL-TW/USPS-15 Please provide the following, to the extent it can be inferred from data available to the Postal Service:**

- a. Which portion of the air transportation costs attributed to Periodicals in FY2000 was caused by transportation of mailer provided containers (e.g. Periodicals sacks)?**
- b. Which portion was caused by the transportation of mailer provided bundles that had been sorted into postal containers?**
- c. Which portion was caused by Periodicals pieces that had been piece sorted and mixed with pieces of other classes?**
- d. What portions of the air transportation costs attributed to Periodicals were for, respectively, the transport of letters, flats or parcels?**

**RESPONSE**

- a. Not available.**
- b. Not available.**
- c. Not available. However, Postal Service Library Reference J-29 contains raw data that may be useful in such an analysis.**
- d. Not available.**

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AOL-TW/USPS-16 Could there be situations where Periodicals mail is put on an airplane because there is space, on the airplane itself or in an air container, that has been or will be paid for in any case and no mail with higher priority is available to fill that space? If yes, please explain all situations where this might occur.

RESPONSE

Yes. The Postal Service occasionally uses space on air taxis between Seattle and Anchorage for time-sensitive Periodicals.

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**AOL-TW/USPS-17 Please show the portions of (1) Periodicals and (2) Standard A air costs that are either intra-Hawaii or intra-Alaska. Please confirm that the intra-Hawaii and intra-Alaska costs are only a small portion of the air transportation costs attributed to Periodicals and Standard A.**

**RESPONSE**

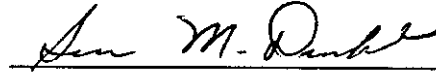
The portions are as follows:

	ALASKA NON-PREF	ALASKA PREF	HAWAII
Periodicals	0.2%	6.5%	6.0%
Standard A	1.1%	13.1%	4.7%

Alaska and Hawaii costs make up \$3.303 million or 12.2 percent of Periodicals air costs and \$4.732 or 14.6 percent of Standard A air costs. Please note that these numbers include only 7.07 percent of Nonpreferential Alaska Air costs, consistent with the Alaska Air adjustment (see witness Pickett USPS-T-17).

### **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.

Susan M. Duchek

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