

BEFORE THE
POSTAL RATE COMMISSION

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Jun 30 11 08 AM '00

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 INTERROGATORIES OF THE
UNITED STATES POSTAL SERVICE
(USPS/UPS-T5-27 through 34)
(June 30, 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-T5-27-34.

Respectfully submitted,


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Of Counsel.

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TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

USPS/UPS-T5-27. Please refer to your testimony at page 19, lines 6-8, where you indicate that you are providing “the rate increase needed for Express Mail to cover its revised costs using the Postal Service’s proposed markup ratio normalized to the systemwide average.”

- a. Please confirm that your Table 7 shows that the “corrected costs” for Express Mail are lower than the PRC version of costs filed by the Postal Service in this docket. If you do not confirm, please provide the corrected figures.
- b. Please clarify that the rate increase you show for Express Mail in Table 8 is to achieve the higher cost coverage proposed by UPS, and is not “needed for Express Mail to cover its revised costs.”
- c. Please provide the “systemwide average” used by you to “normalize” the markup ratio for Express Mail if it is anything other than the systemwide average in the PRC version of costs filed by the Postal Service.
- d. Is it your testimony that the markup ratios for all subclasses other than the ones for which you have offered proposals for revised rate increases and costs should remain the same as they would have been “using the Postal Service’s proposed markup ratio[s] normalized to the systemwide average?” If not, please explain why it was appropriate to do so for Express Mail.
- e. Under your proposed changes to attributable cost, rate increases, revenues and cost coverages, would the Postal Service achieve financial breakeven in the test year after rates? Please provide all supporting evidence.

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Response to USPS/UPS-T5-27.

- (a) Confirmed.
- (b) Not confirmed. The rate increase shown is, as stated, to achieve the Postal Service's proposed markup ratio normalized to the systemwide coverage. The calculation was performed for illustrative purposes to assist the Commission in its considerations of the UPS recommended costing changes.
- (c) It is the systemwide average in the Commission's version of costing as filed by the Postal Service.
- (d) No. I presented the Express Mail results to show the potential rate increase associated with the costing changes shown in Table 7 of my testimony.
- (e) Yes, since the Commission would ensure that would be the case.

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USPS/UPS-T5-28. Please refer to your testimony at page 29, lines 17-22, where you state: “it is reasonable to expect that all drop-shipped mail will have similar physical characteristics. Indeed, Mr. Plunkett estimates the volume of DSCF-entry and DDU-entry parcels using total **DBMC** [emphasis original] volume – not total Parcel Post volume – as his basis. This implicitly assumes that the characteristics of DSCF-entry and DDU-entry parcels are likely to resemble those of DBMC-entry parcels rather than the characteristics of all parcels.”

- a. Please confirm that you are referring to **physical** characteristics in lines 20 through 22. If not confirmed, please explain fully.
- b. Please confirm that for a subset of inter-BMC parcels, for example, all parcels destinating in Zone 3, their **physical** characteristics will not match those of inter-BMC parcels as a whole. If you cannot confirm, please explain fully.
- c. Please confirm that in the workpapers for witnesses Tolley and Thress, the volume and price index adjustments for DDU and DSCF parcels were made to the DBMC equation, and not to the intra- or inter-BMC equations. If you cannot confirm, please explain fully, identifying where in the workpapers of Thress and Tolley the DDU and DSCF volume and price adjustments are made.
- d. Please confirm that DDU and DSCF volumes are forecasted as subsets of “DBMC” parcels in the workpapers of Thress and Tolley. If you cannot confirm, please identify whether these volumes were forecasted as subsets of intra-BMC or inter-BMC Parcel Post.

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- e. Please confirm that the “implicit assumption” is that DDU and DSCF parcels share **demand** characteristics with DBMC parcels, not **physical** characteristics. If you do not confirm, please explain fully.

Response to USPS/UPS-T5-28.

(a) Confirmed.

(b) Not confirmed. I know of no effort made by the Postal Service to isolate the physical characteristics of inter-BMC parcels by zone. Instead, those parcels are treated in the ratemaking process as having identical physical characteristics to those of other inter-BMC parcels.

(c) – (d) Confirmed.

(e) Not confirmed. In my view, use of the DBMC rate category as the sole predictor of the volume of DSCF and DDU entry volume is an implicit assumption that all of the characteristics, including both the physical characteristics and the demand characteristics, of DBMC, DSCF entry, and DDU entry are similar. I note that the Postal Service did not adjust the physical characteristics of the remaining DBMC volume now that a subset of the DBMC volume has been removed.

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USPS/UPS-T5-29. Please refer to your testimony at page 32, lines 9-14, where you state: "there is little or no difference between the parcel handling practices for Priority Mail and for Parcel Post once the parcels arrive at the DDU. Priority Mail is proposed to contribute approximately 63 cents to institutional costs on every underlying dollar of attributed cost. A 63% markup on the attributed cost of DDU-entry pieces is also appropriate."

- a. On your tours of DDU operations, did you observe any differences in parcel handling practices for Library Mail, Special Standard Mail, Bound Printed Matter, and Parcel Post? If so, please describe fully. If you did not observe Library Mail, Special Standard Mail or Bound Printed Matter pieces during your visits, please provide your opinion as to whether those pieces would have received any different handling than you observed for Parcel Post.
- b. On your tours of DDU operations, did you observe handling practices for letters or flats? If so, did you observe differences in handling between Standard Mail A and First-Class Mail letters, or between Standard Mail A and First-Class Mail flats? If you did not observe letter or flat handlings at the DDU, please provide your opinion as to whether there would have been differences in handling.
- c. Is it your testimony that destination entry pieces should pay a markup equivalent to the markup of pieces that, although more fully utilizing the upstream postal processing and transportation, receive similar handling at the destination entry point as the first type of pieces? Please explain fully, particularly providing the

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specific guidance regarding the application of similar markups for destination entry pieces.

- d. Is your testimony intended to provide the Commission with guidance regarding appropriate passthroughs for destination-entry cost avoidances for all classes and subclasses of mail? If so, please clarify the set of rules that should be applied. If not, please explain why it is appropriate to do so for DDU Parcel Post?
- e. Is it your testimony that the Commission should determine, a priori, based on comparison to other subclasses of mail, a desired cost coverage for destination-entry mail within a subclass and then set the passthroughs to achieve that cost coverage? If not, please explain the purpose of your testimony at pages 32 and 33.
- f. Please explain why you have designed DDU Parcel Post rates with reference to the Priority Mail cost coverage but have not done so for DSCF Parcel Post.

Response to USPS/UPS-T5-29.

(a) In my tours, I focused primarily on Parcel Post, Express Mail, and Priority Mail. However, on those tours, I did not observe parcel handling differences at the DDU among the Standard B subclasses.

(b) Yes. I did not directly observe differences in letter handling practices by subclass at the DDU.

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(c) My testimony is focused solely on DDU entry Parcel Post, and I have not examined any other DDU entry subclasses. However, as a general matter, I believe that it would be appropriate for the Commission to consider any similarities or differences in handling and delivery practices from the point of entry as part of setting passthroughs for discount rate categories.

(d) No. However, see my response to part (c), above.

(e) That is appropriate for DDU entry Parcel Post. I have not examined the other subclasses with respect to destination entry, where there may or may not be other factors involved. See my response to part (c), above.

(f) I have suggested a passthrough for the DDU entry discount, not designed DDU rates. I also have recommended a passthrough for the DSCF entry discount.

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USPS/UPS-T5-30. At page 33, lines 11-12, you state that “certainly the Commission should not pass through more than 80% of the avoided costs.” Please provide the rationale for this determination, particularly indicating whether your decision to limit the passthrough of avoided costs associated with DDU entry may be applied in some general manner by the Commission for rate design in other areas.

Response to USPS/UPS-T5-30.

My rationale is simply that the Postal Service itself has in effect applied a passthrough for Parcel Post DDU entry of 80% in this case (see my testimony on page 33 at lines 8-10), and that there has been no reason put forth to pass through more than that percentage. I have not investigated whether this result has general applicability beyond the Parcel Post DDU entry rate category.

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USPS/UPS-T5-31. At page 34, lines 6-9, you state: "While it is not clear at this time what delivery standards are being met by DSCF-entry Parcel Post, DSCF-entry also avoids the BMC network. Thus, I recommend that the passthrough for DSCF-entry be set midway between that for DDU-entry and that for DBMC-entry."

- a. Please explain the causal connection between the delivery standard and the passthrough for the various dropship levels for Parcel Post that you are recommending. Please also discuss the general applicability of this causality for other subclasses.
- b. Is the delivery standard the only criterion which led you to recommend that the passthrough for DSCF be set "midway between that for DDU-entry and that for DBMC-entry"? If not, please provide the other criteria you have employed in arriving at this conclusion.
- c. Would your recommendation be the same if the passthroughs resulted in very different implicit cost coverages for this mail? Please explain fully.
- d. Based upon your recommendations, should the Commission be using delivery standards as a means of setting passthroughs? If not, please explain fully.
- e. Based upon your recommendations, should the Commission be using delivery standards as a means of setting implicit cost coverages? If not, please explain fully.

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Response to USPS/UPS-T5-31.

(a) The recommendation is based on the fact that DSCF entry will incur handling and transportation times to the DDU that may be slower than Priority Mail, but avoids the BMC system and thus is more like Priority Mail than is DBMC entry mail, but not as much as DDU entry mail. See my response to USPS/UPS-T5-30.

(b) Yes.

(c) Yes.

(d)-(e) The Commission should use all available information (such as delivery practices) in setting passthroughs for worksharing programs, including not only the work avoided but also the work remaining and, as Mr. Plunkett has suggested, the value of the service provided to workshared mail. Passthroughs inevitably affect implicit cost coverages.

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USPS/UPS-T5-32. Please refer to your number at line 10 of Exhibit UPS-T-5I and explain why you think the cost of sorting non-machinable pieces from 3-digit to 5-digit at large Postal Service plants would be representative of sorting mostly machinable pieces from 5-digit to carrier route at delivery offices.

Response to USPS/UPS-T5-32.

My observation of the DDU manual sort on my visits to Postal Service facilities is that each parcel is examined individually by the mailhandler to find the address and then placed in the appropriate carrier-route hamper. While I did not observe a difference in time spent by parcel type, one can infer that higher bulk/weight increases the time spent. However, in the absence of alternative data, I chose to use the DSCF manual sort costs as the single best proxy for the DDU manual sort costs for purposes of Exhibit UPS-T-5I, because both sorts are performed manually.

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USPS/UPS-T5-33. Please refer to your analysis on page 1 of Exhibit UPS-T-5I.

- a. Please confirm that Parcel Post can destinate at PO Boxes or as firm hold-outs and require no delivery by carriers. If not, please explain fully.
- b. Please confirm that your analysis assumes that all DDU parcels are delivered. If not, please explain your answer.

Response to USPS/UPS-T5-33.

- (a) Confirmed.
- (b) Confirmed that the average cost of delivery was used as a proxy for the cost incurred for held-out parcels and those parcels that destinate at PO boxes (including window costs).

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USPS/UPS-T5-34. In your analysis at page 3 of Exhibit UPS-T-5I, are you implicitly assuming that rural carrier routes require the same amount of time to deliver a parcel as do city carrier routes? If your answer is no, please explain fully.

Response to USPS/UPS-T5-34.

Yes, with a lower wage rate applied.

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: 6/30/2000

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 30, 2000
Philadelphia, Pa.

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