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BEFORE THE
POSTAL RATE COMMISSION

POSTAL RATE COMMISSION
OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

DOCKET NO. R2000-1

DIRECT TESTIMONY OF
RALPH L. LUCIANI
ON BEHALF OF
UNITED PARCEL SERVICE

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
PURPOSE OF TESTIMONY AND SUMMARY OF CONCLUSIONS	2
THE POSTAL SERVICE HAS UNDERSTATED THE ATTRIBUTABLE COSTS ASSOCIATED WITH PARCEL POST AND PRIORITY MAIL.....	3
A. Advertising Costs.....	3
B. Parcel Post Final Adjustments.....	4
C. City Carrier Elemental Load Costs Should Be Distributed By Weight.....	7
D. The Cost of Sequencing Parcels by City Carriers Should Be Assigned to Parcels.....	10
E. The Cost of Exclusive Parcel Post Delivery Routes Should Be Treated as Specific Fixed Costs.....	12
THE POSTAL SERVICE HAS OVERSTATED THE REVENUES ASSOCIATED WITH PARCEL POST	14
CHANGES TO PARCEL POST, PRIORITY MAIL, AND EXPRESS MAIL REVENUES AND COSTS BY UPS WITNESSES	16
A. Base Year 1998.....	16
B. Test Year After Rates With Postal Service Proposed Rates	18
C. Test Year After Rates – Revised Cost Coverages.....	19
D. Parcel Post Volumes and Revenue Adjustment Factors	20
THE POSTAL SERVICE HAS OVERSTATED THE COSTS AVOIDED BY PARCEL POST WORKSHARING.	21
A. DBMC-Entry Mail Processing Cost Avoidance Is Overstated.....	21
B. DDU-Entry Mail Processing Cost Avoidance Is Overstated.....	27
1. Sack Shakeout.....	27
2. The Discount Should Be Based on Machinable Cost Differences.....	28

C. DDU-Entry and DSCF-Entry Transportation Cost Avoidance Is Incorrect	29
1. Cubic Feet Per Piece for DDU-Entry and DSCF-Entry Parcels	29
2. Consistent Treatment of Alaska Air Costs.....	30
D. The DBMC-Entry Rates Are Based on a Reduction in DBMC's Institutional Cost Contribution, Not Just Avoided Costs.....	30
THE PASSTHROUGH PROPOSED FOR DDU AND DSCF WORKSHARING AVOIDANCES SHOULD BE REDUCED	31
CONCLUSION.....	34

LIST OF TABLES

	<u>Page</u>
Table 1: Illustration of Transportation Adjustment Double-Count	6
Table 2: Corrected Test Year Parcel Post Transportation Final Adjustment.....	7
Table 3: <i>Distribution of City Carrier Regular Route Elemental Load Costs</i>	9
Table 4: Specific Fixed Costs for Exclusive Parcel Post Routes	14
Table 5: Correction of Test Year OMAS and Alaska Parcel Post Revenue	16
Table 6: Base Year Revenue and Attributable Cost	18
Table 7: TYAR Revenue and Attributable Cost	19
Table 8: TYAR Revenue and Attributable Cost	19
Table 9: Corrected Projection of Parcel Post Volumes.....	21
Table 10: Rate Increases by Parcel Post Rate Category	21
Table 11: Top-Down Estimates of DBMC-Entry Mail Processing Avoided Costs	23
Table 12: Bottom-Up DBMC-Entry Mail Processing Cost Avoided	24

INTRODUCTION

My name is Ralph L. Luciani. I am a Vice President of PHB Hagler Bailly, an economic and management consulting firm specializing in public policy and corporate strategy. PHB Hagler Bailly was formed through the merger of Putnam, Hayes & Bartlett, Inc. and Hagler Bailly, Inc. (collectively, "PHB") in 1998.

I have 15 years of consulting experience analyzing economic and financial issues affecting regulated industries, including costing, ratemaking, business planning, and competitive strategy issues. Since 1990, I have directed PHB's analytic investigations of United States Postal Service ("Postal Service") costing and rate design issues. In Docket No. R90-1 and again in Docket No. R94-1, I assisted Dr. George R. Hall in the preparation of analyses and testimony regarding the attributable costs, cost coverages, and rate design of Parcel Post, Priority Mail, and Express Mail. In Docket No. R94-1, I assisted Dr. Colin C. Blaydon in the preparation of analyses and testimony concerning the treatment of mixed mail costs in the In-Office Cost System ("IOCS"). In Docket No. MC95-1, I presented testimony regarding the costs associated with parcels handled by the Postal Service in First Class Mail and in Standard (A) Mail. I also presented supplemental testimony in Docket No. MC95-1 regarding rate design for Standard (A) Mail parcels. In Docket No. R97-1, I presented testimony regarding the costing and rate design of Parcel Post and Priority Mail.

Since 1995, I have visited and observed the operations at a number of Postal Service facilities, including the Washington BMC on two different occasions, two

1 Sectional Center Facilities, three Associate Offices/Delivery Units, a HASP ("Hub and
2 Spoke Project") facility, and an Air Mail Center.

3 I hold a B.S. with University Honors in Electrical Engineering and Economics
4 from Carnegie Mellon University. I also hold an M.S. with Distinction from the Graduate
5 School of Industrial Administration at Carnegie Mellon University. Prior to joining PHB
6 in 1985, I worked as an Edison engineer at General Electric Company and as a financial
7 analyst at IBM Corporation.

8 **PURPOSE OF TESTIMONY AND**
9 **SUMMARY OF CONCLUSIONS**

10 I have been asked to investigate the costing and rate design proposals of the
11 Postal Service as they pertain to Parcel Post and Priority Mail. In addition, I have
12 estimated the impact on the Base Year and Test Year revenues and attributable costs
13 of Parcel Post, Priority Mail, and Express Mail that result from the recommendations of
14 UPS witnesses Sellick (UPS-T-2 and UPS-T-4), Neels (UPS-T-1 and UPS-T-3),
15 Sappington (UPS-T-6), and myself. As part of this investigation, I have reviewed the
16 testimony and workpapers of Postal Service witnesses Harahush (USPS-T-3), Tolley
17 (USPS-T-6), Kingsley (USPS-T-10), Meehan (USPS-T-11), Baron (USPS-T-12),
18 Raymond (USPS-T-13), Kashani (USPS-T-14), Smith (USPS-T-21), Kay (USPS-T-23),
19 Eggleston (USPS-T-26), Daniel (USPS-T-29), Mayes (USPS-T-32), and Plunkett
20 (USPS-T-36).

21 Based on my review, I have reached the following conclusions with respect to the
22 Postal Service's proposals:

1 1. The Postal Service has understated the attributable costs associated with
2 Parcel Post and Priority Mail;

3 2. The Postal Service has overstated the revenues associated with Parcel
4 Post;

5 3. The changes recommended by UPS witnesses to the costs, revenues,
6 volumes, and cost coverages of Parcel Post, Priority Mail, and Express Mail lead to
7 significant changes in the rate increases necessary for these subclasses;

8 4. The Postal Service has overstated the costs avoided by Parcel Post
9 worksharing; and

10 5. The passthroughs for Parcel Post DSCF-entry and DDU-entry should be
11 decreased from those recommended by the Postal Service.

12 **THE POSTAL SERVICE HAS UNDERSTATED**
13 **THE ATTRIBUTABLE COSTS ASSOCIATED**
14 **WITH PARCEL POST AND PRIORITY MAIL.**

15 **A. Advertising Costs**

16 The Postal Service has agreed that it underestimated advertising costs for Parcel
17 Post, Priority Mail, and Express Mail in its initial filing. In the Base Year there should be
18 \$20 million of advertising costs for Parcel Post, an additional \$38.3 million for Priority
19 Mail, and an additional \$0.4 million for Express Mail. In the Test Year there should be
20 \$18.5 million of advertising costs for Parcel Post, an additional \$38.3 million for Priority
21 Mail, and an additional \$0.4 million for Express Mail. Postal Service witness Kay issued

1 an errata to her testimony in which she included these additional costs as Product
2 Specific costs under the Postal Service's costing method (USPS-T-23 , pages 14 and
3 16, as revised March 13, 2000).

4 Advertising costs are properly treated as specific fixed attributable costs under
5 the Commission's costing method. Thus, the Test Year After Rates attributable costs
6 under the Commission's costing method provided in Library Reference USPS-LR-I-131
7 need to be increased by \$18.5 million for Parcel Post, \$38.3 million for Priority Mail, and
8 \$0.4 million for Express Mail.

9 **B. Parcel Post Final Adjustments**

10 In a final step of his roll forward model, Postal Service witness Kashani adjusts
11 the rolled forward Test Year attributable transportation costs for Parcel Post downward.
12 The adjustments were derived by Postal Service witnesses Eggleston and Daniel based
13 on changes in the estimated relative volume mix by rate category. Ms. Eggleston
14 adjusts for the increased share of DBMC-entry Parcel Post pieces from the Base Year
15 to the Test Year (Tr. 13/5201). Using Ms. Eggleston's estimates of DBMC-entry, DSCF-
16 entry, and DDU-entry transportation costs per piece, Ms. Daniel adjusts Parcel Post
17 transportation costs for the inclusion of DSCF-entry and DDU-entry pieces in the Test
18 Year, since the DSCF-entry and DDU-entry discounts were not in effect during the Base
19 Year (Response to UPS/USPS-T28-3, filed April 5, 2000).

20 Ms. Daniel calculates that Parcel Post Test Year transportation costs should be
21 reduced by \$10 million Before Rates and \$21 million After Rates due to the "post-mix"

1 appearance of 30 million DSCF-entry and DDU-entry parcels.¹ Ms. Daniel assumes
2 that Parcel Post's "pre-mix" transportation costs do not reflect any cost savings from
3 entering parcels at the DSCF or at the DDU.²

4 However, Ms. Eggleston's Test Year transportation costs for DBMC-entry Parcel
5 Post have already been reduced from what they otherwise would have been because
6 7.11% of DBMC-entry pieces were entered at a DSCF, thereby already saving a leg of
7 intermediate transportation from the DBMC to the DSCF (USPS-T-26, page 24, and
8 Attachment M, page 3).³ This means that Ms. Eggleston's estimate of transportation
9 cost incurred by DBMC-entry Parcel Post in the Base Year already reflects, before any
10 further adjustment by Ms. Daniel to reflect the cost savings of DSCF-entry, the cost
11 savings resulting from the 7.11% of those DBMC parcels that were actually entered at a
12 DSCF even in the absence of a DSCF-entry discount. This lowers Ms. Eggleston's
13 estimate of the transportation cost incurred by destination entry Parcel Post. Ms. Daniel
14 then applies Ms. Eggleston's transportation cost estimate as if it did not reflect any
15 transportation savings from DSCF entry. This yields a double-count of transportation
16 savings.

17 Assume, for example, that 7.11% of combined DSCF and DBMC volume was
18 entered at the DSCF in the Test Year both "pre-mix" and "post mix" -- in other words,
19 there was no mix change at all. Obviously, there should be no mix adjustment in that

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1. USPS-LR-I-97, USPS Transportation Summary, page 35 of 37. USPS LR-I-140 contains the Commission's costing version of Ms. Daniel's final adjustments.
 2. See "2001br" column in USPS-LR-I-97, page 32 of 37.
 3. Some of this volume arises from co-location of the DBMC and the DSCF.

situation. However, under Ms. Daniel's approach, there would be a mix adjustment. As shown in Table 1, below, Ms. Daniel would use the weighted average DBMC/DSCF-entry transportation cost per piece derived by Ms. Eggleston as the "DBMC-entry only" transportation cost in the post-mix case, even though the average already reflects the lower cost of DSCF entry. In other words, the approach would assume a pre-mix transportation cost of \$0.660 per cubic feet and a post-mix transportation cost of \$0.636 per cubic feet, when no mix change has occurred. As a result, the approach would show that Parcel Post transportation costs are lower post-mix when in fact they have not changed.

Table 1: Illustration of Transportation Adjustment Double-Count

	Pre-Mix		Post-Mix	
	Volume Share	Transport Cost (\$/pc)	Volume Share	Transport Cost (\$/pc)
DBMC	92.89%	\$0.685	92.89%	\$0.660
DSCF	7.11%	\$0.330	7.11%	\$0.330
Weighted Average		\$0.660		\$0.636

The double-count can be easily fixed simply by recognizing that 7.11% of DBMC-entry volume is already entered at a DSCF in the pre-mix starting point, and therefore reducing Ms. Daniel's calculated DSCF-entry transportation savings to that extent. In so doing, the TYAR final adjustment for transportation is reduced by \$6.6 million to \$7.7 million, thereby increasing Parcel Post attributable costs by the same amount, as summarized in the table below. See Exhibit UPS-T-5A for further detail.

Table 2: Corrected Test Year Parcel Post Transportation Final Adjustment
(Commission's Costing Method, Millions of Dollars)

	TYBR	TYAR
Transportation Final Adjustment As Filed (USPS-LR-I-140)	(10.0)	(20.9)
Corrected Transportation Final Adjustment	(2.3)	(14.3)
Increase in Parcel Post Attributable Costs	7.7	6.6

Source: Exhibit UPS-T-5A

C. City Carrier Elemental Load Costs Should Be Distributed By Weight.

Postal Service Witness Daniel distributes city carrier elemental load cost by weight within the First Class Mail Presort and Standard Mail (A) categories. Elemental load includes the time spent handling mail pieces at the point of delivery (USPS-T-28, page 8). Ms. Daniel notes, quite reasonably, that the cost of city carrier delivery of heavier parcels is significantly higher than for lower weight parcels in those categories (USPS-T-28, pages 3, 8-9).

Although Ms. Daniel's testimony was provided for the purpose of guiding the Postal Service's costing and rate design witnesses (USPS-T-28, page 3), Postal Service Witness Meehan fails to incorporate Ms. Daniel's recommendation in her distribution among the classes and subclasses of mail of elemental load cost for city carrier regular routes (Tr. 6/2665-67). If weight is a proper basis for reflecting cost differences within the narrow ranges from one ounce up to thirteen ounces for First Class Mail Presort and from one ounce up to sixteen ounces for Standard Mail (A), then it surely should be used in the case of the more significant weight differences between

1 the lighter weight and the heavier weight classes of mail. The Commission should apply
2 Ms. Daniel's recommendation to all classes of mail and distribute the parcel shape costs
3 for city carrier regular route elemental load time to subclasses by weight, rather than by
4 piece volumes.

5 The impact of distributing the parcel shape costs by weight for city carrier
6 elemental load time for regular routes is summarized in Table 3, below, which reflects
7 the Commission's costing method. The new distribution key is based on the product of
8 average weight and City Carrier System volume data for each subclass for parcel
9 shaped items.⁴ As Table 3 shows, the volume variable costs for Parcel Post and for
10 Priority Mail increase significantly. See Exhibit UPS-T-5B for further detail.

4. The CCS data is described by Mr. Harahush in USPS-T-3, USPS-LR-I-16, and USPS-LR-I-130. The cost studies performed by Ms. Daniel were used to derive the average weight for parcels in First Class Mail and Standard Mail (A). Billing determinant data (normalized to CRA data) was used to estimate the average weight for parcels for other subclasses.

Table 3: Distribution of City Carrier Regular Route Elemental Load Costs
(Commission Costing Method, Millions of Dollars, Base Year)

	As Filed – Distributed by Piece	Corrected – Distributed by Weight	Change
First Class	669.9	644.6	(25.3)
Priority Mail	49.9	69.0	19.1
Express Mail	24.5	25.6	1.2
Periodicals	94.1	86.8	(7.3)
Standard (A)	728.1	677.8	(50.3)
Parcel Post	26.4	80.6	54.2
Other	164.0	172.5	8.5
Total	1,756.9	1,756.9	0.0

Source: Exhibit UPS-T-5B

The distribution of city carrier Street Support costs is also affected by a change in the underlying distribution of city carrier elemental load costs, and the impact on Street Support costs is provided in Exhibit UPS-T-5B.

The two cents per pound charge used in the rate design for Parcel Post and Priority Mail to account for weight-related non-transportation costs helps capture the impact of weight on costs within those specific subclasses. Indeed, the Postal Service argues that one of the reasons for the two cents per pound adder for Parcel Post is the extra cost incurred by city carriers in delivering higher weight pieces (Tr. 13/5082). Similarly, the allocation of elemental load to subclasses should be more heavily weighted to those subclasses that contain heavier weight parcels.

1 The A.T. Kearney Data Quality Study recommended the development of
2 “engineering studies that track weight in conjunction with other mail cost-causing
3 characteristics through the entire production process” (Data Quality Study, Summary
4 Report, April 16, 1999, page 94). The A.T. Kearney study also recommended updating
5 the city carrier special studies which were last performed in the mid-1980’s noting that
6 this “will improve this data and will have a large impact on the precision of many sub-
7 class’s UVVCs [Unit Volume Variable Costs]” (*id.* at 44). Further investigation into the
8 effect of weight on other cost components as part of this updating would lead to higher
9 quality data in future rate cases.

10 **D. The Cost of Sequencing Parcels by City Carriers Should**
11 **Be Assigned to Parcels.**

12 Letters and flat-shaped mail are sequenced (cased) for delivery by city carriers in
13 the office, while parcels are sequenced (i.e., sorted into delivery order) outside the office
14 during the loading of the city carrier’s vehicle or while en route. Tr. 5/2093 (Kingsley),
15 19/8081-82 (Raymond). Thus, while IOCS, which samples only in-office activities,
16 captures the full sorting costs for letters and flats, it does not do so for parcels.⁵

17 Just as for the other shapes of mail which are sequenced by the carrier in-office,
18 the cost for the sequencing of parcels is significant, as each individual parcel must be
19 examined and put in proper delivery order. Unlike letters and flats, the sequencing
20 costs for parcels are buried within city carrier Street Support costs or Driving Time,

5. My DDU visits confirm that substantial time is spent by carriers at their vehicle
 sorting parcels. Indeed, much of the vehicle loading time is spent sequencing
 the 30 or so parcels on the route, rather than loading the numerous flats and
 letters already cased in trays.

1 which include generic activities such as driving to the beginning of the route and driving
2 back to the office from the end of the route. Tr. 19/8084 (Raymond). Street Support
3 costs are distributed to subclasses as a piggyback off of the distribution of the
4 remainder of city carrier costs for each category – load, access, route, and office.
5 Therefore, the cost of sequencing parcels for delivery on city carrier regular routes is
6 distributed to all types of mail, not just to parcels.

7 I recommend that the cost of sequencing parcels be removed from city carrier
8 Street Support costs and distributed to subclasses directly by shape, as is done in the
9 case of the sequencing of letters and flats.

10 I have derived parcel sequencing costs by multiplying the cost per piece for
11 sequencing parcels by the volume of parcels delivered in each subclass as estimated
12 by Postal Service Witness Harahush. The cost per piece for sequencing parcels was
13 obtained by multiplying the city carrier wage rate by the city carrier sequencing time per
14 parcel taken from the Postal Service's confidential Engineered Standards study. The
15 Engineered Standards study is based on time standards rather than actual
16 observations. In practice, city carriers are likely not yet meeting those time standards
17 since they reflect more efficient operating procedures than are now used, Tr. 19/8122-
18 23 (Raymond), and thus the cost per piece for sequencing parcels obtained using the
19 results of the time standards study is a conservatively low estimate.

20 These parcel sequencing costs are then removed from Street Support. The
21 parcel sequencing costs are assumed to have the same volume variability as city carrier
22 in-office costs, since the activity is essentially the same in both cases. This change was

implemented only for those subclasses with heavier weight parcels -- Priority Mail and Standard Mail (B) -- given that lighter weight parcels can include samples that are not individually sequenced, and can include parcels that are removed by the carrier from parcel hampers and sorted into letter or flat trays in the office (Tr. 5/2091, 19/8081-82, 8086).

The resulting change in volume variable costs for each subclass is shown in Exhibit UPS-T-5C, which is being filed under seal because it uses data taken from the Engineered Standards study. Total attributable costs increase due to the higher volume variability of in-office costs.

The recommended methodology and the resulting cost distribution to individual subclasses of mail would be much improved by a study of the cost of sequencing parcels outside of the office. I urge the Commission to recommend that the Postal Service perform such a study.

E. The Cost of Exclusive Parcel Post Delivery Routes Should Be Treated as Specific Fixed Costs.

City Carrier Special Purpose Routes include Exclusive Parcel Post Routes, Parcel Post Combined Routes, Collection Routes, OMMS and Other. Exclusive Parcel Post Routes are regular routes devoted entirely to the delivery of Parcel Post. Tr. 6/2662-63. Thus, all of the costs associated with Exclusive Parcel Post Routes should be assigned to Parcel Post. The total costs incurred in the Base Year for Exclusive Parcel Post Routes was \$37.4 million (Tr. 6/2663).

1 Ms. Meehan's distribution of Special Purpose Route costs is based on a study
2 performed by Postal Service Witness Nelson in Docket No. R97-1 (Tr. 21/8553). Based
3 on the data Ms. Meehan has been able to obtain from that study, it is not possible to tell
4 what the distribution key was for each individual type of Special Purpose Route. Tr.
5 6/2663-65. However, across all of the SPR route types, Ms. Meehan distributes only
6 \$11.0 million to Parcel Post.⁶

7 It is clear that Parcel Post should be attributed some share of the costs of the
8 other types of Special Purpose Routes (e.g., Parcel Post Combined Routes). However,
9 in the absence of better data, a very conservative means of dealing with this issue is to
10 assign to Parcel Post the difference between the total cost of the Exclusive Parcel Post
11 Routes and the total Special Purpose Route costs attributed to Parcel Post. That
12 difference is \$26.4 million, as shown in Table 4, below. These costs may be treated as
13 a Product Specific cost under the Postal Service's costing method, or as a specific fixed
14 cost under the Commission's costing method.

6. The \$11.0 million results from adding the Special Purpose Route costs assigned to Parcel Post in USPS-LR-I-130-errata. See UPS-Luciani-WP-2.

Table 4: Specific Fixed Costs for Exclusive Parcel Post Routes
(Commission's Costing Method, Millions of Dollars, Base Year)

	Special Purpose Route Costs
Exclusive Parcel Post Route Costs	37.4
Special Purpose Route Costs Assigned to Parcel Post	11.0
Amount to Treat as Parcel Post Specific Fixed Costs	26.4

Because this is a very conservative means of estimating the amount of costs that should be attributed to Parcel Post, I urge the Commission to recommend that the Postal Service perform a more refined investigation of this issue for subsequent rate cases.

**THE POSTAL SERVICE HAS OVERSTATED THE
REVENUES ASSOCIATED WITH PARCEL POST.**

Postal Service Witness Plunkett projects a significant decline in OMAS and Alaska volume from the Base Year to the Test Year, but, inexplicably, assumes OMAS and Alaska revenues will increase significantly over this same period. This is inconsistent and clearly wrong. He stated that he projected OMAS and Alaska revenue based on the underlying growth of Parcel Post in conformance with historical practice (Tr. 13/5020). Such an approach might be proper if he also projected an increase in OMAS and Alaska volume based on the underlying growth of Parcel Post, but it makes no sense in the face of the substantial decline in OMAS and Alaska volume which he projects.

1 Since OMAS and Alaska pieces are subsets of the other Parcel Post rate
2 categories, Mr. Plunkett is double-counting revenues. Because OMAS and Alaska
3 volume are assumed to decrease from the Base Year to the Test Year, the volumes of
4 intra-BMC, inter-BMC, and DBMC in the Test Year are higher than they otherwise would
5 be. This makes the Test Year revenues for intra-BMC, inter-BMC, and DBMC higher
6 than they otherwise would be. To then increase the OMAS and Alaska revenue despite
7 the OMAS and Alaska volume decrease is inconsistent and is a clear double-count.

8 I have corrected this overstatement of Parcel Post revenues as shown in Table 5,
9 below. I used the Base Year revenue per piece for Alaska and OMAS provided by Mr.
10 Plunkett, adjusted it for the rate increase from Docket No. R94-1 to Docket No. R97-1
11 that took place in FY1999 (approximately 21%, given that the Alaska and OMAS pieces
12 are largely charged intra-BMC and inter-BMC rates), and then multiplied it by Mr.
13 Plunkett's volume estimates for Alaska and OMAS in the Test Year Before Rates. As
14 shown, the total revenue for Parcel Post decreases by \$8.1 million (\$23.5 million as filed
15 minus \$15.4 million corrected) in the Test Year Before Rates once corrected. See
16 Exhibit UPS-T-5D for further details, including the similar \$8.4 million correction in the
17 Test Year After Rates.

Table 5: Correction of Test Year OMAS and Alaska Parcel Post Revenue

	Postal Service As Filed			As Corrected		
	Base Year	Test Year	% Change	Base Year	Test Year	% Change
Revenue (\$000)	18,968	23,486	24%	18,968	15,390	-19%
Volume (000)	3,488	2,327	-33%	3,488	2,327	-33%
Rev./Pc. (\$/pc.)	5.43	10.09	86%	5.43	6.61	21%

Source: Exhibit UPS-T-5D

**CHANGES TO PARCEL POST,
PRIORITY MAIL, AND EXPRESS MAIL
REVENUES AND COSTS BY UPS WITNESSES**

A. Base Year 1998

UPS witnesses Sellick, Neels, and I recommend a number of changes to Parcel Post, Priority Mail, and Express Mail costing for the Base Year, including:

1. Use of the Domestic RPW as the sole source of Base Year Revenue, Pieces, and Weight for Parcel Post (Sellick, UPS-T-4);
2. Use of Postal Service Witness Degen's improvements to the Commission's Cost Segment 3 cost allocations (Sellick, UPS-T-2);
3. 100% volume variability for mail processing costs (Neels, UPS-T-1, and Sellick, UPS-T-2);

- 1 4. Reallocation of dedicated air network costs in Cost Segment 14 (Neels, UPS-T-
2 3);
- 3 5. Reallocation of highway transportation costs in Cost Segment 14 (Neels, UPS-T-
4 3);
- 5 6. Allocation of city carrier elemental load costs by weight for parcels (Luciani);
- 6 7. Distribution to parcels of the cost of sequencing parcels by city carriers (Luciani);
- 7 8. Distribution of the cost of Exclusive Parcel Post Special Purpose Routes solely to
8 Parcel Post (Luciani); and
- 9 9. Ms. Kay's advertising cost corrections (Luciani).

10 I have calculated the combined impact of these changes on Parcel Post, Priority
11 Mail, and Express Mail under the Commission's costing method. As a simplification,
12 piggyback factors are used to capture the impact of the recommended changes on cost
13 segments other than Cost Segments 3, 7, and 14. The results are summarized in Table
14 6, below.

Table 6: Base Year Revenue and Attributable Cost
(Commission's Costing Method, Millions of Dollars)

	As Filed (USPS-LR-I-130)⁷			As Corrected		
	Revenue	Attributable Cost	Cost Coverage	Revenue	Attributable Cost	Cost Coverage
Priority Mail	4,187.4	2,693.2	155%	4,187.4	2,911.6	144%
Express Mail	854.5	619.5	138%	854.5	508.7	168%
Parcel Post	947.9	880.9	108%	823.6	1,041.1	79%

Source: UPS-Luciani-WP-3

B. Test Year After Rates With Postal Service Proposed Rates

Based on a simplified roll forward process, I have estimated the results of rolling forward the Base Year to the Test Year After Rates, using the proposed Postal Service rates as the basis. Additional changes to the Base Year changes noted above include:

1. A revised Parcel Post Test Year volume projection, based on corrected Base Year volumes;
2. Corrected Parcel Post OMAS and Alaska Test Year Revenue; and
3. Corrected final adjustments for Parcel Post.

7. The Commission's Alaska Air treatment was not used in the filed version of USPS-LR-I-130. I have incorporated this treatment in the "As Filed" figures listed above. The Postal Service filed an errata to Workpaper B of the USPS-LR-I-130 workpapers, but did not incorporate these changes in the costs by subclass contained in USPS-LR-I-130. I have included the impact of this errata as part of the UPS recommended set of corrections.

- 1 The resulting cost coverages under the Postal Service's proposed rates are shown in
2 Table 7, below.

Table 7: TYAR Revenue and Attributable Cost
(Commission's Costing Method, Postal Service Proposed Rates)

	As Filed (USPS-LR-I-131)				As Corrected			
	Revenue	Attributable Cost	Cost Coverage	Rate Increase	Revenue	Attributable Cost	Cost Coverage	Rate Increase
Priority Mail	5,542.3	3,389.0	164%	15%	5,542.3	3,653.7	152%	15%
Express Mail	1,068.6	719.3	149%	4%	1,068.6	590.6	181%	4%
Parcel Post	1,211.5	1,082.0	112%	2%	991.2	1,216.1	82%	2%

Source: UPS-Luciani-WP-3

3 **C. Test Year After Rates – Revised Cost Coverages**

- 4 I have calculated the Priority Mail and Parcel Post rate increases that would
5 result from the cost coverage recommendations provided by UPS Witness Sappington,
6 as shown in Table 8, below. Table 8 also shows the rate increase needed for Express
7 Mail to cover its revised costs using the Postal Service's proposed markup ratio
8 normalized to the systemwide coverage.

Table 8: TYAR Revenue and Attributable Cost
(Commission's Costing Method, Revised Cost Coverages)

	As Filed (USPS-LR-I-131)			As Corrected and Revised			
	Revenue	Attributable Cost	Rate Increase	Revenue	Attributable Cost	Cost Coverage	Rate Increase
Priority Mail	5,542.3	3,389.0	15%	5,787.9	3,288.2	176%	40%
Express Mail	1,068.6	719.3	4%	1,191.8	603.6	197%	13%
Parcel Post	1,211.5	1,082.0	2%	997.7	898.7	111%	31%

Source: UPS-Luciani-WP-3

1 **D. Parcel Post Volumes and Revenue Adjustment Factors**

2 I have updated Mr. Plunkett's analysis to derive Revenue Adjustment Factors for
3 Parcel Post based on the corrected Parcel Post Base Year volumes recommended by
4 Mr. Sellick. The results are provided in UPS-Luciani-WP-3. I then updated Postal
5 Service Witness Tolley's analysis of Parcel Post volumes to reflect Mr. Sellick's
6 recommendations by correcting the actual Parcel Post volume data for Base Year 1998,
7 and re-running Dr. Tolley's model to predict Parcel Post volume by rate category for the
8 Test Year Before and After Rates. The results are summarized in Table 9, below. See
9 UPS-Luciani-WP-3 for further detail.

Table 9: Corrected Projection of Parcel Post Volumes

(000)

	Postal Service As Filed		As Corrected	
	Base Year	TYBR	Base Year	TYBR
Intra-BMC	42,121	28,817	48,172	35,675
Inter-BMC	64,314	51,620	67,745	57,473
DBMC	209,713	298,009	150,562	223,126
Total	316,148	378,447	266,479	316,274

Source: UPS-Luciani-WP-3

**THE POSTAL SERVICE HAS OVERSTATED THE
COSTS AVOIDED BY PARCEL POST WORKSHARING.**

A. DBMC-Entry Mail Processing Cost Avoidance Is Overstated.

As in Docket No. R97-1, the Postal Service is again proposing a much greater rate increase for inter-BMC and intra-BMC Parcel Post than for DBMC-entry Parcel Post, as shown in Table 10, below.

Table 10: Rate Increases by Parcel Post Rate Category

	R97-1 Postal Service Proposed Rate Increase	R2000-1 Postal Service Proposed Rate Increase
Non-workshared Inter-BMC	16.5%	10.0%
Non-workshared Intra-BMC	21.6%	9.4%
DBMC-Entry	3.7%	0.5%

Source: UPS-T-4, page 24 (R97-1), Tr. 13/5010

1 The Commission mitigated the differential somewhat in Docket No. R97-1.

2 Nevertheless, the Postal Service again proposes much higher rate increases for intra-
3 BMC and inter-BMC Parcel Post than for dropshipped Parcel Post.

4 These disparate rate increases by rate category are largely driven by increases
5 in the Postal Service's estimates of the dropshipment mail processing cost avoidance
6 derived using an outdated "top-down" estimation technique. In the outdated "top-down"
7 approach, outgoing mail processing costs at non-BMCs obtained from IOCS data are
8 divided by the Parcel Post volume entered upstream of the BMC to estimate the DBMC-
9 entry cost avoidance. The top-down approach uses (1) the old LIOCATT cost
10 breakdown in Cost Segment 3.1 that has since been abandoned for general cost
11 allocation purposes in favor of the MODS-based approach, and (2) a rough estimate of
12 the volume entered upstream of the BMC based on outdated studies (performed in
13 1990 and 1993).

14 Moreover, outgoing Parcel Post costs at non-BMCs include costs at MODS pools
15 for flat sorting machines, international mail, etc., that do not make much sense when
16 one is attempting to determine Parcel Post costs. Thus, it is no surprise that we see
17 inexplicable changes in the cost savings estimates over time, as shown in Table 11,
18 below. For example, as Table 11 shows, the outdated top-down technique's estimation
19 of outgoing mail processing costs have increased dramatically from Docket No. R97-1,

- 1 even though the volume of intra-BMC and inter-BMC mail entered upstream of the BMC
2 which gives rise to these costs has fallen.⁸

**Table 11: Top-Down Estimates of DBMC-Entry
Mail Processing Avoided Costs**

	Postal Service R90-1	Postal Service R97-1	Postal Service R2000-1
Non-BMC Outgoing Mail Processing Costs	15,166	40,401	51,153
Volume Entered Upstream of BMC (000)	112,185	112,738	103,287
TY/BY Wage Rate Adjustment Factor	1.1677	1.053	1.124
Test Year DBMC Cost Avoided	14.1 (a)	37.7	55.7

(a) Derived separately for machinable and non-machinable and then averaged.

Source: R90-1, USPS-T-12 (Acheson); R97-1, USPS-T-28, Exhibit C (Crum); USPS-T-26 (Eggleston), Attachment F

- 3 Finally, the top-down technique has a basic presumption that non-BMC outgoing
4 mail processing costs cannot be incurred by DBMC-entry parcels. I asked Mr. Sellick to
5 test this presumption using the IOCS database and programs. Mr. Sellick calculated
6 that nearly 20% of the non-BMC outgoing mail processing costs determined by the
7 Postal Service is based on IOCS observations in which the Parcel Post piece examined

8. Ms. Eggleston asserted that an increased level of volume variability caused this 48% increase from Docket No. R97-1 to Docket No. R2000-1. Tr. 13/5170-71. However, as shown in the Commission's R97-1 Parcel Post workpapers (PRC-LR-15, DBMC.xls, page 12), using 100% volume variability for mail processing costs made little difference to the amount of non-BMC mail processing costs. This is because most of the low variabilities used by the Postal Service in Docket No. R97-1 affecting Parcel Post were for operations taking place at the BMC.

1 is a DBMC-entry parcel. See Exhibit UPS-T-5E. To state the obvious, counting costs
2 incurred by DBMC-entry parcels as avoided by DBMC-entry parcels is a serious error.

3 As a result of Ms. Eggleston's modeling of Parcel Post costs, there is now
4 available a better way of determining dropshipment rates than to rely on the Postal
5 Service's outdated and erroneous top-down technique. DBMC-entry rates are
6 determined by subtracting DBMC avoided costs from intra-BMC rates. Thus, the DBMC
7 mail processing avoided cost can be determined by simply taking the difference
8 between (1) the mail processing costs for intra-BMC parcels and (2) those for DBMC-
9 entry parcels developed by Ms. Eggleston in her workflow models. Using this "bottom-
10 up" approach yields a DBMC mail processing avoided cost of 24.9 cents per piece in
11 comparison to the 55.7 cents per piece derived from Ms. Eggleston's "top-down"
12 approach, as Table 12 shows.

Table 12: Bottom-Up DBMC-Entry Mail Processing Cost Avoided
(Postal Service As Filed)

	Machinable		Non-Machinable	
	Intra-BMC	DBMC-Entry	Intra-BMC	DBMC-Entry
Cost per Piece	92.2	67.3	193.9	178.0
DBMC Avoided Cost	24.9		15.9	

Source: USPS-T-26, Attachment A (Eggleston)

13 The weighted average savings based on a mix of 95% machinable and 5% non-
14 machinable DBMC-entry parcels (per USPS-T-26, Attachment D) is 24.5 cents per
15 piece. However, because both intra-BMC and DBMC-entry non-machinable parcels are
16 proposed to be assessed a cost-based surcharge, it is more appropriate to use only the

1 machinable cost difference, rather than taking a weighted average of the machinable
2 and non-machinable avoidances, since the cost-based non-machinable surcharge takes
3 into account the cost differences between DBMC-entry parcels and intra-BMC parcels
4 with respect to non-machinability.⁹

5 The Postal Service determines the other Parcel Post discounts (DDU-entry,
6 DSCF-entry, OBMC-entry, and BMC presort) on the basis of the bottom-up approach,
7 and has done so since those discounts were instituted in Docket No. R97-1. The top-
8 down approach for DBMC-entry cost avoidance is an artifact of history previously
9 necessitated by the lack of workflow models. Now that the Postal Service has
10 developed workflow models that were accepted by the Commission in Docket No.
11 R97-1, the same models should be used to derive all mail processing avoided costs,
12 including that for DBMC entry.

13 Because the Postal Service's workflow models currently start at the origin SCF,
14 the bottom-up approach does not capture any DBMC-entry mail processing costs
15 avoided at the origin AO.¹⁰ Ms. Eggleston indicates that these origin AO costs are for
16 collection, placing parcels into containers, and loading containers. Tr. 13/5168. Postal
17 Service witness Degen has stated that these types of costs at the origin AO are

9. The fact that the top-down approach is unable to distinguish between machinable and non-machinable savings is another reason to move to the bottom-up approach.

10. The total would be 11.8 cents using uncorrected Parcel Post volumes. The top-down approach also requires adjustment for items such as how often an ASF acts as a BMC, and removal of platform acceptance costs. See USPS-T-26, Attachment F.

1 predominantly in pool LD43 and Function 4 costs in pool LD48 (Tr. 15/6547-49). As a
2 result, I have used the outgoing non-DBMC Parcel Post costs from (1) the LD43 cost
3 pool, (2) the Function 4 costs in the LD48 pool, and (3) conservatively, all of the non-
4 MODS costs pools, divided by the Parcel Post volume entered upstream of the BMC to
5 determine an additional 10.9 cents of cost savings not yet reflected in the workflow
6 modeled savings. See Exhibit UPS-T-5F.¹¹

7 Adding the 10.9 cents of avoided costs at the AO to the 24.9 cents of savings
8 from the workflow models from the origin SCF on yields a total mail processing avoided
9 cost for DBMC of 35.8 cents. This is reasonably close to the 30 cents per piece DBMC-
10 entry avoided mail processing cost savings determined by the Commission in Docket
11 No. R97-1. That is not surprising, since the Docket No. R97-1 discount was
12 implemented little more than a year ago. I recommend that 35.8 cents per piece be
13 used in this proceeding.¹² Using a similar methodology, I have calculated the applicable
14 avoided cost to be 36.4 cents per piece if 100% volume variability for mail processing is

-
11. Inclusion of these outgoing AO costs as well as incoming sortation costs at the AO decreases Ms. Eggleston's derivation of the CRA multiplier from 1.154 to approximately 1.00. Moreover, a CRA multiplier focused solely on the non-BMC cost pools would be significantly lower than 1.00. See UPS-Luciani-WP-1, Section E. However, I followed Ms. Eggleston's practice of not applying the CRA multiplier in the derivation of Parcel Post destination entry cost avoidances using the bottom-up method, since Ms. Eggleston's approach is the correct one.
12. DBMC-entry parcels have more cubic feet per piece than do intra-BMC parcels. Ms. Eggleston's workflow models for intra-BMC and DBMC do not take this differential density into account. Indeed, the DBMC mail processing worksharing savings should be measured as the cost of intra-BMC pieces on average (with their lower cubic feet per piece) minus the cost of DBMC-entry pieces on average (with their higher cubic feet per piece). Thus, the estimate given above is conservatively high.

1 adopted by the Commission. See Exhibit UPS-T-5F. In addition, I urge the Commission
2 to recommend that the Parcel Post workflow models be expanded to include operations
3 at the origin AO so as to avoid any future use of the outdated top-down approach.

4 **B. DDU-Entry Mail Processing Cost Avoidance Is Overstated.**

5 **1. Sack Shakeout**

6 The Commission found in Docket No. R97-1 that the DDU-entry cost avoidance
7 should exclude the 2.1 cents cost per piece of sack shakeout. The Postal Service
8 asserts that the mailer is required to unload the mail and empty the contents of any
9 containers into a DDU specified container (Tr. 13/5169). However, Ms. Eggleston was
10 only able to cite one section (§ E652.3.8) of the Domestic Mail Manual ("DMM") which
11 requires shippers to unload pallets into a container specified by the DDU, *if* the DDU
12 cannot handle pallets, and to place bedloaded pieces into containers specified by the
13 DDU, *if* the DDU needs to maintain a 5-digit separation (Tr. 13/5199). There is no
14 specific requirement for a "sack shakeout" in the DMM. See DMM, § E652.3.8
15 (January 10, 1999). Moreover, Ms. Eggleston was unable to provide any information
16 with respect to the delivery units' container of choice, including the type of containers
17 and where the container is located (Tr. 13/5199).

18 Recent Mailers' Technical Advisory Committee meeting minutes make clear that
19 Postal Service employees at the DDU will assist in unloading DDU-entry mail when they
20 are available. Mailers' Technical Advisory Committee, Parcel IRT Meeting Minutes,
21 May 14, 1998, at 8, <<http://ribbs.usps.gov/mits/search.cfm>> (Issue Number 28). Thus, it
22 is questionable that the 4.36 cents per piece unloading costs said to be avoided by

DDU-entry -- let alone the sack shakeout costs of 2.1 cents per piece -- will actually be avoided. Excluding only the 2.1 cents in sack shakeout costs is a reasonable way of accounting for the likelihood of Postal Service assistance in unloading and the lack of firm guidelines on DDU-entry policy in this regard.

2. The Discount Should Be Based on Machinable Cost Differences.

The Postal Service proposes a non-machinable surcharge for DBMC-entry Parcel Post. Yet, the DDU-entry cost avoidance deducted from the DBMC-entry rates is based on an average of both the machinable and the non-machinable cost avoidances. This leads to the nonsensical result that a machinable DBMC-entry parcel with 67.3 cents per piece of mail processing costs avoids 73.0 cents of costs if entered at the DDU.

With the imposition of a surcharge for non-machinable DBMC-entry parcels, the DDU cost avoidance should no longer be based on an average of both machinable and non-machinable savings. The desire to avoid the non-machinable DBMC surcharge will provide an incentive for mailers to send non-machinable parcels to the DDU or to the DSCF. That incentive should not be improperly increased by inflating the avoided cost calculation to reflect non-machinable costs that are not avoided. Using only the machinable savings to derive the DDU-entry cost avoidance decreases the DDU-entry cost avoidance by 5.7 cents per piece.

The sack shakeout and machinable-only savings adjustments reduce Ms. Eggleston's proposed DDU-entry mail processing cost avoidance (off of DBMC-entry) from 73.0 cents per piece to 65.2 cents per piece.

1 **C. DDU-Entry and DSCF-Entry Transportation Cost**
2 **Avoidance Is Incorrect.**

3 **1. Cubic Feet Per Piece for DDU-Entry and**
4 **DSCF-Entry Parcels**

5 In his Parcel Post rate design, Mr. Plunkett assumes that DSCF-entry and DDU-
6 entry parcels will have the same cubic feet per piece as intra-BMC parcels. In his
7 response to Presiding Officer's Information Request No. 3, Question 7, Tr. 13/5017, Mr.
8 Plunkett agreed that intuitively one would expect the physical characteristics of DSCF-
9 entry and DDU-entry parcels to more closely approximate DBMC-entry parcels rather
10 than intra-BMC parcels. I agree.

11 Thus, DDU-entry and DSCF-entry Parcel Post cubic feet per piece should be
12 based on the cubic feet per piece of DBMC-entry Parcel Post. DBMC-entry Parcel Post
13 has more cubic feet per piece than does intra-BMC or inter-BMC Parcel Post. As a
14 result, parcels entered at the DSCF or at the DDU are likely to incur higher
15 transportation costs for the transportation they use than non-dropshipped parcels using
16 those same transportation legs.

17 In the absence of alternative data, it is reasonable to expect that all drop-shipped
18 mail will have similar physical characteristics. Indeed, Mr. Plunkett estimates the
19 volume of DSCF-entry and DDU-entry parcels using total **DBMC** volume -- not total
20 Parcel Post volume -- as his basis. This implicitly assumes that the characteristics of
21 DSCF-entry and DDU-entry parcels are likely to resemble those of DBMC-entry parcels
22 rather than the characteristics of all parcels. Ms. Daniel assumes the same in her final
23 adjustments. The Commission should do likewise.

1 **2. Consistent Treatment of Alaska Air Costs**

2 The Postal Service distributes Alaska air costs only to intra-BMC and inter-BMC
3 Parcel Post on the basis that only these rate categories are offered in Alaska. That was
4 the Commission's approach as well in Docket No. R97-1. However, Ms. Eggleston has
5 agreed that the DSCF-entry and DDU-entry rate categories are now offered in Alaska.
6 Tr. 13/5202. She has also agreed that these DSCF-entry and DDU-entry parcels incur
7 Alaska air costs. Tr. 13/5202. Accordingly, following the Commission's standard
8 practice, Alaska air costs should be allocated to DSCF-entry and DDU-entry parcels.

9 This simply requires allocating the \$9.44 million of Test Year Alaska air costs for
10 transportation so that DSCF-entry and DDU-entry volume incurs one leg of
11 transportation in comparison to two legs for intra-BMC and inter-BMC volume.¹³ The
12 transportation cost for DDU-entry and DSCF-entry parcels would be increased by 8.5
13 cents per cubic foot, and the transportation cost for inter-BMC and intra-BMC would be
14 reduced by 3 cents per cubic foot. See Exhibit UPS-T-5G for further detail.

15 **D. The DBMC-Entry Rates Are Based on a Reduction**
16 **in DBMC's Institutional Cost Contribution, Not**
17 **Just Avoided Costs.**

18 In the past, the Commission has ensured that DBMC-entry Parcel Post rates
19 were derived as a worksharing discount directly off of the intra-BMC Parcel Post rates.
20 This preserves the contribution of DBMC-entry parcels to institutional costs.

13. The actual average legs taking into account holdouts and entry characteristics is 1.92 legs for intra-BMC and 1.96 legs for inter-BMC. See USPS-T-26, Attachment M, page 3.

1 In Docket No. R97-1, the Postal Service attempted to derive DBMC-entry rates
2 by marking up the lower DBMC transportation costs per piece, rather than by deducting
3 the transportation cost differential between DBMC and intra-BMC parcels from intra-
4 BMC rates. This approach implicitly passes through not only 100% of DBMC-entry
5 avoided transportation costs, but also passes along a "markup factor" on those savings.
6 The Commission rejected this approach in Docket No. R97-1, and instead derived
7 DBMC rates by deducting only the estimated DBMC-entry cost savings from the intra-
8 BMC Parcel Post rates.

9 In this proceeding, the Postal Service again derives its proposed DBMC-entry
10 rates by applying a markup factor (this time, 21%) to the estimated DBMC-entry
11 transportation cost savings per piece. Tr. 13/4970. The Commission should reiterate
12 its Docket No. R97-1 ruling, and again treat DBMC-entry like all other worksharing
13 discounts by simply subtracting the passed through avoided DBMC-entry costs off of
14 intra-BMC rates, as follows:

15 DBMC Rate = Intra-BMC Rate – DBMC Non-Transportation Discount – DBMC
16 Transportation Savings.

17 The DBMC-entry transportation discount in each rate cell should be the
18 difference between the intra-BMC transportation cost in that rate cell minus the DBMC-
19 entry transportation cost in the same rate cell.

20 **THE PASSTHROUGH PROPOSED FOR DDU AND DSCF**
21 **WORKSHARING AVOIDANCES SHOULD BE REDUCED.**

22 The Postal Service proposes a 9.4% rate increase for intra-BMC Parcel Post and
23 a 10.0% rate increase for inter-BMC Parcel Post, while DBMC-entry rates would

1 increase by only 0.5%, DSCF-entry rates would increase by 0.7%, and DDU-entry rates
2 would not change at all. Tr. 13/5010.

3 DDU-entry Parcel Post is attracting substantial volumes with the promise of next-
4 day delivery from the DDU as well as through low rates (Tr. 5/1874).¹⁴ It is achieving
5 that next day delivery goal 97% of the time (Tr. 5/1912). In other words, through bypass
6 of the BMC network, shippers can obtain next-day delivery service for their parcels. By
7 the time a parcel reaches the DDU, it is nearly 100% likely to be delivered the next day,
8 whether it is sent by Parcel Post, by Priority Mail, or by First Class Mail. Indeed, my
9 tours of DDU operations confirm that there is little or no difference between the parcel
10 handling practices for Priority Mail and for Parcel Post once the parcels arrive at the
11 DDU.

12 Priority Mail is proposed to contribute approximately 63 cents to institutional
13 costs on every underlying dollar of attributed cost. A 63% markup on the attributed cost
14 of DDU-entry pieces is also appropriate. Using the Postal Service's costs, that would
15 produce an average target revenue per piece of \$1.57 for DDU-entry. The DDU-entry
16 transportation and non-transportation cost avoidances off of DBMC-entry total \$1.18 per
17 piece (Postal Service, as filed), for a pre-discounted cost for DDU-entry of \$2.14 (\$0.96
18 plus \$1.18).¹⁵ To get an average revenue of \$1.57 per piece for DDU-entry, the

14. Based on actual 1999 data, Mr. Plunkett estimates that there will be 28 million DDU-entry pieces in the Test Year (USPS-T-26, Attachment D; Tr. 13/5008).

15. The Test Year After Rates DDU-entry cost on average is \$0.96 per piece before markup (Postal Service, as filed; see Exhibit UPS-T-5H). The cost of DDU-entry parcels will be significantly higher once my suggested costing changes for the DDU-entry and DBMC-entry cost avoidances are incorporated.

1 transportation and non-transportation discount would need to be \$0.57 per piece (\$2.14
2 minus \$1.57). Thus, the transportation and non-transportation passthroughs would
3 need to be approximately 50% (\$0.57 discount divided by \$1.18 cost avoidance). See
4 Exhibit UPS-T-5H. After making the corrections to the DDU-entry costs I recommend
5 above, the Commission should follow a similar method in deriving the applicable
6 passthrough in order to ensure that DDU-entry has a markup similar to that of Priority
7 Mail.

8 Mr. Plunkett has noted that he constrained DDU-entry rates to take value of
9 service issues into account. Tr. 13/5005-06. He limited the DDU-entry passthrough to
10 80% in this manner. Tr. 13/5009. After making the corrections to DDU-entry costs I
11 recommend above, certainly the Commission should not pass through more than 80%
12 of the avoided costs.

13 Finally, I have conducted a bottom-up costing of parcel delivery costs.
14 Combining the cost from the Engineered Standards study for loading and access costs
15 with the volume variable costs for route time and in-office costs and adding the cost of
16 the manual sort to carrier route conducted by a clerk/mailhandler at the DDU yields a
17 total cost of \$1.14 per piece in comparison to the \$0.96 per piece noted above that was
18 derived using Mr. Plunkett's analysis. Only those costs from the Engineered Standards
19 study which captured the incremental time spent by carriers in dealing with an additional
20 parcel were included. For conservatism, when a range of time for an activity was cited
21 in the Engineered Standards study, the shortest amount of time was selected for use.
22 See Exhibit UPS-T-5I (filed under seal) for further detail.

1 The Engineered Standards study is based on time standards, which reflect more
2 efficient operations than are now conducted. Thus, the DDU-entry costs based on it are
3 lower than in reality. Yet, Mr. Plunkett's analysis results in still lower DDU-entry costs.
4 Clearly, something is wrong in the Postal Service's discounting approach. As a result, a
5 lower passthrough is required on DDU-entry.

6 While it is not clear at this time what delivery standards are being met by DSCF-
7 entry Parcel Post, DSCF-entry also avoids the BMC network. Thus, I recommend that
8 the passthrough for DSCF-entry be set midway between that for DDU-entry and that for
9 DBMC-entry.

10 **CONCLUSION**

11 The Postal Service has (1) understated the attributable costs associated with
12 Parcel Post, Priority Mail, and Express Mail, (2) overstated the revenues associated
13 with Parcel Post, (3) overstated the costs avoided by Parcel Post worksharing, and (4)
14 applied passthroughs for destination entry discounts that are too low. I suggest
15 appropriate corrections for each of these problems.

16 Finally, the changes recommended by other UPS witnesses to the costs,
17 revenue, volumes, and cost coverages of Parcel Post, Priority Mail, and Express Mail
18 lead to significant changes in the rate increases necessary for these subclasses. I
19 have estimated the impact of these changes on the revenues, volumes, attributable
20 costs, and resulting cost coverages and rate increases for Parcel Post, Priority Mail, and
21 Express Mail, as indicated in the main body of my testimony.

Parcel Post Transportation Cost Adjustment (Millions of Dollars)

LR-I-97 (Postal Service Costing)

	[A]	[B]	[C]	[D]	[E]	[F]
	BR01 Avg Unit	BR01 Mix Unit	BR01 Volume	BR01 Avg cost	BR01 Mix Cost	Difference
[1]	107.29	104.65	378.45	406.02	396.06	(9.960)
	AR01 Avg Unit	AR01 Mix Unit	AR01 Volume	AR01 Avg cost	AR01 Mix Cost	Difference
[2]	107.15	101.56	374.10	400.84	379.94	(20.901)

LR-I-97 (Postal Service Costing), using 7.11% DBMC dropped at DSCF Pre-Mix

	[A]	[B]	[C]	[D]	[E]	[F]
	BR01 Avg Unit	BR01 Mix Unit	BR01 Volume	BR01 Avg cost	BR01 Mix Cost	Difference
[1]	107.29	106.47	378.45	406.02	402.93	(3.094)
	AR01 Avg Unit	AR01 Mix Unit	AR01 Volume	AR01 Avg cost	AR01 Mix Cost	Difference
[2]	107.15	103.32	374.10	400.84	386.53	(14.315)

LR-I-140 (Commission Costing)

	[A]	[B]	[C]	[D]	[E]	[F]
	BR01 Avg Unit	BR01 Mix Unit	BR01 Volume	BR01 Avg cost	BR01 Mix Cost	Difference
[1]	107.09	104.46	378.45	405.26	395.32	(9.941)
	AR01 Avg Unit	AR01 Mix Unit	AR01 Volume	AR01 Avg cost	AR01 Mix Cost	Difference
[2]	106.95	101.37	374.10	400.09	379.23	(20.861)

LR-I-140 (Commission Costing), using 7.11% DBMC dropped at DSCF Pre-Mix

	[A]	[B]	[C]	[D]	[E]	[F]
	BR01 Avg Unit	BR01 Mix Unit	BR01 Volume	BR01 Avg cost	BR01 Mix Cost	Difference
[1]	107.09	106.47	378.45	405.26	402.93	(2.333)
	AR01 Avg Unit	AR01 Mix Unit	AR01 Volume	AR01 Avg cost	AR01 Mix Cost	Difference
[2]	106.95	103.13	374.10	400.09	385.80	(14.288)

[A1] UPS-Luciani-WP-1, Section D [F11]

[A2] UPS-Luciani-WP-1, Section D [L11]

[B] [E] / [C] *100

[C1] UPS-Luciani-WP-1, Section D [D11]

[C2] UPS-Luciani-WP-1, Section D [J11]

[D] [C] / [A]

[E1] UPS-Luciani-WP-1, Section D [E11]

[E2] UPS-Luciani-WP-1, Section D [K11]

[F] [E] - [D]

Distribution of Elemental Load for Parcels by Weight
Weight of Parcels by Class/Subclass of Mail for each City Carrier Stop Type
Base Year 1998, Commission Costing Method

CLASS TITLE	AVG WEIGHT PER PARCEL	SDR			MDR			BAM		
	POUNDS	PARCELS (000)	LBS (000)	% of WEIGHT	PARCELS (000)	LBS (000)	% of WEIGHT	PARCELS (000)	LBS (000)	% of WEIGHT
FOOTNOTE	A	B	C	D	B	C	D	B	C	D
FIRST-CLASS MAIL:										
SINGLE-PIECE LETTERS	0.28	101,950	28,657	1.81%	35,419	9,956	1.76%	54,232	15,244	2.47%
PRESORT LETTERS	0.14	6,920	937	0.06%	2,265	307	0.05%	2,017	273	0.04%
TOTAL LETTERS										
SINGLE-PIECE CARDS		0			0			0		
PRESORT CARDS		0			0			0		
TOTAL CARDS										
TOTAL FIRST-CLASS		108,870	29,594	1.87%	37,684	10,263	1.81%	56,249	15,517	2.51%
PRIORITY MAIL	2.80	157,624	440,754	27.80%	59,342	165,934	29.29%	97,363	272,250	44.07%
EXPRESS MAIL	7.98	864	6,897	0.43%	941	7,512	1.33%	880	7,025	1.14%
MAILGRAMS		0	0	0.00%	0	0	0.00%	0	0	0.00%
PERIODICALS:										
IN-COUNTY	0.33	3,514	1,158	0.07%	1,039	342	0.06%	1,488	490	0.08%
OUTSIDE COUNTY:										
REGULAR	0.60	27,370	16,397	1.03%	8,094	4,849	0.86%	11,586	6,941	1.12%
NON-PROFIT	0.33	8,129	2,678	0.17%	2,404	792	0.14%	3,441	1,134	0.18%
CLASSROOM	0.62	231	144	0.01%	68	43	0.01%	98	61	0.01%
TOTAL PERIODICALS		39,245	20,377	1.29%	11,605	6,026	1.06%	16,613	8,626	1.40%
STANDARD A:										
SINGLE PIECE RATE	0.55	4,407	2,440	0.15%	1,624	899	0.16%	447	247	0.04%
COMMERCIAL STANDARD:										
ENHANCED CARR RTE	0.20	18,964	3,730	0.24%	8,955	1,761	0.31%	2,896	570	0.09%
REGULAR	0.55	239,591	132,657	8.37%	85,677	47,438	8.37%	35,177	19,477	3.15%
TOTAL COMMERCIAL										
AGGREGATE NONPROFIT:										
NONPROF ENH CARR RTE	0.38	126	48	0.00%	62	23	0.00%	32	12	0.00%
NONPROFIT	0.37	12,288	4,488	0.28%	4,312	1,575	0.28%	1,897	693	0.11%
TOTAL AGGREG NONPROFIT										
TOTAL STANDARD A		275,376	143,363	9.04%	100,630	51,697	9.13%	40,449	20,999	3.40%
STANDARD MAIL (B):										
PARCELS ZONE RATE	6.04	102,620	619,392	39.07%	34,448	207,921	36.70%	26,920	162,483	26.30%
BOUND PRINTED MATTER	3.07	80,061	245,984	15.51%	26,989	82,923	14.64%	34,007	104,485	16.91%
SPECIAL STANDARD	1.65	37,389	61,620	3.89%	16,192	26,686	4.71%	10,654	17,559	2.84%
LIBRARY MAIL	2.09	4,920	10,291	0.65%	1,708	3,573	0.63%	3,301	6,905	1.12%
TOTAL STANDARD (B)		224,990	937,287	59.11%	79,337	321,101	56.68%	74,882	291,432	47.17%
US POSTAL SERVICE	0.43	251	109	0.01%	256	111	0.02%	589	256	0.04%
FREE MAIL	0.67	6,063	5,271	0.33%	3,003	2,611	0.46%	813	707	0.11%
INTERNATIONAL MAIL	0.43	4,333	1,883	0.12%	2,888	1,255	0.22%	2,242	974	0.16%
TOTAL MAIL										
TOTAL SPECIAL SERVICES		0	0		0	0		0	0	
TOTAL VOLUME		817,617	1,585,536	100.00%	295,686	566,510	100.00%	290,079	617,786	100.00%

Notes:

[A] UPS-Luciani-WP-2-D, Summary.

[B] UPS-Luciani-WP-2-D, Parcel Volume (from USPS-LR-I-300).

These data include only a total volume for periodicals. In USPS-LR-I-130 and USPS-LR-I-80, RPW data are used to distribute the total volume to subclass for periodicals. (7.0.8, column 1).

[C] Total Weight is the product of number of parcels and average weight per piece.

[D] The percentage of weight is the number of pounds for each respective mail class divided by total weight for all mail classes.

Distribution of Elemental Load for Parcels by Weight

Total City Carrier Load and Street Support Costs

Base Year 1998, Commission Costing Method

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	As Filed	As Corrected	Difference	As Filed	As Corrected	Difference	Difference
		TOTAL LOAD	TOTAL LOAD	TOTAL LOAD	TOTAL STREET SUPPORT	TOTAL STREET SUPPORT	TOTAL STREET SUPPORT	TOTAL LOAD AND STREET SUPPORT
	COLUMN NUMBER	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	UNITS	\$(000)	\$(000)	\$(000)	\$(000)	\$(000)	\$(000)	\$(000)
	FOOTNOTES	A	B	C	D	E	F	G
	COLUMN SOURCE/NOTES							
1	FIRST-CLASS MAIL:							
2	SINGLE-PIECE LETTERS	329,402	305,701	(23,700)	360,623	355,522	(5,101)	(28,801)
3	PRESORT LETTERS	303,879	302,259	(1,619)	199,351	199,002	(349)	(1,968)
4	TOTAL LETTERS	633,280	607,961	(25,320)	559,974	554,524	(5,450)	(30,769)
5	SINGLE-PIECE CARDS	21,094	21,094	-	18,812	18,812	0	0
6	PRESORT CARDS	15,542	15,542	-	8,617	8,617	0	0
7	TOTAL CARDS	36,637	36,637	-	27,429	27,429	0	0
8	TOTAL FIRST-CLASS	669,917	644,597	(25,320)	587,403	581,953	(5,450)	(30,769)
9	PRIORITY MAIL	49,893	68,961	19,068	31,786	35,890	4,104	23,172
10	EXPRESS MAIL	24,452	25,647	1,195	8,135	8,392	257	1,452
11	MAILGRAMS	104	104	-	69	69	0	0
12	PERIODICALS:							
13	IN-COUNTY	8,427	7,771	(656)	4,580	4,439	(141)	(797)
14	OUTSIDE COUNTY:							
15	REGULAR	65,632	60,524	(5,107)	52,653	51,554	(1,099)	(6,206)
16	NON-PROFIT	19,492	17,975	(1,517)	13,418	13,092	(326)	(1,849)
17	CLASSROOM	555	511	(43)	267	258	(9)	(53)
18	TOTAL PERIODICALS	94,105	86,783	(7,323)	70,919	69,343	(1,577)	(8,899)
19	STANDARD A:							
20	SINGLE PIECE RATE	1,580	804	(777)	4,459	4,292	(167)	(944)
21	COMMERCIAL STANDARD:							
22	ENHANCED CARR RTE	336,646	332,038	(4,608)	163,285	162,293	(992)	(5,600)
23	REGULAR	301,120	258,713	(42,407)	210,626	201,499	(9,127)	(51,534)
24	TOTAL COMMERCIAL	637,766	590,751	(47,015)	373,910	363,791	(10,119)	(57,134)
25	AGGREGATE NONPROFIT:							
26	NONPROF ENH CARR RTE	15,855	15,827	(29)	8,910	8,904	(6)	(35)
27	NONPROFIT	72,859	70,397	(2,463)	43,866	43,337	(530)	(2,993)
28	TOTAL AGGREG NONPROFIT	88,715	86,223	(2,491)	52,776	52,240	(536)	(3,027)
29	TOTAL STANDARD A	728,061	677,777	(50,283)	431,145	420,323	(10,822)	(61,105)
30	STANDARD MAIL (B):							
31	PARCELS ZONE RATE	26,355	80,558	54,203	12,930	24,596	11,666	65,868
32	BOUND PRINTED MATTER	22,629	34,680	12,051	12,428	15,022	2,594	14,645
33	SPECIAL STANDARD	10,606	9,059	(1,546)	5,455	5,122	(333)	(1,879)
34	LIBRARY MAIL	1,490	1,581	92	1,063	1,083	20	111
35	TOTAL STANDARD (B)	61,079	125,878	64,799	31,877	45,823	13,946	78,745
36	US POSTAL SERVICE	1,495	1,392	(103)	3,031	3,009	(22)	(125)
37	FREE MAIL	1,878	964	(915)	698	501	(197)	(1,111)
38	INTERNATIONAL MAIL	5,571	4,451	(1,120)	5,005	4,764	(241)	(1,361)
39	TOTAL MAIL	1,636,555	1,636,555	-	1,170,068	1,170,067	(0)	(0)
51	TOTAL SPECIAL SERVICES	120,300	120,300	-	34,172	34,172	0	0
52	TOTAL VOLUME VARIABLE	1,756,855	1,756,855	-	1,204,240	1,204,240	(0)	(0)
53	OTHER	25,476	25,476	-	890,493	890,493	0	0
54	GRAND TOTAL	1,782,332	1,782,332	-	2,094,733	2,094,733	-	-

Note:

[A] USPS-LR-I-130-ERRATA, CS06&7.xls, 7.0.3.1, column 2.

[B] UPS-Luciani-WP-2-B-1, 7.0.3.1, column 2.

[C] [B] - [A]

[D] UPS-Luciani-WP-2-C, LR-I-130-ERRATA, column 17.

[E] UPS-Luciani-WP-2-B-1, CS 7 Detail, column 19.

[F] [E] - [D]

[G] [C] + [F]

Distribution of Elemental Load for Parcels by Weight

City Carrier Load Costs for Parcels by Stop Type Base Year 1998, Commission Costing Method

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	As Filed				As Corrected				Difference	
		PARCELS LOAD SDR	PARCELS LOAD MDR	PARCELS LOAD BAM	PARCELS TOTAL LOAD	PARCELS LOAD SDR	PARCELS LOAD MDR	PARCELS LOAD BAM	PARCELS TOTAL LOAD	PARCELS TOTAL LOAD	PARCELS TOTAL LOAD
	COLUMN NUMBER UNITS FOOTNOTES COLUMN SOURCE/NOTES	(1) \$(000) A	(2) \$(000) B	(3) \$(000) C	(4) \$(000) D	(5) \$(000) E	(6) \$(000) F	(7) \$(000) G	(8) \$(000) H	(9) \$(000) I	
1	FIRST-CLASS MAIL:										
2	SINGLE-PIECE LETTERS	17,152	6,899	3,626	27,677	2,486	1,012	479	3,977	(23,700)	
3	PRESORT LETTERS	1,164	441	135	1,740	81	31	9	121	(1,619)	
4	TOTAL LETTERS	18,317	7,341	3,761	29,418	2,568	1,043	487	4,098	(25,320)	
5	SINGLE-PIECE CARDS	-	-	-	-	-	-	-	-	-	
6	PRESORT CARDS	-	-	-	-	-	-	-	-	-	
7	TOTAL CARDS	-	-	-	-	-	-	-	-	-	
8	TOTAL FIRST-CLASS	18,317	7,341	3,761	29,418	2,568	1,043	487	4,098	(25,320)	
9	PRIORITY MAIL	26,519	11,559	6,509	44,588	38,239	16,871	8,546	63,656	19,068	
10	EXPRESS MAIL	145	183	59	387	598	764	221	1,583	1,195	
11	MAILGRAMS	-	-	-	-	-	-	-	-	-	
12	PERIODICALS:										
13	IN-COUNTY	591	202	99	893	100	35	15	151	(743)	
14	OUTSIDE COUNTY:										
15	REGULAR	4,605	1,577	775	6,956	1,423	493	218	2,133	(4,823)	
16	NON-PROFIT	1,368	468	230	2,066	232	81	36	349	(1,717)	
17	CLASSROOM	39	13	7	59	12	4	2	19	(40)	
18	TOTAL PERIODICALS	6,603	2,261	1,111	9,974	1,768	613	271	2,651	(7,323)	
19	STANDARD A:										
20	SINGLE PIECE RATE	741	316	30	1,088	212	91	8	311	(777)	
21	COMMERCIAL STANDARD:										
22	ENHANCED CARR RTE	3,191	1,744	194	5,129	324	179	18	521	(4,608)	
23	REGULAR	40,310	16,689	2,352	59,351	11,509	4,823	611	16,944	(42,407)	
24	TOTAL COMMERCIAL	43,500	18,434	2,545	64,479	11,833	5,002	629	17,464	(47,015)	
25	AGGREGATE NONPROFIT:										
26	NONPROF ENH CARR RTE	21	12	2	35	4	2	0	7	(29)	
27	NONPROFIT	2,067	840	127	3,034	389	160	22	571	(2,463)	
28	TOTAL AGGREG NONPROFIT	2,089	852	129	3,070	394	163	22	578	(2,491)	
29	TOTAL STANDARD A	46,330	19,602	2,704	68,636	12,438	5,256	659	18,353	(50,283)	
30	STANDARD MAIL (B):										
31	PARCELS ZONE RATE	17,265	6,710	1,800	25,775	53,738	21,140	5,101	79,978	54,203	
32	BOUND PRINTED MATTER	13,470	5,257	2,274	21,001	21,341	8,431	3,280	33,052	12,051	
33	SPECIAL STANDARD	6,290	3,154	712	10,157	5,346	2,713	551	8,610	(1,546)	
34	LIBRARY MAIL	828	333	221	1,381	893	363	217	1,473	92	
35	TOTAL STANDARD (B)	37,853	15,454	5,006	58,314	81,318	32,647	9,148	123,113	64,799	
36	US POSTAL SERVICE	42	50	39	131	9	11	8	29	(103)	
37	FREE MAIL	1,020	585	54	1,659	457	265	22	745	(915)	
38	INTERNATIONAL MAIL	729	563	150	1,441	163	128	31	322	(1,120)	
39	TOTAL MAIL	137,559	57,598	19,393	214,550	137,559	57,598	19,393	214,550	-	
51	TOTAL SPECIAL SERVICES	-	-	-	-	-	-	-	-	-	
52	TOTAL VOLUME VARIABLE	137,559	57,598	19,393	214,550	137,559	57,598	19,393	214,550	-	
53	OTHER	-	-	-	-	-	-	-	-	-	
54	GRAND TOTAL	-	-	-	-	-	-	-	-	-	

Notes:

- [A] USPS-LR-I-130-ERRATA, CS06&7.xls, 7.0.6.5, column 3. The cost of periodicals is distributed to subclass using RPW data, 7.0.8, column 1.
- [B] USPS-LR-I-130-ERRATA, CS06&7.xls, 7.0.6.6, column 8. The cost of periodicals is distributed to subclass using RPW data, 7.0.8, column 1.
- [C] USPS-LR-I-130-ERRATA, CS06&7.xls, 7.0.6.7, column 8. The cost of periodicals is distributed to subclass using RPW data, 7.0.8, column 1.
- [D] [A] + [B] + [C]
- [E] UPS-Luciani-WP-2-B-1, 7.0.6.5, column 3.
- [F] UPS-Luciani-WP-2-B-1, 7.0.6.6, column 8.
- [G] UPS-Luciani-WP-2-B-1, 7.0.6.7, column 8.
- [H] [E] + [F] + [G]
- [I] [H] - [D]

EXHIBIT UPS-T-5C:
DIRECT ATTRIBUTION OF
SEQUENCING OF PARCELS --
FILED UNDER SEAL

Test Year OMAS and Alaska Bypass Parcel Post Revenues

As Corrected TYBR Revenue for Alaska Bypass and OMAS Pieces

	[A] FY98 Volume	[B] FY98 Revenues	[C] FY98 Rev / Pc	[D] R97-1 Rate Increase	[E] TYBR Rev / Pc	[F] TYBR Volume	[G] TYBR Revenues
[1] AK Bypass IntraBMC	1,931,382	\$ 10,445,658	\$ 5.41	25%	\$ 6.75	1,321,376	\$ 8,918,337
[2] OMAS InterBMC	1,253,092	\$ 6,898,432	\$ 5.51	19%	\$ 6.53	809,498	\$ 5,286,574
[3] OMAS DBMC	303,822	\$ 1,624,524	\$ 5.35	13%	\$ 6.04	196,269	\$ 1,185,548
[4] Total OMAS	1,556,914	\$ 8,522,956	\$ 5.47	18%	\$ 6.44	1,005,768	\$ 6,472,122
[5] Total Alaska & OMAS	3,488,296	\$ 18,968,614	\$ 5.44	22%	\$ 6.61	2,327,144	\$ 15,390,459

Sources: [A1-4]: USPS-T-26, Attachment E; [A5]: [A1] + [A4].

[B1-4]: UPS-Luciani-WP-1, Section A, [Revenue Calculations]; [B5]: [B1] + [B4].

[C]: [B] / [A].

[D1-3]: UPS-Luciani-WP-1, Section A, [Avg Rev per Pc]; [D4-5]: ([E] / [C]) - 1.

[E1-3]: [C] * (1 + [D]); [E4]: ([B2] * (1 + [D2]) + [B3] * (1 + [D3])) / [A4]; [E5]: ([B1] * (1 + [D1]) + [B2] * (1 + [D2]) + [B3] * (1 + [D3])) / [A5].

[F1,4]: USPS-T-36, Attachment D; [F2]: [A2] / [A4] * [F4]; [F3]: [A3] / [A4] * [F4]; [F5]: [F1] + [F4].

[G1-3]: [E] * [F]; [G4]: [G2] + [G3]; [G5]: [G1] + [G4].

Comparison of As Corrected TYBR Revenue to As Filed Revenue for Alaska Bypass and OMAS Pieces

	[A] FY98 Volume	[B] TYBR Volume	[C] % Change	[D] FY98 Revenue	[E] As Filed TYBR Revenue	[F] Change from FY98	[G] As Corrected TYBR Revenue	[H] Change from FY98
[1] Alaska Bypass	1,931,382	1,321,376	-32%	\$ 10,445,658	\$ 12,933,342	24%	\$ 8,918,337	-15%
[2] OMAS InterBMC	1,253,092	809,498	-35%	\$ 6,898,432			\$ 5,286,574	-23%
[3] OMAS DBMC	303,822	196,269	-35%	\$ 1,624,524			\$ 1,185,548	-27%
[4] Total OMAS	1,556,914	1,005,768	-35%	\$ 8,522,956	\$ 10,552,739	24%	\$ 6,472,122	-24%
[5]	3,488,296	2,327,144	-33%	\$ 18,968,614	\$ 23,486,081	24%	\$ 15,390,459	-19%

Change from As Filed TYBR Revenue: \$ (8,095,623)

Sources: [A]: Step 1, Column [A].

[B]: Step 1, Column [F].

[C]: ([B] - [A]) / [A].

[D]: Step 2, Column [B].

[E]: USPS-T-36, Attachment K.

[F]: ([D] - [E]) / [E].

[G]: Step 1, Column [G].

[H]: ([G] - [D]) / [D].

Comparison of As Corrected TYAR Revenue to As Filed TYAR Revenue for Alaska Bypass and OMAS Pieces

	[A] TYBR Volume	[B] TYBR Revenue	[C] TYBR Rev / Pc	[D] Postal Service Proposed Rate Increase	[E] TYAR Rev / Pc	[F] TYAR Volume	[G] Corrected TYAR Rev	[H] As Filed TYAR Revenue
[1] Alaska Bypass	1,321,376	\$ 8,918,337	\$ 6.75	9.4%	\$ 7.38	1,203,857	\$ 8,888,933	\$ 13,079,899
[2] OMAS InterBMC	809,498	\$ 5,286,574	\$ 6.53	10.0%	\$ 7.18	747,053	\$ 5,366,639	
[3] OMAS DBMC	196,269	\$ 1,185,548	\$ 6.04	0.5%	\$ 6.07	181,129	\$ 1,099,564	
[4] Total OMAS	1,005,768	\$ 6,472,122	\$ 6.44			928,182	\$ 6,466,203	\$ 10,672,320
[5]	2,327,144	\$ 15,390,459	\$ 6.61			2,132,039	\$ 15,355,136	\$ 23,752,218

Change from As Filed TYBR Revenue: \$ (8,397,082)

Sources: [A]: Step 2, Column [B].

[B]: Step 2, Column [G].

[C]: [B] / [A].

[D]: Tr. 13/ 5010.

[E]: [C] * (1 + [D]).

[F1,4]: USPS-T-36, Attachment D; [F2]: [A2] / [A4] * [F4]; [F3]: [A3] / [A4] * [F4].

[G]: [E] * [F].

[H]: USPS-T-36, Attachment K.

DBMC-Entry Share of Non-BMC Outgoing Mail Processing Costs

BY 1998 Non-BMC Outgoing Mail Processing Costs (a)	\$54,433,924	1/
DBMC-Entry Share	\$9,342,929	2/
Non-DBMC-Entry Share	\$45,090,994	3/

Breakdown of BY 1998 Non-BMC Outgoing Mail Processing Costs		
DBMC Share	17.16%	4/
Non-DBMC Share	82.84%	5/

(a) Before removal of \$3,280,339 of ASF and platform acceptance costs.

Sources

Row 1/: UPS-Sellick-WP-3
Row 2/: UPS-Sellick-WP-3
Row 3/: UPS-Sellick-WP-3
Row 4/: Row 2 / Row 1
Row 5/: Row 3 / Row 1

DBMC-Entry Mail Processing Avoided Cost with Postal Service's Volume Variability for Mail Processing Costs

Parcel Post Outgoing Cost at Origin AO

Column		[A] Total Outgoing	[B] DBMC Outgoing	[C] Platform OP 07	[D] non-DBMC Outgoing
Row					
	non-MODS Allied	6,707	0	817	5,890
	non-MODS Manual Parcel	3,247	612	47	2,588
	non-MODS Misc/Support	1,218	0	0	1,218
	MODS LD43	1,304	651	0	653
	MODS Support Fcn 4	518	0	0	518
[1]	Total	12,993	1,262	864	10,867

Total DBMC Entry Avoided Cost

	[E] With As Filed Volume, Entered Upstream of BMC/ASF	[F] With Corrected Volume, Entered Upstream of BMC/ASF
[2] BY98 Parcel Post Volume Entered Upstream of BMC/ASF (000's)	103,288	112,590
[3] Parcel Post Outgoing Mail Processing Costs at Origin AO, Base Year (\$/pc)	0.105	0.097
[4] Wage Rate Adjustment Factor	1.124	1.124
[5] Parcel Post Outgoing Mail Processing Cost at Origin AO, Test Year (\$/pc)	0.118	0.109
[6] DBMC Mail Processing Avoided Cost Starting at Origin SCF (\$/pc)	0.249	0.249
[7] Total DBMC-Entry Mail Processing Avoided Cost (\$/pc)	0.367	0.358

[A] UPS-Sellick-WP-3

[B] UPS-Sellick-WP-3

[C] USPS-LR-I-103, LR103PP0798.xls [Summary] Table 3.

[D] [A] - [B] - [C].

[1] Sum of selected non-MODS and MODS cost pools.

[2] [E]: USPS-T-26, Attachment F (revised 3/22/00), p. 2, line 6 (in thousands). [F]: UPS-T-5F, p. 3 of 3 (in thousands).

[3] [D1] / [2].

[4] USPS-T-26, Attachment D (revised 3/22/00), page 1, line 7.

[5] [3] * [4].

[6] See UPS-T-5 (Luciani), Table 12.

[7] [5] + [6]

**DBMC-Entry Mail Processing Avoided Cost
with 100% Volume Variability for Mail Processing Costs**

Parcel Post Outgoing Cost at Origin AO

Row	Column	[A] Ratio	[B] Total Outgoing	[C] DBMC Outgoing	[D] Platform OP 07	[E] non-DBMC Outgoing
	non-MODS Allied	1.00	6,732	0	817	5,915
	non-MODS Manual Parcel	0.92	2,997	565	47	2,385
	non-MODS Misc/Support	1.32	1,604	0	0	1,604
	MODS LD43	0.98	1,279	638	0	641
	MODS Support Fcn 4	0.03	14	0	0	14
[1]	Total		12,626	1,203	864	10,558

[E] With As Filed Volume, Entered Upstream of BMC/ASF	[F] With Corrected Volume, Entered Upstream of BMC/ASF
---	--

Total DBMC Entry Avoided Cost

[2]	BY98 Parcel Post Volume Entered Upstream of BMC/ASF (000's)	103,288	112,590
[3]	Parcel Post Outgoing Mail Processing Costs at Origin AO, Base Year (\$/pc)	0.102	0.094
[4]	Wage Rate Adjustment Factor	1.124	1.124
[5]	Parcel Post Outgoing Mail Processing Cost at Origin AO, Test Year (\$/pc)	0.115	0.105
[6]	DBMC Mail Processing Avoided Cost Starting at Origin SCF (\$/pc)	0.258	0.258
[7]	Total DBMC-Entry Mail Processing Avoided Cost (\$/pc)	0.373	0.364

[A] UPS-Sellick-WP-3. PRC 100% VV / USPS Costs

[B] [A] * (UPS-T-5F, Exhibit F, page 1 [A]).

[C] [A] * (UPS-T-5F, Exhibit F, page 1 [B]).

[D] USPS-LR-I-103, LR103PP0798.xls [Summary] Table 3.

[E] [B] - [C] - [D].

[1] Sum of selected non-MODS and MODS cost pools.

[2] [E]: USPS-T-26, Attachment F (revised 3/22/00), page 2, line 6 (in thousands); [F]: Exhibit F [Corrected].

[3] [D1] / [2].

[4] USPS-T-26, Attachment D (revised 3/22/00), page 1, line 7.

[5] [3] * [4].

[6] UPS-WP-Luciani-1, Section F, pages 10 and 13. $\$0.9606 - \$0.7022 = \$0.2584$.

[7] [5] + [6]

**Volume of Parcel Post Pieces Entered Upstream of BMC/ASF
Using Corrected BY1998 Parcel Post Volumes**

Estimate of Inter-BMC Parcel Post volume deposited at BMCs by mailers in FY1998	2,946,908 1/
Proportion of Inter-BMC volume deposited at BMC by mailers	0.0435 2/
FY 1998 Inter-BMC Volume	67,745,000 3/
Total Piece Volume Plantloaded to BMCs	380,579 4/
Proportion of Parcel Post volume that is plantloaded by USPS	0.5% 5/
Proportion of Plantloaded Piece volume that is plantloaded to BMCs	68.4% 6/
FY 1998 non-DBMC Parcel Post Volume	115,917,000 7/
FY 1998 DBMC Volume	150,562,000 8/
Total Piece Volume Plantloaded to or Deposited (by a mailer) at a BMC or beyond	153,889,486 9/
FY 1998 Total Parcel Post Volume	266,479,000 10/
Total Piece Volume Plant Loaded to or Deposited Upstream of a BMC/ASF	112,589,514 11/

Sources

Row 1/: Row (2) * row (3).
Row 2/: Docket R97-1, USPS-T-28, Exhibit B.
Row 3/: Interrogatory Response UPS/USPS-3
Row 4/: Row (5) * row (6) * row (7).
Row 5/: 1993 Plant load study, R94-1, LR-G-157.
Row 6/: Docket No. R90-1 USPS-T-12, page 25.
Row 7/: Interrogatory Response UPS/USPS-3. Inter-BMC volume + intra-BMC volume.
Row 8/: Interrogatory Response UPS/USPS-3, DBMC volume.
Row 9/: Row (1) + row (4) + row (8).
Row 10/: Attachment E, page 1.
Row 11/: Row (10) - row (9).

Application of Parcel Post Alaska Non- Pref Air Transportation Costs to DSCF and DDU Entry

As Filed

[1]	Test Year Alaska Air Non-Pref Transportation Costs	\$9,440,000
[2]	Inter-BMC cubic feet:	34,214,278
[3]	Intra-BMC cubic feet:	14,153,710
[4]	Total cubic feet:	48,367,988
[5]	Avg. number of intermediate legs traveled by an inter-BMC parcel	1.96
[6]	Avg. number of intermediate legs traveled by an intra-BMC parcel	1.92
[7]	Inter-BMC cubic foot-legs:	66,895,756
[8]	Intra-BMC cubic foot-legs:	27,214,697
[9]	Total parcel post cubic foot-legs:	94,110,452
[10]	Test Year Average Alaska Air Non-Pref Transportation Cost (\$/cf-leg):	\$0.10
	Alaska Non-Pref Air Transportation cost (\$/cf)	
[11]	Inter-BMC	\$0.1961
[12]	Intra-BMC	\$0.1929

Sources

[1]	USPS-T-26, Attachment M, page 2	[7]	[2] * [5]	[11]	[5] * [10]
[2], [3]	USPS-T-26, Attachment M, page 3	[8]	[3] * [6]	[12]	[6] * [10]
[4]	[2] + [3]	[9]	[7] + [8]		
[5], [6]	USPS-T-26, Attachment M, page 3	[10]	[1] / [9]		

As Corrected

[1]	Test Year Alaska Air Non-Pref Transportation Costs	\$9,440,000
[2]	Inter-BMC cubic feet:	34,214,278
[3]	Intra-BMC cubic feet:	14,153,710
[4]	DSCF-Entry cubic feet	1,556,328
[5]	DDU Entry cubic feet	15,916,060
[6]	Total cubic feet:	65,840,376
[7]	Avg. number of intermediate legs traveled by an inter-BMC parcel	1.96
[8]	Avg. number of intermediate legs traveled by an intra-BMC parcel	1.92
[9]	Avg. number of intermediate legs traveled by a DSCF entry parcel	1.00
[10]	Avg. number of intermediate legs traveled by a DDU entry parcel	1.00
[11]	Inter-BMC cubic foot-legs:	66,895,756
[12]	Intra-BMC cubic foot-legs:	27,214,697
[13]	DSCF-Entry cubic feet legs	1,556,328
[14]	DDU Entry cubic feet legs	15,916,060
[15]	Total parcel post cubic foot-legs:	111,582,841
[16]	Test Year Average Alaska Air Non-Pref Transportation Cost (\$/cf-leg):	\$0.08
	Alaska Non-Pref Air Transportation cost (\$/cf)	
[17]	Inter-BMC	\$0.1654
[18]	Intra-BMC	\$0.1627
[19]	DSCF entry	\$0.0846
[20]	DDU entry	\$0.0846

Change in Alaska Transportation Cost from As Filed (\$/cf)

[21]	Inter-BMC	-\$0.0307
[22]	Intra-BMC	-\$0.0302
[23]	DSCF entry	\$0.0846
[24]	DDU entry	\$0.0846

Sources

[1]	USPS-T-26, Attachment M, page 2	[15]	[11] + ... + [14]
[2], [3]	USPS-T-26, Attachment M, page 3	[16]	[1] / [15]
[4], [5]	Exhibit G: [DSCF and DDU Cubic Feet], Col [E] and [D]	[17] - [20]	[7] * [16]; [8] * [16]; [9] * [16]; [10] * [16]
[6]	[2] + ... + [5]	[23]	[19]
[7], [8]	USPS-T-26, Attachment M, page 3	[24]	[20]
[9], [10]	UPS-T-5G, page 3.	[21]	As Corrected [17] - As Filed [11]
[11] - [14]	[2] * [5]; [3] * [6]; [4] * [7]; [5] * [8]	[22]	As Corrected [18] - As Filed [12]

Application of Parcel Post Alaska Non- Pref Air Transportation Costs to DSCF and DDU Entry

Parcel Post Unit Transportation Costs by Zone (\$/cf)

	Inter-BMC		Intra-BMC		DSCF		DDU	
	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]
	As Filed	As Corrected	As Filed	As Corrected	As Filed	As Corrected	As Filed	As Corrected
Local	N/A	N/A	\$1.2264	\$1.1962	\$0.5362	\$0.6208	\$0.0908	\$0.1754
1-2	2.8016	\$2.77	\$2.2782	\$2.2479	-----	-----	-----	-----
3	3.3843	\$3.3536	\$2.2782	\$2.2479	-----	-----	-----	-----
4	4.2594	\$4.2287	\$2.2782	\$2.2479	-----	-----	-----	-----
5	5.8876	\$5.8569	\$2.2782	\$2.2479	-----	-----	-----	-----
6	7.5804	\$7.5497	-----	-----	-----	-----	-----	-----
7	9.1622	\$9.1315	-----	-----	-----	-----	-----	-----
8	12.4380	\$12.4073	-----	-----	-----	-----	-----	-----

Sources:

- [A] As Filed: USPS-T-26, Attachment N, page 1
- [B] [A] - (UPS-T-5G, page 1, line [21])
- [C] As Filed: USPS-T-26, Attachment N, page 1
- [D] [A] - (UPS-T-5G, page 1, line [22])
- [E] As Filed: USPS-T-26, Attachment N, page 1
- [F] [A] - (UPS-T-5G, page 1, line [23])
- [G] As Filed: USPS-T-26, Attachment N, page 1
- [H] [A] - (UPS-T-5G, page 1, line [24])

**Target Transportation and Non-Transportation Passthrough for DDU-Entry
Using Postal Service DDU-Entry Costs as Filed**

[1] DDU-entry TYAR volume	28,215,002
[2] DDU-entry TYAR Preliminary Revenues (\$)	32,761,660
[3] DDU-entry Revenue per Piece (at Preliminary Rates) (\$/piece)	1.16
[4] Mark-up Factor	1.21
[5] Cost without Mark-up Factor (\$/piece)	0.96
[6] Target Markup	63.5%
[7] Target Revenue per Piece (\$/piece)	1.57
[8] Target Contribution Margin per Piece (\$/piece)	0.41
[9] Non-transportation Discount (off of DBMC-entry) (\$/piece)	0.73
[10] Transportation Discount (off of DBMC-entry) (\$/piece)	0.45
[11] DDU-entry Cost Before Discounts (\$/piece)	2.14
[12] Target Passthrough (\$/piece)	0.57
[13] Target Passthrough (%)	48.4%

- [1] UPS-T-5H, page 2, Total from Column [B].
 [2] UPS-T-5H, page 2, Total from Column [C].
 [3] [2] / [1].
 [4] Tr. 13/4970.
 [5] [3] / [4].
 [6] Priority Mail mark-up, LR-I-149, Commission Costing.
 [7] [5] * (1+[6]).
 [8] [7] - [3].
 [9] USPS-T-36, Attachment H, page 1, line 23.
 [10] UPS-T-5H, page 2, Average from Column [G].
 [11] [5] + [9] + [10].
 [12] [11] - [7].
 [13] [12] / ([9] + [10]).

DDU-Entry Avoided Transportation Cost

	[A] As Filed DDU Preliminary Rates	[B] As Filed DDU TYAR Billing Determinants	[C] As Filed DDU TYAR Preliminary Revenues	[D] As Filed DDU Transport Cost (\$/piece)	[E] As Filed DBMC Transport Cost (\$/piece)	[F] As Filed DDU Avoided Transport Cost (\$/piece)	[G] As Filed DDU Avoided Transport Cost (\$)
2	1.09	13,809,491	15,052,345	0.0199	0.2617	0.2417	3,338,133
3	1.12	5,270,173	5,902,593	0.0314	0.3987	0.3672	1,935,444
4	1.16	3,216,468	3,731,103	0.0422	0.5277	0.4855	1,561,540
5	1.20	1,716,938	2,060,325	0.0522	0.6490	0.5968	1,024,686
6	1.24	835,264	1,035,728	0.0614	0.7633	0.7019	586,264
7	1.27	631,875	802,481	0.0700	0.8714	0.8014	506,370
8	1.31	393,684	515,726	0.0780	0.9738	0.8959	352,683
9	1.34	389,127	521,430	0.0854	1.0712	0.9858	383,608
10	1.37	280,284	383,989	0.0923	1.1640	1.0717	300,379
11	1.41	216,896	305,824	0.0988	1.2527	1.1539	250,269
12	1.44	161,235	232,178	0.1049	1.3375	1.2326	198,744
13	1.47	116,321	170,992	0.1106	1.4189	1.3083	152,183
14	1.50	82,977	124,466	0.1159	1.4970	1.3811	114,598
15	1.53	55,088	84,285	0.1210	1.5722	1.4512	79,945
16	1.56	370,630	578,183	0.1258	1.6447	1.5189	562,941
17	1.59	91,772	145,918	0.1303	1.7145	1.5842	145,389
18	1.62	33,778	54,721	0.1346	1.7820	1.6475	55,648
19	1.65	36,390	60,043	0.1387	1.8473	1.7087	62,177
20	1.68	52,887	88,851	0.1425	1.9105	1.7680	93,503
21	1.71	60,582	103,596	0.1462	1.9717	1.8255	110,593
22	1.74	24,937	43,390	0.1497	2.0311	1.8814	46,915
23	1.77	49,005	86,739	0.1530	2.0887	1.9356	94,856
24	1.80	22,403	40,325	0.1562	2.1446	1.9884	44,545
25	1.83	29,842	54,610	0.1592	2.1990	2.0398	60,870
26	1.86	27,811	51,729	0.1621	2.2519	2.0898	58,119
27	1.89	13,398	25,322	0.1649	2.3034	2.1385	28,651
28	1.91	12,461	23,800	0.1676	2.3535	2.1860	27,238
29	1.94	15,932	30,908	0.1701	2.4024	2.2323	35,565
30	1.97	16,405	32,317	0.1725	2.4500	2.2775	37,361
31	2.00	20,915	41,829	0.1748	2.4965	2.3216	48,556
32	2.02	21,387	43,203	0.1771	2.5418	2.3647	50,575
33	2.05	2,650	5,433	0.1792	2.5861	2.4069	6,379
34	2.08	11,825	24,596	0.1813	2.6293	2.4481	28,948
35	2.11	11,469	24,199	0.1833	2.6716	2.4884	28,538
36	2.13	3,433	7,312	0.1852	2.7129	2.5278	8,677
37	2.16	4,905	10,595	0.1870	2.7534	2.5664	12,589
38	2.19	1,860	4,073	0.1887	2.7929	2.6042	4,843
39	2.21	14,003	30,946	0.1904	2.8316	2.6412	36,984
40	2.24	-	-	0.1921	2.8695	2.6775	-
41	2.27	5,959	13,527	0.1936	2.9067	2.7130	16,167
42	2.29	4,231	9,689	0.1951	2.9430	2.7479	11,626
43	2.32	13,793	32,001	0.1966	2.9787	2.7821	38,375
44	2.35	-	-	0.1980	3.0136	2.8157	-
45	2.37	-	-	0.1993	3.0479	2.8486	-
46	2.40	519	1,246	0.2006	3.0815	2.8809	1,496
47	2.43	3,642	8,850	0.2019	3.1145	2.9126	10,608
48	2.45	6,377	15,625	0.2031	3.1469	2.9438	18,774
49	2.48	-	-	0.2043	3.1787	2.9744	-
50	2.51	13,824	34,699	0.2054	3.2099	3.0045	41,535
51	2.53	976	2,470	0.2065	3.2405	3.0341	2,962
52	2.56	6,881	17,616	0.2075	3.2706	3.0631	21,078
53	2.58	-	-	0.2085	3.3002	3.0917	-
54	2.61	1,007	2,629	0.2095	3.3293	3.1198	3,143
55	2.64	-	-	0.2104	3.3579	3.1474	-
56	2.66	-	-	0.2114	3.3860	3.1746	-
57	2.69	4,928	13,257	0.2122	3.4136	3.2013	15,778
58	2.71	-	-	0.2131	3.4408	3.2277	-
59	2.74	4,913	13,461	0.2139	3.4675	3.2536	15,985
60	2.77	-	-	0.2147	3.4938	3.2791	-
61	2.79	-	-	0.2155	3.5197	3.3042	-
62	2.82	21,449	60,487	0.2162	3.5451	3.3289	71,404
63	2.84	-	-	0.2169	3.5702	3.3533	-
64	2.87	-	-	0.2176	3.5949	3.3773	-
65	2.89	-	-	0.2183	3.6192	3.4009	-
66	2.92	-	-	0.2189	3.6432	3.4242	-
67	2.94	-	-	0.2195	3.6667	3.4472	-
68	2.97	-	-	0.2201	3.6900	3.4698	-
69	3.00	-	-	0.2207	3.7128	3.4921	-
70	3.02	-	-	0.2213	3.7354	3.5141	-
Total		28,215,002	32,761,660				12,744,236
Average per Piece			\$ 1.16				\$ 0.45

[A] USPS-T-36, Attachment I, page 3.
[B] USPS-T-36, Attachment E, page 10.
[C] [A] * [B].
[D] USPS-T-36, Attachment G, page 5.

[E] USPS-T-36, Attachment G, page 3.
[F] [E] - [D].
[G] [B] * [F].

EXHIBIT UPS-T-51:
BOTTOM-UP COSTING OF
DDU-ENTRY PARCEL POST –
FILED UNDER SEAL
