

BEFORE THE
POSTAL RATE COMMISSION

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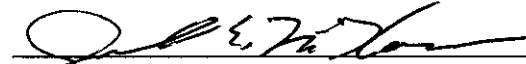
POSTAL RATE AND FEE CHANGES, 2000

DOCKET NO. R2000-1

ANSWERS OF UNITED PARCEL SERVICE
WITNESS RALPH L. LUCIANI TO INTERROGATORIES
OF AMAZON.COM, INC.
(AMZ/UPS-T5-1 through 10)
(July 3, 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 Amazon.Com, Inc.: AMZ/UPS-T5-1-10.

Respectfully submitted,



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TO INTERROGATORY OF AMAZON.COM

AMZ/UPS-T5-1. Please refer to your testimony at pages 27-28, where you discuss sack shakeout for DDU-entry Parcel Post. You state that MTAC meeting minutes “make clear that Postal Service employees at the DDU will assist in unloading DDU-entry mail when they are available.”

- a. (i) Is your authority for this statement in the May 14, 1998 Parcel IRT Meeting Minutes that “Locally, USPS may be able to assist.”? If not, please quote the language you rely upon from the above-identified minutes, and explain how it supports your assertion.
 - (ii) Do you have any other authority for your statement? If so, please provide it.
 - b. Please confirm that the meeting minutes which you cite predated the implementation of DDU-entry parcel post. If you do not confirm, please explain.
 - c. Please state the complete basis for your conclusion that the observation in the MTAC meeting minutes reflect actual practice.
 - d. (i) What precise assistance do you assert that Postal Service employees provide in the assistance of unloading DDU-entry mail?
 - (ii) Do they always provide the same assistance?
 - (iii) Do they only assist “when they are available”?
 - (iv) How much (and how often) is this assistance related to sack shakeout?
- Please identify the source(s) you rely on for your answers.

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- e. If you do not contend that such assistance is always or almost always provided, why do you propose that the entire 2.1 cent cost per piece of sack shakeout be removed from DDU cost avoidance, rather than some portion?
- f. Witness Stralberg (TW-T-1) states that “[w]hen a mailer dropships to a DDU, the driver for the mailer is required to unload the mail [sic] and place it on the DDU platform, thereby helping the Postal Service to avoid the DDU unloading costs it would have incurred if the mail were not dropshipped.” (TW-T-1, p. 56, ll. 12-14.) Do you agree? If you disagree with witness Stralberg, please explain why.

Response to AMZ/UPS-T5-1.

- (a) (i) Yes, in part. The complete relevant language is:

“VEHICLE UNLOADING Not part of R-97 rules, but mailer concerns were addressed. Do not require mailers to unload at DDUs. Mailers want assistance provided to truck drivers locally when they are unloading if it is available. Cannot state in DMM that this will be possible. Cost saving is based on the fact that we will not unload trucks. Locally, USPS may be able to assist.”

(ii) I was told by Postal Service employees on my DDU tour of May 17, 2000, that Postal Service employees likely would assist in unloading any DDU-entry trucks, in part in order to remove the truck quickly from the scarce dock space available.

(b) Confirmed, although the minutes specifically state that the purpose of the meeting was “to discuss all the issues that remained regarding the proposed rules for parcel preparation” and that “final resolution was agreed upon for each issue.” See MTAC Minutes of May 14, 1998.

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

(d) I do not know.

(e) My contention is that there is no DMM requirement for a sack shakeout, and, as such, for costing purposes it should be assumed that the Postal Service performs the sack shakeout. In addition, there is evidence to suggest that assistance is provided on occasion by the Postal Service in unloading DDU-entry parcels, although such assistance is not permitted in the DMM. The 2.1 cents per piece avoided if the mailer sometimes shakes out sacks must be offset against the 4.36 cents incurred when the Postal Service sometimes helps unload the parcels.

(f) I agree with Witness Stralberg that when the mailer unloads the mail, the Postal Service avoids costs. However, Witness Stralberg does not comment on whether any sacks are shaken out (where there is no requirement to do so), nor does he comment on whether sometimes assistance is provided by the Postal Service in unloading (despite the requirement for the mailer to unload).

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AMZ/UPS-T5-2. Please refer to your testimony at page 28, where you state that the Postal Service's calculation of DDU cost avoidance reflects non-machinable costs that are not avoided.

- a. Are you stating that non-machinable parcels entered at the DBMC do not incur the costs identified by the Postal Service? Please explain your answer.
- b. Are you stating that non-machinable parcels entered at the DDU do not avoid the costs incurred by non-machinable parcels entered at the DBMC?
- c. Do you agree that a non-machinable parcel entered at the DDU avoids at least 73.0 cents of costs which would be incurred if it were entered at the DBMC? If not, why not?
- d. Is not every postal discount based upon an averaging of the costs avoided within the defined segment of mailpieces? Why is that practice problematic here?

Response to AMZ/UPS-T5-2.

My testimony on page 28 states that the Postal Service's calculation of DDU cost avoidance reflects non-machinable costs that are not avoided by machinable parcels.

(a) No. I am observing that the machinable and non-machinable parcels entered at the DBMC incur a different amount of cost.

(b) No. I am observing that the machinable and non-machinable parcels entered at the DDU avoid a different amount of cost.

(c) Accepting the Postal Service's models, yes.

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(d) In this case, using an average results in a double-count of savings. A non-machinable surcharge is applied to non-machinable parcels entered at the DBMC based on the higher cost of handling the non-machinable piece. This non-machinable surcharge is avoided by DDU entry of a non-machinable parcel (i.e., there is no non-machinable surcharge for DDU-entry parcels). Clearly, then, one must base the DDU entry cost avoidance solely on machinable parcel savings, with the mailer's avoidance of the non-machinable surcharge capturing the incremental cost savings of entering a non-machinable piece at the DDU.

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AMZ/UPS-T5-3. At page 33 of your testimony, you state that the parcel post rate design for DDU-entry parcels should use the calculation of cubic feet per piece from DBMC-entry parcels rather than the figure from intra-BMC parcels.

- a. Postal Service witness Plunkett's response to Presiding Officer's Information Request No. 3, Question 7 (which you cite in your testimony) observes that "the choice of cube/piece values for these rate categories has no impact on final rates due to the constraints that I have employed for the newer rate categories." Is it your view that witness Plunkett's statement is incorrect?
- b. You state at page 29, lines 14-16, that "parcels entered at the DSCF or at the DDU are likely to incur higher transportation costs for the transportation they use than non-dropshipped parcels using those same transportation legs." Please explain the basis for this statement.
- c. You state that it is reasonable to expect all drop-shipped mail will have similar physical characteristics. Would it be unreasonable to anticipate variances in the physical characteristics between DBMC-, DSCF-, and DDU-entry parcels? Please explain any negative answer.
- d. You state that witness Plunkett's reliance on DBMC volume to estimate DSCF and DDU entry volume "implicitly assumes that the characteristics of DSCF-entry and DDU-entry parcels are likely to resemble those of DBMC-entry parcels." Is there a more logical basis from which to calculate estimated DSCF and DDU entry volume? If your answer is negative, please explain how witness Plunkett's reliance on DBMC

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volume makes any statement regarding the likely physical characteristics of DSCF and DDU entry volume.

Response to AMZ/UPS-T5-3.

The correct page reference to my testimony is page 29.

(a) Yes. Assuming the cubic feet per piece was the only change to Mr. Plunkett's analysis, there would be higher rates for higher weight DSCF parcels despite the rate change constraints he has employed.

(b) Non-dropshipped parcels have less cubic feet per piece on average than dropshipped parcels, and thus will incur less transportation cost per piece when traveling on the same transportation segments.

(c) While such variances might take place, until there is a study indicating that the physical characteristics are different, the most reasonable assumption is that they are similar (as per Mr. Plunkett's intuition, Tr. 13/5017).

(d) See my response to USPS/UPS-T5-28.

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AMZ/UPS-T5-4.

- a. Would you agree that DDU-entry parcel post is a rate category, and not a subclass?
If you disagree, please explain the basis fully.
- b. Is it your recommendation that the Commission should assign an explicit markup to rate categories?
- c. Unless your answer to preceding part (b) is an unqualified negative, please explain whether you are recommending that the Commission use all the non-cost criteria in § 3622(b) to assign explicit markups to rate categories.
- d. Can you identify any instances where the Commission recommended a [sic] rates with an implicit markup for a rate category that was 4-5 times larger than the subclass-wide markup?
- e. What are the fairness and equity (criterion 1) implications of such a divergence in markups within a subclass?
- f. You propose to assign DDU-entry parcel post the same markup as Priority Mail. Is it your testimony that application of the noncost criteria of Section 3622(b) support identical markups? Please explain your answer fully, including identification of where (and how) application of the noncost criteria would differ between the two mail products.
- g. You refer to your tours of DDU operations.
 - (i) How many such tours have you participated in since the initiation of DDU-entry parcel post, and where and when were these tours?

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- (ii) How many times in these tours have you witnessed the handling of DDU-entry parcel post, and what have you observed?
- h. You propose a dramatically smaller (48.4 percent versus 80 percent) passthrough of cost avoidance for DDU parcel post. Please identify the fairness and equity (criterion 1) implications of such a divergence in cost avoidance passthroughs within a subclass.

Response to AMZ/UPS-T5-4.

- (a) Yes.
- (b) No.
- (c) Not applicable.
- (d) I am not aware of Commission recommendations regarding implicit markups. Note that workshared categories will have a higher implicit markup than non-workshared categories, given that the cost savings are not passed through with a markup.
- (e) I have not specifically examined this criterion in the context of setting a passthrough. Again, there is nearly always a divergence in implicit markups within a subclass.
- (f) I have not made an exhaustive review of all of the Section 3622(b) criteria, since I am recommending a passthrough. However, I note that the value of the two services is quite similar.
- (g) (i) One, on May 17, 2000, at the Laurel, Maryland facility.

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(ii) While I specifically asked to observe DDU-entry practices, this did not happen. I did observe the entry into the DDU of mail coming from other parts of the postal network.

(h) See my response to part (f), above.

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AMZ/UPS-T5-5. At pages 7-10 of your testimony, you propose that city carrier elemental load and street support costs be distributed between subclasses by weight, rather than volume.

- a. Do you believe that it costs more to deliver one 4-lb. parcel than 15 4-oz parcels? Please explain any affirmative answer.
- b. Do you believe that it costs 16 times as much to deliver one 4-lb. parcel as it does to deliver one 4-oz. parcel? Please explain your answer.
- c. Do you believe that it costs more to deliver one 25-lb. parcel than 10 2-lb. parcels? Please explain any affirmative answer.
- d. Do you believe that it costs 12.5 times as much to deliver one 25-lb. parcel as it does to deliver one 2-lb. parcel? Please explain any affirmative answer.
- e. Do you have any evidence supporting your beliefs? If so, please provide it.

Response to AMZ/UPS-T5-5.

(a)–(e) I have not analyzed total delivery costs for parcels as a function of weight. Total delivery costs for parcels are not completely weight-related, nor will my recommendations result in all delivery costs being distributed on the basis of weight. I simply propose the allocation of elemental load costs -- a subset of delivery costs -- by weight per the recommendations of Ms. Daniel (USPS-T-28 at 8-9). This reallocation of elemental load costs affects the distribution of street support costs, but does not make street support costs entirely distributed on the basis of weight.

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AMZ/UPS-T5-6. At pages 14-16 of your testimony, you criticize the Postal Service for projecting declines in Alaska and OMAS volume, and increases in Alaska and OMAS revenues.

(a) Are you contending that witness Plunkett uses a revenue forecasting methodology different from that used by the Postal Service and Commission in Docket No. R97-1?

(b) Do you agree that the revenue forecasting methodology used by Postal Service witness Plunkett also tends to understate revenue increases in rate categories where TYAR volume increases more than the subclass-wide average? Please explain your answer.

Response to AMZ/UPS-T5-6.

(a) No.

(b) No. To my knowledge, Witness Plunkett derives the revenues for all other rate categories by multiplying billing determinant volume by proposed rates. If he had done so for OMAS and Alaska volume, he would have obtained the common-sense answer that a decline in volume leads to a decline in revenue.

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AMZ/UPS-T5-7. Have you ever written any articles, published or unpublished, concerning the effect of weight on cost in the delivery business? If so, please provide citations to each such publication, and provide as a library reference copies of any unpublished articles.

Response to AMZ/UPS-T5-7.

No.

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AMZ/UPS-T5-8. Have you ever done any study, research or consultation that concerned the effect of weight on cost in the delivery business, either for UPS or any other client? Unless your answer is an unqualified negative, please indicate the nature of each such study or assignment including when it was performed.

Response to AMZ/UPS-T5-8.

No.

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AMZ/UPS-T5-9. Your testimony at page 7, line 10, refers to the testimony of Postal Service witness Daniel as it relates to her study of the effect of weight on cost. Is it your contention that her studies have accurately captured the effect of weight on cost? Please explain fully any affirmative answer.

Response to AMZ/UPS-T5-9.

I have not examined Ms. Daniel's study to the extent necessary to confirm whether or not it has accurately captured all of the effects of weight on cost.

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AMZ/UPS-T5-10. Please refer to your testimony at page 9, lines 4-6.

- (a) Please define the phrase “helps capture” as you use it here.
- (b) Is it your position that 2 cents per pound is not an adequate amount to capture the full impact of weight on non-transportation costs?
- (c) Unless your answer to preceding part (b) is an unqualified negative, please provide all evidence upon which you rely to support your position that 2 cents per pound does not fully capture the effect of weight on non-transportation cost.
- (d) Unless your answer to preceding part (b) is an unqualified negative, please provide your best estimate of the most appropriate amount to capture the effect of weight on non-transportation cost.

Response to AMZ/UPS-T5-10.

(a) That the 2 cents per pound adder is used as an estimate of the effect of weight on non-transportation costs.

(b)–(d) I have not examined this issue.

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: 7/3/00

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: July 3, 2000
Philadelphia, Pa.

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