

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

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MOELLER
TO INTERROGATORIES OF UNITED PARCEL SERVICE
(UPS/USPS-T28-1 THROUGH 4)

The United States Postal Service hereby files the responses of witness Moeller to the following interrogatories of United Parcel Service that were filed on November 15, 2001: DFC/USPS-T28-1 through 4.

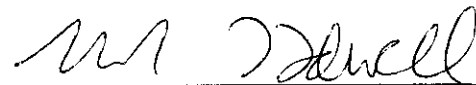
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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November 15, 2001

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MOELLER TO
INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T28-1: What proportion of Priority Mail is subject to the Private Express Statutes? Cite any studies that you rely on to determine your answer.

RESPONSE:

In response to interrogatory APMU/USPS-T32-4 in Docket No. R2000-1, witness Mayes cited an estimate made in 1998 that "approximately one-fourth of Priority Mail volume was protected by the Private Express Statutes."

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MOELLER TO
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UPS/USPS-T28-2: How has the proportion of Priority Mail that is subject to the Private Express Statutes changed since the Commission issued its Opinion and Recommended Decision in Docket No. R2000-1. Cite any studies that you rely on to determine your answer.

RESPONSE:

I know of no study that updates the estimate of the proportion cited in my response to UPS/USPS-T28-1.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MOELLER TO
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UPS/USPS-T28-3: Refer to your testimony at page 23, line 15, through page 24, line 4, where you discuss the impact of a change in the value of service of Priority Mail "since the last omnibus proceeding." Provide the exact time frame to which you are referring in this section of your testimony.

RESPONSE:

The full text of the sentence containing the cited passage is as follows: "Even if it were to be shown that there has been an appreciable improvement since the last omnibus proceeding, that would not necessarily warrant a coverage higher than that proposed here, in light of criterion 4 considerations." Although the phrase "has been" was referring to the time between the Commission's Decision in Docket No. R2000-1 and the filing of the current case and the unlikely event that actual data had become available that would significantly alter the evaluation of value of service, that does not mean that the evaluation of value of service should be limited to that time frame. The relevant time period is from the Docket No. R2000-1 Recommended Decision and its consideration of a TY 2001 environment, through TY2003. The overriding sentiment expressed in the cited sentence is the explanation that "criterion 4" concerns limit the impact any change in value of service would have on the proposed coverage.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MOELLER TO
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UPS/USPS-T28-4: This question asks you to consider the document published by the Postal Service titled "Mid-Atlantic Area Update," portions of which are attached hereto as Exhibit 1.

- (a) Refer to the Mid-Atlantic Area Update and witness Spatola's (USPS T-20) testimony at page 5, lines 5 to 23. Do you expect the service performance for Priority Mail to improve under the FedEx transportation contract? If not, why not?
- (b) Refer to the Mid-Atlantic Area Update and witness Spatola's (USPS T-20) testimony at page 5, lines 5 to 23. Do you expect the service performance for Express Mail to improve under the FedEx transportation contract? If not, why not?
- (c) On page 5 of the Mid-Atlantic Area Update, the Postal Service's Manager of Integration for Expedited/Package Services is quoted as saying with respect to the FedEx transportation contract that "The agreement is good for us because it helps change the way our customers view the Postal Service in that decision formula of price, reliability and service features (like delivery confirmation and tracking)." Do you agree with this statement? If not, why not?
- (d) Refer to page 24, line 9, of your testimony, where you state that "the relative levels of service offered by Priority Mail and its competitors may not be strictly comparable." Do you expect the relative levels of service offered by Priority Mail to become more comparable to those of its competitors as a result of the FedEx transportation agreement? If not, reconcile your answer with the following statement made by the Manager of Integration for Expedited/Package Services as quoted on page 5 of the USPS Mid-Atlantic Area Update: "The agreement is good for us because it helps change the way our customers view the Postal Service in that decision formula of price, reliability and service features (like delivery confirmation and tracking)."

RESPONSE:

- (a-b) It is my understanding that a significant goal for the Postal Service when entering into the FedEx transportation contract is to provide more consistent and reliable service for Express Mail and Priority Mail along with First-Class Mail. Improving the consistency and reliability of service

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MOELLER TO
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RESPONSE to UPS/USPS-T28-4 (continued):

for these classifications is a major undertaking. Moreover, not only do the service levels need to change, but customers perceptions of the service need to change. That may take much longer than the service changes themselves.

- (c) I do not disagree with the statement cited, nor with the manager's other sentiment noted in the article that the transportation agreement alone doesn't change customers' perceptions.
- (d) The cited passage of my testimony refers to factors such as guarantees, free insurance, and free tracking as a means of comparing Priority Mail to its competitors. While I do not disagree with the cited statement of the Manager of Integration for Expedited/Package Services (see my response to subpart c), I do not believe the passage from my testimony is inconsistent with the manager's statement.

Mid-Atlantic Area



UPDATE



FedEx

World Service Center

FedEx



**USPS/FedEx agreements
usher in new era**

USPS/FedEx agreements usher in new era

On January 10, 2001, the United States Postal Service and FedEx Express signed two historic agreements leveraging their two networks – the coast-to-coast retail presence of the Postal Service and the extensive reliability of the FedEx Express air transportation network.

The agreements focus on the Postal Service's core business – universal access to mail services, at the best value possible for the American people. Ultimately these agreements will strengthen the Postal Service, help it manage its costs, grow revenue and improve services.

Retail Agreement

The retail agreement gives FedEx the opportunity to place thousands of its self-service drop boxes outside post offices. FedEx will pay the Postal Service between \$126 and \$232 million in new revenue, depending on the number of self-service drop boxes that are placed outside post offices over the seven-year contract period.

In March, the Postal Service and FedEx began test market deployment of the self-service drop boxes in Charlotte, NC, and Ft. Lauderdale, FL, for a total of 113-drop boxes.

National deployment, which began mid-June, will initially extend placement of drop boxes to an additional 38 markets, for an estimated 3,000-drop boxes, by the end of July. During August and September, deployment will extend to at least 70 additional markets, with plans for further expansion through mid-November.

Other qualified overnight package delivery companies have the opportunity to place collection boxes at Post Offices on terms similar to

those in the agreement with FedEx Express.

Under the terms of the agreement, Postal Service retail associates will not handle or accept FedEx products. FedEx employees provide both the service and maintenance of the drop boxes.

Transportation Agreement

The air transportation agreement provides the Postal Service with shared access to the FedEx Express air transportation network for airport-to-airport delivery of its expedited products—Express Mail and Priority Mail—as well as First-Class Mail.

The Postal Service expects to save about \$1 billion in its air transportation costs and more than double the market reach of its Express Mail next-day, and Priority two-day services. FedEx Express has available capacity during the day that meets postal requirements and a scope of operations that allows the Postal Service to expand its service coverage. The seven-year contract also has guarantees by FedEx Ex-

press to ensure on-time performance with the network.

On June 25, the Postal Service and FedEx began operational testing of the shared air transportation network in several cities.

One of the cornerstones of the Postal Service's information platform—the Surface-Air Management System (SAMS)—will be used to identify mail that will fly on the FedEx air transportation network, including First-Class Mail, Priority Mail and Express Mail.

SAMS gives the Postal Service the ability to assign a unique dispatch and routing tag to each tray, sack or container, replacing the Air Contract Data Collection System (ACDS) with upgrade-ready software. It also has the ability to assign surface routes, and manage the capacity of the first leg of transportation by splitting out mail by class and to track manifests online.

National implementation of the shared transportation network began on August 27.

Top Ten Questions and Answers

1. Why FedEx?

The USPS agreement with FedEx creates a shared national transportation network that replaces multiple providers of dedicated networks. This agreement is seen as an opportunity to reduce costs while simultaneously improving service. Cost savings are expected to be significant and generally associated with the advantages of the FedEx shared-lift network and savings related to working with a single network provider. In addition, the agreement allows the Postal Service to avoid maintenance and upgrade costs anticipated under the old dedicated networks.

FedEx is the world's largest all-cargo airline with industry-leading reliability and an unmatched global transportation network. Because most express shipments move overnight, FedEx will be able to use its existing assets to meet our transportation needs for our 2-3 day products. FedEx is a pioneer in using information technology to track shipments and increase visibility of goods in motion. This will increase our service reliability and consistency.

(continued page 7)

UPS/USPS-T28-4 ZFS

Why FedEx? Why now?

The business reasons behind our agreements with FedEx

We have something they want. They have something we want.

With 38,000 locations, we have a retail network second to none. We reach just about everyone, everywhere, everyday.

With 770 planes and a world-class organization, they have an air transportation system so vast and reliable that "FedEx" and "absolutely, positively overnight" have become permanent parts of America's business vocabulary.

To pundits and wise guys the idea of a FedEx/USPS business alliance sounded preposterous. To out-of-the-box thinkers, however, it sounded like a golden opportunity to

do some business.

The pundits and wise guys lost. The out-of-the-box thinkers won. Last January, after several months of talks, FedEx Corporation Chairman, President and CEO Frederick W. Smith joined then Postmaster General and CEO William J. Henderson to announce a deal that would fly mail on FedEx planes and put FedEx collection boxes in front of thousands of post offices nationwide. In a pithy turn of phrase, Henderson summarized the deal as "The Postal Service delivers Main Street and FedEx provides an air fleet."

Following a successful test of 82 FedEx boxes in Charlotte and 31 in Fort Lauderdale, president and CEO

of FedEx Express, David Bronczek was convinced. "Customers in our test markets have responded enthusiastically to the new FedEx Drop Box options in their neighborhoods, and we look forward to extending this convenience and flexibility to FedEx Express customers throughout the country."

By the end of July another 3,000 FedEx drop boxes were installed outside post offices in 38 major metro areas, with plans to add 70 more markets by the end of the summer. Thousands of FedEx boxes will repose in front of post offices within 18 months.

In exchange for these patches of prime real estate, FedEx will pay the Postal Service between \$126 million and \$232 million over the next seven years - depending on the number of boxes placed. Welcome news in a time when revenues are not keeping up with costs.

But the cash, though welcome, isn't the real prize. For the Postal Service, and for Postal Service customers, the real benefit is access to the FedEx fleet. According to postal officials, consolidating a hodgepodge patchwork of air transportation contracts into one contract will save money, improve service, and grow revenue.

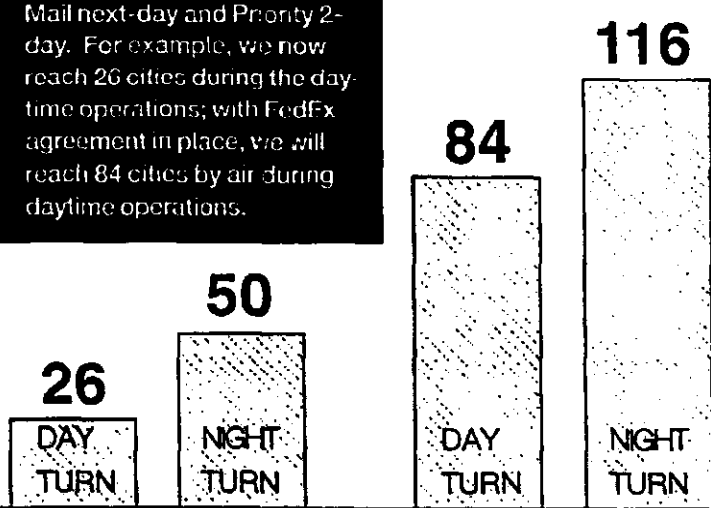
In all, the Postal Service expects to save about \$1 billion in air transportation costs during the seven-year agreement, while doubling the market reach of its Express and Priority products. On-time performance is backed up by FedEx's solid reputation and a guarantee.

According to Paul Vogel, Vice-President, Network Operations, at postal headquarters, the savings will

(continued next page)

EXTENDED NETWORK REACH

The USPS/FedEx Agreement means the cities reached by our air transportation network will increase for Express Mail next-day and Priority 2-day. For example, we now reach 26 cities during the daytime operations; with FedEx agreement in place, we will reach 84 cities by air during daytime operations.



Current Network Reach Pre-Agreement

Extended Network Reach Post-Agreement

NATIONAL NEWS

(from previous page)

come from consolidating many expensive contracts into one less expensive one. "We're going to get better service at a lower price."

Vogel explained that current dedicated air transportation is accomplished with an aging fleet that is subject to higher maintenance costs and are less reliable than newer aircraft.

"An independent study of the future of postal air transportation costs determined that with the age of the fleet and the costs necessary for upkeep, postal costs would increase significantly," Vogel said. "This is the right deal at the right time."

Q&As from page 5

2. Why didn't the Postal Service competitively bid the agreement?

USPS analysis indicated that no other transportation company could provide the scope of service that FedEx offers us.

3. What are the terms of the transportation agreement?

The Postal Service is purchasing 443,120 cubic feet of space per day on FedEx's daytime operation, which equates to 3.1 million pounds of mail. On the night network, USPS will transport approximately 250,000 pounds of mail per day on the FedEx night network. The agreement provides the option to increase the capacity on the daytime network to an additional 90,000 cubic feet per day.

4. When does the agreement start?

August 27, 2001

5. What types of mail are we transporting on FedEx shared-lift?

FedEx will transport Express Mail, Priority Mail and First-Class Mail.

(continued on page 8)

From your perspective . . .

The following are some thoughts about the FedEx Transportation agreement from postal employees in some of the original test cities around the country:



Robert Bryant, site coordinator & manager, Oakland (CA) AMF

"The FedEx alliance with the Postal Service is a good marriage. With FedEx's dedicated transportation, we won't have the problem of recapturing mail due to mechanical problems with aircraft.

FedEx has a system to activate aircraft to replace one undergoing maintenance or repair. The biggest benefit is the on-time service and an opportunity to increase the awareness in the country that we have improved."

Crystal Spann, distribution clerk, Miami PPMPC

"I believe this move is a positive step that will benefit the two parties involved. FedEx has the experience and ability to add additional resources toward our common vision and commitment of reliable on-time service for the distribution, transportation and delivery of Priority and First-Class mail. The result will be superior service to our customers."



Barbara Keller, distribution clerk, Milwaukee (WI)

"The FedEx transportation agreement is an opportunity for both our companies. We have more reliable and less expensive transportation for our products and I think we'll see an improvement in our overnight delivery scores."

Jane Herold, mail handler, Phoenix (AZ) Airport Mail Center

"At first I wasn't really too sure about the agreement with FedEx because I didn't know if it would eliminate any jobs. We've had meetings and found out more about it and now I feel much better. I think it will benefit the Postal Service and be an asset. After all, this is 2001 and things change; we have to change with the times."



NATIONAL NEWS

Q&As from page 7

6. How will we accomplish ground handling?

The Postal Service has awarded seven regional contracts for terminal handling services at 59 airports throughout the United States. Terminal handling includes building and unloading air containers and drayage of mail. An Article 32 Comparative Analysis found outsourcing terminal handling services created savings over performing work in-house.

7. What are some of the operational changes we can expect?

At most sites, we will give mail to terminal handlers who will in-turn tender to FedEx. At some sites, Birmingham, AL; Nashville, TN; St. Louis, MO; Jackson, MS; Little Rock, AR and Memphis, TN, FedEx will tender Day network containers directly to USPS. There may also be earlier dispatch times.

8. What if we miss the FedEx dispatch?

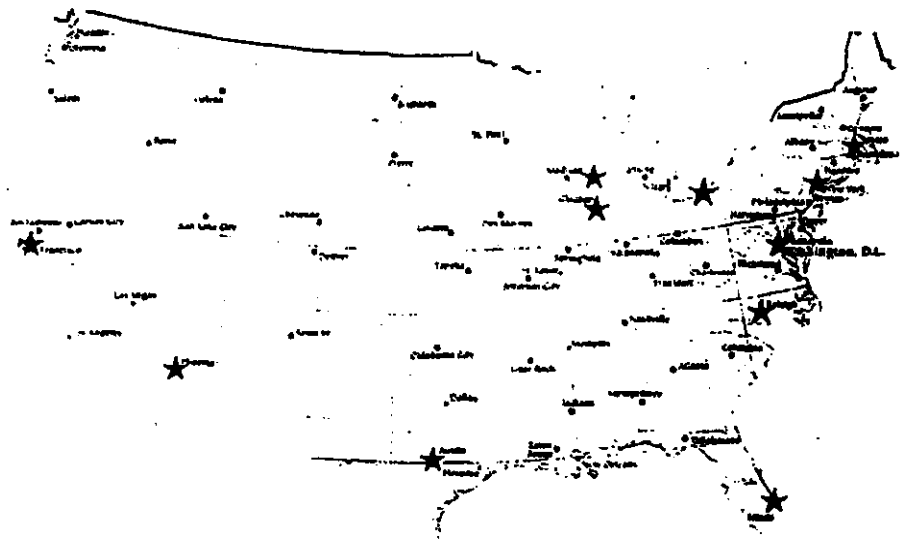
Missing dispatch times will be more important than ever before. If an operation misses its FedEx dispatch, the mail will go on commercial air and the additional expense will be charged back to the AMC, AMF, or Plant.

9. Will the Express Mail directory be revised?

Yes, as necessary. A new directory will be published and distributed to all concerned.

10. Currently, Global Express Guaranteed, Global Express Mail and Global Priority Mail dispatch and route on the A-Net through Indianapolis. How will these international products route in the future?

All three of these international products will continue to be worked and dispatched with Express Mail and they will also be routed on the FedEx Night turn Network.



Eleven sites across the nation were chosen as initial test sites for the USPS/FedEx transportation system: Austin, TX; Boston, MA; Chicago, IL; Cleveland, OH; Dulles/Washington, DC; Ft. Lauderdale, FL; Milwaukee, WI; New York NY; Oakland, CA; Phoenix, AZ; and Raleigh/Durham, NC.

Test cities open transportation phase of deal Eleven sites nationwide report excellent first-day results

Tuesday, June 26, started off as any ordinary day at the Austin TX Air Cargo Facility next to the new Bergstrom International Airport. But the day was far from ordinary for USPS and FedEx employees in Austin that morning.

FedEx cargo plane was waiting to make history.

Since this was the first day of the test of the USPS-FedEx transportation system that would link more than 116 sites nationwide later this summer, there was excitement in the air.

The transportation agreement began on August 27, however, the test period began first with 11 sites: Austin, Boston, Chicago, Cleveland, Fort Lauderdale, Milwaukee, New York, Oakland, Phoenix, Raleigh/Durham and Washington/Dulles.

Out of the shadows of the FedEx plane came a tug with a FedEx logo on it, ready to take the first USPS

mail from Austin through the FedEx hub in Memphis and on to Kennedy International Airport in New York.

"We've done a lot of preparation for this day and for the days to come," said Barbara Collins, manager transportation networks. "This marks the beginning of a process that will last for at least the next seven years."

USPS Clerks Raymond Raesz, Deborah Coughenour, Dan Hillis and Michael Engells all watched expectedly as FedEx Ramp Agent Fred Dougherty hooked up the LD3 container to his tug and sped across the tarmac to the waiting FedEx plane.

FedEx and USPS officials watched and congratulated each other as history was being made in Austin TX and 10 other locations around the country.

UPS/USPS - T28-4 S&S

DECLARATION

I, Joseph D. Moeller, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

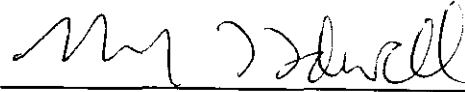


JOSEPH D. MOELLER

Dated: November 15, 2001

CERTIFICATE OF SERVICE

I hereby certify that, in accordance with section 12 of the Rules of Practice, I have this day served the foregoing document upon all parties of record in Docket No. R2001-1.

A handwritten signature in black ink, appearing to read "Michael T. Tidwell", written over a horizontal line.

Michael T. Tidwell

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