UPS-ST-4

BEFORE THE
POSTAL RATE COMMISSION

POSTAL RATE AND FEE CHANGES, 1997	:	DOCKET NO. R97-1

SUPPLEMENTAL TESTIMONY OF
RALPH L. LUCIANI ON BEHALF
OF UNITED PARCEL SERVICE
CONCERNING MAIL PROCESSING
COSTS DERIVED PURSUANT TO
ORDER NO. 1203

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My name is Ralph L. Luciani. I am submitting this Supplemental Testimony at the request of United Parcel Service.

Since the filing of my direct testimony (UPS-T-4) on December 30, 1997, I have had the opportunity to review the Postal Service's responses to interrogatories OCA/USPS-71 through OCA/USPS-76, received on December 29, 1997, and its responses to interrogatories UPS/USPS-T28-42 - 46, filed February 4, 1998. In those interrogatory answers, the Postal Service, in response to Order No. 1203, provided costs resulting from the Postal Service's attempt to apply the "established variability analysis" from Docket No. R94-1 to its proposals in this case. As part of its responses, the Postal Service provided Library References H-315 through H-328. Library References H-326 and H-327 contain the Postal Service's estimate of Parcel Post non-transportation worksharing avoided costs pursuant to Order No. 1203.

13 My review of Library Reference H-327 indicates that Postal Service
14 witness Crum made a number of errors in his derivation of Parcel Post worksharing
15 avoided costs pursuant to Order No. 1203. The errors contained in H-327 are outlined
16 below. These errors are separate and distinct from those issues regarding Mr. Crum's
17 estimates of worksharing avoided costs that I identify in my direct testimony, UPS-T-4.
18 1. In Exhibit D of H-327, Mr. Crum failed to include the cost of
19 bedloading activities at the origin SCF in the derivation of the origin SCF loading costs
20 for nonpresorted machinable Parcel Post. Mr. Crum did include these bedloading costs
21 in Exhibit D of his original direct testimony, USPS-T-28.
22 2. In Exhibit G of H-327, Mr. Crum did not change the platform non-
23 BMC piggyback factor to the 1.719 figure found in Library Reference H-318, which
24 contains the piggyback factors for the Order No. 1203 scenario. Similarly, he did not
25 change the piggyback factor for non-machinable manual sorting at the SCF to the 1.49
26 figure found in Library Reference H-318. In addition, Mr. Crum used a productivity
27 figure for unloading bedloaded sacks at the destination SCF for machinable Parcel Post
28 of 275.1, rather than the 145.8 shown in the Order No. 1203 version of USPS-T-29,
29 Appendix V, provided in Library Reference H-326.
30 3. In Exhibit J of H-327, Mr. Crum did not change the piggyback
31 factors used to those provided in Library Reference H-318. In addition, the
32 productivities used to calculate the costs of the load gaylord activity at the origin BMC
33 and the unload gaylord activity at the destination BMC were switched. Finally, the
34 wrong productivity was used for crossdocking pallets, per Appendix V in Library
35 Reference H-326.
36 4. In Exhibit C of H-327, Mr. Crum relied on an incorrect figure for
37 outgoing mail processing costs avoided by DBMC Parcel Post. The source of the figure
38 is Table 1 of Library Reference H-323. A comparison of Library Reference H-315 and

Library Reference H-323 indicates that the Postal Service put a number of cost pool figures in the wrong location in column 10 of Table 1 in H-323. Certain figures are off by a factor of 10, others by more than a factor of 100. These transposition errors yield an incorrect estimate of outgoing mail processing costs avoided by DBMC Parcel Post in Table 1 of H-323. Using the data provided in H-315, I have recalculated the outgoing mail processing costs avoided by DBMC to correct these transposition errors.

Shown in column A of Table S1 below are the Parcel Post non-transportation worksharing avoided cost estimates contained in H-326 and H-327. Shown in column B are those avoided cost estimates as revised only for the errors outlined above. Shown in column C are those avoided cost estimates revised to reflect the impact of the issues identified in my direct testimony. Column D shows the avoided cost estimates contained in my direct testimony, UPS-T-4.

Table S1
Order No. 1203 Parcel Post Worksharing Avoided Costs, Revised
(cents per piece)

Parcel Post Worksharing Activity	A USPS Order No. 1203 Case As Filed	B USPS Order No. 1203 Case Revised	C USPS Order No. 1203 Case Revised to Reflect UPS-T-4 issues	D UPS-T-4 (Table 14)[1]
DBMC Non-Transportation	63.8	54.9	42.7	42.8
OBMC Non-Transportation	76.8	71.7	59.5	58.2
BMC Presort Non-Transportation	16.5	22.3	22.3	21.1
Prebarcoding	3.66	3.66	2.76	2.73
DSCF Non-Transportation	48.3	48.7	37.0	36.8
DDU Non-Transportation	74.0	74.0	72.1	71.8

As noted in my direct testimony, a 77% passthrough should be applied to the selected avoided cost estimates.

[1]. Reflects corrections noted in USPS/UPS-T4-44 and 47.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with section 12 of the Commission's Rules of Practice.

John E. McKeever

Dated: February 13, 1998
Philadelphia, PA