

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

RECEIVED  
Nov 29 4 41 PM '01  
POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS HATFIELD TO INTERROGATORIES OF  
UNITED PARCEL SERVICE  
(UPS/USPS-T18-1-11)

The United States Postal Service hereby provides the responses of witness Hatfield to the following interrogatories of United Parcel Service: UPS/USPS-T18-1-11, filed on November 15, 2001.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking:



Susan M. Duchek

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-2990; Fax -5402  
November 29, 2001

RESPONSE OF POSTAL SERVICE WITNESS  
HATFIELD TO INTEROGATORIES OF UNITED PARCEL SERVICE

**UPS/USPS-T18-1.** Refer to page 13 of your testimony, Table USPS-T-18A.

- (a) What portion of the \$146,185,000 in "Other" costs for the Eagle Network are considered network premium costs under the PRC-approved costing methodologies? Explain fully if your answer is anything less than 100 percent of the costs.
- (b) Confirm that these premium costs are considered product-specific to Express Mail. If not confirmed, explain.

**RESPONSE:**

(a), (b) The results shown in Tables USPS-T-18A and USPS-T-18B have been calculated using the current USPS costing methodology, which is different from the PRC-approved costing methodology. This same analysis has been conducted using the PRC costing methodology and is presented in USPS-LR-J-99. Tables 110 and 111 of USPS-LR-J-99 show total status quo costs by cost pool and class/subclass of mail. The Express Mail costs for both the Eagle and Western cost pools include all network premium costs.

**RESPONSE OF POSTAL SERVICE WITNESS  
HATFIELD TO INTEROGATORIES OF UNITED PARCEL SERVICE**

**UPS/USPS-T18-2.** Refer to page 13 of your testimony, Table USPS-T-18A.

- (a) What portion of the \$27,484,000 in "Other" costs for the Western Network are considered network premium costs under the PRC-approved costing methodologies? Explain fully if your answer is anything less than 100 percent of the costs.
- (b) Confirm that these premium costs are considered product-specific to Express Mail. If not confirmed, explain.

**RESPONSE:**

- (a), (b) Please see response to UPS/USPS-T18-1.

**RESPONSE OF POSTAL SERVICE WITNESS  
HATFIELD TO INTEROGATORIES OF UNITED PARCEL SERVICE**

**UPS/USPS-T18-3.** Refer to page 14 of your testimony, Table USPS-T-18B.

- (a) What portion of the \$146,112,000 in "Other" costs for the Eagle Network are considered network premium costs under the PRC-approved costing methodologies? Explain fully if your answer is anything less than 100 percent of the costs.
- (b) Confirm that these premium costs are considered product-specific to Express Mail. If not confirmed, explain.

**RESPONSE:**

- (a), (b) Please see response to UPS/USPS-T18-1.

**RESPONSE OF POSTAL SERVICE WITNESS  
HATFIELD TO INTEROGATORIES OF UNITED PARCEL SERVICE**

**UPS/USPS-T18-4.** Refer to page 14 of your testimony, Table USPS-T-18B.

- (a) What portion of the \$27,471,000 in "Other" costs for the Western Network are considered network premium costs under the PRC-approved costing methodologies? Explain fully if your answer is anything less than 100 percent of the costs.
- (b) Confirm that these premium costs are considered product-specific to Express Mail. If not confirmed, explain.

**RESPONSE:**

- (a), (b) Please see response to UPS/USPS-T18-1.

RESPONSE OF POSTAL SERVICE WITNESS  
HATFIELD TO INTEROGATORIES OF UNITED PARCEL SERVICE

**UPS/USPS-T18-5.** Refer to page 13 of your testimony, Table USPS-T-18A.

- (a) Confirm that the \$292,373,000 in "Other Adjustments" represents the full year cost of providing transportation in lieu of the transportation provided by the Emery PMPC (Priority Mail Processing Center) contract. If not confirmed, explain what this amount represents.
- (b) What was the actual, equivalent cost in FY 2001?

**RESPONSE:**

- (a) The \$292,373,000 in "Other Adjustments" from Table USPS-T-18A represents the full year cost of providing *air* transportation in lieu of the *air* transportation provided by the Emery PMPC contract.
- (b) The actual cost of the air transportation that replaced the air transportation provided by the Emery PMPC contract is not known. After the contract was terminated, it is my understanding that the Priority Mail volume handled by the PMPCs received various types of air transportation and that this volume was not differentiated from other Priority Mail volumes. Therefore, the data do not exist to uniquely identify the PMPC volumes and the air transportation that they received after the PMPC contract was terminated. However, prior to filing of this case, the Postal Service estimated the FY2001 cost for this air transportation to be \$204,200,000. This estimate represents the cost of providing air transportation for the 9 APs in FY2001 after the termination of the Emery PMPC contract. This figure is discussed in my testimony on pages 7-8 and 12 and was taken from the testimony of witness Patelunas (Exhibit USPS-T-12A).

RESPONSE OF POSTAL SERVICE WITNESS  
HATFIELD TO INTEROGATORIES OF UNITED PARCEL SERVICE

**UPS/USPS-T18-6.** Refer to page 14 of your testimony, Table USPS-T-18B.

- (a) Confirm that the \$309,508,000 in "Other Adjustments" represents the full year cost of providing transportation in lieu of the transportation provided by the Emery PMPC (Priority Mail Processing Center) contract. If not confirmed, explain what this amount represents.
- (b) What was the actual, equivalent cost in FY 2001?

**RESPONSE:**

- (a) The \$309,508,000 in "Other Adjustments" from Table USPS-T-18B represents the full year cost of providing *air* transportation in lieu of the *air* transportation provided by the Emery PMPC contract.
- (b) Please see response to UPS/USPS-T18-5b.

**RESPONSE OF POSTAL SERVICE WITNESS  
HATFIELD TO INTEROGATORIES OF UNITED PARCEL SERVICE**

**UPS/USPS-T18-7.** Explain where the \$292,373,000 in "Other Adjustments" on page 13 of your testimony, Table USPS-T-18A, is found in library reference USPS-LRJ-49, spreadsheet "Prg\_01\_s.XLS."

**RESPONSE:**

The \$292,373,000 in "Other Adjustments" from Table USPS-T-18A is not found in library reference USPS-LR-J-49, spreadsheet "Prg\_01\_s.xls." This figure was developed based on the analysis described in my testimony on pages 7-8 and 12 and is shown in USPS-LR-J-94, Table 109. The inputs used to develop this figure are taken from witness Patelunas (Exhibit USPS-T-12A).



RESPONSE OF POSTAL SERVICE WITNESS  
HATFIELD TO INTEROGATORIES OF UNITED PARCEL SERVICE

**UPS/USPS-T18-8.** Explain where the \$309,508,000 in "Other Adjustments" on page 14 of your testimony, Table USPS-T-18B is found in library reference USPS-LR-J-49, spreadsheet "Prg\_01\_s.XLS."

**RESPONSE:**

Please see response to USP/USPS-T18-7.

RESPONSE OF POSTAL SERVICE WITNESS  
HATFIELD TO INTEROGATORIES OF UNITED PARCEL SERVICE

**UPS/USPS-T18-9.** Provide a precise explanation of the transportation that is provided in the Air Taxi category discussed on page 11 of your testimony and included in Tables USPS-T-18A and USPS-T-18B on pages 13-14 of your testimony.

**RESPONSE:**

An explanation of the transportation that is provided in the Air Taxi cost pool discussed in my testimony is described in USPS-LR-J-1, Section 14.1.1.

RESPONSE OF POSTAL SERVICE WITNESS  
HATFIELD TO INTEROGATORIES OF UNITED PARCEL SERVICE

**UPS/USPS-T18-10.** What proportion of FY 2002 and FY 2003 Air Taxi costs will be replaced by the FedEx transportation contract?

**RESPONSE:**

The analysis described in my testimony assumes that 100 percent of FY 2002 and FY 2003 Air Taxi costs will be replaced by the FedEx transportation contract as discussed on page 29.

**RESPONSE OF POSTAL SERVICE WITNESS  
HATFIELD TO INTEROGATORIES OF UNITED PARCEL SERVICE**

**UPS/USPS-T18-11.** Confirm that in the Base Year transportation cost model, presented by Witness Meehan, Air Taxi costs are distributed to Postal Service products in the following manner: A weighted average distribution key is calculated by summing the Parcel Post transportation costs of all other air transportation modes (Passenger Air, Daynet and HASP, Eagle Network, Western Network, Christmas, Alaska Non-Pref, Alaska Pref, and Hawaii) and dividing these costs into the total air transportation costs for these modes. If not confirmed, explain fully. Explain how this cost distribution method is incorporated into your analysis.

**RESPONSE:**

As discussed in USPS-LR-J-1, Section 14.1.1.4, this is an accurate description of the method used to calculate Parcel Post Air Taxi costs in the Base Year. The analysis described in my testimony does not explicitly distribute Air Taxi costs to the classes and subclasses of mail. Rather, FY 2001 through FY 2003 Air Taxi costs by class and subclass of mail are estimated by applying cost and volume adjustments to the Base Year Air Taxi costs by class and subclass mail. This process is described on page 11 of my testimony.

**DECLARATION**

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

Philip L. Hatfield

Dated: 11/29/01

## 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.

  
\_\_\_\_\_  
Susan M. Duchek

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-2990; Fax -5402  
November 29, 2001