

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS EGGLESTON TO INTERROGATORIES OF
PARCEL SHIPPERS ASSOCIATION
(PSA/USPS-T26-1-3)

The United States Postal Service hereby provides the responses of witness Eggleston to the following interrogatories of the Parcel Shippers Association:
PSA/USPS-T26-1-13, filed on February 29, 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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March 14, 2000

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

PSA/USPS-T26-1

Please refer to lines 18-24 on page 11 of your testimony, where you state: "As a result, it was necessary to make several assumptions in estimating the cost savings associated with these new rates and discounts. Since the rate categories and discounts are not fully examined the assumptions used in this cost study were made in a manner to mitigate the possibility of overstating cost savings. For this reason, the CRA adjustment factor discussed in Section III.8 of this testimony is not applied to the cost saving estimates in this section."

- a. Please confirm that the "new rates and discounts" referred to in the above citation include the DBMC, DSCF, and DDU rates.
- b. Please identify and list by rate category all assumptions " used in this cost study [that] were made in a manner to mitigate the possibility of overstating cost savings."
- c. For each assumption, please provide the assumption you would have used if you were trying to obtain the most accurate cost estimate, rather than trying to "mitigate the possibility of overstating cost savings."
- d. For each assumption, please provide the cost difference between using the most accurate assumption described in part (c) and using the assumption that you used in your testimony.
- e. Did you make any assumptions with the intent of mitigating the possibility of understating cost savings? If so, please identify, list, and describe them.
- f. Did you make any assumptions that you believe will have the impact of understating cost savings? If so, please identify, list, and describe them.
- g. Please define "fully examined" as used in the above reference.
- h. Please explain why the Postal Service generally applies CRA adjustment factors to modeled costs when determining cost differences between rate categories.
- i. Please identify and list all other witnesses that model mail processing costs for the purpose of rate design, but do not apply CRA adjustment factors. For each of these witnesses, explain why they did not apply CRA adjustment factors to modeled costs.
- k. Please provide Parcel Post CRA-adjusted DBMC, DSCF, and DDU non-transportation cost savings.
- l. Please confirm that the proportional CRA adjustment factor for the Parcel Post subclass is 1.154. If not confirmed, what is it?

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RESPONSE:

(a) Not Confirmed. The statement was meant to refer to the DSCF and DDU rate categories. It also holds true for the estimation of the BMC presort cost savings. Since DBMC cost savings are estimated using actual data, it is not appropriate to apply a CRA-adjustment factor.

(b) The main assumption I was referring to with this statement was the fact that I did not use a CRA-adjustment factor in the estimation of DSCF, DDU and BMC-presort cost savings. The other assumption this refers to is the calculation of the average number of parcels on a DSCF pallet. There are several requirement options for mailers to enter DSCF parcels. In order to calculate the weighted average, I weighted the minimum number of parcels on a pallet for each requirement by 0.7 and the maximum number of parcels on a pallet for each requirement by 0.3. Since I am weighting the minimum number with a greater weight, there is a larger potential for the average to be understated rather than overstated.

(c)-(f) The cost models presented in my testimony provide my best estimate of cost savings. Since cost models are used when detailed or de-averaged cost information is not available, it is necessary to make assumptions in their design. In making assumptions, the choice is not between "the most accurate cost estimate" and mitigating the possibility of overstating costs. Instead, where actual data are not available, there may be a range of choices between those that are likely to overstate and those that are likely to understate estimates. The conservative approach is to make

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the best judgment, but err on the side of understating cost savings, especially for relatively new discounts. In the absence of detailed or de-averaged cost information, it is not possible to determine the impact of every assumption. It is still possible that , even if I thought I was erring on the side of caution, some of my assumptions could end up overstating true cost savings.

(g) At the time I developed my models several of the rate categories and discounts had been in place for less than one year. It often takes several months or years for mailers to begin to fully utilize new rate categories. Therefore, not only was there little time to collect data, there was also little data to collect. This situation is what I was referring to when I said the rate categories and discounts were not "fully examined."

(h) It is my understanding that the Postal Service began the use of CRA adjustment factors in Docket No. MC95-1. CRA adjustment factors are used to tie mailflow modeled costs to the actual costs presented in the CRA. The proportional CRA adjustment factor is used to tie modeled costs to the CRA to adjust for variances in the inputs. The fixed CRA adjustment factor is used to tie unmodeled costs to the CRA. It is my understanding that it is only appropriate to use CRA adjustment factors when *dealing with well-established categories or well-established operations.*

(i) Since CRA adjustment factors are only used with mail processing mailflow models, I will only discuss which witnesses used mail processing mail flow models and did not apply CRA adjustment factors. Witness Crum (USPS-T-27) is the only other witness that does not apply CRA adjustment factors. He does not apply the CRA adjustment

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factor to the estimated Bound Printed Matter dropship cost savings because they are new dropship rate categories.

(k) Since DBMC cost savings are estimated using actual cost data, it is not appropriate to apply a CRA adjustment factor. Since I did not plan to apply a CRA adjustment factor to DSCF and DDU cost savings estimates, I had no reason to determine what CRA adjustment factor to apply to DSCF and DDU. Therefore, I cannot calculate an adjusted cost savings estimate for DSCF or DDU.

(l) Confirmed that the appropriate proportional CRA-adjustment factor for the Parcel Post models in Attachment A is 1.154.

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PSA/USPS-T26-2

Please refer to lines 16-18 on page 13 of your testimony, where you state: "It was found that ASFs perform in 'BMC-like' functions for 36.1 percent of their parcel volume." Please define "BMC-like."

RESPONSE:

"BMC-like" functions refer to any functions performed by an ASF when the ASF is taking the place of a BMC. An example of a "BMC-like" function is the sorting of machinable parcels to 5-digits before they are sent to the SCF.

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PSA/USPS-T26-3

Please refer to lines 20-25 on page 13 of your testimony, where you state: "The second issue raised in Docket No. R97-1 was that it is not appropriate to assume that DBMC parcels avoid platform acceptance costs at other facilities. Even though DBMC parcels will actually avoid these costs at the upstream facilities, they may incur similar costs at the BMC. This is because parcels that are entered at the delivery unit or plant will instead arrive at the BMC in postal paks. In contrast, the majority of DBMC mail is bedloaded. Therefore, DBMC parcels may incur platform acceptance costs at the BMC that are similar to the costs other parcels incur when they are entered upstream from the BMC."

- a. What percentage of DBMC mail is bedloaded?
- b. Will DBMC mail that is not bedloaded "avoid platform acceptance costs"? If no, please explain why not.

RESPONSE:

(a) The estimated percentage of bedloaded DBMC mail that is used in my models is 96.2 percent.

(b) Non-bedloaded DBMC parcels may still incur some costs that are similar to "platform acceptance costs at facilities upstream of the BMC." However, if a mailer loads DBMC parcels into a truck similarly to how the Postal Service loads a truck, the DBMC parcels should avoid what I refer to as "platform acceptance costs".

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 L. EGGLESTON

Dated: 2/14/00_____

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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