

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

UNITED STATES POSTAL SERVICE
INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS TO
UNITED PARCEL SERVICE WITNESS LUCIANI
(USPS/UPS-T1-10-26)

Pursuant to rules 25 and 26 of the Rules of Practice and procedure, the United States Postal Service directs the following interrogatories and requests for production of documents to United Parcel Service witness Luciani: USPS/UPS-T1-10-26.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
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USPS/UPS-T5-10. Please refer to page 22, line 9 of your testimony where you state:
The top-down approach uses (1) the old LIOCATT cost breakdown in Cost Segment 3.1 that has since been abandoned for general cost allocation purposes in favor of the MODs-based approach....

Please confirm that in LR-I-103, Tables 1-4 costs are divided into MODs, nonMODs and BMC cost pools.

- (a) If confirmed, please explain exactly what you were referring to as " the old LIOCATT cost breakdown."
- (b) If not confirmed, please explain your understanding of how costs are divided in Tables 1-4.

USPS/UPS-T5-11. Please refer to your testimony, page 26, lines 1 through 6 where you state:

As a result, I have used the outgoing non-DBMC Parcel Post costs from (1) the LD43 cost pool, (2) the Function 4 costs in the LD48 pool, and (3) conservatively, all of the non-MODs costs pools....

- (a) Please confirm that using outgoing costs in cost pools is consistent with the methodology used by witness Egelston in her calculation of DBMC cost avoidance.
- (b) If confirmed, please justify how you use a methodology that you yourself have called "out dated" and "abandoned." If not confirmed, please explain in detail how the two methodologies differ.

USPS/UPS-T5-12. Please refer to UPS-T-5, WP-1.

- (a) Please confirm that in section E, page 2, that the following cost pools are assumed to be fixed: LD43, LD48, and 7 of the nonMODs cost pools. If not confirmed, please explain which cost pools are assumed to be fixed.
- (b) Please confirm that in section F, page 2 that the .9398 under the column entitled "CRA," is the sum of the proportional cost pools. If not confirmed, please explain, in detail, what the number .9398 represents.
- (c) Please confirm that in section F, page 2, under the title "As Corrected with DDU sort + Origin AO," you add the estimated cost of a DDU sort and the estimated cost of origin AOs to the modeled costs, but add no additional costs to the sum of the proportional cost pools. If confirmed, please confirm that the impact of adding costs to the model and not the sum of the proportional cost pools is to lower the CRA proportional adjustment factor (CRA multiplier). If not confirmed, please explain in detail how what you did differs from the above explanation.

USPS/UPS-T5-13. Please refer to footnote 10 in your testimony.

- (a) Please explain what you are referring to when you say "the total would be 11.8 cents."

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- (b) Please explain in detail, and show all calculations of how you derived the number 11.8.
- (c) Please explain what you mean by "uncorrected Parcel Post volumes."

USPS/UPS-T5-14. Please refer to footnote 11 in your testimony where you state:
However, I followed witness Eggleston's practice of not applying the CRA multiplier in the derivation of Parcel Post destination entry cost avoidances using the bottom-up method...

Please refer to the response to PSA/USPS-T26-1. Please confirm that witness Eggleston stated her comment about not applying the CRA adjustment factor to new rate categories was only meant to apply to DSCF, DDU and BMC presort and the reason she did not apply a CRA adjustment factor to DBMC cost savings is directly related to the methodology she used to estimate DBMC cost savings.

- (a) If confirmed, given that you propose using a different methodology to estimate DBMC cost savings, please explain in full detail your rationale for not applying a proportional CRA adjustment factor to your estimated cost savings
- (b) If not confirmed, please explain your understanding of that response.

USPS/UPS-T5-15. Please refer to page 26 of your testimony, lines 12 through 13.

- (a) Please confirm that the 35.8 cents is the mail processing cost avoidance.
- (b) Please confirm that 35.8 cents does not include any costs from cost segment 3.2.

USPS/UPS-T5-16. Please refer to Footnote 8. Please quantify the "little difference" in the statement "using 100 percent volume variability for mail processing costs made little difference to the amount of non-BMC mail processing costs."

USPS/UPS-T5-17.

- (a) Please confirm that neither the DDU or DSCF rate categories could be used by mailers in FY 1998.
- (b) Please confirm that it would be nonsensical to allocate BY98 costs to the DDU and DSCF Parcel Post rate categories. If not confirmed, please explain in detail the justification for allocating BY98 costs to DDU and DSCF Parcel Post.

USPS/UPS-T5-18. Please see the response to UPS/USPS-T26-24. Please confirm that in this response it is explained that the test-year costs in the Parcel Post transportation model are extrapolated from BY98 data.

- (a) If confirmed, please explain your justification for allocating test year costs, that only reflect the rate categories that existed in the base year, to rate categories that did not exist in the base year.

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- (b) If not confirmed, please supply the full citation for where the test year costs used in the Parcel Post transportation model were adjusted for the existence of DDU and DSCF.

USPS/UPS-T5-19. Please refer to Exhibit G, page 1 of your testimony.

- (a) Please confirm that your estimate of test-year inter-BMC cubic feet is the same as shown in USPS-T-26, Attachment L, page 7.
- (b) Please confirm that your estimate of test-year intra-BMC cubic feet is the same as shown in USPS-T-26, Attachment L, page 7.
- (c) Please confirm that to allocate test-year Alaska air non-preferential costs to DSCF and DDU parcel post rate categories, you assume 1,556,328 of test-year cubic feet of DSCF and 15,916,060 test-year cubic feet of DDU.
- (d) Please refer to USPS-T-26, Attachment L. Please confirm that test-year cubic feet is estimated by multiplying test-year-before-rates volumes by the estimated cubic feet per piece.
- (e) Please confirm that to increase the total test-year before rates cubic feet implies increasing the total test-year-before-rates volume. If confirmed, please explain how you justify increasing the test-year-before-rates volume, without adjusting test-year-before-rates costs. If not confirmed, please explain in detail how test -year-before-rates cubic feet could increase, without test-year volume increasing. Show all evidence to support this claim.

USPS/UPS-T5-20. Please refer to Exhibit G, page 1 of your testimony.

- (a) Please explain your justification for assuming that DDU, which by definition is dropped at the destination delivery unit, would incur one full leg of intermediate costs.
- (b) Please explain your justification for assuming that DSCF, which by definition is dropped at the destination SCF, would incur one full leg of intermediate costs.
- (c) Please explain your justification for assuming that DDU and DSCF would both incur the exact same cost per cubic foot of non-preferential Alaska air costs.

USPS/UPS-T5-21. Please refer to USPS-T-19, section V. entitled "Alaska Air Adjustment Factor." Please confirm that witness Kashini calculates the percentage of non-preferential Alaska air costs that are attributable by multiplying test-year Alaska air non-preferential costs by the ratio of "the hypothetical cost of transporting mail in Alaska by highway divided by the cost incurred for non-preferential air service." If confirmed, please also confirm the result of this methodology is to attribute that portion of non-preferential Alaska air costs that would exist if these costs were highway costs. If not confirmed, please explain in detail how your understanding differs from the above explanation. (b) If not confirmed, please explain in detail your understanding of how attributable non-preferential Alaska Air costs are calculated. Please include whether the methodology results higher or lower cost per cubic foot miles than other Parcel Post transportation costs.

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UPS/UPS-T5-22. Please refer to USPS-T-26, Attachment A, page 13.

- (a) Please confirm that in the machinable DBMC mail processing model, it is assumed that 26.7 percent of machinable DBMC parcels arrive at the delivery unit in sacks.
- (b) Please confirm that in the machinable DBMC mail processing model, the cost of dumping sacks at the destination delivery unit is 2.1 cents.
- (c) Please confirm that if zero percent of DDU is in sacks, then DDU will incur zero costs associated with dumping sacks.
- (d) Please confirm if zero percent of DDU is in sacks, then compared to the machinable DBMC mail processing model, DDU will avoid the 2.1 cents associated with dumping sacks.

USPS/UPS-T5-23. On page 20 of your testimony, you state that the results of re-running the volume forecast model for Parcel Post for the Test Year Before Rates and After Rates are summarized in Table 9. Table 9 only appears to contain information on the Before Rates version. Do the results of your After Rates volume forecast appear anywhere in your testimony or exhibits (*i.e.*, other than WP-3)?

USPS/UPS-T5-24. Please refer to page 20, lines 1 through 4, of your testimony. You state: "I have updated Mr. Plunkett's analysis to derive Revenue Adjustment Factors for Parcel Post based on the corrected Parcel Post Base Year volumes recommended by Mr. Sellick. The results are provided in UPS-Luciani-WP-3." Is the update analysis presented in WP-3, or just the results? Please specify, beyond the results, where the details of that analysis can be found, either in WP-3, or elsewhere.

USPS/UPS-T5-25. Please refer to UPS-Luciani-WP-3 and the Excel spreadsheet files it contains. On all of the following questions, if you cannot confirm, please explain.

- (a) Please confirm that in Spreadsheets 2.1, 3.1, and 3.5 (the "vf" files), in the sheet "Prices," cells BB8-BD8, the R97-1 prices have values of 5.125516, 3.055018, and 2.542216.
- (b) Please confirm that these are the prices for 1999Q2, the quarter during which the R97-1 rate increases went into effect, and therefore reflect an average of old (pre-R97) and new (R97) rates.
- (c) Please confirm that these cells should contain the prices from the first *full* quarter (1999Q3) in which the new (R97) rates were in effect, to avoid the effects of averaging with the old rates.
- (d) Please confirm that, based on your FWI files 2.3, 2.4, and 2.2, respectively, the values in cells BB8-BD8 should be 5.436636, 3.335314, and 2.612319.
- (e) Please confirm that in Spreadsheets 3.5 (one of the "vf" files), in the sheet "Prices," cells BB9-BD9, the R2000-1 prices have values of 5.808072, 3.592612, and 2.639546.

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- (f) Please confirm that these are the prices for 2001Q1, the quarter during which the R2000-1 rate increases are assumed to go into effect, and therefore reflect an average of old (R97) and new (R2000) rates.
- (g) Please confirm that these cells should contain the prices from the first *full* quarter (2001Q2) in which the new (R2000) rates are in effect, to avoid the effects of averaging with the old rates.
- (h) Please confirm that, based on your FWI files 3.3, 3.4, and 3.2, respectively, the values in cells BB9-BD9 should be 5.936937, 3.681879, and 2.648992.
- (i) Please confirm that if the correct price values (i.e., those consistent with your FWI spreadsheets, as described above) were substituted in the "vf" files in cells BB8-BD8 and BB9-BD9, your TYBR (including Table 9 on page 21 of your testimony) and TYAR parcel post volume forecasts would change.

USPS/UPS-T5-26. Please refer to UPS-Luciani-WP-3 and the Excel spreadsheet files it contains. On all of the following questions, if you cannot confirm, please explain.

- (a) Please confirm that the information in your FWI spreadsheets (files 2.2 - 2.4 and 3.2 - 3.4) can be considered the functional equivalent of billing determinants.
- (b) Please confirm that the billing determinants implicit in your FWI spreadsheets reflect the same amount of total Parcel Post piece volume as the Postal Service's billing determinants and FWI spreadsheets.
- (c) Please confirm that the total number of pieces in your billing determinants is different from the total number of pieces you are using as your forecast base.

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 over a solid horizontal line.

Scott L. Reiter

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