

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO INTERROGATORY OF
THE ASSOCIATION OF PRIORITY MAIL USERS, INC., REDIRECTED FROM
WITNESS ANTHONY M. PAJUNAS (USPS-T-45) (APMU/USPS-T45-1 (e)-(h))
(July 20, 2006)

The United States Postal Service hereby provides its institutional response to the following interrogatory of the Association of Priority Mail Users, Inc., filed on July 6, 2006, and redirected from witness Anthony M. Pajunas (USPS-T-45):

APMU/USPS-T45-1 (e)-(h)

A partial objection to subpart (h) was filed on July 17, 2006. The interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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REDIRECTED FROM WITNESS PAJUNAS (USPS-T-45)

APMU/USPS-T45-1

On June 28, 2006, the Postal Service issued News Release No. 06-044 announcing that, beginning on July 1, 2006, United Parcel Service ("UPS") would begin air transportation of Priority Mail on behalf of the Postal Service to 82 cities in the United States not previously serviced under the existing USPS-UPS agreement. The text of the news release, excluding the last paragraph which provides background information about the Postal Service, is set out below.

POSTAL SERVICE, UNITED PARCEL SERVICE EXPAND BUSINESS RELATIONSHIP

WASHINGTON – The U.S. Postal Service today awarded a contract to United Parcel Service (UPS), significantly enhancing a business relationship involving the domestic air transportation of mail. The agreement calls for UPS to transport primarily First Class and Priority mail to and from 98 U.S. cities.

Today's agreement is a three-year arrangement with the possibility of a two-year extension. Currently, UPS provides the Postal Service with mail transportation to and from 16 U.S. cities.

"The Postal Service is one of the largest users of air transportation in the nation and UPS operates one of the world's largest airlines," said Postmaster General John E. Potter. "It only makes sense for the Postal Service to take advantage of the reach offered by UPS. The added advantage of the similarity of our operations will only enhance the Postal Service's ability to provide the highest levels of service for our customers."

Further, Potter added that it is prudent for the Postal Service to work with suppliers that have the transportation of like commodities as a principal mission.

UPS Chairman and Chief Executive Officer Michael L. Eskew also said the agreement is a win-win situation for both companies. "We are excited about expanding our relationship with USPS. We can help support the Postal Service's service commitment to its mail customers while creating new growth opportunities for our company."

Service under the contract will begin July 1, 2006. Postal Service customers will see no change in the way their mail is delivered as the result of this contract. Post Office retail operations are also unaffected....

- a. Please confirm that this Postal Service News Release accurately describes the new agreement with UPS. If you do not confirm, please describe the new arrangement for the air transport of Priority Mail via UPS.
- b. Please identify the benefits that the Postal Service obtains from this new agreement.

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c. Please confirm that this new agreement with UPS is limited to air transport and does not involve ground transport. If you do not confirm, please explain why and set forth the scope of the agreement.

d. Please confirm that this proposed air transportation program with UPS will be in effect for the entirety of TY 2008. If you do not confirm, please explain when the agreement will terminate.

e. Please provide an estimate of Priority Mail cost reductions in TY 2008 expected to result from this change to the agreement with the UPS.

f. Were any of the cost reductions identified in the response to subpart e recognized in the Postal Service's estimate of Priority Mail Test Year costs in this docket? If some or all of the cost reductions were not recognized, how much was not recognized?

g. Do you believe that all of the cost reductions identified in the response to subpart e should be incorporated in the roll-forward model used to develop Test Year costs for Priority Mail? If not, why not?

h. Does the Postal Service currently contract with UPS either for ground transportation or any mail sortation services, or does it plan to do so in the Test Year? If so, please describe the extent of such usage.

RESPONSE:

a-d. Answered by witness Pajunas (USPS-T-45).

e. It is not possible, at this time, to provide an estimate of cost reductions for Priority Mail, or First-Class Mail, that may result from the contract with UPS.

f. N/A

g. N/A

h. Partial objection filed. The Postal Service does not currently contract with UPS for ground transportation or mail sortation services.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

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