ANSWERS OF UNITED PARCEL SERVICE WITNESS
RALPH L. LUCIANI TO UNITED STATES
POSTAL SERVICE INTERROGATORIES
(USPS/UPS-T5-10 through 26)
(June 28, 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-T5-10 through 26.

Respectfully submitted,

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

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.

Response to USPS/UPS-T5-10.

Confirmed.

(a)   The reference to the old LIOCATT cost breakdown is to the use in USPS-

LR-I-103 of the Basic Function categories of incoming, outgoing, transit, and other. It is

my understanding that these categories are no longer used in the cost allocation

method used by the Postal Service for Cost Segment 3.

(b)   Not applicable.

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

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 Eggelston 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.

Response to USPS/UPS-T5-11.

(a)   Confirmed, although Witness Eggleston used all outgoing costs and I used only outgoing non-DBMC costs.

(b)   I would have much preferred that Witness Eggleston had presented a workflow model for mail processing activities at the Origin AO, as she did for the Origin SCF, the BMC, the Destination SCF, and the DDU. However, she did not, and, as a result, I had no choice but to use a corrected version of the old methodology for the origin AO activities (but only the origin AO activities). I urge that the Commission request the Postal Service to expand the workflow model to include the origin AO in the future.

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

(a) Please confirm that in section E, page 2, 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 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.

Response to USPS/UPS-T5-12.

(a) Confirmed.

(b) Confirmed that the 0.9698 (not 0.9398) shown in Section F is the sum of the proportional cost pools.

(c) Confirmed. Confirmed. If all of the costs associated with LD43, LD48 (Function 4), and the non-MODS cost pools are included as proportional costs under the unlikely presumption that all of the functions in these cost pools have now been

modeled, the CRA multiplier for non-BMC mail processing would be 0.8428 (see table

below).

Non-BMC CRA Multiplier
All Figures are in Test Year Dollars per Piece

	Modeled Cost	Inter-BMC		Intra-BMC		DBMC	
		Mach	NMO	Mach	NMO	Mach	NMO
[1]	AO	0.1090	0.1090	0.1090	0.1090		
[2]	OSCF	0.1404	0.3285	0.1404	0.3285		
[2]	DSCF	0.1920	0.6248	0.1920	0.6248	0.1920	0.6248
[2]	DDU	0.0648	0.1501	0.0648	0.1501	0.0648	0.1501
[3]	DDU Sort	0.0945	0.0945	0.0945	0.0945	0.0945	0.0945
	Total Non-BMC Cost	0.6007	1.3068	0.6007	1.3068	0.3513	0.8694
[2]	Model Weight	12.0%	1.6%	7.0%	0.6%	74.7%	4.0%
[4]	Weighted Average Non-BMC Modeled Cost			0.4408			

[2]	Proportional CRA Cost Pools	0.9698
[2]	BMC Proportional CRA Cost Pools	(0.7505)
[2]	LD43	0.0541
[2]	LD48 Support Function 4	0.0107
[2]	Non-Mods (other than ManP)	0.0875
[5]	Total Non-BMC Proportional CRA Cost Pools	**0.3715**
[6]	Non-BMC CRA Multiplier	**0.8428**

Sources:
[1] Exhibit UPS-T-5F, page 1, row 5
[2] USPS Witness Eggleston (USPS-T-26), Attachment A
[3] UPS-Luciani-WP-1, Section F, page 2
[6] Line [5] divided by line [4]

Again, I do not believe application of a CRA multiplier is appropriate here given

the highly uncertain notion of what pool has been modeled in full and what has not.

Moreover, as indicated in my response to USPS/UPS-T5-11(b), I had no choice but to

base a portion of the DBMC cost avoidance on the old methodology, which Ms.

Eggleston has correctly argued should not have a CRA multiplier applied to it. In any

event, if a CRA multiplier were to be applied, I believe the 0.8428 non-BMC CRA

multiplier is the appropriate multiplier to apply to a DBMC cost avoidance that is based

on avoiding activities at the origin AO and origin SCF.

ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI
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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."

(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."

Response to USPS/UPS-T5-13.

(a)   The 10.9 cents of cost savings (line 5, page 26, of my testimony) would become 11.8 cents if the Postal Service's estimate of Parcel Post Base Year volume were to be accepted.

(b)   See Exhibit UPS-T-5F, page 1, column E, line [5], and the associated source note.

(c)   Volumes that do not reflect the changes recommended by Witness Sellick in UPS-T-2.

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.

Response to USPS/UPS-T5-14.

Confirmed. See my response to USPS/UPS-T5-12(c).

ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI
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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.

Response to USPS/UPS-T5-15.

   (a)   Confirmed.

   (b)   Confirmed.

ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI
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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."

Response to USPS/UPS-T5-16.

With 100% volume variability, the non-BMC outgoing costs increased from

$20.807 million to $21.204 million (see Docket No. R97-1, PRC-LR-15, DBMC.xls, page

12), for an increase of $397,000.

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.

Response to USPS/UPS-T5-17.

(a) Confirmed that the DDU and DSCF rate categories did not exist in FY

1998, although mailers could enter parcels at the DDU or at the DSCF.

(b) Not confirmed. See my response to USPS/UPS-T5-18.

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.

(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.

Response to USPS/UPS-T5-18.

Confirmed.

(a)   It is likely that the inception of DDU entry and DSCF entry rates in Alaska

will yield additional Parcel Post Alaska air costs in the Test Year beyond those included

by the Postal Service. To the extent that the Postal Service has an estimate of the

additional Alaska air costs, the costs should be included in the Test Year attributable

costs for Parcel Post as a final adjustment.

To my knowledge, the Postal Service has not made any effort to isolate the

Alaska air costs actually incurred by intra-BMC and inter-BMC, respectively, in order to

allocate Alaska air costs to each of these rate categories. The Alaska air costs are

simply allocated across those rate categories that make use of Alaska air in proportion

to total (i.e., Alaska and non-Alaska) cubic feet. Similarly, I have simply allocated the

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Postal Service's projected Test Year Alaska air costs to the rate categories that make

use of Alaska air in the Test Year in proportion to total cubic feet.

(b)   Not applicable.

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.

Response to USPS/UPS-T5-19.

    (a) – (b) Confirmed.

    (c) – (d) Confirmed. I note that the Test Year Before Rates DDU entry and DSCF entry cubic feet that I derive are included in the DBMC cubic foot total in USPS-

T-26, Attachment L. See Ms. Eggleston's response to POIR No. 5, Question 9. I simply

derive them individually for purposes of my Exhibit UPS-T-5G.

(e)   The total Test Year Before Rates cubic feet in USPS-T-26, Attachment L,

are not increased since they already include the DSCF entry and DDU entry cubic feet

that I derive. See Ms. Eggleston's response to POIR No. 5, Question 9.

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.

Response to USPS/UPS-T5-20.

(a) – (c) Under the Postal Service's method, both intra-BMC and inter-BMC receive essentially equal charges per cubic foot for Alaska air (despite the likely difference in the Alaska air costs they incur). I simply used the same approach to assume that DSCF entry and DDU entry should also receive equal charges per cubic foot for Alaska air. I conservatively give DSCF entry parcels and DDU entry parcels one-half of the charges per cubic foot of intra-BMC and inter-BMC parcels, although the DSCF entry and DDU entry costs may not be that low. To the extent that much of the Alaska air cost is for transportation of large parcels to outlying areas, it could well be that DSCF entry and DDU entry parcels incur Alaska air costs similar to those of intra-BMC and inter-BMC parcels.

USPS/UPS-T5-21. Please refer to USPS-T-19, section V, entitled "Alaska Air

Adjustment Factor." Please confirm that witness Kashani 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.

Response to USPS/UPS-T5-21.

Confirmed. Confirmed.

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.

Response to UPS/UPS-T5-22.

(a) Confirmed.

(b) Confirmed.

(c) Confirmed that if DDU entry pieces are not in sacks, there would be no

cost associated with dumping sacks.

(d) Confirmed that if machinable DDU entry pieces are never in sacks, 2.1

cents in sack dumping costs would be avoided. Of course, this would be offset by any

additional cost caused by the container entry profile used for these DDU entry pieces.

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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)?

Response to USPS/UPS-T5-23.

No. The Test Year After Rates volumes for Parcel Post, under the cost coverage recommendation of UPS Witness Sappington, are as follows (in thousands, see UPS-Luciani-WP-3-3.1, revised 6/20/00, filed June 22, 2000):

Intra-BMC	27.727
Inter-BMC	45.612
DBMC	191.722
Total	265.062

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.

Response to USPS/UPS-T5-24.

The workpapers in support of the updated Revenue Adjustment Factors are in

UPS-Luciani-WP-1, Section B.

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 Avf@ files), in the sheet

APrices,@ 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 Avf@ files), in the sheet

APrices,@ cells BB9-BD9, the R2000-1 prices have values of 5.808072, 3.592612,

and 2.639546.

(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.

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(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 Avf@ 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.

Response to USPS/UPS-T5-25.

(a) – (i) Confirmed. See the Errata Filed by United Parcel Service to the Direct

Testimony of UPS Witnesses Ralph L. Luciani (UPS-T-5) and David E. M. Sappington

(UPS-T-6), filed June 22, 2000.

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

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.

Response USPS/UPS-T5-26.

(a) – (c) Not confirmed that my use of the data in the FWI spreadsheets in this

context is the functional equivalent of billing determinants. The proportions of volume by

weight and zone for each Parcel Post rate category in the FWI spreadsheets are used

to arrive at a FWI price. Billing determinant volume by rate category, if and when

created, would match the forecast by rate category.
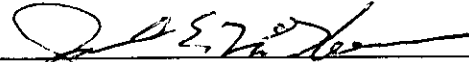
DECLARATION

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: 6/28/2000

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.

John E. McKeever
Attorney for United Parcel Service

Dated: June 28, 2000
Philadelphia, Pa.

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