

BEFORE THE  
POSTAL RATE COMMISSION

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

DOCKET NO. R2000-1

ANSWERS OF UNITED PARCEL SERVICE WITNESS  
RALPH L. LUCIANI TO UNITED STATES  
POSTAL SERVICE INTERROGATORIES  
(USPS/UPS-T5-5 through 9)  
(June 26, 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-T5-5 through 9.

Respectfully submitted,



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Of Counsel.

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**USPS/UPS-T5-5.**

Please refer to your testimony at page 13, lines 1-6. You state that

“Ms. Meehan’s distribution of Special Purpose Route costs is based on a study performed by Postal Service Witness Nelson in Docket No. R97-1 (Tr. 21/8553). Based on the data Ms. Meehan has been able to obtain from that study, it is not possible to tell what the distribution key was for each individual type of Special Purpose Route. ”

- a) Have you attempted to obtain the data from Witness Nelson’s study, provided in Docket No. R97-1, LR-H-152? If so, have you attempted to tell what the distribution key was for each individual type of Special Purpose Route? If you have made such an attempt, what was the result of this attempt?
- b) Please confirm that, using the data from Witness Nelson’s Special Purpose Route study filed in R97-1, LR-H-152, and a slight modification of the programs supplied with R97-1, LR-H-157, the distribution of Special Purpose Route survey weighted pieces delivered on Exclusive Parcel Post and other types of Special Purpose Routes is as follows:

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TABLE 1. DISTRIBUTION OF PIECES DELIVERED ON SPECIAL PURPOSE  
ROUTES BY ROUTE TYPE

MAIL CLASS	EXCLUSIVE PARCEL POST	PARCEL POST COMBINATION	COLLECTION	NON-PARCEL COMBINATION	RELAY ROUTE	OTHERS	TOTAL (R97-1, USPS-T-19, WP 1.8)
FIRST-CLASS MAIL	115,749	275,119	270,915	46,388	447,714	846,886	2,002,771
PRIORITY	3,140,706	5,039,412	2,983,331	91,945	1,472,309	852,491	13,580,194
EXPRESS	85,397	753,895	1,006,060	205,508	287,461	383,231	2,721,552
MAILGRAM	-	14,592	22,324	-	-	-	36,916
PERIODICALS	282,824	755,618	432,184	6,508	20,974	115,198	1,613,306
STANDARD (A) SINGLE PIECE	70,434	438,011	152,693	-	22,997	108,547	792,682
REMAINING STANDARD (A) STANDARD (B)	254,992	1,210,665	533,052	32,541	117,710	266,168	2,415,128
PARCEL POST ZONE RATE	988,476	4,374,047	737,703	71,589	864,603	264,554	7,300,972
BOUND PRINTED MATTER	1,592,969	2,530,623	522,174	52,065	371,010	92,187	5,161,028
SPECIAL STANDARD	1,189,216	975,727	499,583	32,541	83,182	45,597	2,825,846
LIBRARY	231,179	529,307	212,481	19,524	107,973	56,354	1,156,818
TOTAL STANDARD (B)	4,001,840	8,409,704	1,971,941	175,719	1,426,768	458,692	16,444,664
INTERNATIONAL	182,562	385,028	36,698	164,202	517,426	26,326	1,312,240
SPECIAL DELIVERY	1,214	4,730	24,229	-	-	9,581	39,754
TOTAL	8,338,184	17,065,948	7,579,291	595,307	4,313,359	3,067,119	40,959,207

If you do not confirm, please explain fully why not, and provide corrected table entries.

- c) Please confirm that for each of the route type categories shown in the columns of Table 1, the distribution of pieces is not an appropriate distribution key for the costs in that category. If you do not confirm, please explain fully.

**Response to USPS/UPS-T5-5.**

(a) I reviewed Witness Nelson's study provided as LR-H-152 in Docket No. R97-1 and I attempted to obtain distribution key information, but I did not seek to obtain or reevaluate the underlying data, given that the Postal Service's own witness (Ms. Meehan) had indicated in response to my discovery request that it was her "understanding that the sample design used by Witness Nelson (Docket R97-1, USPS-

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T-19) did not allow for development of specific keys for each route type." See

UPS/USPS-T11-21(e)-(h).

(b) I am unable to confirm or not confirm this information.

(c) I am unable to confirm or not confirm. See my response to USPS/UPS-

T5-3.

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**USPS/UPS-T5-6.**

Please refer to page 13 of your testimony, where you state that Exclusive Parcel Post route "costs may be treated as a Product Specific cost under the Postal Service's costing method, or as a specific fixed cost under the Commission's costing method. "

Assuming the information provided in Table 1 in interrogatory USPS/UPS-T5-5 accurately represents the distribution of Special Purpose Route survey weighted pieces delivered on Exclusive Parcel Post and other types of Special Purpose Routes, based on that Table:

- a) Would you conclude that the name of the route type is indicative of the type of mail delivered on the route? Please explain fully.
- b) Would you expect mail to be delivered on Collection or Relay routes? Please explain fully.
- c) Would you conclude that the mail delivered on Exclusive Parcel Post Routes is entirely Parcel Post? Please explain fully.

**Response to USPS/UPS-T5-6.**

(a) Assuming Table 1 is correct, no. The numbers in Table 1 suggest that the majority of the volume delivered on Exclusive Parcel Post and Parcel Post Combination routes consists of parcels, specifically, Priority Mail and Standard (B) mail. Yet, 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

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costs of Exclusive Parcel Post and Parcel Post Combination routes separately to the classes of mail delivered on them 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.

(b) Not according to the definition provided by the Postal Service and used in the IOCS Field Operating Instructions (see LR-I-14, page 10-4), although if the information presented in Table 1 of this interrogatory is correct, the misleading definition in the IOCS Field Operating Instructions should be changed to reflect the reality and attributions should be revised as necessary.

(c) See my response to part (a), above.

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**USPS/UPS T5-7.**

Please refer to page 3 of your testimony. Have you calculated the impact of the cost and revenue changes recommended for Parcel Post and Priority Mail on the other mail categories? If so, what are the cost and revenue estimates for each?

**Response to USPS/UPS-T5-7.**

No.

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**USPS/UPS T5-8.**

Please refer to pages 14-15 of your testimony.

- a) Does your statement at page 14, lines 9-10: "This is inconsistent and clearly wrong." refer to wrong revenue or wrong volume, or both? Please explain.
- b) Please confirm that witness Plunkett's test year Alaska volume estimate is based on the FY 1998 proportion of Intra-BMC Non-Alaska Bypass to Total Intra-BMC volumes, as shown in his Attachment D, cells E20 and G20. If you do not confirm, please detail your understanding of his calculation.
- c) Please confirm that witness Plunkett's test year estimate of OMAS volumes is based on a residual calculation, as shown in Attachment D, cells E24 and G24. If you do confirm, please detail your understanding of his calculation.

**Response to USPS/UPS-T5-8.**

(a) The inconsistency is the relationship between the change in OMAS and Alaska volume and the change in OMAS and Alaska revenue. The revenue estimate cannot be correct if the volume estimate is correct. In turn, the volume estimate cannot be correct if the revenue estimate is correct. I have accepted Mr. Plunkett's Alaska and OMAS volume estimates for purposes of deriving the required correction to Alaska and OMAS revenues.

(b) Confirmed.

(c) Confirmed, although the end result of the residual calculation is that the OMAS volume is a subset of the inter-BMC volume. Of course, OMAS volume is in



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both the inter-BMC and DBMC categories, and I have taken this into account in my correction as shown in Exhibit UPS-T-5D.

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**USPS/UPS T5-9.**

Please provide missing citations for all data, including pastings of new data, in your Workpapers.

**Response to USPS/UPS-T5-9.**

The following is a list of sources for hard-coded data in UPS-Luciani-WP-3.

**WP-3-1.2**

- The TYAR revenue per piece rate increase was solved for so as to yield the markup ratio recommended by Dr. Sappington.

**WP-3-1.3**

- The TYAR revenue per piece rate increase was solved for so as to yield the markup ratio recommended by the Postal Service.

**WP-3-1.4**

- The original data is found in Dr. Tolley's worksheets, adjusted for the volumes recommended by UPS witness Sellick, resulting in changes in the Revenue Adjustment Factor and therefore in Before and After Rate prices. The TYAR revenue per piece rate increase was then solved for so as to yield the markup ratio recommended by Dr. Sappington.

**WP-3-1.5**

- Source for original costs for segments 3, 7, and 14 is LR-I-130.

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- Source for Alaska Air change is PRC and Postal Service cost segment and component reports, LR-I-130, and Exhibit USPS-11A, respectively.
- Source for revised cost segment 3 estimates is UPS-Sellick-WP-1.
- Source for revised cost segment 7 estimates is UPS-Luciani-WP-2.
- Source for revised cost segment 14 estimates is UPS-T-3, Appendix B.

**WP-3-1.7**

- Source for USPS PFY volume estimates is LR-I-121.
- Source for USPS GFY volume estimates is Meehan (USPS-T-11) workpaper B.
- Source for PFY/GFY conversion factors is LR-I-194.

**WP-3-2.1**

- Source of Parcel Post volume estimates is UPS-Luciani-WP-3-1.7.
- Source of prices is UPS-Luciani-WP-3-2.2, 3-2.3, 3-2.4.

**WP-3-2.2**

- Source for revised Revenue Adjustment Factor is UPS-Luciani-WP-1B.

**WP-3-2.3**

- Source for revised Revenue Adjustment Factor is UPS-Luciani-WP-1B.

**WP-3-2.4**

- Source for revised Revenue Adjustment Factor is UPS-Luciani-WP-1B.

**WP-3-3.1**

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- Source for revenue per piece rates is UPS-Luciani-WP-3-2.2, 3-2.3, 3-2.4, 3-3.2, 3-3.3, and 3-3.4.
- Source for Net Increase (2.32%) is UPS-Luciani-WP-3-1.4.

**WP-3-3.2**

- Source for revised Revenue Adjustment Factor is UPS-Luciani-WP-1B.

**WP-3-3.3**

- Source for revised Revenue Adjustment Factor is UPS-Luciani-WP-1B.

**WP-3-3.4**

- Source for revised Revenue Adjustment Factor is UPS-Luciani-WP-1B.

**WP-3-3.5**

- Source of Parcel Post volume estimates is UPS-Luciani-WP-3-1.7.
- Source for prices is UPS-Luciani-WP-3-3.2, 3-3.3, 3-3.4.

**DECLARATION**

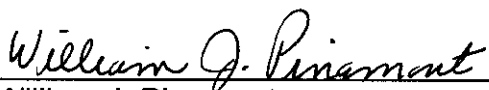
I, Ralph L. Luciani, hereby declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.

Ralph L. Luciani  
Ralph L. Luciani

Dated: *June 26, 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.

  
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William J. Pinamont  
Attorney for United Parcel Service

Dated: June 26, 2000  
Philadelphia, Pa.

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