

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

Six-Day to Five Day Street Delivery
and Related Service Changes, 2010

Docket No. N2010-1

Library Reference USPS-LR-N2010-1/7

Calculation of Air Transportation Cost Savings (Public Version)

PREFACE

This is a Category 2 library reference that will be sponsored by Postal Service Witness Bradley (USPS-T-6). It contains the documentation for calculation of cost savings for air transportation. The Library Reference has two parts. The first part is this Microsoft Word (pdf) document that provides the explanation of the calculations. The second part contains the Microsoft Excel workbook that performs the calculations.

Note that although this library reference will be sponsored by witness Bradley, the distributions of the mail volume currently transported by air on Sunday that would instead be transported on Tuesday in the proposed environment were provided by witness Grossmann (USPS-T-5), as indicated herein.

The corresponding non-public version of this library reference is USPS-LR-N2010-1/NP1, which is provided under seal.

Calculating Air Transportation Cost Savings

The baseline for air transportation costs is the cost of transporting mail in the air on Sunday in a six-day environment.

In FY2009, in a six-day environment, the Postal Service transported [REDACTED] pounds of mail on Sunday on its air network with [REDACTED] of that mail being transported on the FedEx network and the balance being transported on the commercial air network. The total cost of transporting that mail was \$150,583,340. Thus, the baseline six-day air transportation cost is given by:

Sunday Air Transportation in a Six-Day Environment

Type of Transportation	FY2009 Pounds of Mail	Cost Per Pound	FY 2009 Cost
FedEx	[REDACTED]	[REDACTED]	[REDACTED]
UPS	-	[REDACTED]	\$0
CAIR	[REDACTED]	[REDACTED]	[REDACTED]
Total	[REDACTED]		\$150,583,340

Sources: Volume information: Surface Air Support System, Cost Information: Accounts Payable Excellence System.

Transportation experts performed an operational analysis of how this same mail would travel across the air network on Tuesday and found an opportunity for cost savings¹. The savings arose because [REDACTED]

¹ Specifically, witness Grossmann (USPS-T-5) provided the following information:

There is approximately [REDACTED] pounds of mail on the air network on an average Sunday that the Postal Service expects to be moved on Tuesday. This is in addition to the current volume which moves on Tuesday. Of that total, it is estimated that an average of about [REDACTED] pounds will move from Sunday air transportation to Tuesday FedEx air transportation. It is estimated that an average of about [REDACTED] pounds will move from Sunday air transportation to Tuesday UPS air transportation. It is

Because [REDACTED] total air transportation costs fell.

Based on the information provided by witness Grossmann (and converting that information from a weekly context to an annual context), transportation of the mail that was transported on Sunday in a six-day environment would have the following structure on a five-day environment.

Tuesday Air Transportation in a Five-Day Environment of the Mail
the Flew on Sunday in a Six-Day Environment

Type of Transportation	FY2009 Pounds of Mail	Cost Per Pound	FY2009 Cost
FedEx	[REDACTED]	[REDACTED]	[REDACTED]
UPS	[REDACTED]	[REDACTED]	[REDACTED]
CAIR	[REDACTED]	[REDACTED]	[REDACTED]
Total	[REDACTED]		\$88,236,817

Sources: Volume information: Surface Air Support System, Cost Information: Accounts Payable Excellence System.

The cost savings in air transportation is the difference between the cost of transporting the mail by air in a six-day environment and in a five-day environment.

estimated that an average of approximately [REDACTED] pounds will move from Sunday transportation to Tuesday commercial air transportation. These estimates are based on the current extent of FedEx's ability to absorb volume on the day after a non-widely observed Monday holiday, and on current procedures for distributing the remaining air volume among the various alternate carriers.

Air Transportation Cost Savings From Moving to
Five Day Delivery Environment

Cost of air transportation of mail on Sunday in a six-day environment	\$150,583,340
Cost of air transportation of mail that flew on Sunday in a six-day environment on Tuesday in a five-day environment	\$88,236,817
Cost Savings	\$62,346,523

These cost savings are calculated in the attached Microsoft Excel Workbook entitled, "Calculation of Air Transportation Savings.Nonpublic.xlsx." The calculations start with the baseline costs of transporting mail by air on Sunday in a six-day environment in FY2009. The workbook also presents the total cost of air transportation on Tuesday in the six-day environment in FY2009 as well as the sum of the Sunday and Tuesday costs in the six-day environment. The workbook then uses the operational analysis of how the same pounds of mail (for both Sunday and Tuesday) on Tuesday in a five-day environment to calculate the total cost of transporting mail on Tuesday in a five-day environment.

Note that there is no change in a five-day environment of the amount or cost of transporting the mail that had been transported on Tuesday in a six-day environment. This means that the difference between Tuesday's total cost in a five-day environment and Sunday's and Tuesday's combined cost in a six-day environment arises solely from the cost savings obtained on what had been Sunday's mail in a six-day environment.

In the last step, the cost of transporting Sunday's mail on a six-day environment is compared with the cost of transporting that same mail on Tuesday in a five-day environment to calculate the cost savings.