

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  
TO INTERROGATORIES OF UNITED PARCEL SERVICE  
REDIRECTED FROM WITNESS KAY  
(UPS/USPS-T21-10-11)

The United States Postal Service hereby provides its responses to the following interrogatories of United Parcel Service: UPS/USPS-T21-10-11, filed on November 15, 2001, and redirected from witness Kay.

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 29, 2001

**RESPONSE OF UNITED STATES POSTAL SERVICE TO INTERROGATORIES OF  
UNITED PARCEL SERVICE**

**(Redirected from witness Kay, USPS-T-21)**

**UPS/USPS-T21-10.** Refer to the copies of screens found at the Postal Service's Internet site [www.planesforpackages.com](http://www.planesforpackages.com), attached as Exhibit A to this interrogatory.

(a) For the Base Year in this docket:

(i) Is the cost of this website and its content included in advertising costs?

(ii) What portion of the cost of this website and its content is attributed to Priority Mail?

(iii) What portion of the cost of this website and its content is attributed to Express Mail?

(iv) What portion of the cost of this website and its content is attributed to Global Express Guaranteed Service?

(v) What portion of the cost of this website and its content is attributed to Global Express Mail?

(vi) What portion of the cost of sponsoring the United States Postal Service Pro Cycling Team is attributed to specific products and services? To what products or services is that cost attributed, and in what amounts?

(b) For the Test Year in this Docket:

(i) Is the cost of this website and its content included in advertising costs?

(ii) What portion of the cost of this website and its content is attributed to Priority Mail?

(iii) What portion of the cost of this website and its content is attributed to Express Mail?

(iv) What portion of the cost of this website and its content is attributed to Global Express Guaranteed Service?

(v) What portion of the cost of this website and its content is attributed to Global Express Mail?

(vi) What portion of the cost of sponsoring the United States Postal Service's Pro Cycling Team is attributed to specific products and services? To what products or services is that cost attributed, and in what amounts?

(c) Define the meaning of the phrase "dedicated for packages" as it is used in these materials.

(i) For what types of packages are these airplanes "dedicated"?

(ii) Of the packages carried on these airplanes in the Base Year, what portion are Priority Mail? Express Mail?

(iii) Of the packages carried on these airplanes in the Test Year, what portion are Priority Mail? Express Mail?

(d) Define the term "more reliable delivery."

(i) How will delivery be made "more reliable"?

(ii) For what services will delivery be made "more reliable" and to what extent?

(iii) When does the Postal Service expect to see these improvements?

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**RESPONSE:**

a. (i)-(v). The website did not exist in the base year, and therefore no costs of the website could have been reported for the base year, or allocated to products in the base year. If the website had existed in the base year, however, its costs presumably would have been included within advertising costs, and allocated to products in the same way as the advertising costs shown in USPS-LR-J-72.

(vi). The base year costs for the sponsorship of the United States Postal Service Pro Cycling Team were not, per se, identified as volume-variable or product specific to any product or set of products. Rather, in the base year, those costs were included within the costs of component 177, Cost Segment 16. The majority (57 percent) of the costs within that component were distributed to all classes of mail and special services, using the same distribution factors as component 525 (essentially, all labor costs). Within component 177, however, it is not possible to identify separately the treatment of costs of the different programs included within the component. Therefore, while it may not be unreasonable to think of the costs of the cycling sponsorship as distributed (in part) to all classes of mail and services, one cannot reasonably claim to know exactly how much was distributed to individual products in the base year.

b. (i)-(v). Advertising costs by program do not exist for the test year. As used by witness Kay in her incremental cost analysis, however, advertising costs by product are estimated in the test year using test year total advertising budget estimates, and base year product proportions. There are test year costs estimated by witness Kay for the domestic services mentioned in the question and for International Mail, and it is not

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unreasonable to expect that the test year costs of the website (assuming that the same or a similar advertising program were to continue) would be among those included within the test year advertising costs by product already incorporated by witness Kay into her test year incremental cost estimates.

(vi). Costs of specific programs such as the cycling sponsorship are not explicitly rolled forward. Implicitly, they are treated in the roll-forward (and hence appear within the test year costs) as all of the other costs of component 177.

c. As used in these materials, the phrase “dedicated for packages” means that previously the Postal Service relied in part on commercial airlines, which were “dedicated” to passengers in that passengers took precedence over cargo. Now, under the transportation agreement with FedEx, the Postal Service has access to a network that is “dedicated” to package and other cargo.

(i) Under the transportation agreement with FedEx, the Postal Service will ship Express Mail, International express products, Priority Mail and First-Class Mail.

(ii) The transportation agreement with FedEx was not entered until after Base Year 2000.

(iii) For the purpose of developing a cost distribution for the FedEx transportation agreement, witness Hatfield (USPS-T-18) projected volumes to be carried on FedEx in the Test Year by ACT Tag. See USPS-LR-J-94 (Table 305, line 9), produced under protective conditions.

d. “More reliable delivery” refers to the goal of the Postal Service to provide service that more consistently achieves the applicable delivery standards.

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(i)-(iii) A major goal of the Postal Service in entering into the FedEx transportation agreement is to provide more consistent and reliable service for the express products, Priority Mail and First-Class Mail. Under the transportation agreement with FedEx, the Postal Service has purchased space on a single-integrated air carrier and more cities are reached than was the case under the Postal Service's previous dedicated air networks. Also, the Postal Service will have access to FedEx's information technology. All of these factors should improve service performance for the products carried on the FedEx network. It should be noted, however, that even if service becomes more reliable, customers' perceptions of the service achievement also need to change before it can be said that service is "more reliable." Also, due to certain transportation disruptions caused by the aftermath of September 11, it is not possible to say with certainty when service for certain products becomes "more reliable."

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**UPS/USPS-T21-11.** Refer to the publication "cargo facts UPDATE," Volume 21, Number 11B, November 8, 2001, attached as Exhibit A to this interrogatory.

- (a) On page 1, it is reported that "The U.S. Postal Service will award AIRBORNE, BAX GLOBAL, and DHL small (by comparison) Priority and Express Mail system contracts for tonnage not currently included in the USPS/Federal Express joint venture."
  - (i) Are these costs included in the Postal Service's filing in this docket?
  - (ii) What will be the additional costs to Express Mail and Priority Mail as a result of these contracts?
- (b) The paragraph goes on to state that the Postal Service may also establish a separate "truck and air system based in the Ohio River Valley."
  - (i) Does the Postal Service plan to establish a truck and air system based in the Ohio River Valley?
  - (ii) If so:
    - (a) Are the costs of this system included in the Postal Service's filing in this docket?
    - (b) What classes or subclasses of mail will be carried in this system and in what proportion?
    - (c) What will be the additional costs to Express Mail and Priority Mail as a result of these contracts?

**RESPONSE:**

(a)-(b) The Postal Service is approached from time to time by various vendors with unsolicited offers for transportation and other services. Such offers are evaluated on their individual merits. At present, there is no such agreement with any vendor to transport Express and Priority Mail not covered by the transportation agreement with FedEx, nor are there any commitments to establish a truck and air system based in the Ohio River Valley. The Postal

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Service's filing in this case does not include costs for transportation contracts or commitments that do not currently exist.

## 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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November 29, 2001