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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

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

POSTAL RATE AND FEE CHANGES, 2000

DOCKET NO. R2000-1

DIRECT TESTIMONY

OF

LLOYD KARLS

ON BEHALF OF

PARCEL SHIPPERS ASSOCIATION

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May 22, 2000

AUTOBIOGRAPHICAL SKETCH

My name is Lloyd Karls, Manager of Parcel Delivery Services for Fingerhut Companies Inc. Serving in this capacity, I am responsible for managing the delivery of parcels. I am accountable for carrier selection, maintaining the postage system design, and meeting customer delivery standards while improving corporate financial performance by reducing the significant corporate expense. I serve as the liaison representing Fingerhut's parcel delivery needs with the Postal Service as well as other parcel carriers. I have 22 years experience in consumer direct distribution in Distribution Operations, Packaging, and Carrier Management.

I have served on numerous USPS Task Force committees representing industry on issues such as Bar Code Standardization, Mail Endorsement, Return Processing, Confidence in the Mail (fraud review), Parcel Implementation Readiness Team, and was also the Industry Co-chair during Parcel Reclassification.

I presently serve as a member of the Mailer's Technical Advisory Committee (MTAC) representing the Parcel Shippers Association. In addition, I serve as an elected officer to the Parcel Shippers Association (PSA) Executive Committee and am a member of the Institute of Packaging Professionals.

The purpose of my testimony is to examine the rates proposed for "oversize" parcel post, parcels whose size in length and girth combined ranges between 108" and 130".

1 **INTRODUCTION**

2 The Postal Service's current and proposed rates in this proceeding for oversize
3 parcels are so expensive that they will continue to disincent prospective users of this
4 service. Those rates range from a low of \$8.69 for DDU to \$30.24 for DBMC Zone 5.
5 These high rates are based on USPS assumed costs; these costs are, in turn, based on
6 assumed average cube per oversize parcel.

7 **I. AVERAGE CUBE OVERSIZE PARCELS – POSTAL SERVICE ESTIMATE.**

8 Of crucial importance in the estimation of costs of oversize parcels is the
9 assumed density of such parcels; the larger the cubic feet the more cost is presumed.
10 The Postal Service filing incorrectly estimated the cubic feet of an average oversize
11 parcel to be 10.84. The Service filed an Errata stating that the average cube, derived
12 from data in PQ3 FY 1999, was 8.04. The consequences of this Errata were to reduce
13 the estimated costs for oversize parcels and also to cause revised rate proposals to be
14 filed. (Tr. Vol. 13, pp. 5156-7) Furthermore, USPS witness Eggleston testified that, if
15 the cube of the oversize parcels were assumed to be less than 8.05, for example, 5,
16 then there would be even greater cost differences; for example, the DBMC costs would
17 be reduced by \$2.80. (Tr. Vol. 13, p. 5163)

18 It turns out that the Postal Service's cube data is derived from a sample that
19 totaled 64 pieces. Even worse, the Intra-BMC cube was derived from a sample of 5
20 pieces. (Tr. Vol. 13, p. 5157)

21 There is a theoretical maximum and minimum amount of cubic feet to a parcel
22 whose combined length and girth are between 108" and 130". The Postal Service
23 agreed that the theoretical maximum was 11.77 cubic feet and that, if one constrained it

1 so that the length could not be more than 5 times the girth, and that the cross-section
2 has to be square, the minimum density would be 1 cubic feet. Thus, it is obvious that
3 the Postal Service's estimates based on their skimpy sample are on the high side of this
4 range of 1 to 11.77 cubic feet. The mean of these extreme dimensions would be
5 around 6 cubic feet.

6 The Postal Service also testified that its average oversize cubic estimate of 8.04
7 had a 95% confidence interval that ranged from 6.55 and 9.53. (Tr. Vol. 13, pp. 5161-2)
8 The Postal Service testified further that what that meant was that if one were to have a
9 95% chance of including the true value of the average oversize cubic feet that one had
10 to consider all possible values in the range between 6.55 feet and 9.53 feet. Thus, the
11 Postal Service's own estimates, with the confidence interval ranges implied by their co-
12 efficients of variation for their sample size, clearly do not contradict a cubic foot average
13 much closer to 6 feet than to 8 feet.

14 **II. THE ACTUAL CUBE OF OVERSIZE PARCELS IN THE REAL WORLD.**

15 Based on the real world experience of our own mailings, and that of a major
16 shipper with whom we consulted, the density of oversize parcels is much closer to 6 feet
17 than it is to the Postal Service's revised 8.04 cubic feet. As I have pointed out, the
18 Service's total sample was 64 pieces. Their estimate of total postal volume of oversize
19 parcels in the Test Year is 169,000 parcels. (USPS T-36, Attachment D, p. 1) In 1999
20 Fingerhut shipped a total of 25,534,879 parcels, of which 522,399 had a combined
21 length and girth between 108" and 130". The Postal Service's entire anticipated
22 oversize volume in the Test Year is less than one-third of Fingerhut's own 1999 volume.
23 Our experience with our own parcels, which is more than three times the entire Postal

1 Service estimated volume, and where the Postal Service's sample from which they
2 derive their cube is only 64 pieces, is a much better indicator of what the true average
3 cube of an oversize parcel is. In 1999 our oversize parcel cube averaged 6.03 cubic
4 feet, with the smallest parcel cube being .55 cubic feet and the largest parcel cube
5 being 11.71 cubic feet. Exhibit A is a table which itemizes the volume per cubic feet
6 from 1 through 12 cubic feet. Also, CTC, a consolidator of parcels, and probably the
7 largest parcel shipper, has informed me that the average cube of their oversize parcels
8 is 5.6 cubic feet.

9 While our own experience, and that of CTC, are not necessarily a true indicator
10 of all oversize parcels, we think that they are incontestably the better evidence as to
11 what the cube, and therefore, the costs are of oversize parcels.

12 **III. CONCLUSION.**

13 USPS witness Plunkett has already provided the rate reductions that are implied
14 by the cost changes dictated by the correction of the admitted cubic foot error. (Tr. Vol.
15 13, pp. 5005-6) Further reducing the cubic feet estimate to 6 would cause even larger
16 reductions in costs and implied reductions in rates.

17 Hardly anyone is making use of this oversize rate category because the cost is
18 prohibitive; we make little use of it. USPS' competitors charge nothing like these rates.
19 It is a grave inconvenience to the mailer to have to separate its oversize parcels and
20 tender them to a different carrier and a major competitive disadvantage to the Postal
21 Service. These rates should be reduced significantly.

1999 Shipments 108 Inches to 130 Inches Average Cube

Code	Desc	Length	Width	Height	Cubic Inches	Cubic Feet	Girth	Weight	Volume
Total	Cubic Feet 0 to .99				1,449.98	0.84		15.18	295 0.06%
Total	Cubic Feet 2.00 to 2.99				4,153.32	2.40		41.95	58,661 11.23%
Total	Cubic Feet 3.00 to 3.99				6,016.60	3.48		38.50	52,893 10.13%
Total	Cubic Feet 4.00 to 4.99				7,780.84	4.50		40.95	42,030 8.05%
Total	Cubic Feet 5.00 to 5.99				9,185.00	5.32		55.58	56,335 10.78%
Total	Cubic Feet 6.00 to 6.99				11,323.51	6.55		37.74	125,729 24.07%
Total	Cubic Feet 7.00 to 7.99				13,012.54	7.53		46.49	61,624 11.80%
Total	Cubic Feet 8.00 to 8.99				14,795.22	8.56		33.13	33,518 6.42%
Total	Cubic Feet 9.00 to 9.99				16,577.86	9.59		41.47	37,030 7.09%
Total	Cubic Feet 10.00 to 10.99				17,921.74	10.37		36.33	23,705 4.54%
Total	Cubic Feet 11.00 to 11.99				19,698.45	11.40		39.15	11,238 2.15%
Total	Sku's				10,421.09	6.03		41.22	522,399 100.00%

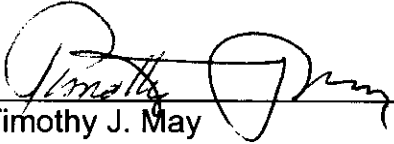
Lowest and Highest Cubed Sku

Code	Desc	Length	Width	Height	Cubic Inches	Cubic Feet	Girth	Weight	Volume
628GJ	BONE CLR BSTD10" PEA	105.00	3.00	3.00	945.00	0.55	117.00	0.72	6
11P8M	SOFA ITALIAN SETTEE BURG	42.00	23.50	20.50	20,233.50	11.71	130.00	30.50	5

Lowest Cube
Highest Cube

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.



Timothy J. May

Dated: May 22, 2000