

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  
PRESIDING OFFICER'S INFORMATION REQUEST NO. 15  
(September 26, 2006)

The United States Postal Service hereby provides the responses to Presiding Officer's Information Request (POIR) No. 15, issued September 12, 2006. The following witnesses are sponsoring the identified responses to this POIR:

Witness Spatola (USPS-T-49): question 1, subparts (a)-(d), (f)-(j)

Witness Kelley (USPS-T-15): question 1, subpart (e)

Each question 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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Brian M. Reimer

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-3037, Fax -5402  
Brian.M.Reimer@usps.gov

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS  
SPATOLA (USPS-T-49) TO PRESIDING OFFICER'S INFORMATION  
REQUEST NO. 15, QUESTION 1, subparts (a)-(d), (f)-(j)

1. The Postal Service recently entered into a three-year contract with United Parcel Service (UPS) to transport primarily First-Class and Priority Mail<sup>1</sup>
- a. Please describe the parties' duties under this contract, including, among other things, the time of day and the days service is provided by UPS.
  - b. When did the contract become effective and when does it expire?
  - c. By mode of transportation and, if applicable, by subclass, on what basis is the Postal Service charged by UPS, e.g., cubic feet, weight, and/or distance?
  - d. Will mail other than First-Class and Priority be transported by UPS? If so, please elaborate.
  - e. How are the costs incurred under the contract allocated (distributed) to the various subclasses of mail transported by UPS?
  - f. Does this contract have a declining block structure? If so, please elaborate.
  - g. Is there a minimum or maximum volume commitment by either party to the contract? If so, please elaborate.
  - h. Please quantify the test year cost effects (by subclass) of the contract.
  - i. Please identify all differences, if any, between mail transported by FedEx and UPS, including, for example, origin/destination pairs, distance transported, weight, shape.
  - j. Does the Postal Service have the option of scheduling mail on either the FedEx or UPS network? If not, please elaborate. If so, on what basis does the Postal Service decide to schedule mail on a particular network?

**RESPONSE:**

(a) The UPS contract provides for the transportation of mail on two different bases: space available and dedicated.

Space Available Capacity service is provided on Tuesdays through Fridays, but service on Saturdays, Sundays, or Mondays may be provided if the parties agree to terms. The Postal Service will have access to the space available on both the Day and Night UPS Network. For mail transported on a space available basis, the Postal Service will provide UPS with a request for capacity, expressed in pounds, a set

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<sup>1</sup> USPS Press Release, June 28, 2006, *Postal Service and United Parcel Service Expand Business*

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**RESPONSE (continued):**

number of days prior to the start of a UPS operating period. UPS will then provide the Postal Service with its network design or planned capacity. The Postal Service will then notify UPS of the volume that it wishes to move on the offered network. The Postal Service may also place later "spot" orders when UPS advises that additional capacity has become available.

For mail transported on a dedicated basis, the Postal Service will provide its request for dedicated capacity a set number of days prior to the start of an operating period. UPS will then advise of the number of container positions that it will make available to the Postal Service on its scheduled flights, indicating the origin/destination cities served, the volume planned for the aircraft, and the aircraft's schedule. The Postal Service will then indicate the container positions it wishes to utilize.

(b) The contract term began on June 26, 2006, and will end on August 31, 2009. The contract includes an option by which it may be extended, by the mutual agreement of the parties, for an additional period of not more than two years.

(c) The Postal Service will be charged by weight for mail transported by air. There is an additional charge per handling unit when mail is sorted at a UPS hub. The contract also provides for additional charges if UPS transports mail from the destination airport to the Postal Service's acceptance point (or designated delivery point). There is no distinction by subclass.

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**RESPONSE (continued):**

(d) While the contract does not characterize the mail to be transported by class, First-Class Mail and Priority Mail have made up approximately 99% of the total volume of mail transported under the contract.

(f) The contract does not have a declining block structure.

(g) The Postal Service agrees to place an order for the transportation of at least 700,000 pounds of mail for each day in an operating period, other than holidays and days following holidays, and that it will pay for at least 90% of the volume agreed to in the ordering process. UPS guarantees that it will accept and transport 105% of the volume planned for any given origin and destination pair (lane) on a day-to-day basis.

UPS also guarantees annual capacity to three points outside the continental United States, as follows:

Anchorage, AK	5.0 Million Pounds
Honolulu, HI	11.0 Million Pounds
San Juan, PR	5.0 Million Pounds

(h) It is not possible to quantify the volume of mail that will fly on the UPS network in FY 2008, because that figure will depend on the volume of mail that will be offered, as well as the costs and effectiveness of commercial air transportation in FY 2008.

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**RESPONSE (continued):**

(i) It is expected that UPS will carry primarily First-Class Mail, along with some Priority Mail and trace amounts of other classes and subclasses. The mail transported by the two suppliers has similar characteristics. The networks are similar in that they both provide for service throughout the continental United States. Many of the origin/destination pairs are the same although there are some differences. In addition, the hubs are different.

(j) The Postal Service may schedule mail on the FedEx network, on the UPS network, or transport it by air pursuant to other contracts at its discretion. How mail is scheduled will depend on operational and other factors, including the availability of space on the various carriers, the contractual volume commitments, the relative cost, and the ability to meet service standards.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS  
KELLEY (USPS-T-15) TO PRESIDING OFFICER'S INFORMATION  
REQUEST NO. 15, QUESTION 1, subpart (e)

1. The Postal Service recently entered into a three-year contract with United Parcel Service (UPS) to transport primarily First-Class and Priority Mail<sup>1</sup>
- a. Please describe the parties' duties under this contract, including, among other things, the time of day and the days service is provided by UPS.
  - b. When did the contract become effective and when does it expire?
  - c. By mode of transportation and, if applicable, by subclass, on what basis is the Postal Service charged by UPS, e.g., cubic feet, weight, and/or distance?
  - d. Will mail other than First-Class and Priority be transported by UPS? If so, please elaborate.
  - e. How are the costs incurred under the contract allocated (distributed) to the various subclasses of mail transported by UPS?
  - f. Does this contract have a declining block structure? If so, please elaborate.
  - g. Is there a minimum or maximum volume commitment by either party to the contract? If so, please elaborate.
  - h. Please quantify the test year cost effects (by subclass) of the contract.
  - i. Please identify all differences, if any, between mail transported by FedEx and UPS, including, for example, origin/destination pairs, distance transported, weight, shape.
  - j. Does the Postal Service have the option of scheduling mail on either the FedEx or UPS network? If not, please elaborate. If so, on what basis does the Postal Service decide to schedule mail on a particular network?

**RESPONSE:**

- (e) Because there is no declining block rate structure (see Response to POIR 15, question 1(f)), costs are expected to be 100% volume variable, and to be distributed to the classes that fly, by weight.

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<sup>1</sup> USPS Press Release, June 28, 2006, *Postal Service and United Parcel Service Expand Business Relationship*.

## **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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Brian M. Reimer

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-3037, FAX: -5402  
September 26, 2006  
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