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

POSTAL RATE AND FEE CHANGES, 2000 | Docket No. R2000–1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS EGGLESTON TO INTERROGATORIES OF THE CONTINUITY SHIPPERS ASSOCIATION (CSA/USPS–T26–3-12, 14-17)

The United States Postal Service hereby provides the responses of witness Eggleston to the following interrogatories of the Continuity Shippers Association: CSA/USPS–T26–3-12, 14-17, filed on February 22, 2000. Objections to interrogatories CSA/USPS–26–1, 3 and 13 were filed on March 3, 2000.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS EGGLESTON
TO INTERROGATORIES OF THE CONTINUITY SHIPPERS ASSOCIATION

CSA/USPS-T26-3. Please confirm that window service acceptance is not permitted for parcels returned under BPRS.

RESPONSE:

Not confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS EGGLESTON
TO INTERROGATORIES OF THE CONTINUITY SHIPPERS ASSOCIATION

CSA/USPS-T26-4. If you confirm in response to CSA/USPS-T26-4,

a. Please further confirm that the Window Acceptance Costs of $1,736,287 should be excluded from the Collection Costs for BPRS (Attachment S to your testimony).

b. Please also confirm that exclusion of the Window Acceptance Costs reduces the Collection Costs for BPRS from $0.0322 to $0.0206.

RESPONSE:

(a-b). N/A. Please see response to CSA/USPS-T26-3.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS EGGLESTON
TO INTERROGATORIES OF THE CONTINUITY SHIPPERS ASSOCIATION

CSA/USPS-T26-5. If you do not confirm in response to CSA/USPS-T26-4, please describe the activities performed for the Window Acceptance Costs, and the Postal employee category that performs these activities.

RESPONSE:

It is my understanding that the activities associated with window acceptance costs for BPRS parcels would include picking up the parcel, looking for the BPRS endorsement, and placing the BPRS parcel into the proper receptacle. In addition, all window transactions have a common time component. It is my understanding that the Postal employee that performs these activities is a window clerk.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS EGGLESTON
TO INTERROGATORIES OF THE CONTINUITY SHIPPERS ASSOCIATION

CSA/USPS-T26-6. At Attachment T, Column 6, page 4 of your testimony, you assume that BPRS containers will be 85% full. However, in the mailflow models/cost summary worksheets for Parcel Post Mail Processing at page 4 of your testimony, you state that "For postal paks, pallet boxes, and sacks on an in-house container (IHC), it is assumed that 10 percent of the container is filled with air. This is the same assumption used in Docket No. R97-1. Since parcels tends to be stacked rather than dumped on pallets, the 10 percent air assumption is not used for pallets." Please reconcile the 85% figure from Attachment T with the 90% used for postal paks, pallet boxes and sacks, and 100% full for pallets.

RESPONSE:

The assumptions used in calculating the conversion factors for the BPRS mail processing model are consistent with calculation of the conversion factors in the Special Standard model and the Parcel Post model, except for the calculation of the conversion factor for a pallet box. The reason for the difference is explained in footnote 1, on page 4 of Attachment 4.

I assume that the "90% used for postal paks, pallet boxes and sacks" you refer to in your question is based on the 10 percent air factor assumption I discuss on page 4 of my testimony. The "10 percent air factor" and the "85 percent full factor" are two separate factors and enter the conversion factor calculation in two separate ways. Column 6, on page 4 of Attachment T (BPRS mail processing model) refers to the average fullness of a container. This is how full a container appears to be. For example, if this number were 50, the top of the highest parcels would be about halfway up the height of the container.

The "air factor" refers to the fact that even if a container *looks* halfway full, for all containers except for pallets, some of that fullness is air. Space between parcels exists

because parcels are dumped or tossed into most containers. Since parcels tend to be stacked on pallets, the air factor for pallets is zero. The air factor enters the calculation of the conversion factors in column 4 on page 4 of Attachment T. The equation is the total cubic feet of the container (column 3) divided by the product of the average cube of a BPRS parcel (column 9) and one plus the air factor. For example, the calculation in column 4 for sacks on an in-house container is as follows: (56.2 / (.084 * 1.1)).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS EGGLESTON
TO INTERROGATORIES OF THE CONTINUITY SHIPPERS ASSOCIATION

CSA/USPS-T26-7. Please confirm that Special Standard B mail is used as a proxy for mail processing costs. If you do not confirm, please explain.

RESPONSE:

Not confirmed. The mail processing cost of Special Standard is not used as a proxy for the mail processing cost of BPRS. The BPRS mail processing cost in Attachment T is estimated using a mail processing model that is similar to both the Special Standard mail processing model in Attachment P and the Parcel Post mail processing model in Attachment A. Inputs to this model reflect the characteristics of BPRS. Please see section VII.B.2 of my testimony for a full explanation. Two of the inputs to the BPRS mail processing model are the Special Standard proportional and fixed CRA adjustment factors as proxies for the BPRS proportional and fixed CRA adjustment factors.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS EGGLESTON
TO INTERROGATORIES OF THE CONTINUITY SHIPPERS ASSOCIATION

CSA/USPS-T26-8. At page 34 of your testimony, you state that Special Standard parcels are "twice the size and weight of the average BPRS parcel." Please explain how the larger and heavier Special Standard B mail is adjusted in determining the mail processing costs for BPRS.

RESPONSE:

Please see response to CSA/USPS-T26-7. Section VII.B.2 of my testimony explains how inputs to the mail processing model were used to reflect characteristics of BPRS parcels. The average cube of BPRS parcels was specifically addressed in Section VII.B.2.a. The average cube of BPRS parcels is used to calculate conversion factors, the average number of parcels that fit into each type of container. Conversion factors are used to unitize costs of unloading, loading and moving containers. The smaller the parcel, the more parcels that fit in a container, and hence, the smaller the cost per parcel.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS EGGLESTON
TO INTERROGATORIES OF THE CONTINUITY SHIPPERS ASSOCIATION

CSA/USPS-T26-9. Please refer to lines 20-23 on page 34 of your testimony, where you state: "However, since Special Standard is on average larger and heavier than BPRS, using the Special Standard CPA adjustment factor has the potential to overestimate the true volume variable unit cost of BPRS mail processing."

a. Please describe why a smaller and lighter piece should require the same CRA adjustment factors as a larger and heavier piece.

b. All things being equal, how much smaller should the CRA adjustment factor for a piece weighing 12.2 ounces and having a cube of .08 cubic feet be than the CRA adjustment factor for a piece weighing 25.8 ounces and have a cube of .15 cubic feet? Please provide all underlying calculations.

RESPONSE:

(a) Since BPRS has such a small volume, it is not tracked separately in the CRA. For this reason it is impossible to calculate CRA adjustment factors that are specific to BPRS. In fact, if BPRS costs were tracked separately and accurately by the CRA, there would no need to model the BPRS mail processing costs. In addition, not using some sort of CRA-adjustment factors in the estimated mail processing costs would severely underestimate costs. Therefore, proxies for the CRA-adjustment factors were needed. Since it is believed that Special Standard contains a majority of small light-weight parcels, and some of these are returns, the Special Standard CRA adjustment factors are the best **proxies** for the BPRS CRA adjustment factors.

(b) Please see response to part a. The statement you quoted from my testimony simply points out that there is a *potential* for my proxy to overstate the mail processing cost estimate. It is not meant to imply that estimated mail processing costs definitely overstate the true mail processing costs. It is also not meant to imply that there is *no potential* for the overall estimated mail processing costs to be either correct or

understated. It is possible that there are characteristics about BPRS that make it even more costly to process than Special Standard. For example, it is possible that BPRS parcels get miskeyed and end up in mail processing loops more often than Special Standard parcels.

Since the CRA adjustment factors for BPRS cannot be calculated, I cannot answer the question as to what they should be and how I would calculate them.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS EGGLESTON
TO INTERROGATORIES OF THE CONTINUITY SHIPPERS ASSOCIATION

CSA/USPS-T26-10. Please refer to lines 2-3 on page 32 of your testimony, where you state: "Since BPRS is a relatively new service, most of the assumptions are made in a manner that has more potential to overstate rather than understate costs."

a. Please identify and list all assumptions you made that have more potential to overstate rather than understate costs.

b. For each assumption, please provide the cost difference between using the assumption you would have used if you were trying to obtain the most accurate cost estimate, and using the assumption that you used in your testimony.

RESPONSE:

(a-b) The statement you quote from my testimony simply alludes to the fact that with any model, assumptions have to be made and since BPRS is a new service, assumptions were made in a manner that had a greater potential to overstate rather than understate costs. What needs to be stressed in the word ***potential***. This is not meant to imply that if we knew the true cost of BPRS, it would definitely be lower than the estimated cost presented in my model. If I knew what assumptions would result in an estimate that is equal to the true cost of BPRS, I would have used those assumptions.

There are three places where I explicitly made assumptions that had greater potential to overstate rather than understate costs. The first is using the Special Standard CRA adjustment factor. Please see my response to CSA/USPS-T26-9.

The second and third place where I make assumptions that have the potential to overstate estimated costs is where I assume that 4.7 percent of BPRS mail is intra-BMC and 95.3 percent is inter-BMC. This affects both the mail processing and transportation

estimated unit costs. Please see pages 26 and 37 of my testimony for an explanation of how these assumptions impact the estimated costs.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS EGGLESTON
TO INTERROGATORIES OF THE CONTINUITY SHIPPERS ASSOCIATION

CSA/USPS-T26-11. Please refer to lines 16-20 on page 37 of your testimony, where you state: "The cost of a long distance leg used in the BPRS transportation model is greater than the cost of a long distance leg in the Parcel Post model for every zone, up to zone 5. Since several of the mailers are located in an area that will rarely use zones above zone 5, this assumption should not lead to underestimating costs." Please also refer
to Table VII-I on page 31 of your testimony.

a. Please confirm that the "cost of a long distance leg used in the BPRS transportation model" is $3.26 per cubic foot. If not confirmed, what is it?

b. Please provide all calculations used to develop the "cost of a long distance leg used in the BPRS transportation model" in an electronic spreadsheet. Please also provide citations in the spreadsheet where appropriate.

c. In an electronic spreadsheet, please provide your assumed Test Year cubic feet, cubic-foot miles, and unit cost per cubic foot by zone for inter-BMC BPRS parcels.

d. Do you have actual cubic feet and cubic-foot mile estimates by zone for inter-BMC BPRS parcels for Base Year 1998, FY 1999, or for any portion of these years? If so, please provide them in an electronic spreadsheet in a similar form as provided in your response to part (c).

e. Do you have actual cubic feet and cubic-foot mile estimates by zone for all BPRS parcels for Base Year 1998, FY 1999, or for any portion of these years? If so, please provide them in an electronic spreadsheet in a similar formats provided in your response to part (c).

f. How many of the eight mailers used in your cost study are "located in an area that will rarely use zones above zone 5"?

g. What percent of BPRS parcels were returned to the eight mailers that are "located in an area that will rarely use zones above zone 5"?

RESPONSE:

(a) Confirmed

(b) All of my attachments are available electronically in LR-I-171.

(c-e). As explained in my testimony in section VII.B.3, Parcel Post transportation cost information is used to estimate the unit transportation cost of BPRS. Only the average cubic feet of BPRS, .08, was used to estimate BPRS transportation costs.

(f.-g) Four of the eight mailers (61 percent of the volume) are located in areas that most likely will have the majority of their returns in zone 5 or less. However, it is possible for all of the mailers to receive returns from an area that is greater than zone 5 (1000 miles).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS EGGLESTON
TO INTERROGATORIES OF THE CONTINUITY SHIPPERS ASSOCIATION

CSA/USPS-T26-12. Please refer to lines 14-26 on page 30 of your testimony.

a. Please describe all differences between the cost estimating methods you are using to develop BPRS costs in this case and those used to develop the October 1998 study.

b. Please describe all differences between the data you are using to develop BPRS costs in this case and those used to develop the October 1998 study.

C. Please provide (in electronic form) all data collected for the October 1998 study, all surveys used to collect data for the October 1998 study, and all reports developed using the data collected for the October 1998 study.

RESPONSE:

(a-b) There were no additional data collected for the cost study presented in my testimony in this case. Three types of modifications were made to the original study filed in October 1998.

The first type of modification is a change in wage rates, premium pay factors and piggyback factors to account for changes in price levels from FY 1998 to 2001.

The second type of modification is the change in Postal Service methodology of variabilities and mail processing estimates. My testimony is consistent with Postal Service methodology in this case. For a full discussion of the decision to use new volume variability estimates, please see USPS-T-15.

The third type of modification is revisions made as a result of questions raised in Docket Nos. MC99-4 and C99-4. These changes were already provided to the Commission in those dockets.

(c) All data collected for the 1998 BPRS cost study is used in the BPRS cost model.

Therefore all data is included electronically in LR-I-171.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS EGGLESTON
TO INTERROGATORIES OF THE CONTINUITY SHIPPERS ASSOCIATION

CSA/USPS-T26-14. At Attachment W, page 3 of your testimony, you provide data concerning postage due costs for Mailer 1. That data is divided into two categories of costs: "Costs of Sorting and Postage Due, Complex," and "Costs of Postage Due, Simple." The cost per piece for the "Complex" postage due is lower than the costs per piece for the "Simple" postage due ($0.006 versus $0.018.) Please explain.

RESPONSE:

The estimated postage due unit cost for Mailer 1 was calculated as a weighted average of the cost of the complex postage due method and the cost of the simple postage due method.

The unit cost of the complex postage due method is approximately 15 cents. The "$.006" you refer to in your question is the unit cost of the complex postage due method spread over a month (26.243 days). In other words, it is the unit cost of complex postage due multiplied by proportion of time that method is used (1 / 26.243).

The "$.018" you refer to in your question is the unit cost of the simple postage due method, also spread over a month. Since this postage due method is performed 25.143 days out of the month, it receives more weight, and is a larger component of the total postage due unit cost for Mailer 1.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS EGGLESTON
TO INTERROGATORIES OF THE CONTINUITY SHIPPERS ASSOCIATION

CSA/USPS-T26-15. Please calculate separate "sorting costs" and "postage due costs, complex" for mailer 1 (Attachment W, page 3)

RESPONSE:

In order to avoid confusion, I will calculate both the cost per piece for one day and the cost per piece as it is spread over the course of the month.

The average cost per piece of sorting on the complex postage due day is $.094 ((27.97*1.461*3)/1298). Spreading that unit cost over the course of a month results in .0036 (.094/26.243).

The average cost per piece of calculating postage due on the complex postage due day is $.06. ($27.97*1.456*1.785/1298). This is $.0021 spread over the total month.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS EGGLESTON
TO INTERROGATORIES OF THE CONTINUITY SHIPPERS ASSOCIATION

CSA/USPS-T26-16. Please confirm that the reference in Attachment T, page 1, Row 3 of your testimony should be to Attachment P, page 2. If you do not confirm, please explain the application of the data on Attachment P, page 4.

RESPONSE:

The reference in Attachment T, page 1, row 3, was meant to read " Attachment P, page 1, row 4." As an alternative it could also read "Attachment P, page 2."

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS EGGLESTON
TO INTERROGATORIES OF THE CONTINUITY SHIPPERS ASSOCIATION

CSA/USPS-T26-17. Assuming you confirm in response to CSA/USPS-T26-16, please explain how each of the cost pools shown on Attachment P, page 2, relates to the processing of BPRS parcels. Please confirm that any cost pool unrelated to BPRS should be eliminated from the CRA fixed cost adjustment for BPRS.

RESPONSE:

Please see response to CSA/USPS-T26-8 and CSA/USPS-T26-9. The CRA adjustment factors from the Special Standard mail processing model are used as proxies for the CRA adjustment factors in the BPRS mail processing model. Since the majority of Special Standard is small, light-weight parcels, it was determined that both the proportional and fixed CRA adjustment factors should be similar. There is no reason to exclude any part of the proportional or fixed CRA adjustment factor.

DECLARATION

I, Jennifer Eggleston, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

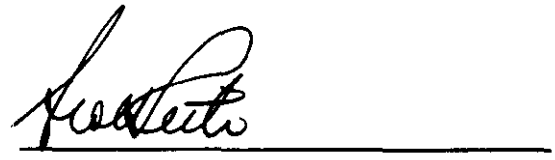
Jennifer Eggleston

JENNIFER L. EGGLESTON

Dated: 3/7/00

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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