

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
REQUEST RAISED BY THE COMMISSION DURING ORAL TESTIMONY OF
WITNESS JOHN P. KELLEY (USPS-T-15)
(August 14, 2006)

The United States Postal Service hereby provides its response to a request raised by the Commission during the oral testimony of witness John P. Kelley (USPS-T-15) on August 7, 2006.

The Chairman asked Mr. Kelley if he could "tell us exactly how the Postal Service's payments on the extended contract [with Federal Express] will be computed in our test year for the fiscal year 2008?" Tr. Vol. 4 at 454:25 - 455:3. Mr. Kelley testified that he was "not familiar at all with the terms of the new contract." Id. at 455:4-5. The Chairman then requested that Mr. Kelley "please provide the contract terms that establish the Postal Service's obligation for our record," and indicated that the "material will be subject to protective conditions established in the Presiding Officer's Ruling No. 5 in this case." Id. at 455:6-12.

The Postal Service is able to provide the following response without seeking protective conditions, and believes that it will address the concerns expressed by the Commission.

The new transportation agreement between the Postal Service and FedEx is a new contract set to expire in August 2013, and it replaces the 2001 agreement, which

had been set to expire in August 2008. Regarding the Day-turn costs, for which Mr. Kelley calculated variabilities in USPS-LR-L-35, the new agreement will charge the Postal Service by cubic feet, as did the 2001 agreement. It will include a declining block rate structure for the Day-turn, as did the addenda to the 2001 agreement.

The Postal Service and FedEx are engaged in the process of redacting the new transportation agreement, and the Postal Service intends to file the final redacted version of the new FedEx contract as a Library Reference, once the task of redaction has been completed. This is the same procedure the Postal Service followed in regard to the original 2001 agreement, see Docket No. R2001-1, USPS-LR-J-97, and the addenda to that agreement, see Docket No. R2005-1, USPS-LR-K-123, and Docket No. R2006-1, USPS-LR-L-133.

When it filed its original request in this Docket on May 3, 2006, the Postal Service included, in the revenue requirement, a Transportation Reductions Initiative. See USPS-LR-L-49 at 21-22. One component of this initiative included anticipated savings in air transportation of \$207 million dollars in FY 2008 (the Test Year), and those \$207 million savings were incorporated into the roll-forward. See USPS-T-10 at Exhibit 10-A, p. 9, Cost Segment 14, Domestic Air Cost Reductions for FY 2008 After Rates.

Any anticipated savings resulting from the new transportation agreement between the Postal Service and FedEx are part of this Transportation Reductions Initiative, and do not cause the Postal Service to adjust its estimate of \$207 million savings in air transportation in the Test Year, or the distribution of those savings in the roll-forward.

Accordingly, the Postal Service, having fully accounted for any savings anticipated under the new FedEx agreement, does not believe that it is necessary to adjust any of its Test Year estimates in this docket.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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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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August 14, 2006

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