

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 PLUNKETT TO INTERROGATORIES OF  
UNITED PARCEL SERVICE  
(UPS/USPS-T36-3-7)

The United States Postal Service hereby provides the responses of witness Plunkett to the following interrogatories of United Parcel Service: UPS/USPS-T36-3-7, 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:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking



Scott L. Reiter

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March 21, 2000

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UPS/USPS-T36-3. Refer to Attachment H of USPS-T-36.

- (a) Confirm that a 100% passthrough is used for Parcel Post DBMC Non-transportation Cost Savings to yield a DBMC Non-transportation Discount of \$0.70 per piece. If not confirmed, explain.
- (b) Confirm that Witness Eggleston (USPS-T-26, Attachment C, Revised 2/18/2000) has revised the Parcel Post DBMC Non-transportation Cost Savings to be \$0.662 per piece. If not confirmed, explain.
- (c) Confirm that the effective passthrough for Parcel Post DBMC Non-transportation costs is actually 106%. If confirmed, explain why a passthrough in excess of 100% is justified. If not confirmed, explain in detail.
- (d) Confirm that a 100% passthrough is used for OBMC Cost Savings to yield a Parcel Post OBMC rate differential of \$0.93 per piece. If not confirmed, explain.
- (e) Confirm that Witness Eggleston (USPS-T-26, Attachment C, Revised
- (f) 2/18/2000) has revised the Parcel Post OBMC Cost Savings to be \$0.894 per piece. If not confirmed, explain.
- (g) Confirm that the effective passthrough for Parcel Post OBMC Cost Savings is actually 104%. If confirmed, explain why a passthrough in excess of 100% is justified. If not confirmed, explain in detail.
- (h) Confirm that Parcel Post DSCF and DDU rates are derived based on Parcel Post DBMC rates. If not confirmed, explain in detail.
- (i) Confirm that a passthrough in excess of 100% for Parcel Post DBMC Non-transportation Cost Savings leads to an effective passthrough of greater than 100% of the worksharing activities required in the Parcel Post DSCF and DDU rate categories. If not confirmed, explain in detail.
- (j) Explain all considerations made in proposing a 100% passthrough for worksharing activities in the Parcel Select rate categories (i.e., DBMC, DSCF and DDU). In particular, describe all considerations of the value of service in each Parcel Select rate category in setting the passthrough.

UPS/USPS-T36-3 Response.

a.-h. Confirmed

- i. The use of a 100 percent passthrough reflects my view that these rates ought to reflect, as nearly as is consistent with the statutory ratemaking criteria, the value of the work contributed by mailers and or consolidators performing worksharing activities. In considering the value of service of these particular rate categories, I did not consider the value of service of the worksharing passthroughs apart from the other elements used in rate design. The constraints that I imposed as the final stage

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in rate design were intended to capture value of service considerations, and were applied to the rates themselves, rather than to the passthroughs used to develop the rates.

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UPS/USPS-T36-4 Refer to Attachment K of USPS-T-36 with respect to the incremental costs cited for Parcel Post before and after rates. Explain in detail why the after rates incremental costs of \$1,106,639,522 differ from those cited by Witness Mayes in her Exhibit USPS-32E (\$1,061,265,000).

UPS/USPS-T36-4 Response.

According to errata filed by witness Kay (USPS-T-23, revised 3-13-00) this number should be \$1,079,739.

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UPS/USPS-T36-5. Refer to Attachment E, which shows as a source USPS-T-36, WP 1.A. (filed as USPS-LR-I-62).

- (a) Confirm that actual RPW data from Postal Quarter 3 of 1999 were used to derive the share of Parcel Post volume for each rate category in the Test Year. If not confirmed, explain in detail. If confirmed:
  - (i) Explain why Postal Quarter 3, 1999, data were used.
  - (ii) Explain why data from other Postal Quarters in 1999 were not used
  - (iii) Explain why Postal Quarter 3, 1999, data are expected to be applicable in the Test Year given the large volume increase from the Base Year to the Test Year with respect to Parcel Select volume.
- (b) Explain whether actual costs from Postal Quarter 3, 1999, were applied in the Parcel Post rate design.
- (c) Explain in detail how FY98 costs for Parcel Post were adjusted from FY98 to FY99 to take into account the change in relative volume created by the new dropship work categories.
- (d) Explain any further adjustments in Parcel Post costs from 1999 to the Test Year to take into account changes in relative volumes created by the new dropship work categories.

UPS/USPS-T36-5 Response.

- a. Volumes from PQ 3 were selected for use because they were the first quarterly volumes available after the implementation of new rates. Though typically a full year of data would be preferable, volume data from Postal Quarters 1 and 2 would have reflected the period prior to implementation of rates from Docket No. R97-1 prior to the existence of DSCF and DDU rates.
- b. Parcel Post rate design was based on Test Year 2001 costs, which were in turn based on FY 98 costs.
- c.-d. An explanation of the steps taken to account for changes in volume from the base year to the test year is contained in attachment X of witness Eggleston's testimony (USPS-T-26).

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USPS-T36-6. Refer to page 14 and Attachment H of USPS-T-36.

- (a) Confirm that the DDU Savings Off of DBMC represents an average of machinable and non-machinable savings. If not confirmed, explain.
- (b) Confirm that 100% of the DDU Savings Off of DBMC is proposed to be passed through. If not confirmed, explain.
- (c) Confirm that under the proposed rates, non-machinable DDU Parcel Post pieces will have an effective passthrough of greater than 100%.

UPS/USPS-T-36-6 Response.

- a. Confirmed
- b. Confirmed.
- c. Not confirmed. Though such an inference could be drawn from a confirmation of the first two parts of this interrogatory, passthroughs were applied in the development of preliminary rates. In developing the proposed rates I applied constraints that raised the proposed DDU rates relative to preliminary rates. Though applied differently, the effect of the constraints could be considered equivalent to a reduction in the passthrough. For example, the 2-pound DDU rate changed from \$1.09 to \$1.23 after I imposed constraints on the rates (see attachment I of my testimony). An identical result could have been achieved by reducing the passthrough of the DDU savings off of DBMC to 80 percent.

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UPS/USPS-T36-7. Refer to Attachment D and Attachment K of USPS-T-36.

- (a) Confirm that the revenue per piece for Parcel Post Intra-BMC Non-Alaska bypass is \$3.414 (\$93,880,416 / 27,495,992) in the TYBR and \$3.736 (\$93,593,938 / 25,050,582) in the TYAR for an increase of 9.4%. If not confirmed, explain in detail.
- (b) Confirm that the revenue per piece for Parcel Post Inter-BMC is \$5.469 (\$276,826,827 / 50,614,551) in the TYBR and \$6.017 (\$281,052,935 / 46,710,097) in the TYAR for an increase of 10.0%. If not confirmed, explain in detail.
- (c) Confirm that the revenue per piece for Parcel Post DBMC is \$2.847 (\$762,370,675 / 267,762,878) in the TYBR and \$2.862 (\$771,859,947 / 269,734,882) in the TYAR for an increase of 0.5%. If not confirmed, explain in detail.
- (d) Confirm that the revenue per piece for Parcel Post DSCF is \$1.990 (\$4,451,357 / 2,237,344) in the TYBR and \$2.004 (\$4,516,931 / 2,253,822) in the TYAR for an increase of 0.7%. If not confirmed, explain in detail.
- (e) Confirm that the revenue per piece for Parcel Post DDU is \$1.319 (\$36,954,506 / 28,008,725) in the TYBR and \$1.319 (\$37,226,667 / 28,215,002) in the TYAR for an increase of 0.0%. If not confirmed, explain in detail.

UPS/USPS-T36-7 Response.

a.-e. Confirmed

DECLARATION

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

Michael K. Plunkett

Dated: 3/21/00



**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.

A handwritten signature in black ink, appearing to read "Scott L. Reiter", is written above a horizontal line.

Scott L. Reiter

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