

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
WITNESS HATFIELD TO INTERROGATORIES OF
PARCEL SHIPPERS ASSOCIATION
(PSA/USPS-T18-1-2)

The United States Postal Service hereby provides the responses of witness Hatfield to the following interrogatories of Parcel Shippers Association: PSA/USPS-T18-1-2, filed on November 16, 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:



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November 30, 2001

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PSA/USPS-T18-1. Please refer to Table USPS-T-18G in your testimony.

- (a) Please confirm that while the FedEx Rollforward Adjustment reduces FY 2002 costs for transporting First-Class Mail by \$91 million, it increases FY 2002 costs for transporting Priority Mail by more than \$110 million. If not confirmed, please provide the correct figures.
- (b) Please explain in detail all reasons why the FedEx Rollforward Adjustment reduces FY 2002 costs for First-Class Mail. For each reason, please quantify the dollar amount by which it changes FY 2002 costs for First-Class Mail.
- (c) Please explain in detail all reasons why the FedEx Rollforward Adjustment increases FY 2002 costs for Priority Mail. For each reason, please quantify the dollar amount by which it changes FY 2002 costs for Priority Mail.
- (d) Please confirm that the FY 2002 Fed Ex Rollforward Adjustments are rolled forward to the Test Year. If not confirmed, please explain fully.

RESPONSES:

- (a) Confirmed.
- (b) As shown in Table USPS-T-18G, the overall net decrease in First-Class Mail purchased transportation costs of \$90.9 million is comprised of three distinct items: air transportation (-\$101.1 million), ground handling (\$9.7 million), and additional highway transportation (\$0.5 million). Of the three items, the only one that tends to decrease First-Class Mail costs is air transportation. The net decrease in air transportation costs is also comprised of various factors that, taken individually, would tend to both increase and decrease First-Class Mail costs. Because these factors are inter-related, no analysis has been done to

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separate or quantify their individual impact. The factors that contribute to the decrease in First-Class Mail air transportation costs are described below.

The FedEx Rollforward Adjustment reduces FY2002 costs for First-Class Mail because the costs assigned to First-Class Mail in the FedEx scenario are lower than the costs that would have been incurred to move the same volume of First-Class Mail under the *status quo* scenario. This result is caused by two factors. The first factor is the difference in total cost for FedEx transportation relative to the transportation it replaces. As described on page 3 of testimony, the cost to move a given amount of mail on FedEx is less than the cost to move an equivalent amount of mail on *status quo* air transportation.

The second factor is a difference in distribution methodology. In the *status quo* scenario, the majority of air transportation costs are distributed to the classes and subclasses of mail using weight-based distribution keys. FedEx day turn network costs are distributed to the classes and subclasses of mail using a cube-based distribution key. Because First-Class Mail tends to be relatively dense compared to the other classes and subclasses of mail that are transported via air, its share of weight-related costs is greater than its share of cube-related costs. Therefore, the cost to move First-Class Mail on the FedEx day turn network is less than the cost to move the equivalent volume of First-Class Mail on air transportation in the *status quo* scenario.

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- (c) As shown in Table USPS-T-18G, the overall net increase in Priority Mail purchased transportation costs of \$110.1 million is comprised of three distinct items: air transportation (\$65.2 million), ground handling (\$42.6 million), and additional highway transportation (\$2.3 million). The reasons why ground handling and additional highway transportation increase Priority Mail costs are fully explained in my testimony on pages 30-31. The net increase in air transportation costs is also comprised of various factors that, taken individually, would tend to both increase and decrease Priority Mail costs. Because these factors are inter-related, no analysis has been done to separate or quantify their individual impact. The factors that contribute to the increase in Priority Mail air transportation costs are described below.

The FedEx Rollforward Adjustment increases FY2002 costs for Priority Mail because the costs assigned to Priority Mail in the FedEx scenario are higher than the costs that would have been incurred to move the same volume of Priority Mail under the *status quo* scenario. For Priority Mail, there are two factors that contribute to this result. The first is related to the difference in distribution methodology described in PSA/USPS-T-18-1b. In the *status quo* scenario, the majority of air transportation costs are distributed to the classes and subclasses of mail using weight-based distribution keys. FedEx day turn network costs are distributed to the classes and subclasses of mail using a cube-based distribution

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key. Because Priority Mail tends to be relatively less dense than the other classes and subclasses of mail that are transported via air, its share of weight-related costs is less than its share of cube-related costs.

The second factor that contributes to the increase in Priority Mail air transportation costs is related to the network premiums in the *status quo* scenario. For certain types of air transportation in the *status quo* scenario (Eagle Network and Western Network), Priority Mail received a relatively low transportation cost (passenger air equivalent cost) because of the network premiums assigned to Express Mail. In the FedEx scenario, these premiums no longer exist and Priority Mail receives its share of FedEx day turn network costs based on the cubic feet of Priority Mail to be transported. Therefore, the cost to transport Priority Mail on the FedEx day turn network are higher than the costs to move the equivalent volume of Priority Mail on air transportation in the *status quo* scenario.

- (d) Assuming your question refers to "rolling forward" FY2002 FedEx costs to the test year, confirmed. It is my understanding that witness Patelunas (USPS-T-12) "rolled forward" the FY2002 FedEx costs using my incremental FY2003 adjustments described on pages 35-36 and shown in my Table USPS-T-18H.

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PSA/USPS-T18-2. Please identify, describe, and quantify all cost reductions from the Fed Ex contract that will not be fully realized by the Test Year. Please also provide all underlying calculations.

RESPONSE:

The analysis described in my testimony includes all cost reductions associated with purchased transportation that are expected to occur in FY2002 and FY2003 as a result of the FedEx transportation agreement. While it is expected that the FedEx transportation agreement will continue to provide cost savings over the *status quo* scenario beyond the test year, these cost savings are not considered in my testimony.

DECLARATION

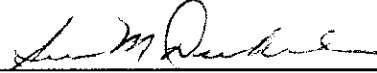
I, Philip Hatfield, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Philip C. Hatfield

Dated: 11/30/01

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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