

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 INTERROGATORY OF UNITED PARCEL SERVICE
(UPS/USPS-2(a) and (b))

The United States Postal Service hereby provides its response to the following interrogatory of United Parcel Service: UPS/USPS-2(a) and (b), filed on November 1, 2001. This response is being provided pursuant to Presiding Officer's Ruling No. R2001-1/22, issued December 18, 2001.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys

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December 27, 2001

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

UPS/USPS-2. Refer to DFC/USPS-1, Response of United States Postal Service to Interrogatory of Douglas F. Carlson and the attachment thereto. Provide the following Final Reports referenced in that interrogatory response:

- (a) Interim Audit Results of FedEx Transportation Agreement (1st letter), Issued 6/26/01, Final Report No. TR-LA-01-001, Project No. 01NR008TR000.
- (b) Interim Audit Results on Excise Taxes and Third Party Ground Handling Costs Under the FedEx Transportation Agreement (2nd letter), Issued 8/8/01, Final Report No. TR-MA-01-002, Project No. 01NR008TR001.

RESPONSE:

The above-mentioned reports are being provided in USPS-LR-J-208, produced under protective conditions pursuant to Presiding Officer's Ruling No. R2001-1/22. In providing the above-mentioned OIG audit reports, the Postal Service would like to provide a brief description of the process by which these reports were produced. Through a lengthy series of meetings beginning in the spring of 2001 and continuing into the fall, representatives from Network Operations Management, Finance, and outside consultants met with members of the Office of the Inspector General. These meetings were intended to produce recommendations to assist in Finance's validation of costs and savings associated with the FedEx transportation agreement. These meetings accomplished just this purpose; however, the interim OIG audit reports alone do not necessarily reflect this outcome.

The first interim OIG audit report dated June 26, 2001 raised valid concerns regarding service performance, cost estimates, availability of ground handling contractors, and density targets. Postal Service management

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responded to these concerns and followed many of the OIG's recommendations as outlined in a June 7, 2001 memo from Patrick R. Donahoe, Senior Vice President, Operations. Subsequent to the first audit, both parties eventually reached agreement on all the items discussed in the report. At that time, the OIG determined the Postal Service's estimate of cost savings due to the FedEx transportation agreement were valid.

Third party ground handling costs and excise taxes were the subject of the second interim OIG audit report dated August 8, 2001. Postal Service management agreed with the OIG's findings that excise taxes had been incorrectly excluded from the calculations. In addition, as a result of operational changes with regard to the implementation of the FedEx transportation agreement, the full cost of third party ground handling services were not included in earlier estimates. Postal Service management responded to these findings by the OIG and implemented the above-mentioned changes to the cost estimates. Although consensus between the OIG and Postal Service management on third party ground handling costs and the overall cost savings associated with the FedEx transportation agreement was reached at one point, this is not evident in the second audit report.

Furthermore, the recommendations agreed upon by Postal Service management and the OIG prior to the filing of Docket no. R-2001-1 were incorporated into the FedEx rollforward adjustment developed by witness Hatfield (USPS-T-18). Thus, revisions to the transportation cost estimates under the

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FedEx transportation agreement as a result of the OIG audit process arising from these two reports have been included in the case.

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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