

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

POSTAL RATE AND FEE CHANGES
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 12
(August 18, 2005)

The United States Postal Service hereby provides the responses to Presiding Officer's Information Request (POIR) No. 12, issued August 4, 2005. The following witnesses are sponsoring the identified responses to this POIR:

Witness Bradley (USPS-T-14):	Question 15
Witness Nash:	Questions 6-14
Witness Taufique:	Questions 3 and 5
Witness Thress:	Questions 1-2
Institutional:	Question 4

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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RESPONSE OF POSTAL SERVICE WITNESS THRESS
TO POIR NO. 12, QUESTION 1

1. Please refer to the fee schedule for Delivery Confirmation on page 76, Attachment A of the Request. For First-Class Mail the “current” and “proposed” Delivery Confirmation fees for “electronic” and “retail” are listed as \$0.13 and \$0.55, and \$0.14 and \$0.60, respectively. Now please refer to USPS-LR-K-63, file Prices.xls, sheet “SpcSvs,” cells T198, T199, U198 and U199. The “current” and “proposed” First-Class Delivery Confirmation fees for “manual” and “electronic” are listed as \$0.45 and \$0.00, and \$0.50 and \$0.00, respectively. These fees appear to apply to Priority rather than First-Class. Please reconcile these apparent differences for “current” and “proposed” First-Class Delivery Confirmation fees.

RESPONSE:

The First-Class Delivery Confirmation fees in USPS-LR-K-63, file Prices.xls, sheet ‘SpcSvs’ are incorrect. The numbers should be \$0.13 and \$0.55 and \$0.14 and \$0.60 as cited in your question.

RESPONSE OF POSTAL SERVICE WITNESS THRESS
TO POIR NO. 12, QUESTION 2

2. Please refer to USPS-LR-K-63, file Prices.xls, sheet "Express", cell O579 and sheet "OtherPckgs", cells AN433 and AO433. Please verify that: (1) the "current" Express Mail PO to PO flat rate of \$13.65 in sheet "Express" cell O579 should be changed to \$10.40; and (2) the Library Rate prebarcode discounts of \$38,655 produced in sheet "OtherPckgs" cells AN433 and AO433 should be included in the calculation of Library Rate TYBR and TYAR FWIs.

RESPONSE:

I can verify that both of your statements are correct. The current flat rate price for Post Office to Post Office Express Mail is \$10.40, and the Library Rate price index should include prebarcode discounts in its calculation.

RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO POIR NO. 12, QUESTION 3

3. In USPS-T-28B spreadsheet PP-11, witness Taufique calculates combination enclosure revenue for Parcel Post mail. When making this calculation, he includes revenue from the Parcel Return Service (PRS) nonmachinable surcharge but not all of the PRS revenue. Please explain the rationale for not including all of the PRS revenue.

RESPONSE:

Revenue from the experimental Parcel Return Service (PRS), including the nonmachinable surcharge, should not be part of the calculation for combination enclosure revenue. Inclusion of the PRS nonmachinable surcharge revenue in the calculation was a mistake. Making the appropriate corrections in the referenced TYBR spreadsheet reduces combination enclosure revenue by \$299, and the total adjusted revenue by the same amount. Similarly, making the same corrections to spreadsheet PP-15 for the TYAR reduces combination enclosure revenue by \$293, and the total adjusted revenue by the same amount.

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO POIR NO. 12, QUESTION 4

4. Library Reference USPS LR-K-93 contains the B workpapers used to develop PRC Version Base Year 2004 CRA Costs. The "I-forms" work sheet "I-CS 6&7 FACTORS" contains input data used in the B workpapers. Please update these input data with FY 2004 data for all the factors that depend on annual data collections. For example, update with FY 2004 data the CAT and FAT SPLIT FACTORS in worksheet "I-CS 6&7 FACTORS", lines 19 through 54, that are currently referenced as being updated with FY 2002 Coverages. Also, please update the LOAD ATTRIBUTABLE FACTORS (PRC) in worksheet "I-CS 6&7 FACTORS", lines 70 through 75 currently referenced as being updated with the 2002 CCS. Further, please confirm that the stop data in worksheet "I-CS 6&7 FACTORS", in lines 19 through 54 reflect the 2004 CCS.

RESPONSE:

Attached electronically to this response is an updated worksheet "I-CS 6&7 FACTORS" in Excel. The hardcopy attachment to this response is the first two pages of that worksheet, as the third page remains unchanged from the original worksheet. In this worksheet, the split factors on lines 19-34 and the load attributable factors on lines 70-75 have been updated based on FY 2004 CCS data, and the stops data on lines 35-54 continue to reflect (as they did in the original USPS-LR-K-93) FY 2004 CCS data.

Base Year 2004
VARIABILITIES AND FACTORS USED IN CRA ANALYSIS
Inputs to COST SEGMENTS 6&7 from CCS and Special Studies
 All values are percentages except as noted

NOT USED IN USPS VERSION

LETTER ROUTE VARIABILITIES AND FACTORS BY ROUTE TYPE ROUTE TYPE	REFERENCE / UPDATE FREQUENCY	BUS FOOT 71	BUS MOT 73	RES FOOT 75	RES CURB 77	RES P&L 78	MIX FOOT 80	MIX CURB 82	MIX P&L 83	
COLUMN NUMBER		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
DATA CLIENT		CS06&7	CS06&7	CS06&7	CS06&7	CS06&7	CS06&7	CS06&7	CS06&7	CS06&7
STST ACCRUED COST FACTORS	UPDATE AS NEEDED									
LOAD TIME	PRC R87-1 , FAI, Sept 1988	41.88%	15.69%	49.89%	37.05%	19.78%	18.78%	26.14%	24.53%	
STREET SUPPORT	PRC R87-1 , FAI, Sept 1988	18.69%	17.02%	12.57%	13.98%	16.58%	12.85%	18.23%	17.42%	
TRAVEL TIME	PRC R87-1 ,FAI,Sept 1988	11.16%	6.10%	7.86%	5.35%	4.89%	1.12%	4.58%	5.70%	
VEHICLE USE FACTOR	R90-1, USPS-T-13	0.00%	40.00%	0.00%	78.00%	24.00%	0.00%	49.00%	35.00%	
DRIVING TIME	R97-1, USPS-T-19, WP 1.11	0.00%	20.40%	1.76%	6.43%	7.33%	4.72%	7.95%	11.76%	
ROUTE/ACCESS (FAT)	R97-1, USPS-T-19, WP 1.11	39.43%	38.40%	33.03%	10.65%	49.43%	62.53%	28.38%	38.73%	
ROUTE/ACCESS (CAT)	PRC R87-1 , FAI, Sept 1988	0.00%	3.79%	1.75%	31.51%	5.95%	1.12%	17.04%	6.74%	
COLLECTION	R97-1, USPS-T-19, WP 1.11	0.00%	4.70%	1.00%	0.38%	0.93%	0.00%	2.26%	0.82%	
FAT SPLIT FACTORS (USPS)	Updated with FY 2004 Coverages									
SDR		69.91%	57.28%	69.91%	57.28%	57.28%	69.91%	57.28%	57.28%	
MDR		73.61%	61.95%	73.61%	61.95%	61.95%	73.61%	61.95%	61.95%	
BAM		67.55%	53.96%	67.55%	53.96%	53.96%	67.55%	53.96%	53.96%	
CAT SPLIT FACTORS (USPS)	Updated with FY 2004 Coverages									
SDR		43.38%	43.38%	43.38%	43.38%	43.38%	43.38%	43.38%	43.38%	
MDR		39.45%	39.45%	39.45%	39.45%	39.45%	39.45%	39.45%	39.45%	
BAM		47.42%	47.42%	47.42%	47.42%	47.42%	47.42%	47.42%	47.42%	
FAT SPLIT FACTORS (PRC)	Updated with FY 2004 Coverages									
SDR		69.91%	57.28%	69.91%	57.28%	57.28%	69.91%	57.28%	57.28%	
MDR		73.61%	61.95%	73.61%	61.95%	61.95%	73.61%	61.95%	61.95%	
BAM		67.55%	53.96%	67.55%	53.96%	53.96%	67.55%	53.96%	53.96%	
CAT SPLIT FACTORS (PRC)	Updated with FY 2004 Coverages									
SDR		43.38%	43.38%	43.38%	43.38%	43.38%	43.38%	43.38%	43.38%	
MDR		39.45%	39.45%	39.45%	39.45%	39.45%	39.45%	39.45%	39.45%	
BAM		47.42%	47.42%	47.42%	47.42%	47.42%	47.42%	47.42%	47.42%	
ACTUAL TOTAL STOPS (USPS)	UPDATE FOR EACH CRA									TOTAL
SDR	FY City CCS, Number of Stops	655	11,360	519,837	4,772,867	7,474,442	4,666	23,852	77,270	12,884,950
MDR	FY City CCS, Number of Stops	681	1,201	145,983	386,800	622,534	2,865	3,222	12,282	1,175,569
BAM	FY City CCS, Number of Stops	20,658	67,843	84,175	421,695	667,761	1,471	12,657	36,624	1,312,883
POSSIBLE TOTAL STOPS (USPS)	UPDATE FOR EACH CRA									
SDR	FY City CCS, Number of Stops	891	18,354	557,973	5,068,288	7,994,536	6,792	28,808	85,403	13,761,044
MDR	FY City CCS, Number of Stops	681	1,304	147,666	390,890	633,123	3,351	3,222	12,593	1,192,830
BAM	FY City CCS, Number of Stops	23,029	75,864	94,147	474,848	742,431	1,899	14,360	40,632	1,467,209
POSSIBLE TOTAL STOPS (PRC)	UPDATE FOR EACH CRA									
SDR	SSNOCRT.SAS	891	18,354	557,973	5,068,288	7,994,536	6,792	28,808	85,403	13,761,044
MDR	SSNOCRT.SAS	681	1,304	147,666	390,890	633,123	3,351	3,222	12,593	1,192,830
BAM	SSNOCRT.SAS	23,029	75,864	94,147	474,848	742,431	1,899	14,360	40,632	1,467,209
ACTUAL STOPS (PRC)	UPDATE FOR EACH CRA									
SDR	SSNOCRT.SAS	655	11,360	519,837	4,772,867	7,474,442	4,666	23,852	77,270	12,884,950
MDR	SSNOCRT.SAS	681	1,201	145,983	386,800	622,534	2,865	3,222	12,282	1,175,569
BAM	SSNOCRT.SAS	20,658	67,843	84,175	421,695	667,761	1,471	12,657	36,624	1,312,883
ACTUAL SINGLE-SUBCLASS STOPS	UPDATE FOR EACH CRA									
SDR	SSNOCRT.SAS	53	3,289	104,844	857,681	1,533,221	1,884	6,707	21,109	2,528,789
MDR	SSNOCRT.SAS	91	120	10,457	15,577	52,362	1,397	310	1,295	81,608
BAM	SSNOCRT.SAS	4,516	13,553	19,016	96,045	155,647	305	3,012	8,834	300,927
RELAY BURDEN FACTOR			1		1	1		1	1	

Base Year 2004
VARIABILITIES AND FACTORS USED IN CRA ANALYSIS
Inputs to COST SEGMENTS 6&7 from CCS and Special Studies
All values are percentages except as noted

NOT USED IN USPS VERSION

LETTER ROUTE VARIABILITIES AND FACTORS BY STOP TYPE				
COMMENT	REFERENCE	SDR	MDR	BAM
LOAD ATTRIBUTABLE FACTORS (USPS)				
LOAD LETTERS	Updated with FY 2004 CCS	25.70%	52.83%	16.88%
LOAD FLATS		20.04%	8.80%	2.91%
LOAD PARCELS		8.45%	6.43%	5.70%
LOAD ACCOUNTABLES		6.28%	1.85%	13.63%
LOAD COLLECTIONS		2.53%	0.44%	0.92%
LOAD TIME WRT DELIVERIES		0.00%	0.00%	0.00%
MISCELLANEOUS LOAD FACTORS				
LTVT TIME (.10 SECONDS)	R90-1 LTV STUDY	1,205,200	727,231	225,505
NUMBER OF LTV STOPS	R97-1, USPS-T-17	16,037	1,442	1,412
LOAD ATTRIBUTABLE FACTORS (PRC)				
LOAD LETTERS	Updated with FY 2004 CCS	25.70%	52.83%	16.88%
LOAD FLATS		20.04%	8.80%	2.91%
LOAD PARCELS		8.45%	6.43%	5.70%
LOAD ACCOUNTABLES		6.28%	1.85%	13.63%
LOAD COLLECTIONS		2.53%	0.44%	0.92%
DELIVERIES WRT LOAD		0.00%	0.00%	0.00%
VARIABILITIES OF STOPS WRT VOLUME (USPS)				
1ST CLASS SINGLE PIECE	R97-1, LR-H-138	1.5930%	0.0004%	1.3690%
1ST CLASS PRESORT (INCLUDES CRT)	R97-1, LR-H-138	1.9790%	0.0026%	0.3710%
PERIODICALS	R97-1, LR-H-138	0.3340%	0.0003%	0.3250%
STANDARD REGULAR	R97-1, LR-H-138	1.2690%	0.0006%	0.2460%
STANDARD CAR-RT	R97-1, LR-H-138	2.5200%	0.0019%	0.4230%
STANDARD NON-PROFIT REGULAR	R97-1, LR-H-138	0.0810%	0.0011%	0.0410%
STANDARD NON-PROFIT CAR-RT	R97-1, LR-H-138	0.1550%	0.0000%	0.1170%
PACKAGE SERVICES	R97-1, LR-H-138	0.0280%	0.0000%	0.0000%
OTHER	R97-1, LR-H-138	0.3690%	0.0000%	0.2510%
VARIABILITIES OF STOPS WRT VOLUME (PRC)				
1ST CLASS SINGLE PIECE		0.0000%	0.0000%	0.0000%
1ST CLASS PRESORT (INCLUDES CRT)		0.0000%	0.0000%	0.0000%
PERIODICALS		0.0000%	0.0000%	0.0000%
STANDARD REGULAR		0.0000%	0.0000%	0.0000%
STANDARD CAR-RT		0.0000%	0.0000%	0.0000%
STANDARD NON-PROFIT REGULAR		0.0000%	0.0000%	0.0000%
STANDARD NON-PROFIT CAR-RT		0.0000%	0.0000%	0.0000%
PACKAGE SERVICES		0.0000%	0.0000%	0.0000%
OTHER		0.0000%	0.0000%	0.0000%
VARIABILITIES OF DELIVERIES WRT VOLUME (USPS)				
1ST CLASS SINGLE PIECE	R97-1, LR-H-139		0.8721%	0.6393%
1ST CLASS PRESORT (INCLUDES CRT)	R97-1, LR-H-139		2.5869%	0.3462%
PERIODICALS	R97-1, LR-H-139		1.9806%	0.4966%
STANDARD REGULAR	R97-1, LR-H-139		2.3089%	0.0000%
STANDARD CAR-RT	R97-1, LR-H-139		6.3618%	0.2615%
STANDARD NON-PROFIT REGULAR	R97-1, LR-H-139		0.7325%	0.0908%
STANDARD NON-PROFIT CAR-RT	R97-1, LR-H-139		0.2647%	0.0768%
PACKAGE SERVICES	R97-1, LR-H-139		0.1387%	0.0000%
OTHER	R97-1, LR-H-139		1.4336%	0.0000%
VARIABILITIES OF DELIVERIES WRT VOLUME (PRC)				
1ST CLASS SINGLE PIECE	R97-1, LR-H-139		0.8721%	1.4283%
1ST CLASS PRESORT (INCLUDES CRT)	R97-1, LR-H-139		2.5869%	0.7734%
PERIODICALS	R97-1, LR-H-139		1.9806%	1.1095%
STANDARD REGULAR	R97-1, LR-H-139		2.3089%	0.0000%
STANDARD CAR-RT	R97-1, LR-H-139		6.3618%	0.5842%
STANDARD NON-PROFIT REGULAR	R97-1, LR-H-139		0.7325%	0.2028%
STANDARD NON-PROFIT CAR-RT	R97-1, LR-H-139		0.2647%	0.1715%
PACKAGE SERVICES	R97-1, LR-H-139		0.1387%	0.0000%
OTHER	R97-1, LR-H-139		1.4336%	0.0000%

RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO POIR NO. 12, QUESTION 5

5. Please refer to the table below. It shows current and proposed rates for selected categories in Nonprofit Subclass.

Presort Categories		Current (1)	Proposed (2)
Nonletters, Minimum Piece Rate			
1	Basic	\$0.230	\$0.242
2	3/5-Digit	\$0.183	\$0.193
3	3/5-Digit Discounts	\$0.047	\$0.049
Nonletters, Piece and Pound Rate Piece Rate			
4	Basic	\$0.110	\$0.116
5	3/5-Digit	\$0.063	\$0.066
6	3/5-Digit Discount	\$0.047	\$0.050

In previous rate cases, the discounts shown on lines 3 and 6 above were based on the same unit avoidable costs and passthrough percentages because the avoidable costs apply to both piece- and pound-rated mail. For this reason, the current 3/5-Digit discounts are equal. The across-the-board procedure used in this case for calculating rates has inadvertently created different discounts for these categories (Compare Col.2, Line 3 with Col.2, Line 6). To design rates reflecting an across-the-board increase, Witness Taufique first multiplied every Nonprofit subclass rate by 1.054. Because of rounding effects, he then adjusted some rates to ensure consistency between rate categories. For example, he adjusted some rates to ensure that the SCF destination entry discount was equal for each presort and automation rate category. (See USPS-T-28, File: USPST28ASpreadsheets, Sheets: S-18 and S-19) The same adjustment procedure can be used to equate the above referenced discounts. Please provide revised rates and TYAR revenues as appropriate. Alternatively, please provide a rationale for using differential discounts for the same presort category.

RESPONSE:

If the minimum per piece rates for Nonprofit nonletters were to be adjusted to maintain the same discount for 3/5 nonletters as the corresponding pound rated nonletters have, the adjusted rates would be as shown in the following table.

RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO POIR NO. 12, QUESTION 5

Nonprofit Nonletter Rates (3.3 ounces or less)			
	Origin Entry	DBMC Entry	DSCF Entry
Automation 3/5			
As filed	\$0.175	\$0.153	\$0.148
Adjusted	0.174	0.152	0.147
Presorted 3/5			
As filed	0.193	0.171	0.166
Adjusted	0.192	0.170	0.165
Parcels 3/5			
As filed	0.435	0.413	0.408
Adjusted	0.434	0.412	0.407

The resulting TYAR revenue is approximately \$1.3 million less than originally estimated.

Adjusted nonprofit revenue was calculated to be \$1,689,423,539. With the change suggested by this question adjusted nonprofit revenue is 1,688,068,497, a difference of \$1,355,042.

RESPONSE OF POSTAL SERVICE WITNESS NASH
TO POIR NO. 12, QUESTION 6

6. Please confirm that the purpose of using the FedEx Night-Turn Network is for the transportation of Express Mail. Please explain how cost responsibility is traced to each class/subclass that is transported on the Night-Turn Network.

RESPONSE:

Not confirmed. As Witness Spatola stated when describing the FedEx Night-Turn in R2001-1,¹

Night-Turn volume consists of express Postal Service products. These include domestic Express Mail, Express Mail International, and Global Priority Mail. No other mail classifications are planned for the Night-Turn. However, incidental volumes of non-express mail may occasionally appear on the Night-Turn. This may occur because of operational failures or because mail is incorrectly sorted into sacks with express D & R tags. I fully expect, however, that the amount of non-express mail on the Night-Turn will be insignificant.

My understanding is that a small amount of First-Class and other types of mail travels on the night network in certain areas of the country that do not have sufficient commercial air flights, such as Anchorage, Alaska.

Cost responsibility for products on the FedEx Night-Turn is based upon their relative shares of the cost driver. Specifically, volume variable costs for the products that fly on this network are distributed based on pounds (as shown by the Transportation Cost System (TRACS)), which is the cost driver for FedEx Night-Turn contract payments (For more detail, please see LR-K-1 Section 14.1.1.1-5).

¹ See, Testimony of Donald M. Spatola on Behalf of the United States Postal Service, USPS-T-20, Docket No. R2001-1 at 8.

RESPONSE OF POSTAL SERVICE WITNESS NASH
TO POIR NO. 12, QUESTION 7

7. Please confirm that the purpose of using the FedEx Day-Turn Network is for the transportation of Priority Mail. Please explain how cost responsibility is traced to each class/subclass of mail that is transported on the Day-Turn Network.

RESPONSE:

Not confirmed. As Witness Spatola stated when describing the FedEx Day-Turn in R2001-1,²

...the Day-Turn will transport First-Class Mail and Priority Mail. The fact that Day-Turn rates do not include a mileage component means that FedEx is an especially attractive alternative to long-haul commercial air carriers, which charge according to the ASYS contract by the pound and pound-mile. In designing the Day-Turn operating plan, the Postal Service also considers service performance and available capacity between markets served by ASYS carriers. The FedEx Day-Turn is also an attractive option for those markets that have historically experienced service problems or are capacity constrained. Finally, the Day-Turn rates are based on cubic capacity rather than weight. Since First-Class Mail is typically denser than Priority Mail, the Postal Service wants to make sure that it includes First-Class Mail on the Day-Turn. In planning the Day-Turn, we considered ASYS cost and service for both First-Class and Priority Mail, as well as mail density on each origin-destination pair. As a result, some origins and destinations use ASYS carriers for both First-Class and Priority Mail. And some use FedEx for both.

It is my understanding that the commercial air carriers are not offering adequate capacity and/or the delivery performance for certain origin and destination lanes is not adequate to support the Postal Service volume and delivery standard requirements, intensifying the need for reliable air transportation service from FedEx Day-Turn network for First-Class Mail.

² See, Testimony of Donald M. Spatola on Behalf of the United States Postal Service, USPS-T-20, Docket No. R2001-1 at 10.

RESPONSE OF POSTAL SERVICE WITNESS NASH
TO POIR NO. 12, QUESTION 7

Cost responsibility for products on the FedEx Day-Turn is based upon their relative shares of the cost driver. Specifically, volume variable costs for the products that fly on this network are distributed based on cubic feet, (as shown by the Transportation Cost System (TRACS)), which is the cost driver or FedEx Day-Turn contract payments (For more detail, please see LR-K-1 Section 14.1.1.1-5).

RESPONSE OF POSTAL SERVICE WITNESS NASH
TO POIR NO. 12, QUESTION 8

8. Please confirm that the Postal Service schedules capacity for use on the FedEx Day- and Night-Turn Networks based on volume estimates.
- (a) If not confirmed, please explain.
 - (b) If confirmed, please explain the bases of such estimates, *e.g.*, cubic feet, weight, etc., and identify the classes/subclasses on which the estimates are based. Please answer separately for the FedEx Day-Turn and Night-Turn Networks.

RESPONSE:

(a)-(b) Partially confirmed. It is my understanding that the Postal Service schedules capacity for the Day-Turn network based not on piece volume but on the distribution and routing tag (D&R)³ cubic feet required for both Priority and First-Class Mail that needs to fly to meet service commitments. The Postal Service schedules capacity for the Night-Turn network based on the distribution and routing tag (D&R) pound volume of express products that need to fly to meet service commitments.

³ Distribution and routing (D&R) is a characteristic defining the primary mail classes used by operations to track categorized volume in its various air networks. Sacks, tubs, trays, etc are tagged with an identifier that helps operations personnel decide on how to route mail. This is how planning is done on the FedEx networks. The classes/subclasses within those D&R tagged volumes (such as "First-Class" and "Priority" for the Day-Turn) are in effect the volumes that are planned to carry on each network.

RESPONSE OF POSTAL SERVICE WITNESS NASH
TO POIR NO. 12, QUESTION 9

9. Please confirm that there is a minimum capacity commitment per day (or other basis) on the: (a) Night-Turn Network and (b) Day-Turn Network. If confirmed, please explain how the minimum capacity commitment is determined including frequency (per day or some other time interval), and unit of measure *e.g.*, cubic feet, weight, etc.

RESPONSE:

(a) Partially confirmed. There is a negotiated minimum guaranteed volume that is pound-based and is determined over the course of a schedule period (which are a subset of schedule blocks).⁴ These commitments are discussed in the original FedEx contract, USPS LR-J-97 Section 11.1-2.

(b) Partially confirmed. There is a negotiated minimum guaranteed volume that is cube-based and is determined over the course of a schedule period. These commitments are discussed in the addendums to the FedEx contract, USPS LR-K-123 Section 2 (3rd addendum) and Section 7 (4th addendum).

⁴ A contract schedule block is “one or more Schedule Periods grouped together by FedEx for purposes of determining flight schedules during such period.” See USPS Library Reference J-97 at 7. There are six schedule blocks each year.

RESPONSE OF POSTAL SERVICE WITNESS NASH
TO POIR NO. 12, QUESTION 10

10. (a) Is there a minimum bill associated with the minimum capacity commitment on the: (i) Night-Turn Network and (ii) Day-Turn Network?
(b) How is each determined, *e.g.*, cubic feet, weight, etc.?
(c) Is the minimum bill associated with one class/subclass of mail? If so, please elaborate.

RESPONSE:

(a) (i) Yes, with regard to minimum volumes. The Postal Service did have to make payments for not achieving the contract minimums in the base year on the Night-Turn network.

(a) (ii) Yes, with regard to minimum volumes. The contract allows for minimum payments, although during the base year the Postal Service met its minimum commitments on the Day-Turn network.

(b) The minimum payments for the Day-Turn are based on cubic-feet and the Night-Turn is based on pounds.

(c) No.

RESPONSE OF POSTAL SERVICE WITNESS NASH
TO POIR NO. 12, QUESTION 11

11. How is the cost of unused capacity (a) within the minimum capacity commitment and (b) in excess of the minimum allocated by the Postal Service among the various classes of mail? Please explain separately, if appropriate, for both the Day- and Night-Turn Networks.

RESPONSE:

(a) The costs of failing to meet minimum volume commitments, for both networks, are treated as institutional.

(b) Because of the contract, the Postal Service is responsible only for the amount of capacity it purchases, not the entire aircraft or entire network; hence the concept of a shared network. Because there is no excess capacity, there are no payments that need to be allocated to various classes of mail.

RESPONSE OF POSTAL SERVICE WITNESS NASH
TO POIR NO. 12, QUESTION 12

- 12.** Does the Postal Service sell unused capacity on the Day-or Night-Turn Networks to others, including FedEx? If so, please explain such arrangements, including how such revenues are credited to various classes of mail.

RESPONSE:

No. As described in the response to question 11, FedEx owns any excess capacity, so there is no unused capacity for the Postal Service to sell.

RESPONSE OF POSTAL SERVICE WITNESS NASH
TO POIR NO. 12, QUESTION 13

13. Separately for the Day-Turn Network and the Night-Turn Network, please provide the base year and test year total costs associated with unused capacity.

RESPONSE:

Day-Turn costs associated with failing to meet the minimum volume commitments were zero. Night-Turn costs associated with failing to meet the minimum volume commitments were \$310,762 in the base year. To put this figure in context, these costs are one quarter of one percent of the total cost of the FedEx Night-Turn network, which was over \$125 million.

Separate costs for unused capacity are not explicitly developed in the roll-forward model and therefore are not available for the test year.

RESPONSE OF POSTAL SERVICE WITNESS NASH
TO POIR NO. 12, QUESTION 14

14. Please refer to USPS-LR-K-1 Cost segments, CS14-04 at 14.1.1.1 (Docket No. R2005-1) which states: "Payments made to FedEx for failure to provide contract volume minimums for both the Day Turn and the Night Turn were treated as institutional." Please explain the rationale for treating these costs as institutional.

RESPONSE:

The rationale for treating payments for not meeting minimum volume commitments as institutional is that these costs do not increase with volume and not specific to any product on the network.

RESPONSE OF POSTAL SERVICE WITNESS BRADLEY
TO POIR NO. 12, QUESTION 15

15. In his response to POIR 8, witness Bradley provides an electronic SAS file entitled "G1. Estimating.Delivery.Equations.FixedEffects.SAS," which is used to calculate elasticities by mail shape for the "Regular Delivery" and the "P/A Delivery" equations. Both equations utilize the mean value of their respective total delivery times, as part of the elasticity calculations.
- a. Please confirm that this file should have calculated the elasticities by mail shape using delivery time estimated at the mean mail volumes of mail shapes contained in the "Regular Delivery" and "P/A Delivery" equations, rather than the mean values of their respective total delivery times.
 - b. If you do not confirm, please explain why mean total delivery time, rather than delivery time estimated at mean mail volumes, was used for these two equations.

RESPONSE:

a) Not confirmed.

b) The program, Estimating.Delivery.Equations.FixedEffects.SAS (which was used to estimate a preliminary model as part of the research choice trail), estimates a set of fixed effects regression coefficients. It does so by "sweeping" the site-specific means from that data for each site. This econometric technique provides the regression parameters necessary for estimating the volume variabilities and is computationally advantageous, as it precludes the necessity of specifying the 144 dummy variables that would be required under the Least-Squares Dummy Variable (LSDV) approach.

By construction, this approach eliminates both the intercept and the site-specific dummy variables from the estimation and thus cannot be used to obtain an accurate prediction of the delivery time that would take place at mean mail volumes. Because of the omission of the intercept, a predicted delivery time from this regression would be well below the true delivery time at mean values, and its use would lead to an artificial inflation of the estimated variability. Thus, its use must be avoided. Instead, the mean delivery time, which is quite close to the actual delivery time at mean values for these

RESPONSE OF POSTAL SERVICE WITNESS BRADLEY
TO POIR NO. 12, QUESTION 15

regressions, can be used can be used to calculate accurate variabilities in the fixed effects regression without the need of estimating an LSDV model.