

BEFORE THE  
POSTAL RATE COMMISSION

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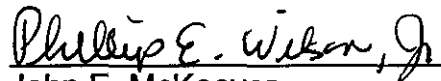
DOCKET NO. R2000-1

POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

ANSWERS OF UNITED PARCEL SERVICE  
WITNESS RALPH L. LUCIANI TO UNITED STATES  
POSTAL SERVICE INTERROGATORIES  
(USPS/UPS-T5-1 through 3)  
(June 16, 2000)

Pursuant to the Commission's Rules of Practice, United Parcel Service hereby files and serves the answers of UPS witness Ralph L. Luciani to the following interrogatories of the United States Postal Service: USPS/UPS-T5-1 through 3.

Respectfully submitted,



John E. McKeever  
William J. Pinamont  
Phillip E. Wilson, Jr.  
Attorneys for United Parcel Service

Piper Marbury Rudnick & Wolfe LLP  
3400 Two Logan Square  
18th & Arch Streets  
Philadelphia, PA 19103-2762  
(215) 656-3310  
(215) 656-3301 (FAX)

and

1200 Nineteenth Street, NW  
Washington, DC 20036-2430  
(202) 861-3900

Of Counsel.

ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI  
TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

**USPS/UPS-T5-1.**

- a. Please confirm that the Parcel Post transportation model (USPS-T-26, Attachment M, page 3) does account for the fact that 7.11 percent of DBMC is dropped at SCFs.
- b. Please further confirm that the impact of this assumption (7.11 percent of volume dropped at SCF) is to lower DBMC costs.
- c. Please confirm that DDU transportation costs avoidance (USPS-T-26, Attachment N, page 5) is calculated as the cost savings compared to DBMC.
- d. Please further confirm that since the DDU transportation cost avoidance is calculated off of DBMC, and the DBMC costs have been reduced to account for 7.11 percent of DBMC being dropped at the DSCF, the DDU cost avoidance has already implicitly been adjusted for the fact that 7.11 percent of DBMC is dropped at the DSCF.

**Response to USPS/UPS-T5-1.**

- (a) Confirmed.
- (b) Confirmed that this pre-mix assumption (that 7.11% of DBMC entry volume is entered at the DSCF) decreases the estimate of DBMC entry transportation costs that would otherwise result.
- (c) Confirmed that the DDU entry transportation cost avoidance can be deduced from the figures in USPS-T-26, Attachment N. The actual DDU entry

ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI  
TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

transportation cost avoidance shown in USPS-T-26, Attachment N, page 1 and page 5, is calculated as the cost savings compared to DSCF entry.

(d) Confirmed. Following this logic would imply that the transportation final adjustment could be derived simply as the post-mix DDU entry volume (i.e., 28 million pieces) multiplied by the DDU transportation cost avoidance (e.g., 60 cents per piece). Unfortunately, this does not take into account the fact that 7.11% of DBMC entry pieces are no longer entered at the DSCF in the post-mix case; such pieces are explicitly counted as DSCF entry pieces -- not DBMC entry pieces -- in the post-mix case since DSCF entry rates are in effect. This change in the DSCF entry volume from pre-mix to post-mix must be taken into account. The Postal Service's methodology does not do so.

As an illustrative example, assume that post-mix there are no DSCF entry pieces and that 7.11% of DBMC entry volume is entered at the DDU, as shown below:

	<u>Pre-Mix</u>	<u>Post-Mix</u>
DBMC	92.89%	92.89%
DSCF	7.11%	0%
DDU	0%	7.11%
Total Parcel Select	100%	100%

Under the Postal Service's method, the final adjustment is calculated incorrectly in that the savings lost from the mix change reduction in DSCF entry is not taken into account --

Incorrect (Postal Service) Final Adjustment:

*7.11% \* Parcel Select Volume \* DDU Cost Avoidance.*

ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI  
TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

Instead, the final adjustment should take into account the lost savings from the mix change reduction in DSCF entry --

Correct Final Adjustment:

$7.11\% * Parcel\ Select\ Volume * (DDU\ Cost\ Avoidance - DSCF\ Cost\ Avoidance).$

In other words, the Postal Service is double counting transportation cost savings in its final adjustment method, in that it assumes that any post-mix DSCF entry volume and DDU entry volume together provide incremental cost savings, without taking into account that the cost savings from pre-mix DSCF entry will no longer take place.

ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI  
TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

**USPS/UPS-T5-2.** Please confirm that the only basis for your conclusion (pages 12-13 of your testimony) that costs for exclusive parcel post routes should be product specific to parcel post is the title/description of the route (“exclusive parcel post”). If you do not confirm, please provide all data sources and references that are the bases for your proposal of assigning all the costs of such routes to parcel post.

**Response to USPS/UPS-T5-2.**

Not confirmed. The basis for my conclusion that the costs for Exclusive Parcel Post Routes should be product specific to Parcel Post is Witness Meehan’s testimony in response to UPS/USPS-T11-21(b), Tr. 21/8531-33. Ms. Meehan there refers to USPS-LR-I-14 (p. 10-4), in which an Exclusive Parcel Post Route is defined as a regular route devoted entirely to Parcel Post delivery. She reaffirmed that response on oral cross-examination. See Tr. 6/2662-63. This definition of Exclusive Parcel Post Routes is in stark contrast to the definition of other Special Purpose Routes. For example, there are also Parcel Post Combination Routes in which Parcel Post service is combined with other activities, and Non-Parcel Post Combination Routes in which there is “no Parcel Post service.” USPS-LR-I-14 (p. 10-4). A Special Purpose Route set up entirely for the purpose of serving a specific subclass should be treated as a product specific (or specific fixed) cost.

I note that in interrogatory USPS/UPS-T5-5, the Postal Service provides numbers which suggest that the majority of the volume delivered on Exclusive Parcel Post and Parcel Post Combination routes consists of Priority Mail and Standard (B) mail. Yet,

ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI  
TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

under the Postal Service's approach, those categories seem to receive a relatively smaller amount of the costs of Special Purpose Routes as a whole. If the numbers presented by the Postal Service are correct, a more appropriate approach may be to distribute the costs of Exclusive Parcel Post and Parcel Post Combination routes separately rather than as part of Special Purpose Route costs as a whole, with these categories receiving their appropriate share of the costs of those routes.

ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI  
TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

**USPS/UPS-T5-3.** Do you agree that the cost of exclusive parcel post routes, like all other routes, should be borne by the classes and subclasses of mail delivered on those routes? If you do not confirm, please provide all data and references in postal costing supporting your position.

**Response to USPS/UPS-T5-3.**

As noted in my response to USPS/UPS-T5-2, the Postal Service has indicated that Exclusive Parcel Post Routes are devoted entirely to Parcel Post delivery. In her response to UPS/USPS-T11-21(g), (Tr. 21/8533), Ms. Meehan indicated that there were no available data regarding a distribution key for Exclusive Parcel Post Routes. To the extent that other subclasses of mail are delivered on these routes on occasion, I agree that those subclasses should pay a portion of the volume variable costs of Exclusive Parcel Post Routes. However, because Exclusive Parcel Post Routes have been put into place entirely for the purposes of Parcel Post delivery, the difference between the total accrued costs for these routes and their volume variable costs should be assigned as a product specific (or specific fixed) cost to Parcel Post.

My recommended treatment leaves in place the costs the Postal Service attributes to each subclass for City Carrier Special Purpose Routes as a whole. I simply assign to Parcel Post as a product specific cost the difference between the total cost of Exclusive Parcel Post Routes and the Special Purpose Route costs the Postal Service attributes to Parcel Post when it distributes City Carrier Special Purpose Route costs as

ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI  
TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

a whole. Thus, my approach is conservative, and in that respect allows for the fact that some volume other than Parcel Post may be carried on Exclusive Parcel Post Routes.

Exclusive Parcel Post Routes reflect only 8% (\$37,391,000 out of \$469,835,000) of the total costs of City Carrier Special Purpose Routes. USPS-LR-I-130, file "CS06&7.xls, "Input IOCS." Say, for example, that 90% of the pieces delivered on Exclusive Parcel Post Routes are Parcel Post. Under my conservative proposed treatment, as long as Parcel Post incurs at least 0.9%  $[(100\% - 90\%)* \$37,391,000/(\$469,835,000 - \$37,391,000)]$  of the attributable cost of the other, non-Exclusive Parcel Post Route City Carrier Special Purpose Route cost (which include Parcel Post Combination Routes), Parcel Post costs would still be undercounted.



**DECLARATION**

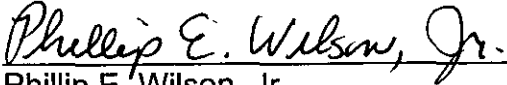
I, Ralph L. Luciani, hereby declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.

Ralph L. Luciani  
Ralph L. Luciani

Dated: June 16, 2000

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document by first class mail, postage prepaid, in accordance with Section 12 of the Commission's Rules of Practice.

  
Phillip E. Wilson, Jr.  
Attorney for United Parcel Service

Dated: June 16, 2000  
Philadelphia, Pa.