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Before the

UNITED STATES POSTAL RATE COMMISSION

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In the Matter of:

POSTAL RATE AND FEE CHANGE

Docket No.

R2000-1

VOLUME 25

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BEFORE THE
POSTAL RATE COMMISSION

- - - - -X
In the Matter of: :
POSTAL RATE AND FEE CHANGE : Docket No. R2000-1
- - - - -X

Third Floor Hearing Room
Postal Rate Commission
1333 H Street, N.W.
Washington, D.C 20268

Volume XXV
Tuesday, July 11, 2000

The above-entitled matter came on for hearing,
pursuant to notice, at 9:31 a.m.

BEFORE:

HON. EDWARD J. GLEIMAN, CHAIRMAN
HON. GEORGE A. OMAS, VICE CHAIRMAN
HON. W.H. "TREY" LeBLANC, COMMISSIONER
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1 C O N T E N T S

2	WITNESS	DIRECT	CROSS	REDIRECT	RECROSS
	JOHN HALDI				
3	BY MR. OLSON	11494		11762	
	BY MR. MCKEEVER		11670		11765
4	RALPH L. LUCIANI				
	BY MR. MCKEEVER	11768			
5	BY MR. MAY		11915/11958		
	BY MR. REITER		11925		
6	BY MR. OLSON		11929		
	MARK D. EWEN				
7	BY MR. COSTICH	12021		12123	
	BY MR. COOPER		12089		

9	DOCUMENTS TRANSCRIBED INTO THE RECORD:	PAGE
10	Direct Written Testimony of Dr. John Haldi, APMU-T-1	11494
11	Designated Written Cross Examination of Dr. John Haldi	11585
12	Additional Designated Written Cross Examination of Dr. John Haldi, UPS/APMU-T1-24 and USPS/APMU-T1-29, 30, and 33	11671
	UPS-XE-Haldi-1	11739
13	UPS-XE-Haldi-3	11745
	UPS-XE-Haldi-4	11752
14	UPS-XE-Haldi-5	11721
	UPS-XE-Haldi-7	11739
15	Direct Testimony and Exhibits of Ralph L. Luciani, UPS-T-5, excluding UPS-T-5C and UPS-T-5I	11769
16	Direct Testimony and Exhibits of Ralph L. Luciani, UPS-T-5C and UPS-T-5I [under seal]	11825
17	Designated Written Cross-Examination of Ralph L. Luciani	11836
18	Direct Testimony and Exhibits of Ralph L. Luciani, PSA/UPS-T5-3 [under seal]	11916
19	Additional Cross-Examination of Ralph L. Luciani, USPS/UPS-T5-37	11925
20	Direct Testimony of Mark D. Ewen, OCA-T-5	12022
	Designated Written Cross-Examination of Mark D. Ewen	12044
21	Additional Designated Written Cross Examination of Mark D. Ewen, USPS/OCA-T5-30 through USPS/OCA-T5-37	12089

23	E X H I B I T S		
	EXHIBITS AND/OR TESTIMONY	IDENTIFIED	RECEIVED
24	Direct Written Testimony of Dr. John Haldi, APMU-T-1	11494	11494
25	Designated Written Cross Examination of Dr. John Haldi	11585	11585

1	EXHIBITS EXHIBITS AND/OR TESTIMONY	IDENTIFIED	RECEIVED
2	Additional Designated Written Cross		
	Examination of Dr. John Haldi,		
3	UPS/APMU-T1-24 and USPS/APMU-T1-29, 30, and 33	11671	11671
4	UPS-XE-Haldi-1	11680	11739
	UPS-XE-Haldi-2	11705	
5	UPS-XE-Haldi-3	11715	
	UPS-XE-Haldi-4	11715	
6	UPS-XE-Haldi-5	11721	
	UPS-XE-Haldi-6	11730	
7	UPS-XE-Haldi-7	11737	11739
	Direct Testimony and Exhibits of		
8	Ralph L. Luciani, UPS-T-5,		
	excluding UPS-T-5C and UPS-T-5I	11769	11769
9	Direct Testimony and Exhibits of		
	Ralph L. Luciani, UPS-T-5C and UPS-T-5I		
10	[under seal]	11825	11825
	Designated Written Cross-Examination		
11	of Ralph L. Luciani	11836	11836
	Direct Testimony and Exhibits of		
12	Ralph L. Luciani, PSA/UPS-T5-3		
	[under seal]	11916	11916
13	Additional Cross-Examination of		
	Ralph L. Luciani, USPS/UPS-T5-37	11925	11925
14	Direct Testimony of Mark D. Ewen, OCA-T-5	12022	12022
	Designated Written Cross-Examination		
15	of Mark D. Ewen	12044	12044
	Additional Designated Written Cross		
16	Examination of Mark D. Ewen,		
	USPS/OCA-T5-30 through USPS/OCA-T5-37	12089	12089
17			
18			
19			
20			
21			
22			
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P R O C E E D I N G S

[9:31 a.m.]

CHAIRMAN GLEIMAN: Good morning. Today we continue our hearings to receive the direct cases of participants other than the Postal Service in Docket R2001.

I don't have any procedural matters to raise this morning. Does anyone else have a procedural matter that they would wish to raise at this point in time?

[No response.]

CHAIRMAN GLEIMAN: If not, we have three witnesses scheduled to appear today, Witnesses Haldi, Luciani, and Ewen. Mr. Olson, would you please introduce your first witness?

MR. OLSON: Mr. Chairman, the Association of Priority Mail Users would call to the stand, Dr. John Haldi.

CHAIRMAN GLEIMAN: I just want to note for the record, after my miscue yesterday, that Dr. Haldi is already under oath in this proceeding, so there is no need to swear him in yet again today.

MR. OLSON: Fine.
Whereupon,

DR. JOHN HALDI,
a witness, having been previously called for examination,
and, having been previously duly sworn, was examined and
testified as follows:

1 DIRECT EXAMINATION

2 BY MR. OLSON:

3 Q Dr. Haldi, I'd like to hand you two copies of the
4 Direct Testimony of Dr. John Haldi Concerning Priority Mail
5 on Behalf of the Association of Priority Mail Users, Inc.,
6 designated as APMU-T-1, and ask you if this was prepared by
7 you or under your direction and whether you adopt this as
8 your testimony in this case?

9 A Yes.

10 Q And I'd like to ask you if that version of the
11 testimony incorporates the minor errata filed with the
12 Commission on July 7, and on July 10th?

13 A Yes. I have checked both copies and they both
14 contain the errata previously filed with the Commission.

15 Q Thank you.

16 MR. OLSON: Then, Mr. Chairman, we would move the
17 adoption of that into evidence.

18 CHAIRMAN GLEIMAN: Is there any objection?

19 [No response.]

20 CHAIRMAN GLEIMAN: Hearing none, if counsel would
21 please provide the Reporter with two copies of the corrected
22 Direct Testimony of Dr. Haldi, that testimony will be
23 transcribed into the record and received into evidence.

24 [Direct Written Testimony of Dr.

25 John Haldi, APMU-T-1, was received

1 into evidence and transcribed into
2 the record.]
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APMU-T-1

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATES AND FEE CHANGES, 2000)

Docket No. R2000-1

Direct Testimony of

DR. JOHN HALDI

Concerning

PRIORITY MAIL

on Behalf of

ASSOCIATION OF PRIORITY MAIL USERS, INC.

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May 22, 2000

CONTENTS

	Page
AUTOBIOGRAPHICAL SKETCH	1
I. PURPOSE OF TESTIMONY	3
II. THE ASSOCIATION OF PRIORITY MAIL USERS	4
III. INTRODUCTION	6
IV. COST CONSIDERATIONS	9
A. The PMPC Network	9
B. Overstatement of Rehabilitation Costs for Priority Mail ..	16
V. COVERAGE CONSIDERATIONS	18
A. Competition Offers Ready Alternatives	20
B. The Competition Has Many Customer-Desired Features which Priority Mail Lacks	21
C. The Increasingly Competitive Environment	25
D. Priority Mail Rates Are Marginally Competitive with Competitors' Published Rates	29
E. Priority Mail Rates Already Are Not Competitive with Competitors' Negotiated Rates	34
F. Value of Service	38
G. Conclusion: Priority Mail Is Highly Vulnerable	53

CONTENTS (cont.)

	Page
VI. RATE DESIGN ISSUES	55
A. My Proposals in Docket No. R97-1	55
B. The Proposed 1-Pound Rate Should Be Adopted	59
C. Because of the New 1-Pound Rate, the Maximum Weight for First-Class Mail Should Be Reduced	61
D. Priority Mail Rates Should Offer a Discount for Pieces Delivered only to an SCF	62
VII. PROPOSED PRIORITY MAIL RATES	64
 APPENDICES	
A. EXPRESS MAIL: A BRIEF CASE STUDY	
B. FEDEX RATES FOR U.S. GOVERNMENT AGENCIES	
C. INTERNET COMPARISON/SHIPPING SITES	

AUTOBIOGRAPHICAL SKETCH

My name is John Haldi. I am President of Haldi Associates, Inc., an economic and management consulting firm with offices at 1370 Avenue of the Americas, New York, New York 10019. My consulting experience has covered a wide variety of areas for government, business and private organizations, including testimony before Congress and state legislatures.

In 1952, I received a Bachelor of Arts degree from Emory University, with a major in mathematics and a minor in economics. In 1957 and 1959, respectively, I received an M.A. and a Ph.D. in economics from Stanford University.

From 1958 to 1965, I was an assistant professor at the Stanford University Graduate School of Business. In 1966 and 1967, I was Chief of the Program Evaluation Staff, U.S. Bureau of the Budget. While there, I was responsible for overseeing implementation of the Planning-Programming-Budgeting ("PPB") system in all non-defense agencies of the federal government. During 1966 I also served as Acting Director, Office of Planning, United States Post Office Department. I was responsible for establishing the Office of Planning under Postmaster General Lawrence O'Brien. I established an initial research program, and screened and hired the initial staff.

1 I have written numerous articles, published consulting studies,
2 and co-authored one book. Items included among those publications
3 that deal with postal and delivery economics are an article, "The Value of
4 Output of the Post Office Department," which appeared in *The Analysis*
5 *of Public Output* (1970); a book, *Postal Monopoly: An Assessment of the*
6 *Private Express Statutes*, published by the American Enterprise Institute
7 for Public Policy Research (1974); an article, "Measuring Performance in
8 Mail Delivery," in *Regulation and the Nature of Postal Delivery Services*
9 (1992); an article (with Leonard Merewitz) "Costs and Returns from
10 Delivery to Sparsely Settled Rural Areas," in *Managing Change in the*
11 *Postal and Delivery Industries* (1997); an article (with John Schmidt)
12 "Transaction Costs of Alternative Postage Payment and Evidencing
13 Systems" in *Emerging Competition in Postal and Delivery Services* (1999);
14 and an article (with John Schmidt), "Controlling Postal Retail
15 Transaction Costs and Improving Customer Access to Postal Products" in
16 *Current Directions in Postal Reform* (2000).

17 I have testified as a witness before the Postal Rate Commission in
18 Docket Nos. R97-1, MC96-3, MC95-1, R94-1, SS91-1, R90-1, R87-1,
19 SS86-1, R84-1, R80-1, MC78-2 and R77-1. I also have submitted
20 comments in Docket No. RM91-1.

1 **I. PURPOSE OF TESTIMONY**

2 The purpose of this testimony is to propose (i) a classification
3 change that would require pieces of First-Class Mail that weigh in excess
4 of 11 ounces to be entered as Priority Mail (this change is particularly
5 important due to the newly-proposed 1 pound rate), and (ii) alternative
6 rates for Priority Mail, which include a new discount for Priority Mail
7 which is used to dropship other Postal products to destination SCFs.
8 These proposals, the rationale for their adoption, and their impact are
9 explained herein.

1 **II. THE ASSOCIATION OF PRIORITY MAIL USERS**

2 This testimony is presented on behalf of the Association of Priority
3 Mail Users, Inc. ("APMU"), a trade association founded in 1993. APMU
4 consists of Priority Mail users — such as through-the-mail film
5 processors, manufacturers of consumer products, television, internet,
6 and catalog retailers, and shipping consolidators.

7 APMU is a member of the Mailers Technical Advisory Committee
8 ("MTAC"). It publishes a bi-monthly Newsletter, *APMU News*, and
9 maintains a web site at www.apmu.org. It offers its members regular
10 reports on important postal developments, not limited to Priority Mail,
11 sponsors Priority Mail Breakfast Briefings at all National Postal Forums,
12 and holds quarterly membership meetings corresponding with MTAC
13 sessions.

14 APMU has been interested in Postal Rate Commission litigation,
15 intervening in Docket Nos. R94-1, MC96-1, MC97-2, and R97-1.

16 **Mailing Practices of APMU Members**

17 APMU members use all rate categories of Priority Mail, from flat-
18 rate to heavyweight, both unzoned and zoned.

19 Members of APMU have a strong interest in the improvement of
20 Priority Mail's features and service, and its continued viability as a

1 profitable postal product. They also have significant concerns in this
2 docket regarding the disproportionate rate increase proposed by the
3 Postal Service; the projected decline in Priority Mail volume; Priority
4 Mail's declining market share; the Postal Service's failure to improve
5 significantly Priority Mail service; and Priority Mail's continued lack of
6 value-added features when compared with its competitors.

III. INTRODUCTION

My testimony on Priority Mail in Docket No. R97-1 noted that during FY 1997 “the Postal Service signed an innovative contract with Emery to sort and transport all Priority Mail in the Northeast and Florida,”¹ and it further noted that “implementation of the PMPC network adds significantly to the cost projections for Priority Mail during Test Year.”² And in what has turned out to be a somewhat prophetic statement, my testimony stated that “[t]he network of dedicated PMPC facilities is an innovative attempt to improve performance. At the same time, however, it is totally unproven, and it could turn out to be a mistake with grave consequences.”³ For many years now, the Postal Service has been faced with determining how best to improve the timeliness and reliability of Priority Mail while keeping costs down. An important purpose of the PMPC contract was to help ascertain whether the dedication of facilities and local transportation to Priority Mail could be part or all of the solution.

Unfortunately, the Emery contract has been hugely expensive. It is one of the reasons that the average unit cost for Priority Mail increased

¹ Docket No. R97-1, NDMS-T-2, p. 74 ll. 11-13.

² *Id.*, p. 68, ll. 7-8.

³ *Id.*, p. 69, ll. 4-6.

Revised 7/10/00

1 from **\$1.76** per piece in FY 1997 to **\$1.99** per piece in FY 1998, and is
 2 projected to increase to **\$2.45** per piece in 2001. This projection for
 3 2001 represents a 39 percent increase from 1997 levels. It significantly
 4 exceeds the highly-touted increase in unit cost for Periodicals, which also
 5 have increased far more rapidly than the rate of inflation (see Table 1).

6	Table 1				
7	Unit Costs for Priority Mail and Periodicals				
8	1997-2001				
9		Unit Cost (cents)		Index, 1997 = 100	
10		Priority		Priority	
11	Year	Mail	Periodicals	Mail	Periodicals
12	1997	1.761	0.188	100	100
13	1998	1.993	0.197	113	105
14	1999	2.321	0.220	132	117
15	2000	2.240	0.228	127	121
16	2001BR	2.452	0.239	139	127
17	2001AR	2.500	0.239	142	127

18 Unless Emery obtains the right to terminate its contract with the
 19 Postal Service through the litigation it has filed, discussed below, the
 20 Emery contract will expire in February, 2002, shortly after the Test Year
 21 in this case ends, but well before the likely Test Year in any subsequent
 22 case. The testimony of witness Robinson notes that the Postal Service is

1 reviewing all of its options with respect to the PMPC, as well it should.⁴
2 In view of the prospect that the Postal Service shortly may be able to
3 regain some control over its costs, the fact that Priority Mail faces
4 intensifying competition, and the fact that Priority Mail has a high price
5 elasticity of demand, the coverage should be restricted to about the same
6 level established by the Commission in Docket No. R97-1.

7 Priority Mail has been a highly profitable and successful product
8 for the Postal Service. The FY 1996 revenues and operating profit (*i.e.*,
9 contribution to institutional costs) of Priority Mail were, respectively,
10 \$3,321.5 million and \$1,681.3 million. As of FY 1999, revenues and
11 operating profit had grown to \$4,533.2 million and \$1,868.5 million.⁵

12 The operating profit from Priority Mail was 2.5 times greater than
13 the operating profit of Express Mail and all Standard B mail, combined.
14 Viewed differently, the operating profit from Priority Mail exceeded the
15 combined operating profit of all domestic postal classes of mail, special
16 services, and international postal classes of mail combined, excepting
17 First-Class and Standard A commercial mail.

18 The proposals contained in this testimony are submitted on behalf
19 of customers of Priority Mail, and are intended to improve the product
20 and make it even more successful.

⁴ USPS-T-34, pp. 13-15.

⁵ USPS-T-14, Exhibit USPS-14D, p. 2.

Revised 7/7/00

1 **IV. COST CONSIDERATIONS**

2 **A. The PMPC Network**

3 In my testimony in Docket No. R97-1, I discussed the initiation of
4 the Priority Mail Processing Center ("PMPC") contract.¹ Among other
5 items, I noted that the stated goal of the new network was to provide at
6 least 96.5 percent on-time Two-Day service for all destinations within the
7 Phase I PMPC area. That same testimony discussed the effect of the
8 PMPC contract on Priority Mail costs, particularly on that docket's Test
9 Year, 1998.²

10 **The PMPC Network and Service Performance**

11 Even at that time, it was noted that the entire normal two-day
12 performance period was given over to the contractor, Emery Worldwide
13 Airlines Inc., to process and transport Priority Mail after receipt from the
14 Postal Service until return to the Postal Service. Thus, it would be
15 difficult to see how the Postal Service could "improve significantly" on the
16 timely delivery of Priority Mail in terms of full end-to-end performance.
17 Even if one were to discount the above-stated goal, and simply to focus

¹ Docket No. R97-1, NDMS-T-2, pp. 66-69.

² *Id.*, pp. 74-79

1 on merely "improving" the timeliness of Priority Mail within this service
2 area, disappointment would likely abound. APMU requested data from
3 the Postal Service to delineate performance within the PMPC area from
4 general Overnight, Two-Day and Three-Day commitment areas.⁸ The
5 Postal Service objected to provision of such data, in part on grounds of
6 relevance.⁹ Absent specific performance data that directly differentiate
7 performance within the PMPC area from the general performance
8 universe, it is difficult to comprehend whether this ambitious project
9 adds value in proportion to the costs (including the apparent cost
10 overruns) incurred for services provided under the contract.

11 In general terms, and in despite any improved performance that
12 could be attributed to the PMPC network, overall Priority Mail
13 performance has deteriorated in the interval since Docket No. R97-1. In
14 my prior testimony, the calculated mean values of Priority Mail overnight
15 and Two-Day Standard performance reflecting ODIS data for the three-
16 year period from 1995 through 1997 were **85.6** percent and **76.2**
17 percent, respectively.¹⁰ In this testimony, the corresponding performance
18 values for the period from 1997 through 1999 were **85.0** percent and

⁸ APMU/USPS-T34-33 thru 36.

⁹ USPS Objection to APMU interrogatories, APMU/USPS-T34-33-39, 41-42 (March 17, 2000).

¹⁰ Docket R97-1, NDMS T-2, Table 7, p. 65.

1 **73.0** percent, respectively (*see* Table 9), a **decline** of over 3 percentage
2 points in the critical Two-Day Service commitment area. Even in the
3 Three-Day service commitment area the performance **deteriorated**, also
4 by 3 percent, from **77.7** percent in my Docket No. R97-1 testimony to
5 **74.7** percent in this docket.

6 All indicators of delivery performance point to deterioration of
7 service.¹¹ At the same time, unit costs for Priority Mail are increasing out
8 of proportion to unit costs for most other mail products. Certainly costs
9 affect rates, and service performance affects consumer demand for the
10 service. These two values are integral to a healthy competitive offering in
11 the marketplace and are therefore relevant to any discussion involving
12 rate increase proposals and coverage factors such as those put forth in
13 this docket for Priority Mail. It is difficult to understand the Postal
14 Service's objection to releasing data on PMPC performance on grounds of
15 relevance. In the eyes of the consumer, performance is more relevant to
16 the perception of value than any other factor save the rate paid.

17 **The PMPC network and cost.** Witness Robinson's testimony
18 describes the adjustment of costs incurred for the PMPC network and
19 their effect on the Priority Mail rates proposed in this docket. She
20 recognizes the necessity to address this issue due to the fact that:

¹¹ Please see Section V, Part F, Value of Service, for a full discussion of Priority Mail performance.

1 the Emery PMPC network is a test program.... This is
2 necessary given the degree of uncertainty surrounding the
3 future Priority Mail network configuration, and the potential
4 effect of unknown network changes on the cost structure of
5 Priority Mail.¹²

6 My testimony in Docket No. R97-1 noted that, the Postal Service
7 expected costs for the PMPC network in Test Year 1998 to be
8 approximately \$265 million and, surprisingly, identified only
9 approximately \$127 million in cost reductions during the same period.¹³
10 During the discovery period in this docket, numerous questions were
11 posed to the Postal Service regarding the issue of cost for the Emery
12 contract. In particular, when asked for cost breakouts for amounts paid
13 under the PMPC contract during 1998 stratified by (i) fixed, (ii) variable
14 and (iii) per piece, the response was that due to the nature of the
15 contract, no such data were available, but the total cost for the Base Year
16 1998 was slightly over \$289 million. In addition, however, for Base Year
17 1998 the Postal Service paid Emery \$20.8 million pursuant to a
18 supplemental letter agreement.¹⁴ Although vaguely worded, the payment
19 was characterized as "mutually beneficial," and thus did not delineate
20 the reasons or rationale for the overruns. The "mutual benefit" appears

¹² USPS-T-34, p. 14, l. 15, p. 15 ll. 8-11.

¹³ Docket No. R97-1, NDMS-T-2, pp. 74-75.

¹⁴ Response to APMU/USPS-T34-5 (Tr. 7/2731-32).

1 to have grown geometrically, with an additional supplement in 1999 of
2 \$42.8 million.¹⁵

3 The real shocker, however, is the itemization provided by witness
4 Robinson that Pending claims, filed by Emery, amount to \$685,744,027
5 and affect every contract year from 1998 through the balance of the life of
6 the contract.¹⁶ Claims of this amount hardly reflect a cordial working
7 relationship between the Postal Service and Emery, and in all likelihood
8 do not augur well for controlling future costs for the PMPC network.
9 Note also that Emery has filed a lawsuit over its claims, asking the court,
10 *inter alia*, that Emery be allowed to elect to cancel the contract and stop
11 work.¹⁷

12 **The Inspector General's Report on the PMPC Network.** On
13 September 24, 1999, the Office of Inspector General issued a report on
14 the performance of the PMPC network.¹⁸ In general terms, this report
15 appears consistent with the previous discussions in this Section
16 regarding Priority Mail delivery performance.

¹⁵ Response to APMU/USPS-T34-51, part d (Tr. 7/2735).

¹⁶ Response to APMU/USPS-T34-51 (c) (Tr. 7/2734).

¹⁷ Emery Worldwide Airlines, Inc. v. United States, Civil Action No. 00-173, U.S. Court of Federal Claims, April 3, 2000.

¹⁸ Inspector General's Audit Report No. DA-AR-99-001. A redacted version has been filed as USPS-LR-I-315 in response to POR No. R2000-1/51.

1 If the PMPC Network has improved Priority Mail performance, it
2 has been slight, based on the above analysis, and costly. The Inspector
3 General report revealed that in some ways service may have been harmed
4 by the contract as "network subcontractors were abandoning Priority
5 Mail destined for Anchorage, Alaska to Seattle, Washington from
6 November 1997 through August 1998."¹⁹ In a compelled answer to an
7 interrogatory, Postal Service witness Robinson testified that "when
8 comparing the costs for the PMPC Network with doing the work in-house,
9 without a network, the Inspector General's report estimates [\$101
10 million] of additional of additional PMPC network costs is reasonable."²⁰
11 The IG report quotes Postal management as stating that the PMPC
12 Network "was one of the most complex projects undertaken by Postal
13 Management in years." (I.G. Report, at ii.) For whatever reason, it is a
14 project that did not succeed.

15 The failure to achieve significant performance improvement
16 contributes to the erosion of the customer perception of the value of the
17 Priority Mail service. The increase in costs associated with provision of
18 the end-to-end Priority Mail service contributes directly to the proposed
19 increase in this docket for Priority Mail. Paying more to receive only

¹⁹ I.G. Report, at 12.

²⁰ Response to APMU/USPS-T34-41, filed May 5, 2000, compelled by
Presiding Officer's Ruling R2000-1/51.

1 marginally improved performance, at best, will ultimately lead customers
2 to choose alternative service providers for their expedited document and
3 package delivery.

4 The PMPC contract experiment could be viewed as an effort to
5 “think outside the box,” and attempt in meaningful, creative ways to
6 improve Priority Mail service, or cost, or both. Despite the possible
7 merits of the original plan, it is and would be inconceivable that the
8 Postal Service would extend what it now knows to be a failed experiment.
9 In the light of what is now known about the contract, to do so would
10 deny mailers the benefit of reliable and efficient services, as required by
11 the Postal Reorganization Act 39 U.S.C. sec. 101(a). In order for Priority
12 Mail to remain viable, the Postal Service must find other ways to improve
13 service while controlling costs.

14 In this competitive market segment the value of service, which
15 includes performance, customer-demanded features, and customer
16 convenience, must be balanced delicately against the price charged for
17 the service. In the PMPC network experiment, the costs incurred for the
18 PMPC network have tipped the cost balance too far without meaningfully
19 improving the value of service.

1 **B. Overstatement of Rehabilitation Costs for Priority Mail**

2 The Postal Service's case-in-chief included an erroneous
3 distribution of over \$48 million in FY 2000 "other program" costs to
4 Priority Mail.²¹

5 In response to an interrogatory, witness Kashani disaggregated
6 changes in "other programs," and explained the basis behind the discrete
7 distributions made to individual classes and subclasses of mail. In his
8 discussion of the detailed distributions made in "other programs," witness
9 Kashani stated that he had erroneously distributed \$48.350 million in
10 FY 2000 costs — from Clerks (component 35) associated with the
11 Rehabilitation program (affecting Clerks in Cost Segment 3) — to Priority
12 Mail. Witness Kashani notes that corrective redistribution of these costs
13 to the appropriate classes and subclasses has a minimal impact.

14 Nevertheless, failure to attribute these costs properly could not be
15 said to have a minimal impact on Priority Mail. Priority Mail has TYAR
16 attributable costs of \$2,887.309 million.²² The correction to Priority Mail

²¹ Response to MPA/USPS-T14-2 and Attachment I (Tr. 2/653, 660-62, 686-87).

²² USPS-T-34, Attachment K. Note that Attachment I to MPA/USPS-T14-2 identifies a slightly higher total for pre-adjustment Priority Mail TYAR attributable costs — \$2,887.653 million. (Tr. 2/686-87)

- 1 TYAR costs would be a reduction of \$48.439 million.²³ This over-
- 2 attribution reflects 1.7 percent of all costs attributed to Priority Mail.

²³ According to witness Kay, correction of this erroneous distribution of "other program" costs would reduce Priority Mail TYAR incremental costs by \$48.509 million. Response to APMU/USPS-T23-1 (Tr. 17/6708-10).

1 **V. COVERAGE CONSIDERATIONS**

2 The most important criteria in Section 3622(b) with respect to
3 coverage for Priority Mail are:

- 4 • Fairness (criterion 1)
5 • Value of Service (criterion 2)
6 • Effect of Rate Increases (criterion 4)
7 • Available Alternatives (criterion 5)

8 Priority Mail competes in the market for expedited 2- and 3-day
9 delivery of documents and packages.²⁴ As will be elaborated further
10 below, the expedited market is characterized by intense and increasing
11 competition. Consequently, a plethora of alternatives are readily
12 available to the public (criterion number 5).

13 The competitiveness of the expedited market in turn bears directly
14 on the effect of rate increases (criterion number 4). The Commission has
15 traditionally interpreted criterion 4 as an admonition to ameliorate high
16 rate increases, especially to mailers who lack competitive alternatives
17 and would otherwise be subject to monopolistic exploitation. Thus, when
18 applying criterion 4, the focus has been on protecting those mailers who
19 would have to pay higher-than-average rate increases. In view of the
20 increasing level of competition in the expedited market, however, the
21 Commission in this instance needs to consider the effect that high rate
22 increases for Priority Mail will have not only on mailers of expedited

²⁴ USPS-T-34, p. 6, ll. 9-10.

1 packages, but also on the Postal Service and mailers in other subclasses
2 who rely on Priority Mail to contribute a substantial sum to the Postal
3 Service's institutional costs. Since 1995, Priority Mail has contributed
4 over \$1.5 billion per year to the Postal Service's institutional costs.²⁵ In
5 the Test Year, the Postal Service requests rates designed to extract an
6 astonishing \$2.4 billion from Priority Mail. The consequences of over-
7 reaching in a competitive market can be disastrous. Speaking
8 figuratively, the Commission should not allow the Postal Service to "kill
9 the goose that lays the golden eggs." The brief case study of Express
10 Mail set out in Appendix A is instructive.

11 It is fundamental to the notion of a market economy that
12 competition goes hand-in-hand with fairness and equity (criterion 1). In
13 the market for expedited delivery services, competition gives shippers
14 meaningful alternatives. If rates of one provider are perceived as too
15 high, or the quality of its product too low, consumers will take their
16 business elsewhere. In the case of Priority Mail, much of the business
17 for heavier weight packages (over 5 pounds) appears to have migrated
18 already to other providers. The Commission can feel reasonably assured
19 that, should it fail to recommend rates which the mailing public

²⁵ See Appendix A, Table A-2. The contribution to institutional cost has been roughly equal to the total revenue from Regular Rate Periodicals.

1 considers fair and equitable, a substantial portion of the remaining
2 business will also migrate elsewhere.

3 In the last docket, value of service (criterion 2) received the
4 Commission's considered attention. It is again of paramount importance
5 in this case. For that reason, it is discussed at length in Section F below.

6 **A. Competition Offers Ready Alternatives**

7 Competition for expedited document and package delivery services
8 exists at the local, regional, and national level. The providers that
9 compete most directly with the Postal Service have nationwide collection
10 and delivery networks. Three of the largest and better-known providers
11 are FedEx, United Parcel Service ("UPS"), and Airborne. (DHL also has a
12 nationwide collection service, and is a major player in the market for
13 international expedited package delivery.) These firms have established
14 themselves by focusing on the business-to-business market.

15 Businesses originate the vast majority, 88 percent, of Priority Mail.
16 Moreover, 55 percent of Priority Mail is business-to-business.²⁶ This
17 makes Priority Mail highly vulnerable to competitive inroads by firms
18 that have specialized in honing their products, services, and rates to suit

²⁶ Priority Mail rate design witness Robinson expressed her surprise that so much of Priority Mail was vulnerable to competition. (Tr. 11/4624, l. 8, 4625, ll. 15-16).

1 the needs of business firms. The profile of Priority Mail's market, by
2 originator and recipient, is shown in Table 2.

3 The following sections compare (i) the features of competing
4 products with those offered by Priority Mail, and (ii) the rates for directly
5 competing products with current and proposed Priority Mail rates.

6	Table 2			
7	Profile of Priority Mail Originators and Recipients			
8	GFY 1998			
9	----- Recipient -----			
10	Originator	Businesses	Residences	Total
11				
12	Businesses	640	393	1,033
13		(54.5%)	(33.5%)	(88.0%)
14	Residences	36	105	141
15		(3.1%)	(8.9%)	(12.0%)
16		-----	-----	-----
17	Total	676	498	1,174
18		(57.6%)	(42.4%)	(100.0%)

19 Source: Response to UPS/USPS-T8-1 (Tr. 9/3566-67).

20 **B. The Competition Has Many Customer-Desired Features Which**
21 **Priority Mail Lacks**

22 The delivery business, especially the expedited market, has become
23 increasingly sophisticated and demanding. It consists of far more than
24 having customers drop off packages at counters or depositing them into
25 collection boxes with the expectation that they will be delivered —

1 sooner, later, or whenever. Those days are gone, and any delivery
2 company still operating on that paradigm is unlikely to survive in the
3 current environment. Witness Robinson acknowledges as much:

4 The market in which priority mail competes has become
5 more competitive since 1996. Increasingly, customers are
6 demanding reliable service and some customers want the
7 ability to use computer-based applications to manage and
8 track their mailings.²⁷

9 **No track-and-trace.** Priority Mail now offers a delivery
10 confirmation service, which enables the mailer to ascertain whether and
11 when the carrier delivered the piece.²⁸ If a signature is desired, an
12 additional fee must be paid.²⁹ Delivery confirmation falls well short of a
13 true track-and-trace system, however. After the mail piece is entered
14 into the system, it is not "wanded" at any intermediate point in the
15 network; only at final delivery. Until the piece is actually delivered, the
16 Postal Service is unable to provide any information as to the whereabouts
17 of the piece. Insofar as some information is better than no information,
18 delivery confirmation is admittedly an improvement over the past. Still,
19 it is far below the level of service offered by the competition.

²⁷ Response to APMU/USPS-T34-44(d) (Tr. 7/2723).

²⁸ Delivery confirmation requires a fee from single-piece mailers, who must enter the piece at a postal counter, and is free to those mailers who enter the requisite information on an electronic manifest.

²⁹ The additional fee proposed for this service is \$1.25 per piece if the article is mailed from an electronic manifest and \$1.75 for articles mailed at a Postal Service counter.

1 **Other competitive features lacking.** Priority Mail lacks a
 2 number of other features that are currently offered by the competition to
 3 satisfy customer requirements.³⁰ These include features such as:

- 4 • inclusion of minimum insurance in the basic fee;
- 5 • consolidated billing and payment options;
- 6 • reliable, scheduled pick-up services;
- 7 • volume discounts and negotiated prices;
- 8 • a variety of delivery/pricing schedules broader than those
 9 offered by the Postal Service; and
- 10 • guaranteed delivery days/times.

12 A summary comparison of features provided by Priority Mail and
 13 competitors is shown in Table 3. Put directly, Priority Mail struggles in
 14 comparison to offerings of competitors in this market segment, both in
 15 services available and in price flexibility. Only in absolute price does
 16 Priority Mail appear to be competitive, a compelling factor that should
 17 signal the Postal Service to act with great restraint rather than proposing
 18 a coverage level of 180.9 percent for this product.

19 Unless and until Priority Mail becomes more competitive with
 20 respect to the features described here, it should not be saddled with a
 21 high coverage that fails to recognize the realities of the competitive
 22 marketplace. The \$4.5 billion of revenues which Priority Mail generated

³⁰ USPS-T-34, p. 6, ll. 13-14.

1 in FY 1999 represents an obvious, attractive target for competitors.
 2 Since Priority Mail competes chiefly on price, and has a high own-price
 3 elasticity, it is essential that the rate structure be competitive.

4

5

Table 3

6

Comparison of Two- and Three-Day Expedited Services

7									
8			Delivery	Insur-	Guar-	Signa-	Track	Sat	Sun
9		<u>Service</u>	<u>Time</u>	<u>ance</u>	<u>antee</u>	<u>ture</u>	<u>& Trace</u>	<u>Del.</u>	<u>Del.</u>
10	USPS	Priority	5PM *	NO	NO	NO **	NO	YES	NO
11	FedEx	2-Day	4:30PM-7PM***	YES	YES	YES	YES	NO	NO
12	FedEx	Express	4:30PM-7PM***	YES	YES	YES	YES	NO	NO
13	UPS	AM	12PM	YES	YES	YES	YES	NO	NO
14	UPS	2nd Day Air	5PM	YES	YES	YES	YES	NO	NO
15	UPS	3 Day Select	5PM	YES	YES	YES	YES	NO	NO
16	Airborne	2nd Day	5PM	YES	YES	YES	YES	NO	NO

17 * Variable according to zone.

18 ** In her testimony, on page 142, witness Mayo proposes signature service fees of
 19 \$1.25 for mailers who use an electronic manifest, and \$1.75 for "manual" mailers,
 20 those who mail at a USPS counter. Thus this service is not included in the basic
 21 Priority Mail service.

22 *** Residential.

23

24 **Limited advantages.** Priority Mail service does enjoy some limited
 25 advantages. The foremost advantage of Priority Mail is probably the rate
 26 for the basic service, relative to the **published** commercial rates of its
 27 competitors, discussed at greater length in the next section.

28 Saturday delivery service is provided at no extra cost. However, for
 29 the many business firms that are closed on Saturday, this feature is
 30 much less meaningful.

1 It is estimated that perhaps as little as one-fourth of Priority Mail's
2 volume, and less of its revenue, enjoys any monopoly protection from the
3 Private Express Statutes.³¹ This means that 75 percent of the volume is
4 totally exposed to competitive inroads. Moreover, even if that portion
5 which is nominally subject to the Private Express Statutes were to
6 migrate to competing carriers, it is not clear that the Postal Service would
7 know of the migration or be able to mount an effective enforcement
8 action if it somehow learned about it. At best, therefore, the Private
9 Express Statutes provide limited advantage to the Postal Service.

10 **C. The Increasingly Competitive Environment**

11 **Competition in collection and delivery networks.** Light-weight
12 Priority Mail pieces, those under 1 pound, enjoy ease of entry through
13 the Postal Service's vast network of collection boxes.³² Whatever small
14 advantage this may have afforded Priority Mail in the past is gradually
15 being eroded by the growth of competitors' competing collection
16 networks. In major office buildings throughout the country, and even in
17 some street locations in business districts, it is not uncommon to see
18 FedEx and UPS drop-off boxes aligned side-by-side with the familiar mail

³¹ Response to APMU/USPS-T32-4 (Tr. 11/4220).

³² Stamped Priority Mail pieces in excess of 1 pound must be entered at a post office window. This inconvenience may be a distinct competitive disadvantage vis-a-vis the increasing convenience offered by competitors.

1 box. In addition, in many places, particularly the large metropolitan
2 markets, FedEx and UPS trucks (which number in the tens of
3 thousands) have been retro-fitted with a convenient slot in the side of the
4 vehicle, into which small flat packages may be deposited directly. This is
5 an important area where competition is gradually but steadily making
6 inroads. The increase in Priority Mail's own-price elasticity from Docket
7 No. R97-1 (-0.771) to this docket (-0.819) reflects an increase in
8 competition.

9 The Postal Service's far-reaching delivery network has historically
10 given it a strong competitive position with respect to residential delivery.
11 Competitors have tended to focus largely on the business-to-business
12 market. However, in March 2000, FedEx launched a new service, FedEx
13 Home Delivery.³³ The new service was said to be available to 50 percent
14 of the U.S. population upon launching, and the shipper anticipates
15 reaching 98 percent within four years. This is yet another area where
16 competition is increasing.

17 Cut-off times for collection and drop-off. The widespread
18 availability of later drop-off for second-day delivery by Postal competitors
19 is yet another way in which Priority Mail suffers in comparison with the
20 competition. The last pick-up for Priority Mail deposited in Postal Service

³³ *DM News*, March 13, 2000, p. 1.

1 collection boxes located in commercial districts of major metropolitan
2 areas is typically between 5 and 6 p.m., after which Postal Service
3 collection vehicles head in for the night. It is around that same time that
4 trucks from competitors such as FedEx, UPS, and Airborne **begin** an
5 intensive round of pickup and collection. Cut-off times at the
6 competitors' collection boxes in commercial areas of major cities typically
7 range between 7:00 and 8:00 p.m., versus the Postal Service's last
8 scheduled pickups of no later than 6:00 p.m. Moreover, customers in
9 major metropolitan areas can drop packages off at competitors'
10 convenience locations up to 9:00 p.m. and in a few places even later, for
11 next-day and second day delivery. By comparison, few post offices are
12 open after 5:00 or 6:00 p.m.

13 **The Internet changes the paradigm.** From almost every
14 perspective except published prices and Saturday delivery, Priority Mail
15 suffers in comparison to its competition. The offerings of UPS, FedEx
16 and Airborne are making even greater inroads into the highly competitive
17 and expanding marketplace for expedited package delivery services.
18 Each of these major competitors, as well as others such as DHL, has
19 established Internet sites, on which customers can browse their
20 numerous service offerings, permitting selection of customized features
21 for the mailing, as well as rate information.

1 In a more recent development, consolidated shipping information,
2 offering the ability to compare the feature offerings and associated
3 shipping rates of all of the major competitors in this market segment, is
4 now available at web sites such as SmartShip.com, and iShip.com.³⁴ A
5 quick visit to the SmartShip site rapidly exposes Priority Mail's
6 weaknesses against its principal competition. The very first page
7 highlights that Priority Mail offers no guarantee to deliver by a specific
8 day or time.³⁵ Subsequent pages on the web site highlight Priority Mail's
9 other weaknesses, already discussed.

10 A visit to the iShip.com web site reveals a similar direct message to
11 their customers regarding Priority Mail and Parcel Post features.³⁶

12 Most services automatically protect your shipment up to
13 \$100. However, USPS Priority Mail and Parcel Post do not
14 have automatic protection. Some USPS services have no
15 available Loss Protection.

16 As sites such as this one proliferate and offer their customers
17 streamlined opportunities to make quick, comprehensive comparisons of
18 the services offered by shippers, the Postal Service may have increasing
19 difficulty in retaining market share.

34 iShip.com is a wholly owned subsidiary of Stamps.com.

35 See Appendix C, Figure C-1.

36 See Appendix C, Figure C-2.

1 **Conclusion.** Competition in the market for expedited delivery
 2 involves a number of critical dimensions that include, but are not limited
 3 to, price. Priority Mail's lack of added value features, which force it to
 4 rely almost solely on price as its chief attraction, place it at risk in this
 5 competitive market segment. Unless and until the Postal Service is able
 6 to incorporate more value-added features for Priority Mail, it is crucial
 7 that Priority Mail not be burdened with too high a coverage factor which
 8 could negate its only advantage, price. The Postal Service's rate proposal
 9 for Priority Mail poses a serious risk of repeating the experience of
 10 Express Mail, which has now been relegated to a niche role within the
 11 expedited market, and could not under any foreseeable circumstances
 12 generate a major contribution to institutional costs.

13 **D. Priority Mail Rates Are Marginally Competitive**
 14 **with Competitors' Published Rates**

15 **Rates for lighter weight pieces (under 5 pounds).** A cursory
 16 comparison with the **published** rates of leading competitors indicates
 17 that Priority Mail rates are competitive, at least in the lower weight range
 18 (under 5 pounds). For a 2 pound article with a 2-day or 3-day delivery
 19 commitment, Table 4 shows the Drop Off rates.³⁷ The first row displays

³⁷ Drop Off Service equates to Priority Mail articles mailed at a Postal Service service counter or designated drop off site, or placed in a collection box if under 1 pound in weight. Competitors, with the exception of Airborne, offer
 (continued...)

1 current rates for Priority Mail and current **published** rates for
2 comparable service levels available from FedEx, UPS and Airborne.
3 Ignoring all differences in service quality, Priority Mail is clearly more
4 economical than the competition's **published** rates for a 2 pound article
5 (see Table 3). At the 2 pound level, competitors' **published** rates in the
6 2-day and 3-day service categories average approximately **328 percent** of
7 Priority Mail rates. This ratio would decrease to approximately **272**
8 **percent** with the \$3.85 rate proposed in this docket.

³⁷ (...continued)

Drop Off service at their distribution facilities or at designated customer convenience sites. Some competitors provide for deposit of letter and flat size articles through drop slots located in the side of their delivery and pick up vehicles.

Table 4

**Rate Comparison for 2 Pound Pieces
Current Priority Mail Rate vs. Selected Services**

				<u>2-Pound Drop Off Rate</u>	
	<u>Provider</u>	<u>Service</u>	<u>Delivery Time</u>	<u>2 Day Rate</u>	<u>3 Day Rate</u>
10	USPS	Priority	5PM *	3.20	3.20
11	FedEx	2-Day	4:30PM-7PM**	11.33	
12	FedEx	Express Saver	4:30PM-7PM**		10.08
13	UPS	2nd Day Air AM	12PM	11.80	
14	UPS	2nd Day Air	5PM	10.50	
15	UPS	3 Day Select	5PM		9.20
16	Airborne	2nd Day ***	5PM	7.98	

* Variable according to zone

** Residential.

*** Airborne does not offer a drop off rate. This rate is for articles picked up at the customer's residence or place of business. UPS and FedEx offer Pick Up rates for an additional \$3.00 per pick up. USPS will pick up Priority Mail articles for an additional charge of \$8.25 per pick up (proposed to increase to \$10.25). A comparison of rates including pick up fees materially dilutes the Priority Mail rate advantage for customers using that service.

For low-volume mailers who do not benefit from any discounts or negotiated rates offered by competitors, Priority Mail offers an inexpensive baseline service in the two to three day delivery market segment, particularly in the lower weight ranges (5 pounds and under).

1 For example, Priority Mail service is currently available for \$3.20,³⁸ for up
 2 to two pounds in a Postal Service-provided flat rate envelope, regardless
 3 of its destination in the United States.

4 **Rates for heavier weight pieces (more than 5 pounds).** A
 5 comparison between competitors' **published** rates in the 10 to 70 pound
 6 range with (i) current and (ii) proposed Priority Mail rates illustrates the
 7 limited nature of any pricing advantage enjoyed by Priority Mail. For
 8 articles that weigh from 10 to 70 pounds, Table 4 shows the **published**
 9 rates for (1) FedEx 2-day service, (2) UPS 2-day, (3) UPS select 3-day
 10 service, (4) current and (5) proposed Priority Mail rates. Rates for articles
 11 to Zones 5 and 8 only are shown in Table 5.

12 Using Zone 5 as an example, for a 10 pound package competitors'
 13 **published** rates range **from 127 to 184 percent** of current Priority Mail
 14 rates (column 4). With the increases proposed in this docket,
 15 competitors' **published** rates in these same rate cells will be even closer
 16 to those of Priority Mail, ranging **from 116 to 167 percent** of proposed
 17 Priority Mail rates (column 5). These percentage comparisons are far less
 18 favorable than those for the 2-pound rate.

19 As weight increases, Priority Mail's advantage diminishes even
 20 more. Staying with the Zone 5 example discussed above, competitors'

³⁸ This rate is requested to be increased to \$3.85.

1 **published** rates for a 70 pound package range **from 103 to 121 percent**
2 of current Priority Mail rates (column 4). With the increases proposed in
3 this docket, competitors' **published** rates in these same rate cells will
4 move even closer to those of Priority Mail, ranging **from 94 to 110**
5 **percent** of proposed Priority Mail rates (column 5). It is easy to see that
6 excessive costs, high coverage, and high rates have eroded the
7 competitiveness of Priority Mail rates for heavier weight packages when
8 compared with even the **published** rates of competitors.

Table 5

**Rate Comparison for Heavier Articles
10 to 70 Pounds Drop Off Service**

	(1)	(2)	(3)	(4)	(5)
Weight (lbs.)	FedEx 2 Day	UPS 2 Day	UPS Select 3 Day	Current USPS Priority	Proposed USPS Priority
ZONE 5					
10	17.61	15.60	12.10	9.50	10.45
20	25.75	24.30	19.60	17.00	18.70
30	32.44	32.70	26.90	24.40	26.85
40	40.17	41.20	34.10	31.80	35.00
50	48.14	49.00	41.30	39.20	43.10
60	56.38	57.20	48.50	46.60	51.25
70	65.15	65.60	55.70	53.95	59.35
ZONE 8					
10	26.01	24.30	20.00	15.25	16.85
20	41.20	40.10	33.40	28.20	31.00
30	55.62	55.80	46.40	40.35	44.40
40	70.04	71.60	58.60	52.45	57.70
50	84.19	85.40	71.80	64.55	71.00
60	98.36	101.10	85.60	76.55	84.30
70	113.56	116.00	98.90	88.80	97.70

**E. Priority Mail Rates Already May Not Be Competitive
with Competitors' Negotiated Rates**

The preceding section compared Priority Mail rates with **published** rates of competitors. It is well-known, though, that competitors offer negotiated, discounted rates to any firm with significant volume. Unfortunately, it is somewhat difficult to develop record evidence on

1 discounted rates, because all vendors and most firms consider their
 2 negotiated contract rates to be confidential information.

3 At least one significant record of discounted rates, FedEx's federal
 4 government contract rates, is publicly available. It shows dramatically
 5 how precarious Priority Mail's competitiveness would become at the
 6 Postal Service's proposed rates. For selected rate cells, Table 6 compares
 7 the current and proposed Priority Mail rates (columns 1 and 2,
 8 respectively) with the overnight and 2-day contract rates (columns 3 and
 9 4, respectively) between FedEx and the Federal Government (all FedEx
 10 Government Rates are unzoned).³⁹ Under the current rate schedule
 11 shown in column 1, Priority Mail might be deemed competitive with the
 12 FedEx 2-day rate (column 4) for anything that weighs up to 2 pounds
 13 (\$3.20 versus \$3.62). **If the Postal Service's proposed rates are**
 14 **implemented, anything over 1 pound would not be competitive.**

15 For packages that weigh more than 5 pounds, Table 5 shows
 16 Priority Mail rates to Zone 5 only. A comparison of the current Priority
 17 mail rates in column 1 with the unzoned FedEx rates in column 4 reveals
 18 that the FedEx 2-day rate is already lower. This sort of competitive
 19 pricing helps explain why Priority Mail has such a low share of the
 20 market for heavier weight pieces (discussed below). At the Postal

³⁹ The complete published rates for government agencies, including the Department of Defense, are shown in Appendix B.

1 Service's proposed rates shown in column 2, Priority Mail would not be
2 considered competitive at any weight, particularly given its inconsistent
3 performance record and lack of other desirable features.

4 The really bad news, however, arises from a comparison between
5 the proposed Priority Mail rates (column 2) with FedEx Priority Overnight
6 rates (column 3). At the Postal Service's proposed rates, anything over 1
7 pound would be less expensive via FedEx Priority Overnight. The
8 Commission has always considered it anomalous to charge a lower rate
9 for a better service. By this standard, it would be anomalous for any
10 government agency ever to use Priority Mail; *i.e.*, knowingly to pay more
11 for a poorer service.

Table 6

**Comparison of Priority Mail Rates vs.
FedEx U.S. Government Rates**

	(1)	(2)	(3)	(4)
Weight (lbs.)	Priority Mail <u>Current</u>	Priority Mail <u>Proposed</u>	FedEx Priority <u>Overnight</u>	FedEx 2-day*
	Unzoned	Unzoned	Unzoned	Unzoned
1	\$3.20	3.45	3.67	3.57
2	3.20	3.85	3.74	3.62
3	4.30	5.10	3.80	3.67
4	5.40	6.35	3.85	3.72
5	6.50	7.60	4.37	4.11
	To Zone 5	To Zone 5	Unzoned	Unzoned
10	9.50	10.45	8.31	8.05
20	17.00	18.70	15.40	15.13
30	24.40	26.85	23.27	23.01
40	31.80	35.00	31.14	30.88
50	39.20	43.10	39.01	38.75
60	46.60	51.25	46.88	39.53
70	53.95	59.35	54.75	39.53

• Applicable to all government agencies except Department of Defense , which has slightly lower rates.

** Rates for items over 5 Lbs are zoned; zone rates in this example represent zone 5; articles posted to more distant zones fare progressively worse in comparison.

Source: Appendix B.

1 **F. Value of Service**

2 Value of service is perhaps the most important criterion with
3 respect to determining the appropriate coverage for Priority Mail.
4 Consequently, in prior dockets, the Commission has appropriately
5 included in its analysis a number of different factors that might shed
6 light on the value of service provided by Priority Mail. Usage by the
7 public, as measured by growth rate and market share, as well as delivery
8 performance, are among the most important indicators of value of
9 service. Each is discussed below.

10 **Growth of Priority Mail volume.** Annual Priority Mail volume
11 from 1989 to 1999 is shown in Table 7. The growth in volume in large
12 part has been due to growth of the economy and the market for expedited
13 delivery. This growth is best put into perspective by examining market
14 share, as discussed below.

15 The slower growth rate in 1999 was partly due to the higher rates
16 and partly due to the reclassification change which permitted pieces
17 weighing between 11 and 13 ounces to be entered as First-Class Mail. At
18 current rates, mailers who use First-Class Mail can save 45 and 23
19 cents, respectively, on 12 and 13 ounce pieces. Inasmuch as a
20 substantial volume of 11 to 13 ounce pieces did in fact migrate to First-
21 Class, many mailers obviously did not consider Priority Mail to be worth
22 the additional cost. This shift to First-Class Mail would indicate that

1 Priority Mail has a somewhat low value of service, even at the \$3.20 rate
 2 for 2 pounds.

3

4

Table 7

5

**Priority Mail Volume History
 (millions of pieces)**

6

7

8

9

	<u>Fiscal Year</u>	<u>Pieces</u>	<u>Annual Percentage Change</u>
10	1989	471	8%
11	1990	518	10%
12	1991	530	2%
13	1992	584	10%
14	1993	664	14%
15	1994	770	16%
16	1995	869	13%
17	1996	937	8%
18	1997	1,068	14%
19	1998	1,174	10%
20	1999	1,192	2%

21 Source: 1989-1998, USPS-T-34, p. 5.
 22 1999, RPW Report.

23

24 Witness Robinson testified that:⁴⁰

25 [t]he relatively small growth rate in 1991 was due at least in
 26 part to the implementation of the Docket No. R90-1 rates
 27 which increase[d] Priority Mail rates by 19%.

28 If the Postal Service's proposed rates are adopted, it is predictable
 29 that the stifled growth rate experienced in 1991 will likely recur in 2001.

30 It is also predictable, in view of the previously discussed practice of

⁴⁰ USPS-T-34, p. 6, fn. 1.

1 Priority Mail's competitors to negotiate discounted pricing, that as the
2 baseline price differential between Priority Mail and its competitors gets
3 smaller, loss of volume and revenue could result. Furthermore, **recovery**
4 **of lost volume and market share will be much more difficult, if not**
5 **impossible, to achieve.**

6 In simpler words, at minimum the drop in volume growth from 10
7 percent in 1990 to 2 percent in 1991 will likely be recur with any rate
8 increase of the magnitude proposed by the Postal Service. The
9 subsequent rebound to a 10 percent growth rate that occurred in 1992,
10 however, may not recur in 2002, due to a vastly more competitive
11 marketplace for expedited package and document delivery.

12 **Priority Mail suffers from declining market share.** The Postal
13 Service's estimated market share, in terms of pieces and revenue, is
14 shown here in Table 8. In terms of volume, the Postal Service's market
15 share has continued to decline gradually, as can be observed from
16 column 1.⁴¹ Over the past decade, Priority Mail has suffered a gradual
17 but persistent decline in market share even while the market for
18 expedited delivery of packages and documents has experienced strong
19 growth. This decline in market share does not indicate high value of
20 service.

⁴¹ According to testimony of witness Robinson, Priority Mail achieved an estimated market share of 61.8 percent in 1998, and that market share has remained "relatively constant." USPS-T-34, p. 6.

Table 8

**Priority Mail Share of
Two to Three Day Market**

		(1)	(2)
	Calendar	Market Share	Market Share
	Year	(pieces)	(revenue)
	1990	76.0%	
	1993	72.0%	
	1997	62.7%	45.2%
	1998	62.4%	44.7%
	1999 (through Q3)	61.3%	45.0%

Sources: 1990-1993, Docket No. R94-1, *Op. & Rec. Dec.*, p. V-36.
1997-1999, Response to APMU/USPS-T34-48 (Tr. 7/2728).

In terms of revenue (column 2), the market share over the last three years has remained essentially unchanged. This latter consideration, however, is no cause for complacency. The fact that competitors have not gained market share in terms of revenue, while gaining market share in terms of volume, could simply indicate intense price competition within the private sector, and a prelude to impending disaster for Priority Mail.

In terms of revenue, Priority Mail's market share is some 16 to 17 percentage points below its market share in terms of volume. This confirms that competitors have garnered more of the market for heavier

1 weight pieces, which have higher rates. Such a result should not be
2 surprising in light of the rate comparisons discussed previously.

3 The negotiated rates offered by competitors (who also provide more
4 desirable quality features than Priority Mail) may already be dangerously
5 close to undercutting **existing** Priority Mail rates. Should those
6 negotiated rates drop below the higher rates proposed for Priority Mail,
7 the resulting loss in market share could be far more dramatic than the
8 econometric forecast by witness Musgrave, which relies solely on
9 historical data, including past rate relationships. If the higher rates
10 proposed in this docket rise above those of competitors, that would
11 represent a major change in rate relationships, calling into question the
12 validity of previous forecasting models.

13 **Delivery performance compares unfavorably.** Along with
14 increased price competition within the expedited market, Priority Mail
15 also faces the challenge of increased performance competition. The
16 services offered by UPS, FedEx, and Airborne that compete most directly
17 with Priority Mail include a guarantee that the item will be delivered on
18 the targeted delivery day or the price charged to deliver the item will be
19 refunded. Although Priority Mail provides no such refund guarantee, it
20 seems reasonable to assume that the public's general expectation is that
21 Priority Mail will meet its published overnight, two-day and three-day
22 commitments.

1 Lack of a track-and-trace capability means that Priority Mail
2 customers have (i) no way to determine if the article(s) they mailed are on
3 schedule for delivery within the expected service standard time, and (ii)
4 no way to locate any article in transit. These competitive deficiencies
5 cause Priority Mail users to question whether the reason the Postal
6 Service does not provide track and trace is to hide poor performance.

7 With the notable absence of actual performance data in rate cases
8 prior to Docket No. R97-1, the Commission was forced to rely on the
9 concept of "intrinsic value of service." This intrinsic value tended to be
10 based on various product features and internal service guidelines for
11 assigning relative priorities to the various classes and subclasses. In this
12 docket, witness Robinson provides the usual recitation of asserted
13 differences between Priority and First-Class Mail, stating:

14 [w]hile Priority Mail does serve as heavyweight First-Class
15 Mail, it differs from First-Class Mail service in several ways.
16 Priority Mail is sorted and processed separately from First-
17 Class Mail in Postal facilities and within the Priority Mail
18 Processing Center network which exclusively handles Priority
19 Mail. In addition, Priority Mail receives expedited handling
20 and transportation. Priority Mail service standards, on
21 average, are quicker than First-Class Mail service standards.
22 Lastly, Priority Mail customers are able to use value-added
23 services such as delivery confirmation and Postal Service
24 provided packaging that are not available to First-Class Mail
25 customers.⁴²

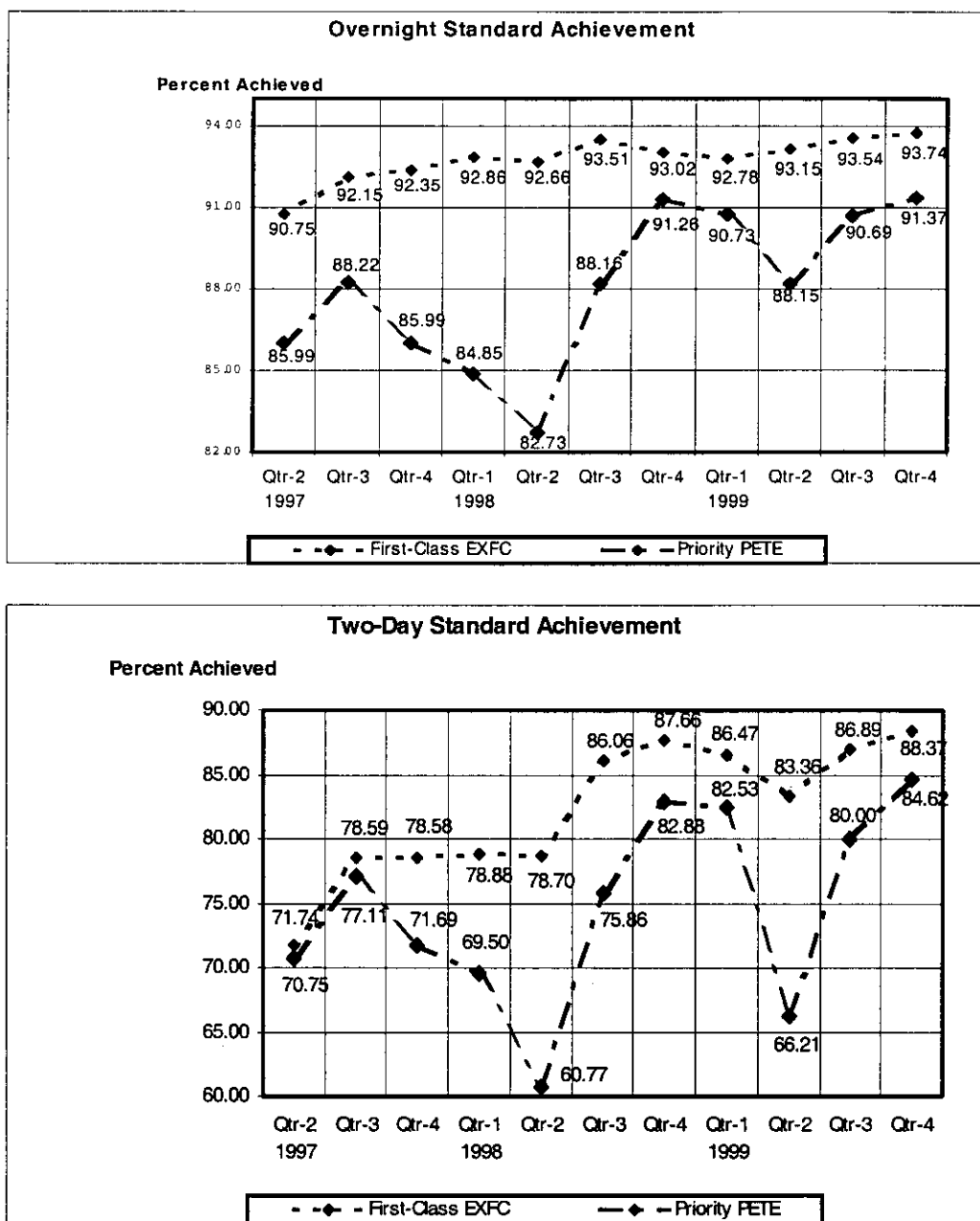
⁴² Response to APMU/USPS-T34-25 (Tr.7/2711).

1 In response to a request for additional detail to support the above
2 cited information, witness Robinson referenced numerous ways in which
3 Priority Mail supposedly is given preference over First-Class Mail in
4 Postal operations.⁴³ Still, it remains vital to assess carefully actual
5 performance data. The “bottom line” is what counts; and the bottom line
6 here is: the mail is either delivered on time, or it is not.

7 **EXFC and PETE performance data.** Although witness Robinson’s
8 intent may have been to demonstrate that intrinsic factors somehow give
9 Priority Mail a value of service equal to or exceeding that of First-Class
10 Mail, the record of delivery performance plainly does not support this
11 premise. In fact, the data in Figure 1 show that First-Class Mail has
12 outperformed Priority Mail in every quarter since independent
13 measurement of Priority Mail performance began in 1997. Figure 1
14 compares performance for overnight and two day delivery standards as
15 measured by the External First-Class (EXFC) measurement system, for
16 First-Class, and by Priority-End-To-End (PETE) for Priority Mail.

⁴³ Response to APMU/USPS-T34-45 (Tr. 7/2724-25).

Figure 1



Sources: EXFC quarterly data, witness Tayman (USPS-T-9, Table 7, p. 9).
 PETE quarterly data, Response to APMU/USPS-T34-8 (Tr. 21/8694) and
 Response to UPS/USPS-T34-26 (Tr. 21/9376).

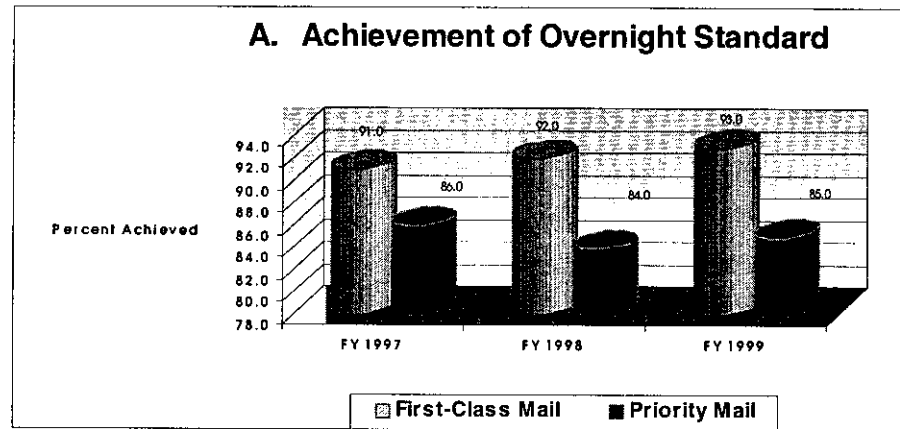
1 During Base Year 1998, Priority Mail **overnight** performance
2 remained static or declined while First-Class overnight performance
3 improved. Relative to First-Class, Priority Mail overnight performance
4 thus declined. For Priority Mail with a **2-day commitment**, the picture
5 was considerably worse. In 1998 and 1999, the failure rate for Priority
6 Mail with a 2-day commitment averaged more than 25 percent. Equally
7 bad, perhaps, performance of Priority Mail with a 2-day commitment was
8 more than 10 percentage points worse than First-Class Mail (72 versus
9 83 percent). This kind of performance does not warrant an increase in
10 coverage — at least not based on value of service.

11 Customers' concern relates directly to the bottom line; *i.e.*, whether
12 their mail receives service that is timely and consistent. Whether the
13 mail flows through the PMPC network or through ordinary postal
14 facilities is of absolutely no concern. A similar observation holds with
15 respect to whether the mail is transported by surface or air, or via
16 commercial airlines or the Eagle Network. Such factors are meaningless
17 unless they show up in on time delivery performance and/or decreased
18 costs.

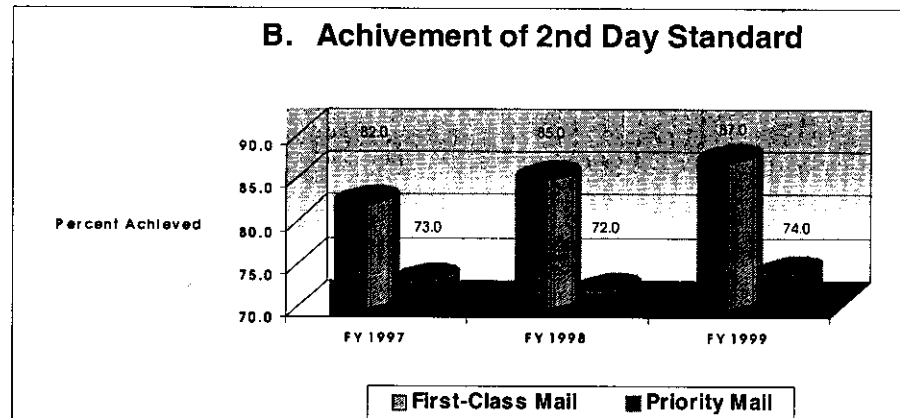
Revised 7/7/00

Figure 2

**Performance of First-Class and Priority Mail
Based on ODIS Data
FY 1997 - FY 1999**



Source: Table 9 ODIS First-Class and Priority Mail Overnight Standard Achievement data.



Source: Table 9 ODIS First-Class and Priority Mail Two-Day Standard Achievement data.

Revised 7/7/00

1

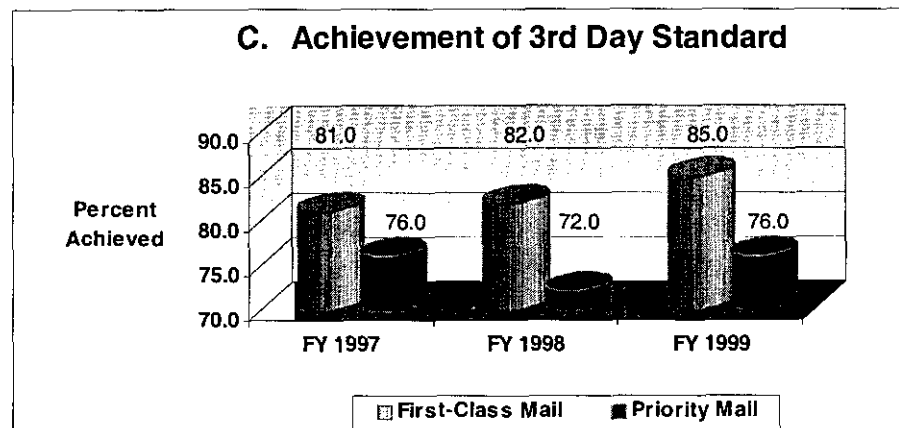
Figure 2 (Cont.)

2

**Performance of First-Class and Priority Mail
Based on ODIS Data
FY 1997 - FY 1999**

3

4



5

Source: Table 9 ODIS First-Class and Priority Mail Three-Day Standard Achievement data.

6

7

As these independently measured performance data show, no

8

evidence indicates that efforts undertaken by the Postal Service to

9

expedite the handling and transportation of Priority Mail over that of

10

First-Class Mail have borne fruit. The fact that the two-day service area

11

for Priority Mail is greater than that of First-Class Mail does not justify

12

failure to achieve service commitments. Customers can be expected to

13

assume that the Postal Service, in setting the more aggressive two-day

14

delivery area, has adjusted its internal processes and transportation

15

logistics to meet the asserted standard.

Revised 7/7/00

1 Value of service is not enhanced when customer expectations are
2 raised, only to be frustrated by poor actual performance that falls well
3 short of the mark, leaving disappointment and frustration in its wake. If
4 anything, such an exercise degrades value of service.

5 **ODIS performance data.** Another Postal Service measurement
6 system, the Origin Destination Information System ("ODIS"), produces
7 information on service performance of First-Class Mail and Priority Mail.
8 ODIS is not an end-to-end system. Instead, performance is measured
9 from the origination office (time of postmark) to the destination office.
10 Figure 2 depicts the ODIS performance of First-Class Mail versus that of
11 Priority Mail. During the period FY 1997 – 1999, it shows that Priority
12 Mail performance in overnight, two-day and three-day standard areas
13 **trailed** First-Class Mail's performance in all areas by 5 percent at best¹,
14 and by 13 percent at worst.² Put another way, **Priority Mail failures**
15 were 7 percent higher than those of First-Class Mail in the overnight
16 standard area, 11.7 percent higher in the two-day standard area, and 8
17 percent higher in the three-day standard area. See Figure 2 and Table 2
18 on the following pages. In not one single quarter, for any service
19 standard, did Priority Mail have better performance or a higher value of

¹ See Figure 2, Charts A and C.

² See Figure 2, Chart B.

1 service. The ODIS performance data thus support conclusions drawn
 2 from the EXFC and PETE performance data.

3

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Table 9

5

Performance of First-Class and Priority Mail

6

Based on ODIS Data

7

FY 1997 - FY 1999

	<u>Year</u>	<u>Overnight Standard</u>		<u>Two-Day Standard</u>		<u>Three-Day Standard</u>	
		<u>First-Class</u> <u>Mail</u>	<u>Priority</u> <u>Mail</u>	<u>First-Class</u> <u>Mail</u>	<u>Priority</u> <u>Mail</u>	<u>First Class</u> <u>Mail</u>	<u>Priority</u> <u>Mail</u>
11	1997	91.0	86.0	82.0	73.0	81.0	76.0
12	1998	92.0	84.0	85.0	72.0	82.0	72.0
13	1999	<u>93.0</u>	<u>85.0</u>	<u>87.0</u>	<u>74.0</u>	<u>85.0</u>	<u>76.0</u>
14	Sum	276	255	254	219	248	224
15	Mean	92.0	85.0	84.7	73.0	82.7	74.7
16	Failure Rate	8.0	15.0	15.3	27.0	17.3	25.3

17

Source: Response to APMU/USPS-T-34-52 (Tr. 7/2736).

18

19 **Delivery confirmation performance data.** The Postal Service has
 20 also provided performance data from the Delivery Confirmation
 21 database.⁴⁶ These data were available only for Quarter 4 of FY 1999
 22 since the Delivery Confirmation service was not implemented until
 23 March, 1999. Data for that single quarter are shown in Table 10.

⁴⁶

Response to UPS/USPS-T34-33 (Tr. 21/9367-68).

1

2

Table 10

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4

5

Priority Mail Performance
Delivery Confirmation Compared with PETE and EXFC
Quarter 4, FY 1999

	Overnight Standard	Two-Day Standard	Three-Day Standard
PRIORITY MAIL			
Delivery Confirmation Service	89.9%	83.4%	83.1%
PETE	91.4%	84.6%	
FIRST-CLASS MAIL			
EXFC	93.7%	88.4%	

13

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Due to recent implementation of the service, the data are relatively sparse. Further, the population of mail pieces drawn from DCS is not representative. With those caveats, it is interesting to note that performance of pieces for which Delivery Confirmation Service was used appears to be (i) slightly poorer than performance from the general population of Priority Mail as measured by PETE, and (ii) even more poor than First-Class Mail according to EXFC.

21

22

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24

25

Unidentified Priority Mail. In FY 1998, 29.8 percent of Priority Mail volume was unidentified, according to witness Robinson.⁴⁷ Unidentified Priority Mail occurs when a customer pays the rate for Priority Mail, but fails to identify the article clearly as Priority Mail in some noticeable way other than by the amount of postage paid. Such

⁴⁷

Response to APMU/USPS-T34-31 (Tr. 7/2716).

1 pieces are typically flats in plain envelopes, and they are processed as
2 part of the First-Class mail stream, thus depriving customers who paid
3 the Priority Mail rate of the advantageous handling that supposedly
4 accrues to this expedited service. Priority Mail commingled with First-
5 Class Mail is identified as such by ODIS data collectors, hence is part of
6 the ODIS performance data base.⁴⁸ Nonetheless, these data are yet
7 another indicator of the failure of the Postal Service to deliver on the
8 promise inherent in calling this service "Priority" Mail. This factor alone
9 seriously erodes the earlier referenced "intrinsic value of service" concept
10 evident in previous Dockets.

11 **Summary of Priority Mail performance.** The Postal Service's
12 entry in the expedited 2- and 3-day package and document delivery
13 market has failed to equal, let alone exceed, the performance of its First-
14 Class Mail product. Such performance leads to the inevitable conclusion
15 that Priority Mail receives no meaningful "priority. " Clearly, the Postal
16 Service has not figured out how to run an expedited delivery network
17 that is capable of providing reliable, timely service. The lack of many
18 competitive features desired by customers, coupled with poor actual
19 service performance, forces Priority Mail to rely solely on its advantage in

⁴⁸ Priority Mail with delivery confirmation is likely identified as Priority Mail since First-Class Mail is not eligible for delivery confirmation.

1 pricing — a limited advantage that has been placed in further jeopardy
2 in this proceeding.

3 **Conclusion: Priority Mail Is Highly Vulnerable**

4 As the preceding discussion in this section has shown, Priority
5 Mail lacks a number of features commonly offered by private sector
6 competitors in the 2- to 3-day expedited market. It also suffers from
7 delivery performance that is generally perceived as less timely and
8 reliable than its competitors. Consequently, Priority Mail competes
9 chiefly on price, not quality of service.⁴⁹ The lack of customer-desired
10 features and reliance on low price give Priority Mail an own-price
11 elasticity that is probably higher than that of its competitors.⁵⁰

12 Priority Mail is highly vulnerable to competitive inroads, perhaps
13 somewhat more vulnerable than even the Postal Service realizes. In
14 order for Priority Mail to remain a viable, successful product in the
15 market for expedited delivery, the Postal Service must find ways to
16 reduce costs materially while improving the quality of service. The PMPC
17 contract was a bold but unsuccessful effort to achieve the desired result.
18 Witness Robinson acknowledges that the Postal Service is researching its
19 alternatives to the Emery PMPC contract. During this critical period,

⁴⁹ Response to APMU/USPS-T32-7 (Tr. 11/4223).

⁵⁰ Response to UPS/USPS-T41-8 (Tr. 6/2330-3).

1 damage control is desperately needed. Rather than compounding the
2 rapid increase in costs with an increase in coverage, and thereby driving
3 Priority Mail customers into the waiting arms of competitors, the
4 Commission should restrain the coverage, help ameliorate the damage,
5 and give Priority Mail an opportunity to recover.

1 **VI. RATE DESIGN ISSUES**

2 As explained in Part V of this testimony, Priority Mail competes in
3 an increasingly competitive segment of the expedited delivery market.
4 Postal Service witnesses Mayes and Robinson both acknowledge that in
5 comparison to the competitive products almost universally available in
6 the marketplace, Priority Mail should be considered a low-quality
7 product because it lacks a number of features that customers consider
8 worthwhile. Consequently, Priority Mail competes essentially on the
9 basis of price. To compete successfully, Priority Mail needs a pricing
10 structure which sufficiently compensates for its disadvantages at every
11 weight level and in each zone.

12 **A. My Proposals in Docket No. R97-1**

13 My testimony in Docket No. R97-1 covered the following three rate
14 design issues:

- 15 • A renewed proposal to eliminate the
16 markup on distance-related transportation
17 costs.
- 18 • Retention of even increments for unzoned
19 rates up to 5 pounds.
- 20 • Support of the Postal Service proposal to
21 eliminate presort discounts within Priority
22 Mail.

1 **Treatment of distance-related transportation costs.** In Docket
2 No. R97-1, I proposed that no mark-up be imposed on the distance-
3 related component of transportation costs. For any given revenue
4 requirement, this proposal would increase the target revenue per pound
5 to offset the reduction in revenue from the mark-up on distance-related
6 transportation costs. The methodology for this approach to Priority Mail
7 rate design was fully developed in my prior testimony.⁵¹ Important
8 considerations supporting this approach to rate design are (i) to achieve
9 consistency with the methodology for destination entry discounts in
10 other subclasses, and (ii) to reduce the incentive for private sector
11 carriers to compete for core Priority Mail business while using Parcel
12 Select for local entry.

13 Within the rate design for Standard A Mail, destination entry
14 discounts do not reflect the full amount of costs avoided.⁵² Within
15 Priority Mail rate design, the rate for local entry versus a more distant
16 zone reflects the full amount of transportation cost plus the mark-up.
17 The inconsistency is obvious.

18 Aside from the existence of a logical inconsistency, it should be
19 recognized that the current Priority Mail rate design, in conjunction with

⁵¹ Docket No. R97-1, NDMS-T-1, pp. 29-37.

⁵² In this docket, witness Moeller proposes to reduce the passthroughs from the 85 percent level established in Docket No. R97-1, to 73 and 77 percent.

1 parcel post destination entry, invites competition and "cream-skimming."
 2 This is exactly what is occurring.

3 Let me give a simple illustration of the incentive. The Postal
 4 Service's proposed rates and costs for a 20-pound package are as follows:

5	Zone:	<u>L.1.2.3</u>	<u>Zone 5</u>	<u>Zone 8</u>
6	Rate	\$11.40	\$18.70	\$31.00
7	Cost ⁵³	<u>6.20</u>	<u>9.02</u>	<u>15.50</u>
8	Gross Profit	\$ 5.20	\$ 9.68	\$15.50

9 The increased gross profit for the more distant zones reflects the
 10 mark-up on distance-related transportation costs. The issue which the
 11 Postal Service must now face is that the DSCF and DDU Parcel Select
 12 rates for a 20-pound package are, respectively \$3.16 and \$1.96. If a 20-
 13 pound package shifts from Priority Mail to a competitor who uses the
 14 Parcel Select DDU rate, the Postal Service loses \$15.50 of **gross profit**
 15 while gaining **gross revenues** of \$1.96, and **net profit** of about \$0.25.
 16 This describes the business strategy of one recent entrant,
 17 Airborne@Home.

18 As the preceding example illustrates, the rationale for my proposal
 19 to eliminate the mark-up on distance-related transportation cost
 20 persists. However, in deference to the Postal Service's desire, as

⁵³ Source: USPS-T-34, Attachment H, p.1.

1 expressed by witness Robinson,⁵⁴ "to avoid dramatic changes in Priority
2 Mail rate design and the potential effect on Priority Mail customers," I
3 will not renew my proposal in this docket.

4 **Even increments for unzoned flat rates.** A second proposal in
5 Docket No. R97-1 was to retain the same additional fee for each pound
6 increment within the unzoned flat-rate weight range (up to 5 pounds).
7 Even increments were recommended by the Commission and approved
8 by the Governors in the last case, and mostly they are incorporated into
9 witness Robinson's rate design in this case. The published rates of some
10 competitors of Priority Mail now incorporate zoned rates for packages
11 that weigh less than 5 pounds, and in a future case the Postal Service
12 may need to reconsider the desirability of flat rates for packages over 2
13 pounds. Until that were to happen, however, I continue to recommend
14 the simplicity of the even incremental fee structure for unzoned rates.

15 **Elimination of presort discounts.** A third initiative, to eliminate
16 presort discounts for Priority Mail, was advanced by the Postal Service,
17 seconded by me, recommended by the Commission, and approved by the
18 Governors.

⁵⁴ USPS-T-34, p. 15, ll. 7-8.

1 **B. The Proposed 1-Pound Rate Should Be Adopted**

2 My testimony in Docket No. R97-1 also addressed the classification
 3 problem arising from the "gap" between the maximum rate for First-Class
 4 Mail and the minimum rate for Priority Mail.⁵⁵ In order to avoid having
 5 too large a gap, the Commission responded favorably to my proposal to
 6 increase the maximum weight for First-Class Mail from 11 to 13
 7 ounces.⁵⁶ In this docket, the Postal Service has addressed what it
 8 describes as "the underlying causes of the problem" by proposing to
 9 establish a new 1-pound category for Priority Mail.⁵⁷ According to
 10 witness Robinson:⁵⁸

11 [w]hile the Docket No. R97-1 change in the maximum weight
 12 for First-Class Mail directly addressed the "gap" between
 13 First-Class mail rates and Priority Mail rates, the underlying
 14 causes of the problem have not been addressed. This
 15 problem results from the large weight step (currently 19
 16 ounces) when mailers move between the two classes and the
 17 difference in the cost structure of the two mail classes.
 18 While a sequence of changes in the maximum First-Class
 19 weight will, to some extent, mitigate the problem, a long-
 20 term solution must address the specific causes of the
 21 problem. A one-pound Priority Mail rate would reduce the
 22 weight step between First-Class Mail and Priority Mail from
 23 19 ounces to 3 ounces with a corresponding reduction in the
 24 underlying cost of the incremental weight step.

⁵⁵ Docket No. R97-1, NDMS-T-2, pp. 8-16. In that docket, testimony of the Postal Service did not address the issue of the gap.

⁵⁶ Docket No. R97-1, *Op. & Rec. Dec.*, pp. 338-39.

⁵⁷ USPS-T-34, p. 16, ll. 1-4.

⁵⁸ USPS-T-34, p. 16, ll. 1-11.

1 On net balance, the Postal Service proposal for a 1-pound rate
2 seems sensible. In the first place, it reduces the weight step between
3 First-Class Mail and Priority Mail, as witness Robinson points out.
4 Additionally, the major competitors of Priority Mail already have 1-pound
5 rates for their products which compete directly with Priority Mail.

6 At the same time, however, it needs to be recognized that the
7 Postal Service's proposed rate structure also creates something of an
8 anomaly. Namely, since the proposed unzoned rate for a 1-pound
9 package is \$3.45 and the unzoned rate for a 2-pound package is \$3.85,
10 the mailing public will perceive the rate for up to a second pound of mail
11 to be \$0.40.⁵⁹ For additional weight beyond 2 pounds, however, the
12 additional postage at proposed rates is \$1.25 per pound, up to 5 pounds.
13 Any mailer could rightfully ask: Why does the rate for an additional
14 pound jump from \$0.40 to \$1.25? Witness Robinson does not address
15 this obvious anomaly, nor indicate whether or how the future design is
16 likely to overcome the problem created by her proposal.

17 Still another problem is that Priority Mail users, seeing the
18 "unbundling" of the current 2-pound rate, will expect the rather dramatic
19 20 percent increase in the 2-pound rate to be accompanied by a
20 reduction in the 1-pound rate.

⁵⁹ If the flat rate envelope is used, the weight can even exceed 2 pounds.

1 As indicated elsewhere in this testimony, it is obvious that the
2 Postal Service needs to regain control over the Priority Mail cost
3 structure. Unless and until that occurs, the entire Priority Mail product
4 is in the highly precarious situation of going from a low-cost, low-quality
5 product to a high-cost, low-quality product. Looking toward the future,
6 however, introduction of the 1-pound rate makes it necessary to consider
7 (i) reducing the maximum weight of First-Class Mail, and (ii) reducing the
8 1-pound Priority Mail rate. Over time, if the Postal Service reduces its
9 costs, it should be possible to evolve to an unzoned rate structure with
10 four even increments from 1 to 5 pounds.

11 **C. The Maximum Weight for First-Class Mail Should Be Reduced**

12 Immediately prior to Docket No. R97-1, the maximum weight for
13 First-Class Mail was 11 ounces, while the minimum rate for a piece of
14 Priority Mail began at 2 pounds; i.e., a 21-ounce weight gap existed
15 between First-Class Mail and Priority Mail. In order to avoid having too
16 large a gap, the Commission recommended that rates for First-Class Mail
17 be extended up to 13 ounces, which reduced the rate gap from 21 to 19
18 ounces. Although the weight gap has varied somewhat, historically it
19 has always been between 19 and 21 ounces.

20 In this docket, the Postal Service's proposal for a 1-pound rate
21 addresses the fundamental problem by effecting a dramatic and,

1 presumably, permanent reduction in the weight gap. Assuming that the
2 Commission recommends the Postal Service's proposal for a 1-pound
3 Priority Mail rate, it becomes not only feasible, but also desirable, to
4 consider alternative limits on the maximum weight for First-Class Mail.
5 The rates proposed in the next section do exactly this.

6 **D. Priority Mail Rates Should Offer a Discount for Pieces**
7 **Delivered Only to an SCF**

8 Some mailers use Priority Mail to dropship (and expedite) smaller
9 items of different mail classes to destinating SCFs (and, perhaps on
10 occasion, to DDUs). At the DSCF, Priority Mail sacks are opened and the
11 items within are then entered as Standard A Mail, or another class. By
12 their very nature, dropship packages of this type tend to fall in the
13 heavier, zoned weight range. They also tend to travel longer distances,
14 which is why the sender desires expedition.

15 Priority Mail which does not go beyond the SCF avoids all costs of
16 handling and transportation beyond the SCF, as well as delivery costs.
17 These are the very costs incurred by parcels entered at the SCF under
18 the Parcel Select Service.

19 As explained previously, heavier weight pieces in excess of 5
20 pounds, shipped to zone 5 or farther, result in relatively high unit profits.
21 The Postal Service can and should cultivate this profitable dropship

Revised 7/10/00

- 1 business by offering a discount for pieces that avoid transportation and
- 2 delivery costs. A later section proposes a modest dropship discount for
- 3 zoned-rate packages over 5 pounds that destinate at the SCF. [REDACTED]
- 4 [REDACTED]

VII. PROPOSED PRIORITY MAIL RATES

The rates proposed for Priority Mail are shown in Table 10.

Following Commission precedent, they have been rounded to the nearest 5 cents. They incorporate the following features:

- A 1-pound rate of **\$3.00** — reduced from the Postal Service's proposal of \$3.45, likely to be used for pieces over 11 ounces, and providing the best rate for any piece weighing less than 16 ounces.
- A 2-pound rate of **\$3.75** — reduced from the Postal Service's proposal of \$3.85, also applying to the flat-rate envelope.
- Even **\$1.00** increments for 3-, 4- and 5-pound pieces (up to 5 pounds, rates are unzoned) — reduced from the Postal Service's proposal of \$1.25.
- A target coverage of **168** percent — reduced from the Postal Service's proposal of 180.9 percent, and a contribution to institutional cost of **\$2.343 billion** — reduced from the Postal Service's proposal of \$2,478 billion (which itself should be corrected downward to \$2.388 billion, reduced by \$89.817 million by virtue of the admitted over-attribution of \$48.438 million in retirement costs, discussed above, loaded with the Postal Service proposed 2.5 percent contingency, and coverage of 180.9 percent).

One-pound rate. It is estimated that reducing the maximum weight of First-Class Mail from 13 to 11 ounces will increase Priority Mail

1 volume after rates by 157 million pieces.⁶⁰ Revenue for this additional
2 volume is computed at \$3.00 per piece.

3 The cost of these pieces is another issue altogether. Witness
4 Daniel estimates that 10- to 11-ounce pieces of single-piece First-Class
5 Mail have unit costs, respectively, of \$0.80 and \$0.79.⁶¹ She did not
6 estimate the unit cost of 12- and 13-ounce pieces of First-Class Mail
7 because the change in the weight limit did not become effective until
8 January 1, 1999. Judging by the data shown in her testimony and LR-I-
9 92, however, the unit cost for 12- to 13-ounce pieces would have been in
10 the range of \$0.80 to \$0.90.

11 At the same time, witness Robinson estimates that the TY average
12 cost of a piece of Priority Mail weighing no more than 1 pound is \$1.90
13 (including contingency).⁶² No Postal Service witness explains why the
14 unit cost of an 11-ounce piece of First-Class Mail is only \$0.78-\$0.80,
15 while a piece of Priority Mail weighing under 1-pound costs \$1.90.⁶³ As

⁶⁰ Response to UPS/USPS-T34-8 (Tr. 9/3578). This is the volume that witness Musgrave estimated would be lost on account of the higher weight limit and higher proposed rate. No effort was made to increase the estimated volume on account of the lower 1-pound rate proposed here.

⁶¹ USPS-T-28, Table 1, p. 11.

⁶² USPS-T-34, Attachment H (unit cost) and Table D, Section IV of my workpapers.

⁶³ Witness Daniel may have underestimated the cost of weight. See VP/CW-T-1, Appendix B. Her estimate is not considered reliable, and is not relied on here.

1 between a piece of maximum-weight First Class Mail (previously 11
2 ounces, currently 13 ounces) and minimum weight Priority Mail, the
3 "gap" in unit costs greatly exceeds the gap in rates. In order to be
4 conservative with respect to estimated costs and contribution to
5 overhead, I have used witness Robinson's higher unit cost figure of \$1.90
6 per piece.

7 **Two-pound rate.** My testimony provisionally reduces the rate
8 requested by the Postal Service for Priority Mail two-pound and Flat Rate
9 Envelope (\$3.85), by a nominal \$0.10, to \$3.75. This minimal level of
10 reduction is done with great reluctance, but subject to being revisited as
11 discovery is concluded and facts unfold in this docket. I fear that a 17
12 percent increase for this important rate cell will do much to impair
13 Priority Mail's status as a key revenue generator for the Postal Service.
14 However, due to the volume of mail in those rate cells and the need to
15 make other even more compelling rate adjustments, I have limited my
16 recommendation to this minimal change. The fact that I reduced the
17 Postal Services' rate by only a tiny amount should not be taken as tacit
18 acceptance or approval of the general level of the rate. On this issue I
19 feel a sense of resignation, unless the Commission is willing and able to
20 reduce significantly the coverage on Priority Mail to the point where this
21 "basic" rate could be reduced to a more competitive level. With that
22 thought in mind, I leave the matter in the hands of the Commission.

1 **Additional \$1.00 increments for unzoned 3-, 4- and 5-pound**
 2 **Priority Mail.** The proposed \$1.00 increment (over the \$3.75 rate for a
 3 2-pound piece) results in a coverage over allocated costs, including
 4 contingency, of 176 percent for the 3-, 4- and 5-pound rate cells
 5 combined.⁶⁴

6 **Rates above 5 pounds.** For pieces weighing 10 pounds and up,
 7 the Postal Service's allocated unit costs (including contingency) are
 8 multiplied by my target coverage of 170 percent, to produce un-rounded
 9 target rates, which are then rounded to the nearest 5 cents. Between 6
 10 to 10 pounds, rates are smoothed by hand; in a few instances it was
 11 necessary to extend smoothing to the 11- and 12-pound rate cells.

12 **Anomalies with Parcel Post.** In terms of the Postal Service's
 13 allocated unit costs, every Priority rate cell is fully compensatory.⁶⁵
 14 However, the rates proposed here would create some anomalies with the
 15 Postal Service's proposed rates for parcel post (proposed rate schedule
 16 521.2A), especially rates to zones 7 and 8. Those parcel post rate cells
 17 that are affected (*i.e.*, anomalous) may need to be adjusted downward, as
 18 the Commission has done in prior cases, if they would otherwise exceed
 19 the comparable rates recommended by the Commission for Priority Mail.

⁶⁴ Witness Robinson's proposed \$1.25 increment results in a coverage of 192 percent, which is excessive even by witness Mayes' proposed standard.

⁶⁵ Table 18 in my work papers shows the implicit coverage for each rate cell, based on the Postal Service's allocated unit costs.

Revised 7/7/00

Table 10

Priority Mail
APMU Proposed Rates (rounded)

Weight (Pounds) Flat Rate	<u>L,1,2&3</u>	<u>Zone 4</u>	<u>Zone 5</u>	<u>Zone 6</u>	<u>Zone 7</u>	<u>Zone 8</u>
1	3.00	3.00	3.00	3.00	3.00	3.00
2	3.75	3.75	3.75	3.75	3.75	3.75
3	4.75	4.75	4.75	4.75	4.75	4.75
4	5.75	5.75	5.75	5.75	5.75	5.75
5	6.75	6.75	6.75	6.75	6.75	6.75
6	6.95	7.30	7.35	7.50	7.83	8.35
7	7.05	7.75	7.85	8.15	8.80	9.85
8	7.15	8.20	8.35	8.80	9.80	11.35
9	7.25	8.65	8.85	9.45	10.75	12.85
10	7.35	8.95	9.10	10.10	11.75	14.35
11	7.45	9.55	9.75	10.70	12.65	15.85
12	7.65	10.15	10.35	11.40	13.55	16.95
13	7.85	10.75	10.95	12.10	14.45	18.15
14	8.25	11.40	11.60	12.80	15.35	19.30
15	8.60	12.00	12.20	13.55	16.20	20.50
16	9.00	12.60	12.85	14.25	17.10	21.65
17	9.40	13.20	13.45	14.95	18.00	22.85
18	9.75	13.80	14.10	15.65	18.90	24.00
19	10.15	14.40	14.70	16.35	19.80	25.20
20	10.55	15.00	15.35	17.10	20.70	26.35
21	10.90	15.65	15.95	17.80	21.55	27.50
22	11.30	16.25	16.60	18.50	22.45	28.70
23	11.70	16.85	17.20	19.20	23.35	29.85
24	12.05	17.45	17.85	19.95	24.25	31.05
25	12.45	18.05	18.45	20.65	25.15	32.20
26	12.84	18.65	19.10	21.35	26.00	33.40
27	13.22	19.30	19.70	22.05	26.90	34.55
28	13.60	19.90	20.35	22.75	27.80	35.75
29	14.00	20.50	20.95	23.50	28.70	36.90
30	14.35	21.10	21.60	24.20	29.60	38.10
31	14.75	21.70	22.20	24.90	30.45	39.25
32	15.15	22.30	22.80	25.60	31.35	40.45
33	15.50	22.95	23.45	26.30	32.25	41.60
34	15.90	23.55	24.05	27.05	33.15	42.80
35	16.30	24.15	24.70	27.75	34.05	43.95
36	16.65	24.75	25.30	28.45	34.90	45.15
37	17.05	25.35	25.95	29.15	35.80	46.30
38	17.45	25.95	26.55	29.90	36.70	47.50
39	17.80	26.60	27.20	30.60	37.60	48.65
40	18.20	27.20	27.80	31.30	38.50	49.85
41	18.60	27.80	28.45	32.00	39.40	51.00
42	18.95	28.40	29.05	32.70	40.25	52.20
43	19.35	29.00	29.70	33.45	41.15	53.35
44	19.75	29.60	30.30	34.15	42.05	54.55
45	20.10	30.20	30.95	34.85	42.95	55.70
46	20.50	30.85	31.55	35.55	43.85	56.90
47	20.90	31.45	32.20	36.30	44.70	58.05
48	21.25	32.05	32.80	37.00	45.60	59.25
49	21.65	32.65	33.45	37.70	46.50	60.40
50	22.05	33.25	34.05	38.40	47.40	61.60
51	22.40	33.85	34.65	39.10	48.30	62.75
52	22.80	34.50	35.30	39.85	49.15	63.95

Revised 7/7/00

Table 10 (cont.)

Priority Mail
APMU Proposed Rates (rounded)

<u>Weight (Pounds)</u>	<u>L, 1, 2 & 3</u>	<u>Zone 4</u>	<u>Zone 5</u>	<u>Zone 6</u>	<u>Zone 7</u>	<u>Zone 8</u>
53	23.20	35.10	35.90	40.55	50.0	65.10
54	23.55	35.70	36.55	41.25	50.95	66.30
55	23.95	36.30	37.15	41.95	51.85	67.45
56	24.35	36.90	37.80	42.70	52.75	68.65
57	24.70	37.50	38.40	43.40	53.65	69.80
58	25.10	38.15	39.05	44.10	54.50	70.95
59	25.50	38.75	39.65	44.80	55.40	72.15
60	25.85	39.35	40.30	45.50	56.30	73.30
61	26.25	39.95	40.90	46.25	57.20	74.50
62	26.65	40.55	41.55	46.95	58.10	75.65
63	27.00	41.15	42.15	47.65	58.95	76.85
64	27.40	41.75	42.80	48.35	59.85	78.00
65	27.80	42.40	43.40	49.05	60.75	79.20
66	28.15	43.00	44.05	49.80	61.65	80.35
67	28.55	43.60	44.65	50.50	62.55	81.55
68	28.95	44.20	45.30	51.20	63.40	82.70
69	29.35	44.80	45.90	51.90	64.30	83.90
70	29.70	45.40	46.50	52.65	65.20	85.05

1 **Discount for destination SCF delivery of Priority Mail. I**

2 propose a discount for all zoned pieces of Priority Mail (weighing over 5
3 pounds) which destinate at SCFs. Such mail is typically referred to as
4 "Priority Mail dropship." Mailers who seek to expedite the delivery of
5 another class of mail by entering that class of mail closer to the delivery
6 point use Priority Mail dropship. For example, through-the-mail
7 photofinishers send Priority Mail sacks of Standard A Regular Mail
8 containing processed film and prints to expedite the return of the film
9 processing orders. The DMM describes this merged-mail concept as
10 follows:

11 Priority Mail drop shipment expedites movement of any other
12 class or subclass of mail (except Express Mail) between
13 domestic postal facilities. The drop shipment receives
14 Priority Mail service from the origin post office to the
15 destination post office of the shipment, where the enclosed
16 mail is processed and provided the appropriate service from
17 that post office to its destination. [DMM D071.21.]

18 In this case, the Standard A mailpiece pays a destination entry
19 rate, not being required to pay for transportation and handling to the
20 SCF where the piece is entered. Nevertheless, the Priority Mail piece
21 pays full rate, including the cost of delivery to a final business or
22 residential destination, despite the fact that it terminates at the DSCF.
23 The Priority Mail piece is charged as though it received handling and
24 transportation beyond the SCF, and for delivery which it does not

1 receive. Providing such a discount promotes fairness and equity
2 (criterion 1).

3 The proposed discounts are shown in Table 11. For simplicity
4 (criterion 7), the proposed discounts are in 10-lb. increments. Due to the
5 unavailability of Priority Mail delivery cost data, the proposed Priority
6 Mail Destination SCF rates are developed from the cost data drawn from
7 another Postal Service package product – Parcel Select Destination SCF
8 rates (particularly, from Postal Service proposed rate schedule 521.2D),
9 as follows:

10 First, the proposed Parcel Select SCF rates as submitted contain
11 various anomalies. For example, for the 30 and 31 pound rate cells the
12 rates shown are, respectively, \$3.94 and \$3.72 (i.e., the 30 lb. Rate
13 exceeds the 31 lb. rate.). Similarly, the rates for 36 and 37 lbs. are,
14 respectively, \$3.94 and \$3.91; and for the 40 and 41 lbs. the rates are
15 \$4.10 and \$4.09. Consequently, I developed a smoothed set of Parcel
16 Select SCF rates which eliminated the anomalies.

17 Next, witness Plunkett states that the implicit coverage on his
18 proposed Parcel Select SCF rates is 113 percent.⁶⁶ Therefore, I divide his
19 proposed rates by 1.13 to estimate the cost of delivering parcels of
20 various weights entered at the SCF.

⁶⁶ Response to AMZ/USPS-T36-7 (Tr. 11/4985).

Revised 7/7/00

1 Third, to be conservative, I apply a passthrough of only 75 percent
2 to the estimated costs. This gives a schedule of discounts for each
3 pound, up to 70 lbs.

4 Fourth, I average the discounts over the pertinent range, *i.e.*, 6 to
5 10 lbs., and every 10 lbs. thereafter.

6 Fifth, I round the proposed discounts down to the nearest 5 cents.

7 The volume of destination entry SCF Priority Mail used to dropship
8 smaller items is not known, but it is reckoned that as much as 10
9 percent of all zoned Priority Mail pieces over 5 pounds already may be
10 used for this purpose. Using the volumes projected at APMU rates would
11 result in a reduction in revenues of ~~\$9.95~~ million. Offsetting this
12 reduction would be revenue from any increase in Priority Mail volume as
13 well as additional revenue from the enclosed pieces, both of which could
14 be expected from the Postal Service's offering of a more reasonably
15 priced, merged-mail, dropship product. Such a rate discount would help
16 prevent loss of such SCF destinating Priority Mail volume to alternative
17 carriers which have been better able to compete with Priority Mail entry
18 due to the availability of consolidated national postage payment options
19 which did not previously exist.

1

2

Table 11

3

Proposed Discounts for Destination SCF Delivery of Priority Mail

4

5

Weight
(pounds)

Discount

6

6-10

\$1.50

7

11-20

1.90

8

21-30

2.30

9

31-40

2.60

10

41-50

2.85

11

51-60

3.10

12

61-70

3.35

13

14

Financial Summary. A financial summary for Priority Mail, at

15

APMU proposed rates, and including the proposed discount for SCF

16

delivery, is shown in Table 12.

Revised 7/7/00

1

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Table 12

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4

**Priority Mail Financial Summary
Test Year Volume, Revenue and Cost After Rates**

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Test Year After Rates

Volume	1,475,128 (000)
Revenue at proposed rates	\$5,820,622 (000)
Revenue per piece	\$3.95
Test Year after rates cost	\$3,384,221 (000)
Contingency	2.5%
Cost with contingency	\$3,468,827 (000)
Cost per piece	\$2.35
Cost coverage at proposed rates	168%
Average rate increase	2.6%

Pickup Revenue and Cost

Pickup revenue at proposed rates	\$2,972 (000)
Pickup costs	\$2,888 (000)

Fee Revenue

\$795 (000)

Discount for SCF Delivery**\$9,951 (000)****Total Test Year After Rates**

Total volume	1,475,128 (000)
Total revenue	\$5,814,438 (000)
Total cost including contingency	\$3,471,715 (000)
Contribution to institutional costs	\$2,342,723 (000)
Cost coverage	168%

1 **APPENDIX A**

2 **EXPRESS MAIL: A BRIEF CASE STUDY**

3 The history of Express Mail contains some worthwhile lessons
4 about what can happen when a large bureaucratic organization
5 confronts the demanding realities of the competitive marketplace. In
6 short, when consumers have alternatives, competition severely limits the
7 rates, mark-ups, target coverages and profits that can be earned from a
8 product.

9 The mark-up and mark-up index for Express Mail is set out in
10 Table A-1. Over a span of 20 years, the mark-up and mark-up index for
11 Express Mail have gone from being by far the highest to among the
12 lowest of any subclass that does not enjoy special statutory status.⁶⁷

13 Although the Postal Service pioneered overnight delivery, Express
14 Mail's market share has declined to the point where it currently is
15 approximately 11 percent.⁶⁸ The Postal Service is now generally
16 considered to be a minor player in the market for expedited overnight
17 delivery. Once the Postal Service has lost substantial market share to

⁶⁷ In Docket No. R97-1, one preferred rate subclass, Standard A Nonprofit Mail, had a higher mark-up than Express Mail.

⁶⁸ Response to PSA/USPS-T6-1 (Tr. 9/3651-52).

1 competitors, any significant recovery in its market-share has proven to
2 be most difficult.⁶⁹

3 Table A-2 translates into dollar terms the percentages and index
4 numbers shown in Table A-1. In addition, the Express Mail contribution
5 to institutional costs is compared to that of Priority Mail. In 1984,
6 Express Mail achieved its highest contribution, \$313 million. Despite the
7 inflationary creep that has occurred since 1984, the contribution
8 gradually withered to \$145 million in 1993. Since that time, the
9 contribution has recovered a little, reaching \$219 million in 1998, which
10 was substantially below 1984 in absolute amount, and even less when
11 inflation is taken into account. In contrast to the experience of Express
12 Mail, Priority Mail has been a more successful product, at least up until
13 now. However, Priority Mail is at the point where it can be priced out of
14 the market quite easily, in which event Priority Mail may also be reduced
15 to a minor role within the expedited market.

⁶⁹ At one time the Postal Service was also the dominant provider of ground parcel service.

1			
2		Table A-1	
3		Express Mail Mark-Ups and Mark-Up Indices	
4		(1)	(2)
5	Docket.	Mark-Up	Mark-Up
6	No.	(percent)	Index
7	R77-1	422	17.580
8	R80-1	123	4.566
9	R84-1	139	2.673
10	R87-1	69	1.420
11	R90-1	29	0.572
12	R94-1	19	0.332
13	R97-1	14	0.245

14 Source: Docket No. R97-1, *Op. & Rec. Dec.*, App. G, Schedule 3.
15

1				
2			Table A-2	
3			Express and Priority Mail	
4			Contribution to Institutional Cost	
5			1980-1998	
6			(\$, millions)	
7			(1)	(2)
8		Fiscal	Express	Priority
9		Year	Mail	Mail
10		1980	115	301
11		1981	187	414
12		1982	233	493
13		1983	298	495
14		1984	313	552
15		1985		
16		1986	280	512
17		1987	246	579
18		1988	211	630
19		1989	169	603
20		1990	170	669
21		1991	163	752
22		1992	157	1,025
23		1993	145	1,133
24		1994	148	1,300
25		1995	188	1,715
26		1996	228	1,681
27		1997	202	1,699
28		1998	219	1,545
29	Source:	USPS, Cost and Revenue Analysis Reports		
30		(PRC version for FY 1997-1998)		
31				

U.S. GOVERNMENT



Contract Service Guide

How to Determine Your Rates



FedEx Government Rates

For single packages or multiple-package shipments weighing 150 lbs. or less FedEx Priority Overnight and FedEx 2Day

For weights other than those listed, please call 1-800-Go-FedEx, (800)463-3339.

weight (lbs.)	FedEx Priority Overnight	FedEx 2Day	weight (lbs.)	FedEx Priority Overnight	FedEx 2Day	weight (lbs.)	FedEx Priority Overnight	FedEx 2Day	weight (lbs.)	FedEx Priority Overnight	FedEx 2Day	weight (lbs.)	FedEx Priority Overnight	FedEx 2Day
letter	\$3.62		31	\$24.05	\$23.79	62	\$48.46	\$39.53	93	\$67.66	\$58.69	124	\$89.04	\$70.84
1	3.67	3.57	32	24.84	24.58	63	49.24	39.53	94	68.13	58.69	125	89.82	70.84
2	3.74	3.62	33	25.63	25.37	64	50.03	39.53	95	68.61	58.69	126	90.60	90.52
3	3.80	3.67	34	26.42	26.15	65	50.82	39.53	96	69.08	58.69	127	91.38	90.52
4	3.85	3.72	35	27.20	26.94	66	51.60	39.53	97	69.55	58.69	128	92.16	90.52
5	4.37	4.11	36	27.99	27.73	67	52.39	39.53	98	69.84	58.69	129	92.94	90.52
6	5.16	4.90	37	28.74	28.51	68	53.18	39.53	99	70.32	58.69	130	93.72	90.52
7	5.95	5.69	38	29.56	29.30	69	53.97	39.53	100	70.32	58.69	131	94.50	90.52
8	6.74	6.47	39	30.35	30.09	70	54.75	39.53	101	71.10	70.84	132	95.28	90.52
9	7.52	7.26	40	31.14	30.88	71	55.54	39.53	102	71.88	70.84	133	96.06	90.52
10	8.31	8.05	41	31.93	31.66	72	56.33	39.53	103	72.66	70.84	134	96.84	90.52
11	8.94	8.68	42	32.71	32.45	73	57.11	39.53	104	73.44	70.84	135	97.62	90.52
12	9.57	9.31	43	33.50	33.24	74	57.90	39.53	105	74.22	70.84	136	98.40	90.52
13	10.20	9.94	44	34.29	34.02	75	58.43	58.69	106	75.00	70.84	137	99.18	90.52
14	10.83	10.57	45	35.07	34.81	76	58.95	58.69	107	75.78	70.84	138	99.96	90.52
15	11.46	11.20	46	35.86	35.60	77	59.48	58.69	108	76.56	70.84	139	100.74	90.52
16	12.25	11.99	47	36.65	36.39	78	60.00	58.69	109	77.34	70.84	140	101.52	90.52
17	13.03	12.77	48	37.44	37.17	79	60.52	58.69	110	78.12	70.84	141	102.30	90.52
18	13.82	13.56	49	38.22	37.96	80	61.05	58.69	111	78.90	70.84	142	103.08	90.52
19	14.61	14.35	50	39.01	38.75	81	61.57	58.69	112	79.68	70.84	143	103.86	90.52
20	15.40	15.13	51	39.80	39.53	82	62.10	58.69	113	80.46	70.84	144	104.64	90.52
21	16.18	15.92	52	40.58	39.53	83	62.62	58.69	114	81.24	70.84	145	105.42	90.52
22	16.97	16.71	53	41.37	39.53	84	63.15	58.69	115	82.02	70.84	146	106.20	90.52
23	17.76	17.50	54	42.16	39.53	85	63.67	58.69	116	82.80	70.84	147	106.98	90.52
24	18.54	18.28	55	42.95	39.53	86	64.20	58.69	117	83.58	70.84	148	107.76	90.52
25	19.33	19.07	56	43.73	39.53	87	64.72	58.69	118	84.36	70.84	149	108.54	90.52
26	20.12	19.86	57	44.52	39.53	88	65.25	58.69	119	85.14	70.84	150	109.32	90.52
27	20.91	20.64	58	45.31	39.53	89	65.77	58.69	120	85.92	70.84			
28	21.69	21.43	59	46.09	39.53	90	66.24	58.69	121	86.70	70.84			
29	22.48	22.22	60	46.88	39.53	91	66.72	58.69	122	87.48	70.84			
30	23.27	23.01	61	47.67	39.53	92	67.19	58.69	123	88.26	70.84			

Rates

FedEx Department of Defense Rates

For single packages or multiple-package shipments weighing 150 lbs. or less (FedEx Priority Overnight and FedEx 2Day)

For weights other than those listed, please call 1-800-Go-FedEx, (800)463-3339.

weight (lbs.)	FedEx Priority Overnight	FedEx 2Day	weight (lbs.)	FedEx Priority Overnight	FedEx 2Day	weight (lbs.)	FedEx Priority Overnight	FedEx 2Day	weight (lbs.)	FedEx Priority Overnight	FedEx 2Day	weight (lbs.)	FedEx Priority Overnight	FedEx 2Day
letter	\$3.45		31	\$22.92	\$22.67	62	\$46.17	\$37.67	93	\$64.47	\$55.92	124	\$85.00	\$67.50
1	3.50	3.40	32	23.67	23.42	63	46.92	37.67	94	64.92	55.92	125	85.75	67.50
2	3.57	3.45	33	24.42	24.17	64	47.67	37.67	95	65.37	55.92	126	86.50	66.25
3	3.62	3.50	34	25.17	24.92	65	48.42	37.67	96	65.82	55.92	127	87.25	66.25
4	3.67	3.55	35	25.92	25.67	66	49.17	37.67	97	66.27	55.92	128	88.00	66.25
5	4.17	3.92	36	26.67	26.42	67	49.92	37.67	98	66.55	55.92	129	88.75	66.25
6	4.92	4.67	37	27.42	27.17	68	50.67	37.67	99	67.00	55.92	130	89.50	66.25
7	5.67	5.42	38	28.17	27.92	69	51.42	37.67	100	67.00	55.92	131	90.25	66.25
8	6.42	6.17	39	28.92	28.67	70	52.17	37.67	101	67.75	67.50	131	90.25	66.25
9	7.17	6.92	40	29.67	29.42	71	52.92	37.67	102	68.50	67.50	132	91.00	66.25
10	7.92	7.67	41	30.42	30.17	72	53.67	37.67	103	69.25	67.50	133	91.75	66.25
11	8.52	8.27	42	31.17	30.92	73	54.42	37.67	104	70.00	67.50	134	92.50	66.25
12	9.12	8.87	43	31.92	31.67	74	55.17	37.67	105	70.75	67.50	135	93.25	66.25
13	9.72	9.47	44	32.67	32.42	75	55.67	37.67	106	71.50	67.50	136	94.00	66.25
14	10.32	10.07	45	33.42	33.17	76	56.17	55.92	107	72.25	67.50	137	94.75	66.25
15	10.92	10.67	46	34.17	33.92	77	56.67	55.92	108	73.00	67.50	138	95.50	66.25
16	11.67	11.42	47	34.92	34.67	78	57.17	55.92	109	73.75	67.50	139	96.25	66.25
17	12.42	12.17	48	35.67	35.42	79	57.67	55.92	110	74.50	67.50	140	97.00	66.25
18	13.17	12.92	49	36.42	36.17	80	58.17	55.92	111	75.25	67.50	141	97.75	66.25
19	13.92	13.67	50	37.17	36.92	81	58.67	55.92	112	76.00	67.50	142	98.50	66.25
20	14.67	14.42	51	37.92	37.67	82	59.17	55.92	113	76.75	67.50	143	99.25	66.25
21	15.42	15.17	52	38.67	37.67	83	59.67	55.92	114	77.50	67.50	144	100.00	66.25
22	16.17	15.92	53	39.42	37.67	84	60.17	55.92	115	78.25	67.50	145	100.75	66.25
23	16.92	16.67	54	40.17	37.67	85	60.67	55.92	116	79.00	67.50	146	101.50	66.25
24	17.67	17.42	55	40.92	37.67	86	61.17	55.92	117	79.75	67.50	147	102.25	66.25
25	18.42	18.17	56	41.67	37.67	87	61.67	55.92	118	80.50	67.50	148	103.00	66.25
26	19.17	18.92	57	42.42	37.67	88	62.17	55.92	119	81.25	67.50	149	103.75	66.25
27	19.92	19.67	58	43.17	37.67	89	62.67	55.92	120	82.00	67.50	150	104.50	66.25
28	20.67	20.42	59	43.92	37.67	90	63.12	55.92	121	82.75	67.50			
29	21.42	21.17	60	44.67	37.67	91	63.57	55.92	122	83.50	67.50			
30	22.17	21.92	61	45.42	37.67	92	64.02	55.92	123	84.25	67.50			

APPENDIX B, Page B-3

1 **APPENDIX C**

2 **INTERNET COMPARISON/SHIPPING SITES**

3 This appendix contains exhibits from the web-sites of two
4 companies that offer on-line rate and feature comparisons of many of the
5 major competitors in the expedited document and package marketplace.
6 Customers can log into these sites and make rapid value comparisons of
7 the offerings of UPS, FedEx, Airborne, the Postal Service, and others.

8 The documents herein are available online at the following web-site
9 addresses:

10 SmartShip - <http://www.smartship.com>

11 iShip - <http://www.iship.com>

12 Each site offers a variety of options to compare the features and
13 prices of these major shippers and can provide additional services for
14 customers that wish to use their site as a "one stop e-shopping" service.

Figure C-1

The way shipping is done.

home

compare and ship

manage account

help

SmartShip.com

logout

contact us

☒ Show All Couriers
 ☐ Limit Couriers To...

Show rates for:

From Zip: 20110 To Zip: 93101 Weight: 2 Lbs Ship Date: Mon May 15, 2000

Click To Sort ▾

Click To Sort ▾

Click To Sort ▾

Click To Sort ▾

Delivery Time

Shipping Deadline

Rate Information

Courier

Tue May 16, 2000

Tue 10:30am Guaranteed	May 15 9:30pm Dropoff	\$25.25	DropOff Info	UPS
Tue 10:30am Guaranteed	May 15 8:30pm Dropoff	\$27.55	DropOff Info	FedEx
Tue 10:30am Guaranteed	May 15 Unknown Pickup	\$28.25	PickUp Info	UPS
Tue 10:30am Guaranteed	May 15 Unknown Pickup	\$30.55	PickUp Info	FedEx
Tue 12:00pm Guaranteed	May 15 9:00pm Dropoff	\$15.75	DropOff Info	USPS Express
Tue 12:00pm Guaranteed	May 15 5:00pm Pickup	\$17.41	PickUp Info	Airborne
Tue 12:00pm Guaranteed	May 15 Unknown Pickup	\$24.00	PickUp Info	USPS Express
Tue 3:00pm Guaranteed	May 15 9:30pm Dropoff	\$22.80	DropOff Info	UPS
Tue 3:00pm Guaranteed	May 15 8:30pm Dropoff	\$23.42	DropOff Info	FedEx
Tue 3:00pm Guaranteed	May 15 5:00pm Pickup	\$14.94	PickUp Info	Airborne
Tue 3:00pm Guaranteed	May 15 Unknown Pickup	\$25.50	PickUp Info	UPS
Tue 3:00pm Guaranteed	May 15 Unknown Pickup	\$26.42	PickUp Info	FedEx

Wed May 17, 2000

Wed 12:00pm Guaranteed	May 15 9:30pm Dropoff	\$11.80	DropOff Info	UPS
Wed 12:00pm Guaranteed	May 15 Unknown Pickup	\$14.80	PickUp Info	UPS
Wed 4:30pm Guaranteed	May 15 8:30pm Dropoff	\$11.33	DropOff Info	FedEx
Wed 4:30pm Guaranteed	May 15 Unknown Pickup	\$14.33	PickUp Info	FedEx
Wed 5:00pm Non-Guaranteed	May 15 10:00pm Dropoff	\$3.20	Get Label	USPS Priority
Wed 5:00pm Guaranteed	May 15 9:30pm Dropoff	\$10.50	DropOff Info	UPS
Wed 5:00pm Guaranteed	May 15 5:00pm Pickup	\$7.98	PickUp Info	Airborne
Wed 5:00pm Non-Guaranteed	May 15 Unknown Pickup	\$11.45	PickUp Info	USPS Priority
Wed 5:00pm Guaranteed	May 15 Unknown Pickup	\$13.50	PickUp Info	UPS

Thu May 18, 2000

Thu 4:30pm Guaranteed	May 15 8:30pm Dropoff	\$10.06	DropOff Info	FedEx
Thu 4:30pm Guaranteed	May 15 Unknown Pickup	\$13.06	PickUp Info	FedEx
Thu 5:00pm Guaranteed	May 15 9:30pm Dropoff	\$9.20	DropOff Info	UPS
Thu 5:00pm Guaranteed	May 15 Unknown Pickup	\$10.70	PickUp Info	UPS

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APPENDIX C, Page C-2

Figure C-2

iShip.com™

Prepare Your Shipping Estimate

To find out the available services and charges for your shipment, fill out the information below. You will be able to add service options on the next page.

To get started, simply complete the form below and choose Continue!

Enter the Shipment Weight and Packaging	My shipment will weigh: <u> 2 </u> lbs. <u> </u> oz. (Include the weight of all packing materials. You may use a weight estimate for shipments that weigh more than 150 pounds.) I am using the following packaging: ☐ Carrier Letter ☒ Carrier Box ☐ Carrier Pak or Tube ☐ Other packaging. The dimensions (in inches) are: Length <u> Box </u> in. Width <u> Box </u> in. Height <u> Box </u> in. ☐ The packaging is irregular or is not standard Learn More
Enter Your Postal Codes	I will ship the item FROM: This postal code: <u> 20110 </u> 98125, for example I will ship the item TO: This postal code: <u> 93101 </u> 98125, for example This city: _____ This country: <u> USA </u> ▼ The delivery address for my shipment is a: ☒ Business ☐ Residence iShip.com currently supports packages shipped from the U.S. Learn More
Add Carrier Loss Protection	I want to protect my shipment from carrier loss or damage. The value of the contents is: \$ <u> </u> Most services automatically protect your shipment up to \$100. However, USPS Priority Mail and Parcel Post do not have automatic protection. Some USPS services have no available Loss Protection. Learn More

Cancel

Continue >>

Figure C-3

iShip.com



Learn More - Loss Protection

Press the Back button on your Browser to return.

If you declare a value for your shipment, and if the shipment is lost or the contents damaged in transit, you would be eligible for compensation from the carrier for up to the declared value amount. If you do not declare a value for your package, then a carrier's liability is limited to the basic coverage included in the service you used to ship your package. Generally, claims will be denied if the item was not properly packaged. This may occur if there is no exterior damage to the packaging but the contents are damaged.

The coverage provided by the carriers does not replace your insurance, but it does help to protect you in case the carrier is responsible for losing or damaging your goods. Carriers generally will compensate you for the lesser of (1) the actual value of the goods or (2) the amount you declare as the value of the goods. The cost of loss protection varies, depending on the carrier and the service you select.

Each carrier has different rules regarding loss protection. For example, UPS, FedEx, Airborne, and Yellow provide at least \$100 of coverage in their basic shipping rates. On the other hand, the U.S. Postal Service provides \$500 of coverage with its Express Mail Service, but no coverage is included with Priority Mail or Parcel Post.

Limits on Coverage

In addition, each carrier permits only a certain amount of coverage, and a different amount of coverage may be allowed depending on the packaging or the service you select. For example, you can purchase loss protection for up to \$50,000 for a FedEx Box, but only up to \$500 for a FedEx Letter.

The basic rules for coverage are summarized below. Fortunately, you don't need to memorize this chart. Just type the value of the item you are shipping in the Add Carrier Loss Protection box. The iShip.com shipping charges grid will automatically display services and prices available for that amount of coverage. Some services will not appear on the shipping charges grid if you select a high amount of coverage - iShip.com will not display services that are unavailable if your coverage exceeds the maximum.

Carrier/Service	Basic Coverage	Maximum Coverage
UPS Standard	\$100	\$50,000
UPS Prepaid Letter	\$100	\$100
USPS Express Mail	\$500	\$5,000
USPS Priority Mail	\$0	\$5,000
USPS Parcel Post	\$0	\$5,000
FedEx Standard	\$100	\$50,000
FedEx Letter, Packet, Pak	\$100	\$500
Airborne Standard	\$100	\$25,000
Airborne Letters	\$100	\$500
Yellow HomeNet	\$100	\$10,000

Figure C-3

Large and Heavy Items

For Yellow shipments, excess coverage (coverage over the first \$100) is available for \$0.75 per \$100 valuation with a \$20 minimum.

Restrictions and Exclusions

Each carrier has restrictions on the types of items they will cover. Most carriers will not permit any loss protection coverage beyond basic coverage for unique items (such as artwork), for items of extremely high value (such as antiques), or for perishable items. If your item is worth more than the maximum allowed declared value, check with the carrier before shipping it.

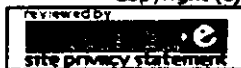
If you are planning to ship one of the following types of goods, check with the carrier first.

- Perishable goods
- Goods requiring protection from heat or cold
- Goods worth more than the maximum allowed declared value
- Goods of unusual value
- Antiques or museum articles
- Fragile items such as glassware or ostrich eggs
- Jewelry, furs, precious metals
- Stocks, bonds, cash equivalents
- Coins
- Stamps
- Hazardous or dangerous materials (including anything flammable, corrosive, explosive, infectious, or radioactive)
- Firearms or fireworks
- Tobacco or alcohol
- Live animals or plants

Press the Back button on your Browser to return.

Ask the shipping experts! support@iship.com

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1 CHAIRMAN GLEIMAN: Dr. Haldi, have you had an
2 opportunity to examine the packet of Designated Written
3 Cross Examination that was made available earlier today?

4 THE WITNESS: Yes, I have, Mr. Chairman.

5 CHAIRMAN GLEIMAN: And if those questions were put
6 to you today, would your answers be the same as those you
7 previously provided in writing?

8 THE WITNESS: Yes, they would.

9 CHAIRMAN GLEIMAN: No corrections or additions?

10 THE WITNESS: None, sir.

11 CHAIRMAN GLEIMAN: That being the case, counsel,
12 if I could ask your assistance yet again to provide two
13 copies of the Designated Written Cross Examination of Dr.
14 Haldi to the Reporter?

15 That material will be received into evidence and
16 transcribed into the record.

17 [Designated Written Cross
18 Examination of Dr. John Haldi was
19 received into evidence and
20 transcribed into the record.]
21
22
23
24
25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF ASSOCIATION OF PRIORITY MAIL USERS, INC.
WITNESS JOHN HALDI
(APMU-T-1)

Party

United Parcel Service

United States Postal Service

Interrogatories

UPS/APMU-T1-1-6, 11, 13-14, 18, 20
USPS/APMU-T1-1, 8, 10-11, 14-15, 28

UPS/APMU-T1-1-13, 16-24
USPS/APMU-T1-1-2, 5-33

Respectfully submitted,


Cyril J. Pittack
Acting Secretary

INTERROGATORY RESPONSES OF
ASSOCIATION OF PRIORITY MAIL USERS, INC.
WITNESS JOHN HALDI (T-1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
UPS/APMU-T1-1	UPS, USPS
UPS/APMU-T1-2	UPS, USPS
UPS/APMU-T1-3	UPS, USPS
UPS/APMU-T1-4	UPS, USPS
UPS/APMU-T1-5	UPS, USPS
UPS/APMU-T1-6	UPS, USPS
UPS/APMU-T1-7	USPS
UPS/APMU-T1-8	USPS
UPS/APMU-T1-9	USPS
UPS/APMU-T1-10	USPS
UPS/APMU-T1-11	UPS, USPS
UPS/APMU-T1-12	USPS
UPS/APMU-T1-13	UPS, USPS
UPS/APMU-T1-14	UPS
UPS/APMU-T1-16	USPS
UPS/APMU-T1-17	USPS
UPS/APMU-T1-18	UPS, USPS
UPS/APMU-T1-19	USPS
UPS/APMU-T1-20	UPS, USPS
UPS/APMU-T1-21	USPS
UPS/APMU-T1-22	USPS
UPS/APMU-T1-23	USPS
UPS/APMU-T1-24	USPS
USPS/APMU-T1-1	UPS, USPS
USPS/APMU-T1-2	USPS
USPS/APMU-T1-5	USPS
USPS/APMU-T1-6	USPS
USPS/APMU-T1-7	USPS
USPS/APMU-T1-8	UPS, USPS
USPS/APMU-T1-9	USPS
USPS/APMU-T1-10	UPS, USPS
USPS/APMU-T1-11	UPS, USPS
USPS/APMU-T1-12	USPS

USPS/APMU-T1-13	USPS
USPS/APMU-T1-14	UPS, USPS
USPS/APMU-T1-15	UPS, USPS
USPS/APMU-T1-16	USPS
USPS/APMU-T1-17	USPS
USPS/APMU-T1-18	USPS
USPS/APMU-T1-19	USPS
USPS/APMU-T1-20	USPS
USPS/APMU-T1-21	USPS
USPS/APMU-T1-22	USPS
USPS/APMU-T1-23	USPS
USPS/APMU-T1-24	USPS
USPS/APMU-T1-25	USPS
USPS/APMU-T1-26	USPS
USPS/APMU-T1-27	USPS
USPS/APMU-T1-28	UPS, USPS
USPS/APMU-T1-29	USPS
USPS/APMU-T1-30	USPS
USPS/APMU-T1-31	USPS
USPS/APMU-T1-32	USPS
USPS/APMU-T1-33	USPS

**APMU Witness John Haldi Response to Interrogatory of
United Parcel Service**

UPS/APMU-T1-1. In the case of each number shown in Table 1 of your testimony, provide complete citations for all of the data sources used to derive the number, including all calculations made to arrive at those numbers and all workpapers.

Response:

The Index, shown in columns 3 and 4, is computed from the unit cost data in columns 1 and 2.

The unit cost data for 1997 – 1999 are from the CRA (USPS version), page 1, column E (marginal cost per piece).

The unit cost data for 2000, 2001BR and 2001AR are derived from the following volume and cost data.

PRIORITY MAIL

<u>Year</u>	<u>Volume</u>	<u>Source</u>	<u>Cost</u>	<u>Source</u>
2000	1,229,818	USPS-32C, p. 1	2,754,964	USPS-14E, p. 7
2001BR	1,331,105	USPS-T-6, p. 5	3,263,396	USPS-32A, p. 1
2001AR	1,226,160	USPS-T-6, p. 5	3,064,062	USPS-32B, p. 1

PERIODICALS

<u>Year</u>	<u>Volume</u>	<u>Source</u>	<u>Cost</u>	<u>Source</u>
2000	10,397,195	USPS-32-C, p. 1	2,367,481	USPS-14E, p. 7
2001BR	10,434,523	USPS-T-6, p. 5	2,498,005	USPS-32A, p. 1
2001AR	10,321,166	USPS-T-6, p. 5	2,465,588	USPS-32B, p. 1

For 2001BR and 2001AR, the unit costs for Priority Mail that result from the above data are, respectively, \$2.452 and \$2.500. These unit costs are even higher than those shown in my Table 1, and the corresponding index numbers are increased accordingly, to 139 and 142, respectively. An errata will be issued shortly.

APMU Witness John Haldi Response to Interrogatory of
United Parcel Service

UPS/APMU-T1-2. Provide all references, reports, studies, and other documents on which you rely in support of the statement on page 11 of your testimony that "In the eyes of the consumer, performance is more relevant to the perception of value than any other factor save the rate paid."

Response:

This statement needs to be interpreted within the context of the immediately preceding sentence, which states that "[i]t is difficult to understand the Postal Service's objection to releasing data on PMPC performance on grounds of relevance." With this as predicate, it perhaps would have been better to have stated that "[i]n the eyes of the consumer, performance is more relevant to the perception of value than any other factor save, *perhaps*, the rate paid." In other words, to some consumers, perhaps many consumers, performance is even more important than the rate paid. Let me elaborate.

Priority Mail is but one of many expedited delivery services from which consumers can choose. Other services include, but are not limited to, Express Mail, FedEx and UPS overnight priority (*i.e.*, morning delivery), FedEx Standard (*i.e.*, afternoon delivery), and FedEx and UPS second day delivery. Each service offers the consumer a rate-performance combination. All of the preceding services have a higher price than Priority Mail, especially for individual shippers who pay the full, non-discounted rate, and the service commitment for each of these services is generally as high, or higher, than the service commitment of Priority Mail (the chief exception would be those areas where Priority Mail has an overnight commitment). Originators of packages and documents who

APMU Witness John Haldi Response to Interrogatory of
United Parcel Service

consciously elect to pay a higher price presumably value speed and consistency (i.e., performance) even more than the rate paid. Those consumers who elect to use Priority Mail, which has a lower rate and less reliable performance than the other available services, presumably prefer the rate-performance combination of Priority Mail over that of the other expedited services. No studies were undertaken to arrive at this very obvious conclusion. In a marketplace with demonstrated aggressive competition in price and optional features, consumers shop for price and performance first, and other convenience and ancillary, optional factors second.

APMU Witness John Haldi Response to Interrogatory of
United Parcel Service

UPS/APMU-T1-3. Refer to page 11 of your testimony, where you state, "All indications of delivery performance point to the deterioration of service."

- (a) State precisely every indicator to which you are referring.
- (b) Define precisely the time period to which you refer.

Response:

(a) and (b). The statement which you quote was primarily in reference to the ODIS data cited in the preceding paragraph, which compared the 1995-1997 period with the 1997-1999 period.

In order to provide a more responsive answer to this interrogatory, as well as UPS/APMU-T1-4, I have prepared the tables shown in the attachment to the response to this interrogatory. These tables cover the period 1997 – 1999.

Using the PETE and EXFC data in Figure 1 and the ODIS data in Table 9 of my testimony, for the same period of successive years they compare (i) Priority Mail overnight and 2-day performance, and (ii) Priority Mail performance overnight and 2-day performance relative to First-Class performance with the same standard. In the latter comparison (i.e., Priority Mail vs. First-Class) the term "up" means that Priority Mail performance improved relative to First-Class, and the term "down" means that Priority Mail performance declined relative to First-Class (in the same quarter of the preceding year).

For overnight performance, Priority Mail performance in 1998, as measured by PETE, was worse in Q2 and Q3, but improved in Q4. As measured by ODIS, 1998 compared unfavorably with 1997. Relative to First-Class

APMU Witness John Haldi Response to Interrogatory of
United Parcel Service

performance, Priority Mail in 1998 also compared unfavorably to 1997 (with a slight improvement in Q4, however).

Priority Mail performance in 1999, as measured by PETE, was better in all four quarters. As measured by ODIS, 1999 registered a small improvement compared with 1998. Relative to First-Class performance, based on PETE data Priority Mail in 1999 also compared favorably to 1998 (with a some deterioration in Q4, however). Based on ODIS data, in 1999 Priority Mail performance relative to First-Class performance showed no change from 1998.

For second-day performance, Priority Mail performance in 1998, as measured by PETE, was worse in Q2 and Q3, but improved in Q4. As measured by ODIS, 1998 compared unfavorably with 1997. Relative to First-Class performance, PETE data show that Priority Mail in 1998 also compared unfavorably to 1997 (with a slight improvement in Q4, however). For the year, ODIS data are consistent with results based on the PETE data.

Priority Mail performance in 1999, as measured by PETE, was better in all four quarters. As measured by ODIS, 1999 registered a small improvement compared with 1998. Relative to First-Class performance, based on PETE data Priority Mail in 1999 also compared favorably to 1998. Based on ODIS data, in 1999 Priority Mail performance relative to First-Class performance showed no change from 1998.

**APMU Witness John Haldi Response to Interrogatory of
United Parcel Service**

**To sum up, Priority Mail performance in 1998 could be described as
"miserable," with some apparent improvement above that level in 1999.**

OVERNIGHT PERFORMANCE**PRIORITY MAIL AS MEASURED BY PETE DATA**

	1997	Performance vs. Same Period in Prior Year	1998	Performance vs. Same Period in Prior Year	1999	Performance vs. Same Period in Prior Year
Q1			84.85	n.a	90.73	up
Q2	85.99	n.a	82.73	down	88.15	up
Q3	88.22	n.a	88.16	down (flat)	90.69	up
Q4	85.99	n.a	91.26	up	91.37	up (flat)
Avg	86.73	n.a	86.75	flat	90.24	up

Source: APMU-T-1, Figure 1, p. 45.

PRIORITY MAIL, AS MEASURED BY ODIS DATA

86	n.a.	84	down	85	up
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Source: APMU-T-1, Table 9, p. 50.

FIRST CLASS VS. PRIORITY MAIL (EXFC - PETE)

	1997	Performance vs. Same Period in Prior Year	1998	Performance vs. Same Period in Prior Year	1999	Performance vs. Same Period in Prior Year
Q1			8.01	n.a	2.05	up
Q2	4.76	n.a	9.93	down	5.00	up
Q3	3.93	n.a	5.35	down	2.85	up
Q4	6.36	n.a	1.76	up	2.37	down
Avg	5.02	n.a	6.26	down	3.07	up

Source: APMU-T-1, Figure 1, p. 45.

FIRST-CLASS - PRIORITY MAIL, AS MEASURED BY ODIS DATA

5	n.a.	8	down	8	flat
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Source: APMU-T-1, Table 9, p. 50.

TWO-DAY PERFORMANCE**PRIORITY MAIL AS MEASURED BY PETE DATA**

	1997	Performance vs. Same Period in Prior Year	1998	Performance vs. Same Period in Prior Year	1999	Performance vs. Same Period in Prior Year
Q1			69.50	n.a	82.53	up
Q2	70.75	n.a	60.77	down	66.21	up
Q3	77.11	n.a	75.86	down	80.00	up
Q4	71.69	n.a	82.88	up	84.62	up
Avg	73.18	n.a	72.25	down	78.34	up

Source: APMU-T-1, Figure 1, p. 45.

PRIORITY MAIL, AS MEASURED BY ODIS DATA

73	n.a.	72	down	74	up
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Source: APMU-T-1, Table 9, p. 50.

FIRST CLASS VS. PRIORITY MAIL (EXFC - PETE)

	1997	Performance vs. Same Period in Prior Year	1998	Performance vs. Same Period in Prior Year	1999	Performance vs. Same Period in Prior Year
Q1			9.38	n.a	3.94	up
Q2	0.99	n.a	17.93	down	17.15	up
Q3	1.48	n.a	10.20	down	6.89	up
Q4	6.89	n.a	4.78	up	3.75	up
Avg	3.12	n.a	10.57	down	7.93	up

Source: APMU-T-1, Figure 1, p. 45.

FIRST-CLASS - PRIORITY MAIL, AS MEASURED BY ODIS DATA

9	n.a.	13	down	13	flat
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Source: APMU-T-1, Table 9, p. 50.

**APMU Witness John Haldi Response to Interrogatory of
United Parcel Service**

UPS/APMU-T1-4. For every indicator identified in your response to interrogatory UPS/APMU-T1-3, state whether it shows that Priority Mail delivery performance has declined since the PMPC network has become fully operational.

Response:

See response to UPS/APMU-T1-3.

APMU Witness John Haldi Response to Interrogatory of
United Parcel Service

UPS/APMU-T1-5. Refer to page 14 of your testimony, where you state, "The failure to achieve significant performance improvement contributes to the erosion of the customer perception of the value of the Priority Mail service."

- (a) Provide all references, reports, studies, and other documents on which you rely to support this assertion.
- (b) Provide all references, reports, studies, and other documents on which you rely to support the assertion that there has been an "erosion of the customer perception of the value of the Priority Mail service."

Response:

(a) and (b). The above-quoted statement, which is the first sentence of a paragraph, is intended to be interpreted in the context of the remainder of the paragraph. As is well known, and as the balance of the paragraph points out, in the delivery business (and, indeed, as in other service businesses as well) one normally expects trade-offs between cost and the level of service. That is, one expects a higher level of service to cost more, while for a poorer level of service one would expect the cost to be less. Conceptually, there exists what might be referred to as the tradeoff "frontier" between cost and the level of service.

The Postal Service embarked on the PMPC "experiment" in order to improve service levels to its customers in the area served by the PMPC Network. If these levels have actually improved, it is not evident from the nationwide service performance levels that are being achieved. Consequently, no measurable tradeoff exists between the higher cost of the network and achieved service level improvements. The PMPC Network experiment thus has failed to represent a move along the tradeoff frontier. Instead, and despite the good

APMU Witness John Haldi Response to Interrogatory of
United Parcel Service

intentions of those who planned the PMPC Network, the Postal Service has moved to an "interior" point which clearly is inferior to other points along the efficient tradeoff frontier. To compare customer perceptions about various combinations along the tradeoff frontier, one would need some kind of market evidence or consumer survey. Under the circumstances here, however, my statement about customer perception is based on the fact that the Postal Service has moved to a more costly and less efficient outcome, and is not the result of a statistical survey or study.

APMU Witness John Haldi Response to Interrogatory of
United Parcel Service

UPS/APMU-T1-6. Refer to pages 19-20 of your testimony, where you state that "Should [the Commission] fail to recommend rates which the mailing public considers fair and equitable, a substantial portion of the remaining business will also migrate elsewhere." Quantify the "substantial" portion of Priority Mail business that will migrate elsewhere to which you there refer. In particular, indicate whether the migration you speak of is in addition to the migration predicted by Postal Service witness Musgrave's estimate of the own-price elasticity of demand for Priority Mail (see USPS-T-8, at 21).

Response:

When preparing my testimony, I did not attempt to quantify the "substantial" portion of Priority Mail that would be likely to migrate elsewhere. With reference to the latter part of your question, however, it is intended that my reference to a "substantial" migration be interpreted as volume that would be lost in addition to the migration predicted by Postal Service witness Musgrave's estimate of the own-price elasticity of demand for Priority Mail. For further discussion on this point, see my response to UPS/APMU-T1-15.

APMU Witness John Haldi Response to Interrogatory of
United Parcel Service

UPS/APMU-T1-7. Refer to page 29 of your testimony, where you state that "Express Mail...could not under any foreseeable circumstances generate a major contribution to institutional costs." Provide all references, reports, studies, and other documents on which you rely in support of this claim.

Response:

At page 19 (lines 9-10) of my testimony, my mention of Express Mail includes a reference to Appendix A of my testimony. Although my testimony at page 29 did not expressly refer to Appendix A, perhaps it should have.

As shown in Appendix A, Table A-2 (page A-4), the highest contribution from Express Mail was recorded in 1984 (\$313 million). The 1998 contribution (\$219 million) was about 70 percent of that in 1984. If the 1998 contribution were to be adjusted for the inflation that has occurred over the intervening years, it would compare even less favorably.

It should be evident that the contribution which the Postal Service can obtain from a particular class or subclass is directly related to the cost, elasticity of demand and price charged for the service. The own-price elasticity of Express Mail, as reported by witness Musgrave (USPS-T-7, p. 41) is 1.57 (absolute value), the highest of any class or subclass of mail. Any increase in price above the existing level thus can be expected to result in a significant loss of volume and contribution. At the same time, as shown in my Table A-1 (page A-3), the markup on Express Mail established in the last rate case, Docket No. R97-1, was only 14 percent. Consequently, any significant reduction in the markup below the existing level would result in the risk of Express Mail not even

APMU Witness John Haldi Response to Interrogatory of
United Parcel Service

covering its attributable costs. With respect to Express Mail, the Postal Service (and the Commission) is thus "in a box." It cannot significantly increase rates on Express Mail without losing much of the small volume that remains, while any significant reduction in rates could result in revenues below attributable cost and consequent losses. These are the facts upon which I rely to conclude that in order for Express Mail to turn the corner vis-a-vis its contribution, it would need to generate much more volume than is presently foreseeable under any circumstances (except, perhaps, for a prolonged strike against FedEx or UPS, which presumably would be only a temporary phenomenon). No other specific documents were relied upon in support of this portion of my testimony.

APMU Witness John Haldi Response to Interrogatory of
United Parcel Service

UPS/APMU-T1-8. Provide all evidence available to you concerning whether the rates that Federal Express charges the U.S. Government are similar to the rates that Federal Express charges other mailers.

Response:

The government rates provided in Appendix B of my testimony are in the public domain, and were used as an example of what is actually available to large volume customers. It is my understanding that discounted rates for expedited delivery are widely negotiated by FedEx, UPS and other private sector competitors of the Postal Service. It is also my understanding that discounted rates in negotiated contracts are considered to be highly confidential and proprietary to the party furnishing such rates. Further, in many cases customers holding negotiated contracts are legally enjoined from disclosure of such information. Although such "secrecy" clauses are not typical of competitive industries, in the expedited delivery business they appear to be virtually universal. Accordingly, I have no evidence concerning whether the rates that Federal Express charges the U. S. Government for expedited delivery service are either similar to or much different from the rates that Federal Express (or any other private sector delivery provider, for that matter) charges other large volume shippers.

APMU Witness John Haldi Response to Interrogatory of
United Parcel Service

UPS/APMU-T1-9. Refer to the rates listed in Table 6 of your testimony. For what time period are these rates guaranteed to remain in effect?

Response:

It is my understanding that the current contract between FedEx and GSA expires on August 15, 2000. However, the GSA has an option to extend the contract for one additional year, until August 15, 2001. Thus the rates are essentially guaranteed to remain in effect until this later date.

APMU Witness John Haldi Response to Interrogatory of
United Parcel Service

UPS/APMU-T1-10. Define precisely the term "somewhat low value of service" as you use it on page 39 of your testimony.

Response:

The statement means that when the weight limit for First-Class Mail was raised from 11 to 13 ounces, even at the \$3.20 rate the public perception of the value of Priority Mail was not sufficiently high to avoid a shift from Priority to First-Class Mail of an estimated 128 million pieces in Test Year (before rates; see LR-I-114, p. 3). That is, for some 128 million pieces, mailers prefer to save the difference between \$3.20 and the rate for 12 and 13 ounce First-Class Mail (\$2.75 and \$2.97, respectively); *i.e.*, the savings of only \$0.45 and \$0.23 has been proven to be sufficient to shift 128 million pieces from Priority to First-Class Mail when mailers have the ability to exercise that option.

APMU Witness John Haldi Response to Interrogatory of
United Parcel Service

UPS/APMU-T1-11. Define precisely the term "vastly more competitive marketplace" as you use it on page 40 of your testimony.

Response:

The phrase to which you refer, a "vastly more competitive marketplace," is obviously a comparative phrase. I will try both to explain and illustrate it by reference to significant developments that have occurred since 1992. The market for expedited delivery service has become more competitive as a result of at least three major categories of change: (1) an increase in the range of offerings for expedited package and document delivery services by previously existing competitors; (2) the emergence of actual or potential new entrants in the expedited marketplace; and (3) the development of comparison shopping via the internet. Collectively, this means that consumers have better information as well as more choices, both of service providers and products. The following paragraphs elaborate on each of the above.

The expanded range of offerings and activities by previously existing competitors includes the new FedEx residential delivery service, Airborne@Home service, and UPS 3-day select service. It also includes the expansion of FedEx and UPS collection networks. A further development, driven by the increased competition and desire of the mailing/shipping public for better service at lower cost, has been the spread of long-distance team-driving and the expanded range of 2- and 3-day delivery that can be achieved by surface transportation, which has a somewhat lower cost than air transportation.

**APMU Witness John Haldi Response to Interrogatory of
United Parcel Service**

Actual or potential new entrants include the emergence of major European postal administrations as privatized or corporatized global operators. This includes the pending privatization of Deutschpost AG and its investment in DHL (as well as other companies in the delivery business around the world), the purchase of TNT by the Dutch Post Office (which has been privatized and now has listed on the NYSE American Depositary Receipts, which are the equivalent of shares of stock for foreign firms), and the potential entry of Royal Mail into the domestic market (Royal Mail, which has been corporatized but not privatized, has recently purchased a majority interest in a private sector delivery company in Sweden, signaling its intent to expand beyond Great Britain).

The Internet, increasingly utilized as a facile place to conduct comparison shopping, now provides visibility and "one stop shopping" for expedited delivery services, and allows purchasers of such services to make more informed selections concerning the price and value of offerings by all competitors in this field (see Appendix C of my testimony for more information on this point).

APMU Witness John Haldi Response to Interrogatory of
United Parcel Service

UPS/APMU-T1-12. Refer to page 40 of your testimony, where you state that (a) "at minimum, the drop in volume growth from 10 percent in 1990 to 2 percent in 1991 will likely recur with any rate increase of the magnitude proposed by the Postal Service" and (b) "recovery of lost volume and market share will be much more difficult, if not impossible, to achieve." Provide all references, reports, studies, and other documents on which you rely in support of these claims.

Response:

(a) The above-quoted statement refers to a year-to-year decline in volume growth from 10 percent to 2 percent, or a net decline in one year of 8 percent.

The year-to-year Priority Mail volume figures for the years 2000 and 2001 are as follows:

<u>Year</u>	<u>Volume (000)</u>	<u>Percent change</u>
2000	1,229,818	
2001BR	1,331,105	8.2%
2001AR	1,226,160	-0.3%

In the absence of a rate change, the volume in 2001 Before Rates is forecast to increase over the year 2000 volume by about 8.2 percent, and if the Postal Service's rate increases are adopted as proposed, the volume in 2001 After Rates is forecast to decline from the year 2000 volume by about 0.3 percent. The net result of the rate increase is thus forecast to reduce volume growth from what it otherwise would have been by about 8 percent.

**APMU Witness John Haldi Response to Interrogatory of
United Parcel Service**

(b) Historically, the Postal Service has found it difficult to regain market share lost to private sector competitors. The two outstanding examples of this are parcel post and Express Mail. At one time the Postal Service was the dominant provider of each service. Today it has a minor share of each market, and its role has been reduced to that of a niche participant, catering to the small segment that does not use a private sector competitor, but instead still relies on the Postal Service. In addition to these historic facts, competition in the expedited delivery market has become more intense since 1990-1992; for further discussion on this point see my response to UPS/APMU-T1-11.

As my testimony points out, Priority Mail competes primarily as a low cost entry in the market for expedited package and document delivery services because it lacks many of the added value features of competitors' products. It should not take a specialized study or even a market place survey to understand that an erosion of the pricing advantage enjoyed by Priority Mail, will lead customers to select from among the many other providers who offer added value features and performance guarantees not currently available with Priority Mail. For additional discussion concerning the problems which the Postal Service may encounter in any effort to regain lost market share, see my response to UPS/APMU-T1-15.

APMU Witness John Haldi Response to Interrogatory of
United Parcel Service

UPS/APMU-T1-13. Provide the original source of the market share statistics in Table 8 of your testimony and explain how they were calculated. In particular, indicate whether identical definitions of "the market," "pieces," and "market competitors" were employed in every year cited in Table 8.

Response:

All data contained in Table 8 were originally provided by the Postal Service, including the data cited by the Commission in its *Opinion and Recommended Decision* in Docket No. R94-1. It is my understanding that the Postal Service obtains the data via a contract which it has with the Colography Group, which would know whether the definitions you seek have been consistently employed in every year cited in Table 8. With respect to the consistency of the underlying definitions, I could not even speculate, because I do not have any relationship or contact with the Colography Group.

**APMU Witness John Haldi Response to Interrogatory of
United Parcel Service**

UPS/APMU-T1-14. Explain the discrepancy between the 62.4% market share for Priority Mail in 1998 reported in Table 8 and the corresponding 61.8% market share reported in footnote 41 of your testimony.

Response:

Each datum you cite in this interrogatory was provided by the Postal Service, as indicated by the references provided in my testimony. I would suggest that this interrogatory is more appropriately directed to the Postal Service for clarification.

APMU Witness John Haldi Response to Interrogatory of
United Parcel Service

UPS/APMU-T1-16. Define "poor performance" as you employ the term on page 43, line 6, of your testimony, and explain how the absence of a track and trace service "hides" poor performance.

Response:

In my view, delivery performance should be assessed in at least two complementary ways: (1) performance against a standard (*e.g.*, actual days to deliver versus the standard number of days for delivery), and (2) for those pieces that fail to receive timely delivery, one or more indications of the dispersion and extent of failure (*e.g.*, the actual distribution of days late, or average number of days late).

"Poor performance," as employed in the portion of my testimony referenced in your interrogatory, can mean either an unfavorable comparison with the preset standard (the first measure), or, for those pieces that fail to receive timely delivery, a high dispersion from the standard, indicating highly inconsistent and unreliable delivery when the standard is not met (the second measure).

The absence of a track and trace capability hides poor performance from both customers and managers as explained below. It is especially critical for those pieces that receive untimely and inconsistent service. For customers, if a track and trace capability were in place for Priority Mail, they could dial a service line or access a web site, present the tracking number, and determine where the mail piece was last handled, on a real time basis. Absent this feature, customers have no way to obtain current Priority Mail status. At best, the Postal Service

APMU Witness John Haldi Response to Interrogatory of
United Parcel Service

provides information only after the fact (*i.e.*, after delivery has occurred), and then not routinely for all pieces, but only when the customer has explicitly signed up for delivery confirmation service. Neither customers nor Postal Service managers have any in-transit information that signal failures in handling or transportation on the part of the Postal Service. When pieces are several days late, customers may worry that the piece has been lost, and the Postal Service has no information whatsoever that may placate the customer. For managers, delivery confirmation (when customers elect to use it) will enable the Postal Service to develop data on the extent of service failures and generally identify the existence of problems, but it will neither pinpoint where problems have occurred within the network, nor will it facilitate more effective management; *i.e.*, the source of the problem is hidden from managers.

APMU Witness John Haldi Response to Interrogatory of
United Parcel Service

UPS/APMU-T1-17. Define precisely the term "outperformed" as you employ it on page 44, line 12, of your testimony.

Response:

Outperformed, as used here, means that since 1997 service achievement scores for First-Class Mail have exceeded the corresponding achievement scores for Priority Mail in every quarter for which data are available.

APMU Witness John Haldi Response to Interrogatory of
United Parcel Service

UPS/APMU-T1-18. Using the data presented in Figure 1 of your testimony, confirm that Priority Mail has achieved its service standards more consistently in 1999 than in 1998, when measured on a quarter-to-quarter basis. If you do not confirm, explain why you do not do so.

Response:

Confirmed.

**APMU Witness John Haldi Response to Interrogatory of
United Parcel Service**

UPS/APMU-T1-19. Define the term "on time" as you employ it on page 44 of your testimony, and explain why it is necessarily the case that the "bottom line" for mailers is whether the mail is delivered "on time", as you define it.

Response:

The term "on time" as it is used here refers to meeting the Postal Service's committed delivery standard for Priority Mail.

Mailers who elect to use Priority Mail expect the Postal Service to provide delivery that is both timely and consistent vis-a-vis the Postal Service's stated standards, just as they would with other major vendors who provide competing expedited delivery products that, usually, are more expensive. So long as Priority Mail achieves timely delivery, mailers neither care nor are aware whether (i) their pieces are processed separately from or jointly with First-Class Mail, or (ii) whether their mail is processed in a new PMPC or a plain old plant (POP), or (iii) whether their mail travels via surface or air, or (iv) whether their mail travels on the Eagle Network or via commercial airlines. If the mail receives timely delivery, mailers receive the value which they expect for their money. And if the mail fails to receive delivery that is timely and consistent, these other indicators of "intrinsic value" do little or nothing to assuage any sense of frustration and disappointment, or to compensate for lost value. When packages are delivered on time, delivery confirmation is a helpful ancillary service insofar as it enables mailers to ascertain that the piece was delivered. Until the piece is delivered, however, delivery confirmation has nothing to report.

APMU Witness John Haldi Response to Interrogatory of
United Parcel Service

UPS/APMU-T1-20. Confirm that the discussion in lines 1-4 on page 49 of your testimony implies that "customer expectations" about service performance, and not service performance alone, affect "value of service." If you do not confirm, explain why you do not do so.

Response:

Confirmed.

APMU Witness John Haldi Response to Interrogatory of
United Parcel Service

UPS/APMU-T1-21. Refer to page 53 of your testimony, where you state that Priority Mail's delivery performance "is generally perceived as less timely and reliable than its competitors." Provide all references, reports, studies, and other documents on which you rely in support of this claim.

Response:

To the best of my knowledge, competing providers of expedited delivery service do not publish any data, reports or studies on the extent to which they either achieve, or fail to achieve, their own delivery standard. Consequently, it is not possible to make objective comparisons between Priority Mail performance and that of competing services. It is for this reason that one must deal in perceptions about Priority Mail and competing services.

As regards the failure of Priority Mail to achieve its own performance standards, the performance data that were provided by the Postal Service and are contained in my testimony speak for themselves. In addition, Priority Mail carries no guarantee of delivery by a specific time or on a specific day. Other entries in this market segment do provide such commitments. The net effect of these differences is that Priority Mail is perceived as less timely due to that lack of specificity on its part versus "guaranteed" service by competitors. Aside from numerous anecdotal "horror stories" about very late and inconsistent delivery, which I hear from large Priority Mailers by virtue of my position as economic counsel for APMU, I have not relied on any studies or reports to validate my statement concerning perceptions about Priority Mail.

APMU Witness John Haldi Response to Interrogatory of
United Parcel Service

UPS/APMU-TI-22. Confirm that, based on the data presented in Table A-2 of your testimony, in FY1998 Priority Mail's contribution to institutional costs was at its lowest level since FY 1994.

Response:

Confirmed.

**Response of APMU Witness John Haldi Response to Interrogatory
of United Parcel Service**

UPS/APMU-T1-23.

Refer to page 74 of your testimony, APMU-T-1. Confirm that, under your rate proposal, Priority Mail would contribute \$2.343 billion to institutional costs in the Test Year.

Response:

Confirmed. My proposed rates (in conjunction with my proposed reduction in the weight limit for First-Class Mail from 13 to 11 ounces) result in an average 2.6 percent increase in Priority Mail rates, and an institutional contribution of \$2.343 billion. Be assured that I would much rather defend my estimates than UPS' assertion that its proposed 40.3 percent increase would result in a contribution of nearly \$2.5 billion. Only once in the past 19 years has Priority Mail had a rate increase in excess of 5.6 percent (in 1991, Priority Mail rates increased by 19 percent; *see* USPS-T-34, p. 7). UPS' econometric projection in this docket thus goes far beyond the base of historic experience used to develop the parameters in witness Musgrave's model; hence it is subject to considerable uncertainty in the range where UPS would employ the model to project volumes, revenues and contribution.

**Response of APMU Witness John Haldi Response to Interrogatory
of United Parcel Service**

UPS/APMU-T1-24.

Confirm that, under the Postal Service's rate proposal, Priority Mail would contribute \$2.478 billion to institutional costs in the Test Year (USPS-T-14, Exhibit USPS-14M).

Response:

Confirmed that witness Kashani's exhibit uses the figure you cite. However, witness Robinson's estimate of Priority Mail's TYAR contribution including pickup revenue and cost, and fee revenue is equal to \$2.475 billion (*see* USPS-T-34, Table 3, p. 8, rows v and w).

I maintain that my Priority Mail volume and contribution projections, based upon a more modest 2.6 percent average increase in Priority Mail rates, are less speculative than the Postal Service's projections, in which an average rate increase of 15 percent is projected to result in a TYAR contribution that is 29 percent higher than the FY 2000 estimate. This remarkably sanguine estimate becomes striking when compared to recent annual changes in the contribution from Priority Mail. From the data shown below, it can be readily observed that even with rates that were either stable or increased only modestly, the contribution declined in 1996, 1998 and 1999.

**Response of APMU Witness John Haldi Response to Interrogatory
of United Parcel Service**

**Selected Priority Mail Statistics
1995 - 2001**

<u>Year</u>	<u>Priority Mail Volume</u>	<u>Priority Mail Revenue</u>	<u>Revs. Less Attrib Cost (PRC)</u>	<u>% Chg</u>	<u>Revs. Less Vol. Var. Cost</u>	<u>% Chg</u>
1995 ¹	869	3,075	1,715		n.a.	
1996	937	3,322	1,681	-2%	n.a.	
1997	1,068	3,859	1,699	+1%	1,976	
1998	1,174	4,150	1,545	-9%	1,830	-7%
1999 ²	1,189	4,533	n.a.		1,772	-3%
2000	1,230	4,741	n.a.		1,913	+8%
2001BR	1,357	5,227	n.a.		1,963	+3%
2001AR	1,250	5,542	n.a.		2,475	+29%

¹ Average rate increase of 4.8 percent effective January 1, 1995.

² Average rate increase of 5.6 percent effective January 10, 1999.

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

USPS/APMU-T1-1.

Refer to your testimony at pages 11-13 where you discuss the PMPC network.

- a. Is it your understanding that ten Priority Mail Processing Centers (PMPCs) were operated by Emery Worldwide Airlines under contract to the Postal Service during all of FY 1999? If not, please explain.
- b. Is it your understanding that some of the existing 10 PMPCs were not fully operational during a portion of FY 1998? If not, please explain.

Response:

- a. Yes.
- b. Yes.

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

USPS/APMU-T1-2.

Refer to APMU-T1-1 at 19, lines 16-18. Provide all supporting documentation, including data on the change in Priority Mail market share over time, to support your statement that: "In the case of Priority Mail, much of the business for heavier weight packages (over 5 pounds) appears to have migrated already to other providers."

Response:

See Docket No. R97-1, *Opinion & Recommended Decision*, paras. 5305-07; Docket No. R97-1, NDMS-T-2, p. 24, Table 2; Docket No. R97-1, USPS-T-33, Exhibit USPS-33K, p. 1; Docket No. R2000-1, USPS-T-34, Attachment A, p. 7; Docket No. R94-1, N-DP/USPS-T11-26 (Tr. 7A/3100); Docket No. R97-1, NDMS/USPS-T33-25 (Tr. 4/1968); Docket No. R2000-1, APMU/USPS-T34-17. *Also see* the analysis in Docket No. R97-1, NDMS-T-2, to see how my conclusion is drawn from these data.

It is noteworthy that, while Priority Mail's market share has dropped from 72 percent in 1993 to 62 percent in 1998, zoned Priority Mail has dropped from 5.1 percent of all Priority Mail to 4.1 percent during this same period. These data further support an evident decrease in Priority Mail's market share that weigh more than 5 pounds.

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

USPS/APMU-T1-5.

Refer to your testimony at page 35 where you discuss FedEx's federal government contract rates. Please provide all data, studies or other information demonstrating that FedEx's government contract rates are similar to the discounted rates that FedEx or other competitors offer non-governmental customers.

Response:

See response to UPS/APMU-T1-8.

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

USPS/APMU-T1-6.

Refer to your testimony at page 40 where you discuss the potential reduction in volume due to the implementation of the Postal Service's proposed rates. Do you agree with witness Musgrave's analysis of the impact of the USPS-proposed Priority Mail rates on Priority Mail volume? If not, discuss in detail the reasons for your opinion, and provide empirical evidence to support your forecast.

Response:

In my opinion, witness Musgrave has done a credible job with the data and information available to him. At the same time, any econometric model necessarily makes a number of implicit, fundamental assumptions that potentially limit applicability, and the limitations imposed by these assumptions need to be kept in mind.

First, an econometric model is composed of a number of independent variables and the estimated parameters are derived from historical data for those variables. An econometric model attempts, usually on an *a priori* basis, to identify and include all of the most important independent variables. Obviously, the model is only as good as, and can be no better than, the variables which it includes. In this regard, I would note that witness Musgraves' model has no variables for the prices actually charged by any of the competitors for Priority Mail. I do not fault witness Musgrave for this omission, because no data are available (see my response to UPS/APMU-T1-8). At the same time, my economic training, as well as discussions with members of APMU, tells me that the price of close competing substitutes is an important predictive variable.

The aim of an econometric model is to capture the underlying statistical relationship that has existed between the independent variables and the dependent variable. The model

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

makes the implicit assumption that prior structural relationships captured by the parameters will continue in the future relatively unchanged; *i.e.*, an accurate forecast of the independent variables will result in a good forecast for the dependent variable. The forecast of the dependent variable thus depends both on (i) the extent to which the underlying structure has been captured by the independent variables in the model and (ii) the accuracy of the forecasts of these variables.

I would characterize my position not so much as one of disagreeing with witness Musgrave's analysis, but as one consisting of strong reservations about it. My strongest reservations are based on the failure of the model to include the price of close competing substitutes. The field of complexity analysis discusses a phenomenon sometimes described as "tipping" effect. Succinctly, what appears to be a small shift in the measured variables causes a major structural change which may be irreversible (see my response to UPS/APMU-T1-15 for additional discussion).¹ Unfortunately, aside from the FedEx Government rates contained in Appendix B of my testimony, I do not have any other empirical evidence to offer on the negotiated contract prices of closes substitutes. However, the existence of the FedEx Government rates until September, 2001, should be interpreted as "a warning shot across the bow" (to use a naval analogy).

As noted in Appendix C of my testimony, for any given weight and distance, computer programs readily enable comparisons among various providers, and from

¹ An example of a tipping effect would be, figuratively speaking, the "straw that breaks the camel's back."

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

discussions with various Priority Mailers, I am aware of several who, in an effort to keep down their shipping cost, regularly split their shipments among alternative providers.

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

USPS/APMU-T1-7.

Other than the FedEx federal government rates provided in Appendix B to your testimony, provide all rate tables or other data for USPS competitors that demonstrate that "[t]he negotiated rates offered by competitors... may already be dangerously close to undercutting existing Priority Mail rates" [APMU-T1 at 42, lines 3-5].

Response:

See response to UPS/APMU-T1-8.

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

USPS/APMU-T1-8.

Confirm that $168\% * \$1.90 = \3.19 . If not confirmed, please explain fully.

Response:

Confirmed that 168 percent of \$1.90 is \$3.192.

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

USPS/APMU-T1-9.

Refer to page 8, lines 5-6 of your testimony.

- a. Confirm that you state that "[Priority Mail] coverage should be restricted to about the same level established by the Commission in Docket No. R97-1." If not confirmed, please explain fully.
- b. Confirm that the PRC Docket No. R97-1 recommended Priority Mail cost coverage and Priority Mail rates are based on estimated Priority Mail costs developed using the Postal Rate Commission's Docket No. R97-1 costing methodology. If not confirmed, please explain fully.
- c. Confirm that the allocated unit costs you use in rate design are based on Attachment H of USPS witness Robinson's testimony which incorporate the costing methodology proposed by the Postal Docket No. R2000-1. If not confirmed, please explain fully.
- d. Refer to USPS-LR-1-131, PRC Version/Rollforward Model and USPS witness Kashani's testimony (USPS-T14). Confirm that the Postal Rate Commission's Docket No. R97-1 costing methodology and the Postal Service's Docket No. R2000-1 costing methodology result in different estimates of Test Year Priority Mail costs. If not confirmed, please explain fully.

Response:

- (a) Confirmed. Specifically, my recommendation (as I state at p. 54, ll. 3-5) is that the Commission should restrain the cost coverage, to help ameliorate the damage to Priority Mail from rapidly increasing costs, and give Priority Mail an opportunity to recover from the extraordinary costs of a contract that will expire after the test year in this case, but well before any new rate case is filed.
- (b) Confirmed.

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

- (c) Confirmed that the allocated unit costs used in my rate design are based on Attachment H of USPS witness Robinson's testimony. I cannot attest as to the methodology used by witness Robinson, but it would be logical to anticipate that the costs which she presented in this docket reflect the costing methodology proposed by the Postal Service in this docket.
- (d) Confirmed.

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

USPS/APMU-T1-10.

Refer to your testimony at page 62, lines 8-10 where you state: "Some mailers use Priority Mail to dropship (and expedite) smaller items of different mail classes to destinating SCFs (and, perhaps on occasion, to DDUs)."

- a. Please provide all data, analyses, or other documentation available to you that quantify the total number of Priority Mail pieces that are used to "dropship (and expedite) smaller items of different mail classes."
- b. Please provide all data, analyses, or other documentation available to you that quantify by type of destination facility (DSCF, DDU or other facilities) the number of Priority Mail pieces that are used to "dropship (and expedite) smaller items of different mail classes."
- c. Please provide all data, analyses, or other documentation available to you that quantify by mail piece type or container (sack, tray, or other container) the number of Priority Mail pieces that are used to "dropship (and expedite) smaller items of different mail classes."
- d. Please provide all data, analyses, or other documentation available to you that quantify by mail class or subclass, the number of "smaller items" enclosed within these Priority Mail pieces.
- e. Please provide all data, analyses, or other documentation available to you that quantify by mail class or subclass, the average number of "smaller items" enclosed within one of these Priority Mail pieces.

Response:

- (a)-(e) Neither I nor APMU have any data responsive to your request.

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

USPS/APMU-T1-11.

Refer to your testimony at page 62, lines 10-12 where you state: "At the DSCF, Priority Mail sacks are opened and the items within are then entered as Standard A Mail, or another class."

- a. Is it your understanding that Priority Mail pieces and pieces mailed under other mail classes may be processed in different areas of a plant?
- b. What is the cost of opening a Priority Mail piece within the destination DSCF? Please provide all supporting analysis.
- c. What is the cost of identifying, by class of mail, the required processing operation for the mail enclosed within the Priority Mail piece? That is, what is the cost of determining, for example, that the enclosed pieces must be processed in the appropriate operations with the plant's other Standard Mail (A)? Please provide all supporting analysis.
- d. Do the costs referred to in part c vary depending on the class of mail that is enclosed within the Priority Mail piece? Please explain fully.
- e. What is the cost of moving the enclosed mail pieces to the appropriate operation within the plant? Please provide all supporting analysis.
- f. Are there any circumstances where the enclosed mail may need to be transported to another postal facility in order to be processed? Please explain fully.
- g. What is the cost of transporting the enclosed mail pieces to another facility in order to be processed? Please provide all supporting analysis.

Response:

- (a) It is my understanding that individual mailpieces, whether Priority Mail or other classes and subclasses, may be processed in different areas of a plant.
- (b) I assume this question refers to "Priority Mail sacks" rather than "Priority Mail pieces." I assume that the cost of opening and shaking out a sack of

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

Priority Mail is similar to the cost of opening and shaking out sacks of other classes of mail. No paperwork is associated with such dropshipped mail; *i.e.*, no form 8125 is required for pieces that are dropshipped by Priority or Express Mail.

- (c)-(d) To identify the class of mail contained within the Priority Mail sack, the clerk or mailhandler has to read the tag on the enclosed (white) sacks. I do not know how much it costs to read the tag on sacks of mail received at a DSCF, but I doubt whether the cost varies by class of mail within the sack.
- (e) I do not know the costs of transporting mail within the postal facility following receipt at the DSCF, but I would expect such costs to vary depending upon whether the plant has an annex to which the pieces must be transported for processing.
- (f)-(g) It is my understanding that Priority Mail sacks dropshipped to certain SCFs may contain sacks of mail to other nearby 3-digit locations served by one designated plant. It is my further understanding that the reason for putting smaller sacks within a larger sack is that this procedure is prescribed by the Postal Service (see the DMM, Section L005).

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

USPS/APMU-T1-12.

Please provide all data, analysis or other documentation supporting your assertion that Priority Mail pieces destinating at an SCF "travel longer distances" [APMU-T1 at 62, line 13] than a typical Priority Mail piece.

Response:

Over 45 percent of the FY 1998 Priority Mail volume was to Local/Zones 1,2,3.

However, logically a dropship mailer will use surface transportation for such zones (many dropship mailers use surface transportation for even longer distances — *see* FGFS-A-T-1, VP-CW-T-1, as well as the testimony of parcel consolidators from prior dockets). On this basis alone, it is reasonable to conclude that Priority Mail pieces destinating at an SCF travel longer distances than the typical Priority Mail piece.

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

USPS/APMU-T1-13.

On page 62, line[s] 12-13 you state that "dropship packages of this type tend to fall in the heavier, zoned weight range."

- a. Please provide all data, analysis, or other documentation on the average weight of Priority Mail pieces destinating at an SCF.
- b. Please provide all data, analysis, or other documentation on the weight distribution of Priority Mail pieces destinating at an SCF.
- c. Please provide all data, analysis, or other documentation on the zone distribution of Priority Mail pieces destinating at an SCF.

Response:

(a)-(c) I understand from one mailer that uses Priority Mail for drop shipment that the average weight of their sacks is 25 pounds. A second mailer informs me that the average weight of their sacks is 35 pounds. Other than that, neither I nor APMU have any data responsive to your request.

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

USPS/APMU-T1-14.

Currently, Priority Mail may be used to dropship (or expedite) smaller items of different mail classes "from the origin post office to the destination post office of the shipment" [(DMM D071.2.1)].

- a. Do you restrict your proposed discount to Priority Mail pieces destinating at a SCF?
- b. If not, why is it appropriate for the same discount to be applied to pieces dropshipped to differing types of facilities (i.e., DSCF, DDU)?

Response:

- (a) Yes. On page 63, lines 3-4, the phrase "or the DDU" is in error and should be deleted.
- (b) Not applicable. I am not personally aware of any Priority Mail users who drop ship to DDUs, and it is my impression that there is very little (if any) Priority Mail dropshipped to DDUs. To comport with the simplicity criterion, § 3622(b)(7), an SCF-only dropship discount is recommended at this time.

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

USPS/APMU-T1-15.

Refer to DMM E652.1.3

- a. Confirm that to qualify for DSCF Parcel Post rates, the pieces in the mailing must be part of a single mailing of 50 or more pieces. If not confirmed, please explain fully.
- b. Do you propose that this requirement apply to Priority Mail destinating at an SCF that is eligible for your proposed discount? If not, why not?
- c. Confirm that to qualify for DSCF Parcel Post rates, the pieces deposited at the DSCF must be addressed for delivery within the ZIP Code ranges that the applicable entry facility serves. If not confirmed, please explain fully.
- d. Do you propose that this requirement apply to Priority Mail destinating at an SCF that is eligible for your proposed discount? Please explain fully.
- e. Confirm that to qualify for DSCF Parcel Post rates, the pieces deposited at the DSCF must be presorted to the 5-digit level.
- f. Do you propose that this requirement apply to Priority Mail destinating at an SCF that is eligible for your proposed discount? Please explain fully.

Response:

- (a) Confirmed.
- (b) Sacks of drop shipped Priority Mail originate at a plant. While there may be a separate manifest for each sack, all pieces in all sacks going out at one time constitute "the mailing." From this perspective, typically there are thousands of pieces in each mailing, considerably above the 50 pieces mentioned in the question to part a, and also considerably above the minimum required for a Standard A mailing. The requirement should be that the contents of the dropshipped Priority Mail sack(s) meet the

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

requirements for the appropriate subclass; e.g., if the contents are Standard A, the requirements for a Standard A should be met.

- (c) Confirmed.
- (d) A Priority Mail piece destinating at an SCF should follow the requirements in DMM L005, which prescribes the 3-digit sortation and requires that mail addressed to some 3-digit locations be segregated in separate white sacks that are to be included in an orange Priority Mail sack to the 3-digit location that serves certain others.
- (e) Confirmed.
- (f) No; see my response to preceding part (d).

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

USPS/APMU-T1-16.

Refer to your testimony at page 62, lines 19-20, where you state: "heavier weight pieces in excess of 5 pounds, shipped to zone 5 or farther, result in relatively high unit profits."

- a. Confirm that, under your proposed rate design, the contribution to institutional costs for heavy-weight, Priority Mail pieces is 170%. If not confirmed, please explain fully.
- b. Confirm that under your proposed rate design, the average contribution to institutional costs for Priority Mail is 168%. If not confirmed, please explain fully.
- c. Please explain fully how, under your proposed rate design, Priority Mail pieces used to drop ship or expedite other classes of mail "will result in relatively high unit profits."

Response:

- (a) Confirmed.
- (b) Confirmed.
- (c) See the attachment to my response to this question, which shows the result of subtracting from my proposed Priority Mail rates (i) the allocated unit costs (using USPS methodology), and (ii) my proposed destination entry discounts. It can be readily observed that the unit profit increases for pieces that weigh above seven pounds, or travel farther than zone 4. For many rate cells, the unit profit exceeds the gross revenue for a one- or two-pound piece (\$3.45 and \$3.85 respectively, at Postal Service proposed rates, and \$3.00 and \$3.75 at my proposed rates). Although Priority Mail rates are examined here in isolation, it is worth mentioning that the contents of a Priority Mail

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

dropshipped sack also pay the SCF rate for each individual piece. Mailers who use Priority Mail dropship pay a significant premium over Standard A rates to avoid the BMC, expedite their mail, and (hopefully) obtain more consistent delivery.

Priority Mail
Unit Profits from Destination Entry

APMU Proposed Rates (unrounded) - Allocated Unit Costs, including
contingency - Proposed Destination Entry Discount

Weight (Pounds)	L,1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
6	2.41	1.97	1.96	1.81	1.50	1.02
7	2.29	2.06	2.10	2.04	1.96	1.83
8	2.16	2.15	2.23	2.27	2.41	2.64
9	2.03	2.25	2.36	2.50	2.87	3.45
10	1.91	2.18	2.25	2.73	3.35	4.26
11	1.38	2.03	2.10	2.50	3.31	4.67
12	1.36	2.28	2.36	2.79	3.68	5.08
13	1.33	2.53	2.62	3.09	4.05	5.57
14	1.49	2.78	2.88	3.38	4.41	6.05
15	1.65	3.03	3.13	3.67	4.78	6.53
16	1.81	3.29	3.39	3.96	5.15	7.02
17	1.96	3.54	3.65	4.26	5.51	7.50
18	2.12	3.79	3.90	4.55	5.88	7.98
19	2.28	4.04	4.16	4.84	6.25	8.47
20	2.44	4.29	4.42	5.13	6.61	8.95
21	2.20	4.14	4.27	5.03	6.58	9.03
22	2.35	4.39	4.53	5.32	6.95	9.52
23	2.51	4.64	4.79	5.61	7.31	10.00
24	2.67	4.89	5.04	5.90	7.68	10.48
25	2.83	5.14	5.30	6.20	8.05	10.97
26	2.99	5.39	5.56	6.49	8.41	11.45
27	3.14	5.64	5.81	6.78	8.78	11.93
28	3.30	5.89	6.07	7.08	9.15	12.42
29	3.46	6.14	6.33	7.37	9.51	12.90
30	3.62	6.39	6.58	7.66	9.88	13.39
31	3.47	6.34	6.54	7.65	9.95	13.57
32	3.63	6.59	6.80	7.95	10.31	14.05
33	3.79	6.84	7.05	8.24	10.68	14.54
34	3.95	7.09	7.31	8.53	11.05	15.02
35	4.11	7.34	7.57	8.82	11.41	15.50
36	4.26	7.59	7.83	9.12	11.78	15.99
37	4.42	7.84	8.08	9.41	12.15	16.47
38	4.58	8.09	8.34	9.70	12.51	16.95
39	4.74	8.34	8.60	10.00	12.88	17.44
40	4.90	8.59	8.85	10.29	13.25	17.92
41	4.80	8.59	8.86	10.33	13.36	18.15
42	4.96	8.84	9.12	10.62	13.73	18.64
43	5.12	9.09	9.37	10.92	14.10	19.12
44	5.28	9.34	9.63	11.21	14.46	19.61
45	5.44	9.59	9.89	11.50	14.83	20.09
46	5.59	9.85	10.14	11.79	15.20	20.57
47	5.75	10.10	10.40	12.09	15.56	21.06
48	5.91	10.35	10.66	12.38	15.93	21.54
49	6.07	10.60	10.91	12.67	16.30	22.02

**Priority Mail
Unit Profits from Destination Entry**APMU Proposed Rates (unrounded) - Allocated Unit Costs, including
contingency - Proposed Destination Entry Discount

Weight (Pounds)	L,1,2&3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
50	6.22	10.85	11.17	12.97	16.66	22.51
51	6.13	10.85	11.18	13.01	16.78	22.74
52	6.29	11.10	11.43	13.30	17.15	23.22
53	6.45	11.35	11.69	13.59	17.51	23.71
54	6.61	11.60	11.95	13.89	17.88	24.19
55	6.76	11.85	12.20	14.18	18.25	24.67
56	6.92	12.10	12.46	14.47	18.61	25.16
57	7.08	12.35	12.72	14.76	18.98	25.64
58	7.24	12.60	12.98	15.06	19.35	26.12
59	7.40	12.85	13.23	15.35	19.71	26.61
60	7.55	13.10	13.49	15.64	20.08	27.09
61	7.46	13.10	13.50	15.69	20.20	27.33
62	7.62	13.35	13.75	15.98	20.56	27.81
63	7.78	13.60	14.01	16.27	20.93	28.29
64	7.94	13.85	14.27	16.56	21.30	28.78
65	8.09	14.10	14.52	16.86	21.66	29.26
66	8.25	14.35	14.78	17.15	22.03	29.74
67	8.41	14.60	15.04	17.44	22.40	30.23
68	8.57	14.85	15.29	17.73	22.76	30.71
69	8.73	15.10	15.55	18.03	23.13	31.19
70	8.88	15.35	15.81	18.32	23.50	31.68

Sources: APMU Proposed Rates, APMU_W_S_1, Tab 1-70 lbs, Table 9.
Allocated Unit Costs, APMU_W_S_1, Tab 1-70 lbs, Table 1.
Proposed Destination Entry Discounts, APMU-T-1, Table 11.

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

USPS/APMU-T1-17.

Confirm that a mailer entering one piece of Priority Mail destinating at an SCF will be eligible for your proposed discount. If not confirmed, explain fully.

Response:

Confirmed. I did not include any minimum volume of Priority Mail to an individual SCF for two reasons. First, all mailers who to my knowledge currently use Priority Mail for dropshipment to DSCFs enter large numbers of sacks that would be well above any minimum that I would consider, and I cannot see the likelihood of mailers shifting to Priority Mail dropshipment if there were not significant daily volume. Second, I believe that Priority Mail dropship has considerable potential and is a product that the Postal Service should actively promote. Erecting a barrier in the form of a minimum number of sacks to an individual SCF would be counter-productive to the introduction and promotion of such a new product.

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

USPS/APMU-T1-18.

Under your proposal, will a mailer who enters Priority Mail that (i) destinate at an identified facility, and (ii) does not include other classes of mail, be eligible for your proposed Priority Mail drop ship discount? Please explain fully.

Response:

No. The discount is limited to the use of Priority Mail for dropshipment; that is, to transport (expedite) the delivery of a sack containing mail of a different class to a DSCF. Mailpieces that destinate at an identified facility and do not include any other class of mail (e.g., are delivered to the addressee via a post office box or firm holdout) would not qualify for the discount.

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

USPS/APMU-T1-19.

Do Priority Mail sacks used for drop shipment of other classes of mail have the same cost characteristics as other Priority Mail pieces of a similar weight? Please explain fully.

Response:

Insofar as the Postal Service has not isolated and identified the cost characteristics of various shapes of parcels, I have no basis upon which to contrast the cost characteristics of sacks to those of other parcel shapes of the same weight.

I would note, though, that transportation cost constitutes a large portion of the cost of zoned parcels that move by air, and air transport cost is dependent solely upon the weight and distance traveled, not shape (see USPS response to APMU/USPS-T-34-1, redirected from witness Robinson). To my knowledge, the Postal Service has not presented in any proceeding before the Commission any detailed cost models for Priority Mail corresponding to, for example, the detailed cost models for Standard A, or any data that show differential cost by shape. There are definitely costs associated with moving Priority Mail from the DSCF to the DDU and thence to the addressee, but I have no data or model by which to compare the cost of moving sacks beyond the DSCF to the cost of moving other shapes beyond the DSCF. However, I can think of no reason why sacks should be less expensive than other shapes. Hence, costs avoided by sacks should be at least on par with costs avoided by other shapes of equal weight.

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

USPS/APMU-T1-20.

Refer to your testimony on page 71, lines 17-18 where you state: "... witness Plunkett states that the implicit coverage on his proposed Parcel Select SCF rates is 113 percent. fn. 66 Response to AMZ/USPS-T36-7 (Tr. 11/4985)."

- a. Confirm that the correct reference is AMZ/USPS-T36-14 (Tr. 13/4985). If not confirmed, please explain fully.
- b. Confirm that witness Plunkett's full response to AMZ/USPS-T36-14 is: "As cost coverage is typically calculated at the subclass level, I did not incorporate analysis of implied cost coverages within rate categories into parcel post rate design. My estimate of the Implied cost coverage of DDU parcel post TYAR is approximately 113 percent. [emphasis added]" If not confirmed, please explain fully.
- c. Please explain your basis for using the DDU Parcel Post cost coverage of 113 % to estimate the cost of delivering parcels of various weights entered at the SCF.

Response:

- (a) Confirmed.
- (b) Confirmed. With respect to the coverage on parcels entered at DSCFs, if Witness Plunkett's answer is interpreted literally, he did not answer the question. I interpreted his answer to be applicable to both DSCFs and DDU's. I do not believe that he deliberately intended to give a responsive answer to part of the question while evading the other part of the question asked.
- (c) See my response to preceding part b. In addition, since (i) witness Plunkett's "estimate of the Implied cost coverage of DDU parcel post TYAR [was] approximately 113 percent," and (ii) witness Maye's cost coverage for

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

Parcel Post is 114.1 percent,² I perceived of no reason to think that DSCF parcel post had been signaled out for a significantly higher cost coverage (if the cost coverage is somewhat less than 113 percent, then dividing by 113 percent becomes even more conservative).

² Exhibit USPS-32B, page 1.

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

USPS/APMU-T-21.

Refer to your testimony on page 72, lines 1-2.

- a. Please explain the basis for your choice of a 75% pass through for the estimated cost savings associated with Priority Mail drop shipment.
- b. Please list all other pass through percentages you considered and explain why these alternative pass throughs were rejected.

Response:

- (a) A 75 percent passthrough of the estimated cost avoidance was selected to ensure further that the dropship discounts reflect a conservative estimate of costs avoided.
- (b) I considered all passthroughs from 75 percent to 100 percent (at 5 percent gradients). I selected 75 percent, which I had previously identified as the lowest acceptable passthrough, in the desire to see the discount established. After the discount is implemented, future rate cases can consider the desirability of higher passthroughs based on more accurate cost avoidances based on Priority Mail cost data. A passthrough of less than 75 percent was not considered, in light of the already quite conservative estimate of costs avoided.

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

USPS/APMU-T1-22.

In constructing your Priority Mail drop shipment discount you assert that "[f]or simplicity (criterion 7), the proposed discounts are in 10-lb increments." Please explain the basis for your selection of 10-lb Increments as opposed to any other increment.

Response:

Beyond considerations of simplicity, as mentioned in my testimony, there was no other reason why 10 pound increments were selected, as opposed to any other increment. Increments of 5 pounds were considered, but 10 pound increments seemed to work just as well, and are simpler. A discount schedule based on 1-pound increments seemed unnecessarily complex.

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

USPS/APMU-T1-23.

Refer to your testimony at page 72, lines 8-10 where you state "it is reckoned that as much as 10 percent of all zoned Priority Mail pieces over 5 pounds already may be used for this purpose." Please provide all bases for this "reckoning."

Response:

This "reckoning" is based upon conversations with APMU members and other Priority Mail shippers who use Priority Mail to dropship other classes of mail.

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

USPS/APMU-T1-24.

Refer to your testimony at page 72, lines 15-19 where you state "a [Priority Mail drop ship] rate discount would help prevent loss of such SCF destinating Priority Mail volume to alternative carriers which have been better able to compete with Priority Mail entry due to the availability of consolidated national postage payment options which did not previously exist."

- a. Please list all "alternative carriers" that compete with Priority Mail drop shipment.
- b. For fiscal year 1998 (and any other year you may choose), please quantify the number of SCF destinating pieces entered by alternative carriers at the DSCF that otherwise would have been Priority Mail drop shipments. Please provide all supporting data, analyses or other documentation.
- c. For fiscal year 1998 (and any other year you may choose), please quantify the amount of postage revenue lost from SCF destinating pieces entered by alternative carriers at the DSCF that otherwise would have been Priority Mail drop shipments. Please provide all supporting data, analyses or other documentation.
- d. Please provide rate tables (both published and discounted) that show a Priority Mail drop ship discount would allow the Postal Service to compete with these "alternative carriers" on the basis of price.
- e. Please define "consolidated national postage payment options" and explain how the Postal Service differs from these alternative carriers on the basis of these payment options.

Response:

- (a) A partial list of such carriers would include Airborne, DHL, FedEx, Emery, UPS and ground transportation by the mailers themselves.
- (b)-(d) I have no data responsive to your request.
- (e) Most other national shipping and delivery organizations, such as FedEx and UPS, offer a national account number service where shipment of articles are

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

made based on the national account number and all payment for articles shipped under this account number are billed after shipment, at the end of that account's billing cycle. Such organizations also use this option to enclose return shipping bills of lading for merchandise to be returned, thus avoiding the need for a customer to pre-pay returned item shipping in certain situations. For these national accounts, no prepayment of funds must be made, thus avoiding tying up the customer's funds in advance and anticipation of shipping activity.

The Postal Service's Centralized Automated Payment System ("CAPS") requires advance deposit prepayment of its mailing permit account based services, such as presort First-Class, or Non-Profit discounted mailings. There have been numerous instances over the years of customer mailings having been held until sufficient funds were made available to pre-pay the mailing, thus causing delay in delivery of such mailings. For such permit based mailings, USPS prepaid accounts must be arranged at **each office where mailings will be tendered**, rather than as single national account number. Although CAPS is a step in the right direction, and an improvement over payment arrangements previously offered by the Postal Service, I would not classify it as state-of-the art when measured against the standard that has been established by the competitive private sector.

**Response of APMU Witness John Haldi to Interrogatory of
United States Postal Service**

Express Mail does have a national corporate account number system that identifies the Express Mail Account number and provides a statement of mailings during the period. Funds for such accounts, however, still require a level of prepayment. USPS **does not offer** such national account arrangements for Priority Mail service.

**Response of APMU Witness John Haldi to Interrogatory
of United States Postal Service**

USPS/APMU-T1-25.

Refer to your Docket No. R97-1 testimony on behalf of Nashua Photo Inc., District Photo Inc., Mystic Color Lab, and Seattle Filmworks, Inc. (NDMS-T-2).

- a. Confirm that you proposed "an alternative procedure to project Test Year After Rates volumes and revenues by applying the estimated own-price elasticity to individual rate cells" [Docket No. R97-1, NDMS-T-2 at 3 lines 5-7]. If not confirmed, please explain fully.
- b. Confirm that you do not propose "to project Test Year After Rates volumes and revenues by applying the estimated own-price elasticity to individual rate cells" in your Docket No. R2000-1, APMU-T-1 testimony. If not confirmed, please explain fully.

Response:

- (a) Confirmed. In my testimony on Priority Mail in Docket No. R97-1 (NDMS-T-2, pp. 17-26), I discussed at length my reservations and concerns with the Postal Service's methodology for estimating TYAR volumes and revenues. I continue to believe what I stated in that testimony, that the underlying assumption to this methodology — that the volume projected for each cell, or for a group of cells, does not vary to reflect the rates proposed for the cell or cells in question — is, at best, naive. As I noted in that testimony, under the Postal Service's existing standard procedure, the estimated TYAR volume in each cell does not change, regardless of the rate design, so long as the average rate increase does not change.

**Response of APMU Witness John Haldi to Interrogatory
of United States Postal Service**

My testimony in the prior docket also discussed the Commission's application of this methodology in Docket No. R94-1. In that docket, the Commission lowered the overall Priority Mail percentage increase, but recommended significantly higher rates (than those proposed by the Postal Service) for the zoned rate cells. Since the overall rate increase had been reduced, the Commission estimated higher projected volumes, which were applied uniformly to each rate cell. Thus, the astonishing net result was that significantly higher rates for the 5- to 70-pound rate cells were expected to result in higher projected volumes, and a corresponding higher revenue projection. Thus, under the Postal Service's standard procedure, **higher rates and higher volumes seemingly go hand-in-hand**. Such a result obviously defies economic logic.

In this docket, the same type of bizarre results from the Postal Service's methodology continue, as is apparent from comparison of the Postal Service's proposed 1-pound and 2-pound rates. The Postal Service's proposed increase to the 1-pound rate would be slightly under 8 percent, while the proposed increase to the 2-pound rate would be slightly over 20 percent — yet the Postal Service estimates each rate category will experience the same percentage decrease in TYAR volume.

**Response of APMU Witness John Haldi to Interrogatory
of United States Postal Service**

Further, I have heard a number of Priority Mail users explain that they are in almost continual contact with Postal Service competitors, and they regularly split their shipments among various providers (including USPS), depending upon rate, quality of service, and the expectations or requirements of particular customers. Readily-available computer programs now facilitate such comparisons, as discussed in my testimony and illustrated in Appendix C. Consequently, I do not subscribe to the defense of the Postal Service's methodology for projecting TYAR volumes and revenues as expressed in the response to APMU/USPS-T34-16(c).

- (b) In light of the Commission's analysis of my proposal, as expressed in Appendix H of its *Opinion & Recommended Decision* in Docket No. R97-1, I did not resubmitted my proposal in my initial testimony.

**Response of APMU Witness John Haldi to Interrogatory
of United States Postal Service**

USPS/APMU-T1-26.

Refer to your APMU-T-1 testimony at page 72 where you state: "Offsetting this reduction would be revenue from any increase in Priority Mail volume as well as additional revenue from the enclosed pieces..."

- a. Please quantify the "increase in Priority Mail volume" that you would expect as a result of your proposed Priority Mail drop ship discount and provide all supporting analysis.
- b. Please quantify the additional revenue resulting from the "increase in Priority Mail volume" that you would expect as a result of your proposed Priority Mail drop ship discount and provide all supporting analysis.
- c. Please quantify any expected increase in the volume of mail pieces enclosed in Priority Mail drop shipments that you would expect as a result of your proposed Priority Mail drop ship discount and provide all supporting analysis.
- d. Please quantify any expected increase in the revenue from mail pieces enclosed in Priority Mail drop shipments that you would expect as a result of your proposed Priority Mail drop ship discount and provide all supporting analysis.

Response:

- (a)-(d) Neither I nor APMU have any data responsive to your request. I would note, however, that Priority Mail dropship has become a profitable niche product for the Postal Service without any promotion or incentive (other than the somewhat slow and inconsistent service given to Standard A Mail). With an incentive and proper promotion, it ought to be able to do even better.

**Response of APMU Witness John Haldi to Interrogatory
of United States Postal Service**

I would note further that some mailers who use Priority Mail dropship on a daily basis would be included among the Postal Service's larger and more profitable customers. It strikes me as somewhat contradictory for the Postal Service, on the one hand, to argue before Congress that it needs increased rate flexibility for dealing with such large, profitable mailers while, on the other hand, resisting efforts to recognize obvious cost avoidances with appropriate cost-based discounts.

**Response of APMU Witness John Haldi to Interrogatory
of United States Postal Service**

USPS/APMU-T1-27.

Confirm that your proposal for Priority Mail drop shipment does not require any minimum volume of "enclosed pieces" in a Priority Mail drop shipped sack. If not confirmed, please explain fully.

Response:

Confirmed.¹ As indicated in my response to USPS/APMU-T1-16, each piece of dropshipped Priority Mail would be highly profitable to the Postal Service, even after deducting my proposed discount for destination entry. Once the mail is opened, the contents are entered at the SCF as Standard A or some other class or subclass. The Postal Service already has in place procedures for Priority Mail dropship, including presortation and sacking requirements; see my response to USPS/APMU-T1-15.

Those mailers who use Priority Mail for dropshipment to DSCFs typically enter many dozens, sometimes hundreds, of sacks per day; hence, they are entering thousands of pieces of Standard A each day (on some days tens of thousands of pieces), well above the minimum for a mailing of Standard A. Since they pay a premium rate to expedite the mail to the SCF, instead of using USPS surface transportation, I see no need for a minimum number per sack. Also, see my response to USPS/APMU-T1-15.

¹ There is an implicit minimum of 6 pieces per sack. Since each Standard A piece must weigh no more than 16 ounces (1 lb.), and the minimum for Priority Mail dropshipment must exceed 5 pounds.

**Response of APMU Witness John Haldi to Interrogatory
of United States Postal Service**

USPS/APMU-T1-28.

Refer to your workpapers, APMU-LR-1, worksheet "DSCF", Table II.

- a. Confirm that the source for the column titled "Projected Volumes at APMU Proposed Rates" is APMU-LR-1, worksheet "1-70 Lbs" Table 12. If not confirmed, please explain fully.
- b. Confirm that in APMU-LR-1, worksheet "1-70 Lbs" Table 12, the total number of Priority Mail pieces for weight increments from six to seventy pounds is 60,864,636 pieces. If not confirmed, please explain fully.
- c. Confirm that in APMU-LR-1, worksheet "DSCF" Table II, the total number of Priority Mail pieces for weight increments from six to seventy pounds is 60,346,644 pieces. If not confirmed, please explain fully.
- d. Please explain why the number of Priority Mail pieces for weight increments from six to seventy pounds differs in APMU-LR-1, worksheet "DSCF" Table II and APMU-LR-1, worksheet "1-70 Lbs" Table 12.

Response:

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed.
- (d) These tables should reflect identical volumes for Priority Mail weight cells from 6 to 70 pounds. An error was made in the creation of APMU-LR-1, worksheet "DSCF", Table II, which incorrectly imported volumes from a previous working model of worksheet 1-70 Lbs., Table 12. The appropriate adjustments have been made and the hard copy and electronic copy versions of APMU_W_S-1.xls will be re-submitted. In worksheet DSCF, the total

**Response of APMU Witness John Haldi to Interrogatory
of United States Postal Service**

volume increases to the amount cited in part b, and the reduction in revenue increases by \$84,689, or from \$9,866,429 to \$9,951,118.

This inadvertent error also causes two minor revisions to APMU-T-1 on pages 72 and 74. An errata will be filed.

**Response of APMU Witness John Haldi Response to Interrogatory
of United States Postal Service**

USPS/APMU-T1-29.

Does your proposal exclude pieces 5 pounds and under from eligibility for your proposed "Discount for destination SCF delivery of Priority Mail"? If so, do you believe this might result in any potential rate anomalies? Please explain.

Response:

Yes. No actual rate anomaly would result from my proposal, as any comparison between Priority Mail pieces receiving delivery and Priority Mail pieces which would qualify for my proposed dropship discount would be an "apples to oranges" comparison.

**Response of APMU Witness John Haldi Response to Interrogatory
of United States Postal Service**

USPS/APMU-T1-30.

Please confirm that some portion of Priority Mail currently destinated as firm hold-outs or in P.O. Boxes and receives no rate discount. If not confirmed, please explain fully.

Response:

Confirmed; see my response to USPS/APMU-T1-18.

**Response of APMU Witness John Haldi Response to Interrogatory
of United States Postal Service**

USPS/APMU-T1-31.

Please refer to the rules regarding DSCF Parcel Post dropship in Section 650 of the DMM (Domestic Mail Manual) Quick Service Guide.

- a. Do you intend for these preparation requirements to be applicable to the Priority Mail pieces in your discount for destination SCF delivery proposal?
- b. If anything other than an unqualified yes, please explain how you expect the costs of DSCF Parcel Post that you use as a proxy in your analysis will be consistent with the actual costs resulting from your proposal.

Response:

- (a) No.
- (b) The Postal Service has imposed a 50 piece minimum to qualify for the DSCF-entry Parcel Post rate. It is generally understood that such minimums are imposed to reduce the costs incurred by such work-shared mailpieces. To the extent that the requirement for a minimum number of pieces does in fact reduce costs, the cost to process and deliver a single piece of Priority Mail would presumably be greater than the unit cost for a piece of DSCF-entry Parcel Post. Because of this fact, my use of Parcel Select cost data to model the costs avoided by individual pieces of Priority Mail (eligible to receive my proposed DSCF discount) further understates the actual costs avoided by such Priority Mail pieces. In other words, my reliance on Parcel Select cost data results in a smaller, more conservative discount.

**Response of APMU Witness John Haldi Response to Interrogatory
of United States Postal Service**

USPS/APMU-T1-32.

Do you intend for the various Standard Mail (A) preparation requirements presented in the DMM to be fully applicable to the pieces inside the Priority Mail sacks in your proposal? If your answer is no, could this create additional costs not associated with other Standard Mail (A) nonletter pieces?

Response:

See my response to USPS/APMU-T1-33. My proposal would make no change in existing Standard Mail (A) dropship requirements. Further, I do not limit my proposal to nonletter pieces.

**Response of APMU Witness John Haldi Response to Interrogatory
of United States Postal Service**

USPS/APMU-T1-33.

Please provide flow models and/or a verbal description of exactly how, under your proposal, SCF Priority Mail would be handled operationally in Postal Service plants, on a nationally representative scale if possible. Please quantify the additional costs associated with these handlings, preferably on a nationally representative scale.

Response:

Assuming that the phrase "SCF Priority Mail" refers to mailpieces eligible to receive my proposed destination entry discount, such mailpieces would likely be handled no differently than they are currently being handled. Specifically, the mail would be plant loaded; *i.e.*, accepted and entered at the plant. Most mailers that currently use Priority Mail dropship prepare an electronic manifest. Acceptance at the plant obviates the need for a Form 8125 and subsequent acceptance procedures upon receipt at the SCF. The mail is prepared under DMM M610 generally (*see* DMM M610.4.6 for preparation of sacks of Priority Mail for dropship to SCFs). In those instances where a plant serves more than one 3-digit area, mail for each separate 3-digit area is placed in white sacks, which are then loaded inside of orange Priority Mail sacks.¹ Upon receipt at the DSCF, orange Priority Mail sacks are opened and mail for that SCF is directed to the appropriate place for incoming sortation, while white sacks for other facilities served by the plant are handled in accordance with local operating instructions.

¹ All dropshipped Priority Mail is sacked, to the best of my knowledge, and sacks of dropshipped Priority Mail containing Standard A Mail are explicitly exempted from the 125 piece, 15 pound minimum for Standard A.

**Response of APMU Witness John Haldi Response to Interrogatory
of United States Postal Service**

I note witness Kingsley's observation that "Sacks are opened in the plants and delivery units with manual labor." USPS-T-10, p. 22, ll. 5-6. However, I can identify no additional per-piece costs which would be incurred from the adoption of my proposal. Also see my responses to USPS/APMU-T1-11, 13 and 15.

1 CHAIRMAN GLEIMAN: I want to note for the record
2 that OCA gets an assist on that one, on the scorecard.

3 Is there any additional designation of written
4 cross examination.

5 MR. McKEEVER: Yes, Mr. Chairman.

6 CHAIRMAN GLEIMAN: Mr. McKeeever?

7 CROSS EXAMINATION

8 BY MR. McKEEVER:

9 Q Good morning, Dr. Haldi.

10 A Good morning. I have just handed you a copy of
11 your responses to Interrogatories UPS/APMU-T1-24, 29, 30,
12 and 33, as previously served in this case.

13 Q If those questions were asked of you today, Dr.
14 Haldi, would your answers be the same?

15 A Yes, they would.

16 MR. McKEEVER: Mr. Chairman, I move that Dr.
17 Haldi's answers to Interrogatories UPS/APMU-T1-24, 29, 30,
18 and 33 be admitted into evidence and transcribed into the
19 transcript.

20 CHAIRMAN GLEIMAN: If you would please provide two
21 copies --

22 THE WITNESS: I think these are UPS-24 and
23 USPS-29, 30, and 33.

24 MR. McKEEVER: Dr. Haldi, you are correct. I
25 apologize.

1 Let me identify them one more time, Mr. Chairman.
2 They are UPS/APMU-T1-24, and USPS/APMU-T1-29, 30, and 33.
3 The 29, 30, and 33, are USPS interrogatories.

4 CHAIRMAN GLEIMAN: We're all agreed on what the
5 interrogatories are now? If you'd please provide two copies
6 of the Additional Designated Written Cross to the Court
7 Reporter, I'll honor your request that they be transcribed
8 into the record and introduced into evidence.

9 [Additional Designated Written
10 Cross Examination of Dr. John
11 Haldi, UPS/APMU-T1-24 and
12 USPS/APMU-T1-29, 30, and 33, was
13 received into evidence and
14 transcribed into the record.]

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**Response of APMU Witness John Haldi Response to Interrogatory
of United Parcel Service**

UPS/APMU-T1-24.

Confirm that, under the Postal Service's rate proposal, Priority Mail would contribute \$2.478 billion to institutional costs in the Test Year (USPS-T-14, Exhibit USPS-14M).

Response:

Confirmed that witness Kashani's exhibit uses the figure you cite. However, witness Robinson's estimate of Priority Mail's TYAR contribution including pickup revenue and cost, and fee revenue is equal to \$2.475 billion (see USPS-T-34, Table 3, p. 8, rows v and w).

I maintain that my Priority Mail volume and contribution projections, based upon a more modest 2.6 percent average increase in Priority Mail rates, are less speculative than the Postal Service's projections, in which an average rate increase of 15 percent is projected to result in a TYAR contribution that is 29 percent higher than the FY 2000 estimate. This remarkably sanguine estimate becomes striking when compared to recent annual changes in the contribution from Priority Mail. From the data shown below, it can be readily observed that even with rates that were either stable or increased only modestly, the contribution declined in 1996, 1998 and 1999.

**Response of APMU Witness John Haldi Response to Interrogatory
of United Parcel Service**

**Selected Priority Mail Statistics
1995 - 2001**

<u>Year</u>	<u>Priority Mail Volume</u>	<u>Priority Mail Revenue</u>	<u>Revs. Less Attrib Cost (PRC)</u>	<u>% Chg</u>	<u>Revs. Less Vol. Var. Cost</u>	<u>% Chg</u>
1995 ¹	869	3,075	1,715		n.a.	
1996	937	3,322	1,681	-2%	n.a.	
1997	1,068	3,859	1,699	+1%	1,976	
1998	1,174	4,150	1,545	-9%	1,830	-7%
1999 ²	1,189	4,533	n.a.		1,772	-3%
2000	1,230	4,741	n.a.		1,913	+8%
2001BR	1,357	5,227	n.a.		1,963	+3%
2001AR	1,250	5,542	n.a.		2,475	+29%

¹ Average rate increase of 4.8 percent effective January 1, 1995.

² Average rate increase of 5.6 percent effective January 10, 1999.

Response of APMU Witness John Haldi Response to Interrogatory
of United States Postal Service

USPS/APMU-T1-29.

Does your proposal exclude pieces 5 pounds and under from eligibility for your proposed "Discount for destination SCF delivery of Priority Mail"? If so, do you believe this might result in any potential rate anomalies? Please explain.

Response:

Yes. No actual rate anomaly would result from my proposal, as any comparison between Priority Mail pieces receiving delivery and Priority Mail pieces which would qualify for my proposed dropship discount would be an "apples to oranges" comparison.

**Response of APMU Witness John Haldi Response to Interrogatory
of United States Postal Service**

USPS/APMU-T1-30.

Please confirm that some portion of Priority Mail currently designates as firm hold-outs or in P.O. Boxes and receives no rate discount. If not confirmed, please explain fully.

Response:

Confirmed; see my response to USPS/APMU-T1-18.

**Response of APMU Witness John Haldi Response to Interrogatory
of United States Postal Service**

USPS/APMU-T1-33.

Please provide flow models and/or a verbal description of exactly how, under your proposal, SCF Priority Mail would be handled operationally in Postal Service plants, on a nationally representative scale if possible. Please quantify the additional costs associated with these handlings, preferably on a nationally representative scale.

Response:

Assuming that the phrase "SCF Priority Mail" refers to mailpieces eligible to receive my proposed destination entry discount, such mailpieces would likely be handled no differently than they are currently being handled. Specifically, the mail would be plant loaded; *i.e.*, accepted and entered at the plant. Most mailers that currently use Priority Mail dropship prepare an electronic manifest. Acceptance at the plant obviates the need for a Form 8125 and subsequent acceptance procedures upon receipt at the SCF. The mail is prepared under DMM M610 generally (*see* DMM M610.4.6 for preparation of sacks of Priority Mail for dropship to SCFs). In those instances where a plant serves more than one 3-digit area, mail for each separate 3-digit area is placed in white sacks, which are then loaded inside of orange Priority Mail sacks.¹ Upon receipt at the DSCF, orange Priority Mail sacks are opened and mail for that SCF is directed to the appropriate place for incoming sortation, while white sacks for other facilities served by the plant are handled in accordance with local operating instructions.

¹ All dropshipped Priority Mail is sacked, to the best of my knowledge, and sacks of dropshipped Priority Mail containing Standard A Mail are explicitly exempted from the 125 piece, 15 pound minimum for Standard A.

**Response of APMU Witness John Haldi Response to Interrogatory
of United States Postal Service**

I note witness Kingsley's observation that "Sacks are opened in the plants and delivery units with manual labor." USPS-T-10, p. 22, ll. 5-6. However, I can identify no additional per-piece costs which would be incurred from the adoption of my proposal.

Also see my responses to USPS/APMU-T1-11, 13 and 15.

1 CHAIRMAN GLEIMAN: Is there any other Additional
2 Designated Written Cross Examination?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, that brings us to oral
5 cross examination. Two parties, United Parcel Service, and
6 the United States Postal Service have requested oral cross.

7 Is there any other party that wishes to cross this
8 witness?

9 [No response.]

10 CHAIRMAN GLEIMAN: If not, then, Mr. McKeever, you
11 may begin when you're ready.

12 MR. McKEEVER: Thank you, Mr. Chairman.

13 BY MR. McKEEVER [Resuming]:

14 Q Dr. Haldi, on pages 9 to 15 of your testimony, you
15 discuss the PMPC network under the general subject heading
16 of Cost Considerations.

17 Is it your contention that the costs of the PMPC
18 network are not attributable to Priority Mail?

19 A No, at no time have I alleged that.

20 Q Okay, thank you.

21 Could you turn to page 10 of your testimony,
22 please?

23 [Pause.]

24 There you state at lines 12 to 13 that -- and I'm
25 quoting here: "Overall Priority Mail performance has

1 deteriorated in the interval since Docket R97-1; do you see
2 that?

3 A Yes, yes, I see that.

4 Q Now, the figures you provide there contrast ODIS
5 data for 1995 through 1997 with ODIS data for 1997 through
6 1999; is that correct?

7 A That's correct.

8 Q And your 1997 to 1999 calculations are shown in
9 your Table 9 on page 50?

10 [Pause.]

11 A That is correct.

12 Q Am I correct that the ^{DETE}~~peak~~ data for Priority Mail
13 shows somewhat better service performance results for
14 Priority Mail than does ODIS data for the 1997 to 1999
15 period?

16 [Pause.]

17 A I've had so many data here, I can't remember what
18 they showed. I believe they did, yes.

19 MR. McKEEVER: Mr. Chairman, last Saturday and
20 then again on Monday, just to make sure it got it there, I
21 faxed to counsel for APMU, a cross examination exhibit which
22 I would like to, with your permission, furnish to the
23 witness.

24 The document that I am going to give Dr. Haldi we
25 have marked as UPS-XE-Haldi-1.

1 CHAIRMAN GLEIMAN: Certainly.

2 [Exhibit Number UPS-XE-Haldi-1 was
3 marked for identification.]

4 BY MR. McKEEVER:

5 Q Dr. Haldi, have you have an opportunity to review
6 that exhibit?

7 A Yes, I have.

8 Q Now what we did on that exhibit was we took Postal
9 Service Witness Robinson's interrogatory response to
10 UPS/USPS-T34-26 and we calculated averages for each year
11 shown there. This is Priority Mail service performance. We
12 calculated the averages for each year for both the overnight
13 commitment area and the two day commitment area, and
14 attached is page 2 is really a summary of those
15 calculations.

16 We added to the answer, which is in Transcript
17 Volume 21, page 9376, the results of those calculations.
18 That is indicated by the word "added" there on the bottom.

19 Did you have a chance to check those calculations
20 to determine whether they were done correctly?

21 A Yes.

22 Q And were they?

23 A They appear to be, yes.

24 Q Now your Table 9 on page 50 shows 1998 overnight
25 service performance for Priority Mail as measured by ODIS at

1 84 percent, is that correct?

2 A That's correct.

3 Q And referring to Exhibit UPS-XE-Haldi-1, the ~~peak~~ ^{PEIE}
4 data shows Priority Mail performance for 1998 in the
5 overnight area as 86.75, is that correct?

6 A That is what it shows.

7 Q And looking at 1999 now, still in the overnight
8 service area, the ODIS data shown in Table 50 shows that
9 Priority Mail performance was 85 whereas the 1999 ~~peak~~ ^{PEIE} data
10 shows performance of 90.24 percent?

11 A That's correct.

12 Q Looking at the two day standard service area for
13 Priority Mail, the ODIS data indicates performance in 1999
14 of 74, is that correct?

15 A Yes.

16 Q And the ~~peak~~ ^{PEIE} data shows 78.59?

17 A Correct.

18 Q Now if I use the ~~peak~~ ^{PEIE} data for 1997 through 1999
19 to calculate the same average that you calculated using the
20 ODIS data for that period, I get a figure of 88 percent
21 on-time performance for overnight Priority Mail, whereas the
22 ODIS data shows 85.6 percent, is that correct?

23 A I haven't calculated the mean of the three means
24 but I will assume that is correct.

25 Q Okay. So the ~~peak~~ ^{PEIE} data shows that Priority Mail's

1 overnight performance in 1997 to 1999 was more than 2
2 percentage points better than the ODIS data shows, is that
3 correct?

4 A Assuming that computation is correct, that's
5 correct.

6 Q Now ~~peak~~^{PETE} measure service door to door, doesn't it?

7 A That's what it is alleged to do, correct.

8 Q Okay, and ODIS measures only part of the full trip
9 from the mailer to the recipient, is that correct?

10 A That is correct.

11 Q So one would expect the ODIS figures on average to
12 be higher than the ~~peak~~^{PETE} figures, wouldn't you?

13 A All else equal, that would be correct, yes.

14 Q The ~~peak~~^{PETE} data are, to use the phrase you use on
15 page 48 of your testimony, "independently measured," is that
16 correct?

17 A That is my understanding.

18 Q And by that you mean it is done by an outside
19 company -- I think it is Price Waterhouse Coopers?

20 A That is my understanding.

21 Q Okay. Now Dr. Haladi, you note on pages 51 and 52
22 of your testimony that 29.8 percent of Priority Mail volume
23 was unidentified in 1998, is that correct?

24 A That is correct.

25 Q And you state on page 52 at lines 4 to 6 that, and

1 I am quoting here, "Priority Mail commingled with First
2 Class Mail is identified as such by ODIS data collectors."

3 Do you see that?

4 A Yes.

5 Q When you say it is identified as such, what do you
6 mean? It is identified how by the ODIS data collectors?

7 A Well, they have recognized the postage corresponds
8 to the Priority Mail postage when they examined the piece
9 and it may be part of the First Class mail stream but if the
10 person has paid the -- typically it is a flat at the minimum
11 rate -- but if they paid \$3.20 for it, it really is a piece
12 of Priority Mail by rate category, but it may be commingled
13 with the First Class mail stream because it was never
14 identified as Priority Mail and it got tossed into the First
15 Class flat mail stream.

16 Q So am I correct then that the ODIS data collector
17 records it as Priority Mail?

18 A At that point it would be recorded as Priority
19 Mail, yes.

20 Q Okay.

21 A That is my understanding. I have not gone back
22 and overseen any ODIS data collectors but that is my
23 understanding of how they figure out how much Priority Mail
24 is unidentified to start with.

25 Q Okay. Now if that is the case, identifying the

1 Priority Mail pieces that move through the First Class mail
2 stream and therefore receive First Class service as Priority
3 Mail in ODIS would pull down the ODIS service performance
4 statistics, wouldn't it?

5 A Not necessarily, but it could. I mean --

6 Q Go ahead.

7 A Well, if -- it depends on the kind of service that
8 it is getting within the First Class mail stream.

9 Q Well, let's assume it gets the service to the two
10 day area ~~that First Class~~ and three day areas that First
11 Class is supposed to get.

12 A If it is getting what First Class is supposed to
13 get, it would not pull it down in comparison to what
14 Priority Mail has been getting.

15 I am not sure what your question is. In
16 comparison to what?

17 Q Let me try to ask it this way. Let's suppose a
18 piece of unidentified Priority Mail is entered into the mail
19 stream --

20 A Right.

21 Q -- and you have already testified that that will
22 move through the First Class mail stream.

23 A Yes.

24 Q Let's assume it is destined to an area that is a
25 three day service area for First Class mail, okay?

1 A Okay.

2 Q But that is a two day area for Priority Mail,
3 okay?

4 A Okay.

5 Q Now if that moves through the First Class mail
6 stream and is delivered on time in the sense that it gets to
7 the three day area destination in three days, that would be
8 on time if it were First Class --

9 A Right.

10 Q -- but that would be late for Priority Mail, is
11 that correct?

12 A That is correct.

13 Q And if the piece moves through the First Class
14 mail stream but the ODIS data collector samples it and
15 determines that it is a piece of priority mail, that ODIS
16 data collector will indicate that it arrived late, is that
17 correct?

18 A That should be correct.

19 Q Okay. So that would of course reduce the Priority
20 Mail service performance percentage from what it otherwise
21 would be?

22 A That's correct.

23 Q So in other words if that piece had been properly
24 identified as Priority Mail and moved through the Priority
25 Mail mail stream, it may not have been late, is that

1 correct?

2 A If it got the same service that it's getting in
3 First Class, it would have been late if it had been
4 identified also, but if it had gotten delivered in two days
5 then it would not have been late.

6 Q Well, if it had moved through the Priority Mail
7 stream and received Priority Mail service on time it would
8 have gotten there in two days. It would not be recorded as
9 late, is that correct?

10 A That is correct.

11 Q So at least in the case of that 29 percent of
12 unidentified Priority Mail, at least some of the problem is
13 that it is not identified as Priority Mail in the first
14 place, correct, not that Priority Mail that is identified
15 isn't getting the service it is supposed to get?

16 A It could be, although, you know, the statistics
17 indicate that First Class mail gets as good or better
18 treatment than Priority Mail typically does.

19 I can tell you an anecdote. After the 22nd of
20 May, after the filings were made in this case, the
21 testimony, the following Monday I got a huge pile of First
22 Class mail. The next day, the third, day, I got one big
23 Priority Mail package from the OCA, so all the filings
24 mailed First Class, some of which were unidentified Priority
25 Mail as a matter of fact, based on their weight, got there

1 on Monday, and the Priority Mail took an extra day.

2 Q Well, you said that it receives --

3 A And that was identified as Priority Mail, by the
4 way.

5 Q I understand.

6 A That OCA package.

7 Q But the service performance statistics anyway
8 don't measure how fast the pieces get there but rather
9 whether they get there as fast as the service standard
10 indicates?

11 A That is correct.

12 Q Now the 1997 to 1999 period that you use in your
13 ODIS comparison obviously includes the year 1998, correct?

14 A Correct.

15 Q And that was the year that the PMPC facilities
16 were phased in?

17 A That is correct.

18 Q In particular, the first PMPC facility came online
19 in September of 1997, right before Fiscal Year 1998 began,
20 is that correct?

21 A That is my understanding.

22 Q Okay. The last one came online in July of 1998,
23 about 10 months into Fiscal Year 1998?

24 A Yes, about two months before the fiscal year
25 ended.

1 Q Okay. Can you take a look at UPS-XE-Haldi-1
2 again, please?

3 A Yes.

4 Q That shows Priority Mail's overnight performance
5 in 1998, to be 86.75 percent; is that correct?

6 A That's correct.

7 Q And in 1999, Priority Mail's overnight performance
8 was 90.24 percent; is that correct?

9 A That's correct.

10 Q That's an improvement of more than three
11 percentage points in 1999 over the 1998 year; is that
12 correct?

13 A That's correct. That's for overnight performance.

14 Q That's correct.

15 So let's go to the two-day service area. In 1998,
16 Priority Mail's performance was 72.25 percent; is that
17 correct?

18 A Pretty bad, yes.

19 Q And in 1999, it was 78.59 percent; is that
20 correct?

21 A Not as bad, but better, yes.

22 Q That's an improvement of over six percentage
23 points, in fact, in 1999 over 1998; isn't it?

24 A Yes, that is correct.

25 Q 1998 was the test year in Docket R97-1; is that

1 right?

2 A That's my understanding.

3 Q And that's the year for which the Commission set
4 Priority Mail's cost coverage in the last case; is that
5 right?

6 A Yes, that's correct.

7 Q In fact, if you look at UPS-XE-Haldi-1, that shows
8 that Priority Mail's performance in both the overnight and
9 the two-day service areas was considerably better in 1999 as
10 opposed to 1997; doesn't it?

11 A Yes, it does. I pulled out the ExFC statistics
12 also, and the ExFC two-day performance increased rather
13 markedly in 1999 as well, so things were getting better in
14 '99, service-wise.

15 Q We'll talk about that in a little bit.

16 A Okay.

17 Q In fact, why don't you turn to page 45 of your
18 testimony?

19 [Pause.]

20 There you show two charts on Priority Mail and
21 First Class Mail performance, one for the overnight area and
22 one for the two-day area; is that correct?

23 A That's correct.

24 Q And immediately after those charts, on page 46,
25 you state at the top of that page on lines 1-3, quote,

1 "During base year 1998, Priority Mail overnight performance
2 remained static or declined, while First Class overnight
3 performance improved."

4 Is that correct?

5 A That's correct.

6 Q And then you state, relative to First Class,
7 Priority Mail overnight performance thus declined; do you
8 see that?

9 A Yes.

10 Q Well, let's take a look at the first part of that
11 testimony, the part where you state that during base year
12 1998, Priority Mail overnight performance remained static or
13 declined.

14 Take a look at your chart on page 45 for the
15 overnight area.

16 [Pause.]

17 A Yes?

18 Q Am I correct that in the first quarter of 1998,
19 Priority Mail's on-time performance was just under 85
20 percent?

21 A That's correct.

22 Q Then it declined in the second quarter to under 83
23 percent; is that correct?

24 A That's correct.

25 Q But in the third quarter, it went up to 88.16

1 percent, right?

2 A That's correct.

3 Q That's higher than the second quarter, and, in
4 fact, is more than three points higher than in the first
5 quarter; is that correct?

6 A That's correct, almost as good as the best quarter
7 in 1997.

8 Q Okay, and in the fourth quarter, it went up again,
9 didn't it, to better than 91 percent?

10 A That's correct.

11 Q That's more than six percentage points better than
12 it was in the first quarter of 1998?

13 A Yes.

14 Q So, Priority Mail's overnight performance during
15 base year 1998 improved; isn't that correct?

16 A During the course of the year, it improved, yes.

17 Q Okay. Let's look at the second part of your
18 testimony, the part that says First Class overnight
19 performance improved during base year 1998.

20 Now, if you take a look at your chart on page 45,
21 that shows First Class Mail on-time performance of 92.86 in
22 Quarter One of 1998; is that correct?

23 A That's correct.

24 Q And in the second quarter, it was 92.66?

25 A Right.

1 Q That's about the same, or actually a little bit
2 lower; is that correct?

3 A That's correct.

4 Q Would you consider that static?

5 A Yes, you can look at the line there, and the First
6 Class was improving, but only marginally compared to what
7 was happening in Priority Mail.

8 Q Okay. And if we looked at the third quarter, for
9 example, it was up a bit less than one point to 93.51,
10 correct?

11 A That's correct.

12 Q And in the fourth quarter, it was actually down a
13 bit, right, to 93.02?

14 A Well, down from the third quarter, up from the
15 first two quarters.

16 Q Okay, so from the first quarter of 1998 to the
17 last quarter, Priority Mail's performance went from -- First
18 Class Mail's performance, excuse me -- went from 92.86 to
19 93.02 or a change of less two-tenths of one percentage
20 point; is that correct?

21 A Correct.

22 Q On the other hand, as we agreed earlier, Priority
23 Mail's performance during that year went from 84.85 in the
24 first quarter to 91.26 or an improvement of almost 6.5
25 percentage points; is that correct?

1 A That's correct.

2 Q In fact, the gap between First Class Mail
3 percentages -- and we're talking now, measured against
4 service standards here, right?

5 A Right.

6 Q Not actually how fast it gets there?

7 A That's right.

8 Q Okay.

9 The gap between the First Class Mail percentage
10 and the Priority Mail percentage went from a gap of about
11 eight points in the first quarter to a gap of less than two
12 points in the last quarter; is that correct?

13 A That's correct; it widened subsequently, but --
14 the gap widened.

15 Q Well, we'll talk about 1999 in a minute or two.

16 A Okay.

17 Q But let's take a look at the two-day service area,
18 first, for 1998, the year that was the subject of your
19 testimony stating that during base year 1998, Priority Mail
20 overnight performance remained static or declined, and then
21 you went on to state that for Priority Mail with a two-day
22 commitment, the picture was considerably worse; is that
23 correct?

24 A That's correct.

25 Q Okay.

1 Now, in the first quarter, Priority Mail's on-time
2 performance in 1998 was 69.5 percent; is that correct?

3 A That's correct.

4 Q By the last quarter, it was 82.88 percent; is that
5 correct?

6 A That's correct.

7 Q That's an improvement of better than 13 percentage
8 points?

9 A That would be correct, yes.

10 Q And First Class performance started out at 78.88
11 in the first quarter of 1998, and ended up at 87.66; is that
12 correct?

13 A That's correct.

14 Q Now, that's an improvement of 8.78 points; is that
15 right?

16 A About nine points.

17 Q Just under nine points, right?

18 A Just under nine points, correct.

19 Q So Priority Mail's improvement was 13 percentage
20 points, and First Class was almost nine percentage points,
21 right?

22 A Right.

23 Q And, of course, we know that Priority Mail's
24 two-day service area is a whole lot bigger than First Class
25 Mail's two-day service area; is that correct?

1 A Yes, that's correct.

2 Q And 1998 was the year when the ten PMP facilities
3 were being phased in and brought online; is that correct?

4 A That's correct.

5 Q Now let's compare 1999 performance against 1998
6 performance for Priority Mail, overnight first.

7 In the first quarter of 1998 Priority Mail's
8 overnight on time performance was 84.85, is that correct?

9 A Repeat that again, please.

10 Q Sure. Sure.

11 First quarter of 1998, Priority Mail overnight
12 performance --

13 A Oh, '98, yes.

14 Q That was 84.85?

15 A Right.

16 Q And in the first quarter of 1999, it was 90.3
17 percent, is that correct?

18 A 90.73 is what you have here.

19 Q Yes, what did I say?

20 A 90.3.

21 Q I apologize -- 90.73. I forgot the 7. Thank you.

22 A All right.

23 Q That is an improvement of almost 6 percentage
24 points, is that correct?

25 A That is correct.

1 Q And in the second quarter Priority Mail's
2 overnight performance went from 82.73 in 1998 to 88.15 in
3 1998, is that correct?

4 A That is correct.

5 Q Again, that is an improvement of more than 5
6 percentage points?

7 A That would be about right, yes.

8 Q Okay. In the third quarter the performance went
9 from 88.16 in 1998 to 90.69 in 1999, an improvement of more
10 than 2.5 points, is that correct?

11 A About 2.5, yes.

12 Q And in the fourth quarter it went from 91.26 to
13 91.37, about the same, is that right?

14 A Correct.

15 Q But in 1999 as compared to 1998, Priority Mail did
16 better, is that correct?

17 A That is correct.

18 Q Now in the two day area, Priority Mail went from
19 69.5 in the first quarter of 1998 to 82.53 in the first
20 quarter of 1999?

21 A That is correct.

22 Q That is a pretty healthy improvement, more than 13
23 percentage points, correct?

24 A Oh, it was dreadful in 1998.

25 Q And it was a lot better in 1999?

1 A Well, less worse, yes.

2 Q Well, it was almost 91 percent, right?

3 A What was 91 percent?

4 Q Priority Mail -- excuse me, I was looking at the
5 overnight area. It was 83 percent roughly in the two day
6 area?

7 A Yes.

8 Q The one where there's those 600,000 additional zip
9 codes that get two day service that don't get two day
10 service if it is sent First Class mail?

11 A Right.

12 Q Okay. Now in the second quarter of 1999, you show
13 a value of 66.21 for Priority Mail, is that correct?

14 A That is correct.

15 Q Shouldn't that be 67.21? You may want to take a
16 look at UPS-XE-Haldi-1 again, which reproduces the
17 statistics as Ms. Robinson of the Postal Service gave them.

18 A I guess using the later response here in
19 UPS/USPS-T34-26, she has a slightly higher number than I
20 have.

21 Q Yes, 67.21, not 66.21, right?

22 A Correct.

23 Q Okay.

24 A That may be a typo.

25 Q Could be.

1 A Yes.

2 Q Now -- by the way, you have an interrogatory
3 response -- I don't know whether it was entered into the
4 record -- I apologize, but your response to UPS/APMU-T1-3
5 also uses the 66.21 number.

6 That should be changed to 67.21?

7 A Based on the number here, yes.

8 Q Okay. Now back to Priority Mail performance.

9 It went from a pretty low 60.77 percent in 1998 in
10 the two day area to 67.21 in 1999, an improvement of 6.5
11 points, is that correct?

12 A Yes, from a very low to a somewhat low.

13 Q Agreed.

14 A Right.

15 Q In the third quarter it went from 75.86 in 1998 to
16 80 in 1999, is that correct?

17 A That is correct.

18 Q So that is 4 points better.

19 A That is 4 points better, yes.

20 Q And in the fourth quarter it went from 82.88 to
21 84.62, an improvement of almost 2 points?

22 A Yes.

23 Q So in both charts, the overnight chart and the two
24 day chart, Priority Mail's highest scores came in the fourth
25 quarter of 1999, isn't that correct?

1 A Yes, that is correct.

2 Q Now you indicate on page 46 of your testimony,
3 lines 6 through 10, that performance of Priority Mail with a
4 two day commitment was more than 10 percentage points worst
5 than First Class mail and you use a number of 72 there for
6 Priority Mail, is that correct?

7 A That is correct.

8 Q Are you sure that number is right? That 72?

9 [Pause.]

10 BY MR. MCKEEVER:

11 Q Let me ask it this way -- go ahead.

12 A No, go ahead.

13 Q All right. Now am I correct that you got that
14 number by adding together all eight of Priority Mail's
15 scores for 1998 and 1999 shown in your chart and then
16 dividing by eight?

17 A That would be what we did. Yes.

18 Q Okay. Now when I did that I came up with 75.42.
19 Do you have any way of checking whether it is 72
20 or 75?

21 I have a calculator if you would like to do it,
22 but I will leave that up to you.

23 A Subject to check, I will accept your calculations.

24 Q Okay. Let's take a look, Dr. Haldi, now at First
25 Class mail's service performance in Fiscal Year 2000 versus

1 1999.

2 Have you seen Postal Service Witness Kingsley's
3 response to Interrogatory APMU/USPS-T10-1(d)? That is the
4 one which has EXFC scores in PMPC areas and outside PMPC
5 areas, do you recall that one?

6 A I'm sure I saw it. I don't recollect it from all
7 the others at this point.

8 MR. McKEEVER: Mr. Chairman, with your permission
9 I would like to present a copy of that response to the
10 witness.

11 CHAIRMAN GLEIMAN: Certainly. While Mr. McKeever
12 is distributing that material, let me just mention that
13 today is an experiment day for the Commission. We haven't
14 heard any catcalls or boos yet, so I assume the experiment
15 is going quite well.

16 For the first time, there is a live audio feed of
17 the Commission's proceedings available through our Internet
18 website. If you have speakers, a sound card and RealPlayer
19 on your computer, and there is a RealPlayer version that is
20 available to download, you can sit in your office and listen
21 to the proceedings instead of coming to the hearing room.

22 I am not sure I should have told anybody that,
23 because the hearing room is a little fuller today than usual
24 because we have some visitors from the Parcel Shippers
25 Association. They could have all stayed at their meeting

1 site and tuned in on the computer but I wasn't going to tell
2 them that before we got them here and had them captured for
3 part of the morning at least.

4 So just for those of you, and I know some
5 attorneys might want to take advantage of listening from
6 their office, we have added a tickler to the top of our
7 website to try and keep people apprised of where we are in
8 the hearings, but now you can pay closer attention and
9 perhaps spend less time in the hearing room, if that is your
10 desire, so in any event --

11 MR. McKEEVER: I take it that is not a two-way
12 feed, Mr. Chairman, so we can't cross examine from there?

13 CHAIRMAN GLEIMAN: Not yet, but we will work on
14 that. Maybe in the next rate case.

15 BY MR. McKEEVER:

16 Q Dr. Haldi, I have given you a copy of Postal
17 Service Witness Kingsley's response to Interrogatory
18 APMU/USPS-T10-1, which appears in the transcript at pages
19 1601 through 1605.

20 Now could you turn to the fourth page of that
21 response, the Transcript Page 1604?

22 Do you have that?

23 A Yes.

24 Q Now that presents EXFC First Class service
25 performance measures for a number of the Postal Service's

1 performance clusters. The top chart is in PMPC supported
2 clusters, is that correct?

3 A Yes, that is correct.

4 Q Now if you go to the two day service area for
5 1999, the percent on time is 88.54, is that correct?

6 A The which? Oh, the '99 percent on time? Yes.

7 Q Two day, yes.

8 A Yes.

9 Q Okay. In 2000, this is through postal quarter two
10 of FY 2000.

11 I assume that is all the data that was available
12 when this was answered -- the percentage is somewhat lower,
13 87.35, is that correct?

14 A little bit more than 1 percent lower?

15 A Right. Right.

16 Q Now let's take a look at the bottom chart that
17 continues onto the next page, Page 1605 of the transcript.
18 That is for areas not served by PMPCs, is that correct?

19 A Right.

20 Q 1999's, it's a little bit harder here because the
21 column headings are on this page, but if you take a look at
22 the two-day area, 1999, that would be the middle column in
23 numbers, and 1999 is the second from the right in that
24 column.

25 There, First Class Mail service performance went

1 from a number that's difficult to read. It's either 86 or
2 88; is that correct?

3 A Mine is impossible to read.

4 Q Okay, well, mine is hard. Is that a 6 or an 8, 86
5 or 88.

6 MR. MCKEEVER: Mr. Chairman, I wonder if the
7 Postal Service might be able later to supply that number for
8 us. I tried as best I could, several different ways to get
9 a better copy of the interrogatory that would make that
10 number clear, including going to the Docket Room, and just
11 couldn't get one.

12 It's an 86 or an 88, but --

13 CHAIRMAN GLEIMAN: Mr. Cooper, do you think you
14 can help us out in that regard?

15 MR. COOPER: I'll do everything within my power.

16 CHAIRMAN GLEIMAN: Would the seven-day rule be to
17 everyone's -- meet everyone's needs?

18 MR. MCKEEVER: That's fine, Mr. Chairman.

19 CHAIRMAN GLEIMAN: Mr. Cooper?

20 MR. COOPER: If possible, I'll try to do that
21 during a break today.

22 CHAIRMAN GLEIMAN: We'd appreciate it, thank you.

23 MR. OLSON: Mr. Chairman, I think it may be true
24 that we asked the witness at the time that this was put into
25 the record, to identify that in the transcript, and I think

1 it may already be there.

2 MR. McKEEVER: Well, if I overlooked it, I
3 apologize.

4 CHAIRMAN GLEIMAN: If that's the case, we'll
5 either accept some clarification from Mr. Cooper or if
6 someone could point us to a transcript citation, that would
7 be helpful, too.

8 MR. McKEEVER: Thank you, Mr. Chairman.

9 BY MR. McKEEVER:

10 Q In any event, if that's an 86 or an 88, if you
11 look at the FY2000 number, the very last column, it's 81.44
12 percent; is that correct?

13 A I can't read mine, either.

14 Q The last column you can't read, either?

15 A I can't read it, no. Wait a minute, you're
16 talking about the three-day or the two-day?

17 Q I was talking about the two-day. I apologize.
18 It's 84.93 in the two-day, right?

19 A I can't read it, but I'll accept that. I can see
20 the 81 on the far right, which I think you quoted
21 previously.

22 Q That's right, that was going to be my next
23 question. You can't read that one either?

24 A That, I can read.

25 Q Oh, that you can read, okay.

1 A That's about the only one I can read.

2 [Pause.]

3 Q Dr. Haldi, I took ^{these}~~three~~ charts on the ExFC service
4 performance for First Class Mail for each of these
5 geographic areas, and I put a block around those areas where
6 the Fiscal Year 2000 percent on-time for First Class Mail
7 was lower than the Fiscal Year 1999 percent on-time.

8 MR. McKEEVER: Mr. Chairman, I'd like to furnish a
9 copy of that document to Dr. Haldi. I have marked it as
10 UPS-XE-Haldi-2.

11 [Exhibit Number UPS-XE-Haldi-2 was
12 marked for identification.]

13 BY MR. McKEEVER:

14 Q Now, as I mentioned, what I did was, I compared
15 the 1999 number to the 2000 number in each of the service
16 areas, overnight, two-day, and three-day, and put a block
17 around those numbers where the Fiscal Year 2000 number was
18 lower by any amount.

19 Now, if I've done my math right, overnight service
20 for First Class Mail was down in 2000, as opposed to 1999 in
21 about 40 percent of the Postal Service's performance
22 clusters in the overnight area; about 74 percent in the
23 two-day service area; and about 92 percent in the three-day
24 service area.

25 Do you agree, at least, that service performance

1 was down in Fiscal Year 2000, as opposed to 1999 in a
2 considerable number of the performance clusters?

3 A Yes, with the caveat that 1999 was for the whole
4 year, and the Year 2000 to date was for the first two
5 quarters, I believe. Yes, PQ-2, Postal Quarter 2, which
6 includes the Winter months where things are often worse.

7 Q Agreed, but this is all the data we have at the
8 present.

9 A Based on the data that are here, yes.

10 Q Okay.

11 Now, in some cases, the decline is not large; in
12 other cases it is. If I counted only those instances where
13 the decline was one percent or more, I got decreased
14 performance in 59 percent of all performance clusters in the
15 two-day area, and 88 percent in all clusters in the
16 three-day area.

17 Just from looking at this, those numbers don't
18 seem like they're too far off; do they?

19 A All right.

20 Q They could be calculated, in any event; is that
21 right?

22 A Yes.

23 Q Okay.

24 A The -- you can use the sort of subtotals at the
25 bottom to get a guide of the three-day performance and First

1 Class in 1999 to date, and it seems to be materially worse
2 than it was in 1998.

3 Q Yes, I was talking about --

4 A The 81.94 versus 85.97.

5 Q Okay.

6 A That's in the first clusters.

7 Q I was talking 2000 versus 1999, but that's all
8 right.

9 A I meant 2000 versus '99. I'm sorry; I misspoke.

10 Q Okay.

11 Dr. Haldi, am I correct that only about 12 percent
12 of Priority Mail is sent by households?

13 A That's my understanding.

14 Q And about 27 percent of First Class, single-piece
15 letters is sent by households?

16 A I'm not familiar with the First Class data. I'll
17 accept your word for it.

18 Q Okay. It appears in the transcript in an answer
19 by Postal Service Witness Tolley to a UPS interrogatory at
20 transcript page 3661.

21 A Okay.

22 Q And I think you state in your testimony that about
23 55 percent of Priority Mail is sent by businesses to
24 businesses; is that correct?

25 A Well, that was, again, based on information from

1 Witness Tolley; that's correct.

2 Q Well, I think it was Witness Musgrave that gave
3 the Priority Mail; is that correct?

4 A I think -- Witness Musgrave did the forecasting.
5 I think Witness Tolley gave the -- well, whoever it was.

6 Q Okay, it's at transcript page 3567.

7 A Okay.

8 Q Dr. Haldi, one of the major reasons you believe
9 that the Commission should restrain, I think is the word you
10 used on page 54 of your testimony, Priority Mail's cost
11 coverage is the fear of the loss of Priority Mail volume, is
12 that correct?

13 A That is correct.

14 Q And on page 29 to 38 of your testimony, you
15 compare Priority Mail rates with those of some of its
16 competitors, is that correct?

17 A That is correct. Well, I compare them with the
18 published rates of competitors.

19 Q Right.

20 A The unpublished rate data not being available
21 except, as I note, for the FedEx government rates.

22 Q Right. Now, do you agree, I think you did testify
23 to this on page 25 of your testimony, that about 25 percent
24 of Priority Mail's volume is protected by the Private
25 Express statutes?

1 A I simply recited statistics that the Postal
2 Service had given on that fact. I have no direct knowledge
3 other than what the Postal Service gave.

4 Q So that is the best information we have at this
5 point?

6 A That is correct. That was -- it is the footnote
7 that cites the source of those data.

8 Q Right. Now, competitors are legally required to
9 charge at least twice the Priority Mail ^{rate}~~weight~~ for items
10 that fit the Priority Mail weight profile, is that correct?

11 A Yes.

12 Q You are familiar with the double postage rule?

13 A That is my understanding. I am not a lawyer, but
14 that is my understanding.

15 Q Okay. So price cutting below that level, 200
16 percent of the priority mail rate, is not an option
17 competitors have whether they are in their published rates
18 or in their negotiated rates with respect to that 25 percent
19 of Priority Mail volume, is that correct?

20 A Nominally, that is correct, yes. But I do note
21 that neither the competitors nor the Postal Service have any
22 knowledge as to whether the material inside the package is
23 really, in fact, protected by the Private Express statutes,
24 typically.

25 Q Don't they typically specify on their packaging

1 that it is not to be used for materials above a certain
2 weight, for example?

3 A I haven't read the packaging of UPS or FedEx in
4 that regard.

5 Q Okay. Have you investigated, Dr. Haldi, whether
6 Priority Mail volumes and revenues have tended to end up
7 being higher or lower than estimated in rate cases?

8 A I have not made that comparison, no.

9 MR. McKEEVER: Mr. Chairman, I have a packet of
10 parts of Commission decisions and CRA reports since 1990
11 that I would, with your permission, like to provide to the
12 witness. I have not marked it as a cross-examination
13 exhibit because it is from Commission decisions and from CRA
14 reports which are on file with the Commission. But with
15 your permission, I would like to provide the witness with a
16 copy of that.

17 MR. OLSON: Mr. Chairman, I have no particular
18 exception to providing the witness a copy of something, but
19 if the witness has just testified he has not made that
20 particular comparison, and Mr. McKeever just wants to walk
21 us through otherwise published data, I would object.

22 MR. McKEEVER: Well, I do want to get Dr. Haldi's
23 agreement with me on what the numbers show.

24 CHAIRMAN GLEIMAN: I see no reason why we
25 shouldn't proceed, and if you find something in particular

1 that is objectionable, you can raise an objection at that
2 point.

3 Do you have a copy for counsel, also?

4 MR. McKEEVER: Yes, I do, Mr. Chairman.

5 CHAIRMAN GLEIMAN: Okay.

6 BY MR. McKEEVER:

7 Q Now, Dr. Haldi, the first page there is from
8 Appendix B, Schedule 1 of the Commission's decision in
9 Docket R90-1 on remand. That is so indicated on the page.
10 Do you see that?

11 A Yes, I see where it says that.

12 Q Now, in R90, the Commission estimated that
13 Priority Mail volume in 1992, I will ask you to accept that
14 that was the test year in that case, estimated that Priority
15 Mail volume in 1992 would be 516.4 million pieces about, is
16 that correct?

17 A Correct.

18 Q Now, if you turn to page 39 of your testimony,
19 Table 7, I think you show that Priority Mail volume in 1992
20 was actually 584 million pieces, is that correct?

21 A That is what it shows, that's correct.

22 Q Okay. My calculation shows that is about 13
23 percent higher than estimated.

24 A All right.

25 Q Now, if you go back to the Commission decision,

1 the 1992 revenue for Priority Mail was estimated to be
2 \$1,852,000,000, is that correct?

3 A Yes.

4 Q Okay. Now, the next document you have in that
5 packet is the Cost and Revenue Analysis Report for 1992. Am
6 I correct that that shows that revenue for Priority Mail in
7 1992 actually turned out to be \$2,070,800,000?

8 A That is what it shows.

9 Q Okay. Again, my calculation shows that is about
10 12 percent higher than projected. Now, that was in the face
11 of rate increase of 19 percent for Priority Mail in Docket
12 R90, is that correct?

13 A That is correct.

14 Q Okay. The next document you have is from R94-1,
15 the Commission's decision in R94, and there the Commission
16 estimated that Priority Mail volume for the test year in
17 that case, which was 1995, would be 762.6 million pieces, is
18 that correct? Take a look at Priority Mail volume, the
19 first column, 762,562.

20 A That's correct.

21 Q Okay. And if you look at the Postal Service's
22 1995 Cost and Revenue Analysis Report, the next document, I
23 think you will see that Priority Mail volume actually turned
24 out to be 869 million pieces, do you see that?

25 A Yes.

1 Q That is about 14 percent better than predicted,
2 according to my calculation. Now, revenue in R94, going
3 back to the prior sheet, the Commission sheet, was estimated
4 to be 2,762,200,000, is that correct?

5 A Right.

6 Q And the Cost and Revenue Analysis shows that it
7 was actually over \$3 billion, 3,074,700,000, is that
8 correct?

9 A That's correct.

10 Q That is about 11.3 percent higher according to my
11 calculations.

12 A That's correct.

13 Q We are almost done. And in R97, the next sheet,
14 the Commission estimated that in test year 1998, Priority
15 Mail volume would be 1,058,600,000, is that correct?

16 A I think that is correct, I am having trouble
17 reading the copy you gave me.

18 Q Okay. My copy is not real good, but I think it is
19 pretty clear that that is the number. That could be checked
20 certainly. Now, if you turn to your Table 7 on page 39, you
21 show 1998 Priority Mail volume of 1,174,000,000, is that
22 correct?

23 A That's correct.

24 Q That is about 11 percent higher than predicted
25 according to my calculations. And finally, the revenue

1 estimate in R97 for Priority Mail was 4,019,600,000, is that
2 correct?

3 A Yes, I think that is what it says here.

4 Q And if you look at the 1998 CRA that I have given
5 you, PRC version, revised June 11, 1999, I think you will
6 see that revenue was actually 4,149,600,000, again, up, is
7 that correct?

8 A Yes, that is correct.

9 Q Thank you. Dr. Haldi, could you please turn to
10 page 31 of your testimony?

11 A Yes.

12 Q Now in the third footnote to your Table 4 you
13 state that UPS and FedEx, quote, "offer pickup rates for
14 additional \$3 per pickup." Do you see that?

15 A Yes.

16 Q And you contrast that by stating that the Postal
17 Service, quote, "will pick up Priority Mail articles for an
18 additional charge of \$8.25 per pickup" and then you note in
19 parentheses "proposed to increase to \$10.25" -- is that
20 correct?

21 A That is correct.

22 Q Are you sure that the UPS and FedEx charges are \$3
23 per pickup?

24 A It may be per piece. I am not sure. I have never
25 utilized the service myself.

1 MR. McKEEVER: Okay. Mr. Chairman, with your
2 permission I would like to show the witness a copy of two
3 documents. One is the currently effective UPS Service Guide
4 and the other is the FedEx Service Guide. I have marked
5 them as UPS-XE-Haldi-3 and UPS-XE-Haldi-4, and I do have
6 copies for counsel and for others.

7 CHAIRMAN GLEIMAN: Certainly.

8 [UPS-XE-Haldi-3 and UPS-XE-Haldi-4
9 were marked for identification.]

10 MR. COOPER: Mr. Chairman, if I may interject?

11 CHAIRMAN GLEIMAN: Most certainly, Mr. Cooper.

12 MR. COOPER: My co-counsel has gone to the docket
13 room and found the original of the interrogatory response
14 that wasn't clear when it was copied. I would like to
15 provide a clearer copy to counsel for UPS and then he can
16 make sure that those numbers are confirmed in the record.

17 CHAIRMAN GLEIMAN: Certainly.

18 [Pause.]

19 MR. McKEEVER: Mr. Chairman, with your permission
20 and at the suggestion of Postal Service counsel, who I
21 thank, I would like to furnish a copy to Dr. Haldi.

22 CHAIRMAN GLEIMAN: A copy of the original
23 interrogatory response?

24 MR. McKEEVER: Yes.

25 CHAIRMAN GLEIMAN: Okay.

1 MR. McKEEVER: Yes, that was subsequently entered
2 into the record at Transcript Pages 1601 to 1605. Postal
3 Service counsel has provided three pages from that answer,
4 the three pages which contain all of the charts.

5 CHAIRMAN GLEIMAN: That would be fine. Also, you
6 are in the process or were in the process of distributing
7 some cross examination exhibits so perhaps we can take care
8 of all of that at once.

9 MR. McKEEVER: Thank you, Mr. Chairman. It might
10 take me one or two rounds around the room.

11 BY MR. McKEEVER:

12 Q Dr. Haldi, let's tie up the loose ends I guess we
13 left first, before I begin with the Service Guides --

14 MR. McKEEVER: Oh, I apologize, Mr. Chairman. You
15 wanted me to distribute the other materials now.

16 CHAIRMAN GLEIMAN: May as well get it all
17 distributed and then we can proceed.

18 MR. McKEEVER: Okay.

19 [Pause.]

20 MR. McKEEVER: For the record, Mr. Chairman, I
21 have provided to the witness and counsel as well as to the
22 Commission copies of the currently effective -- certain
23 pages from the UPS currently effective Service Guide and
24 certain pages from the FedEx Service Guide.

25 I have also provided to the witness a copy, a

1 clear copy, of Ms. Kingsley's, that part of Ms. Kingsley's
2 interrogatory response which was provided by Postal Service
3 counsel and which contains the service performance
4 statistics for First Class mail under the EXFC measurement
5 system.

6 If I may, Mr. Chairman, I would just like to
7 clarify those numbers first and then move on to the other
8 two exhibits, which by the way, I have marked in the case of
9 the UPS Service Guide as UPS-XE-Haldi-3, and in the case of
10 the FedEx Service Guide, UPS-XE-Haldi-4.

11 BY MR. McKEEVER:

12 Q Dr. Haldi, just to clarify those numbers, now that
13 we have a copy that we can read, the on-time performance
14 percentage for First Class mail in non-PMPC supported
15 performance clusters for two day, 1999, is 86.18 percent, is
16 that correct?

17 A That is for 1999.

18 Q 1999. Correct.

19 A That is correct.

20 Q And for 2000 it is somewhat lower, 84.47 percent
21 is that correct?

22 A Yes. That is correct.

23 Q Thank you.

24 MR. McKEEVER: And again, Mr. Chairman, I thank
25 Postal Service counsel.

1 BY MR. MCKEEVER:

2 Q Now let's turn, Dr. Haldi, again to your testimony
3 that the UPS and FedEx offer pickup rates for an additional
4 \$3 per pickup.

5 Do you have the UPS Service Guide that I provided
6 you? That is UPS-XE-Haldi-3?

7 A Yes, I do.

8 Q Could you turn to page 22 of that Service Guide?

9 A Yes.

10 Q And do you see there, about the middle of the
11 page, in the left-hand column, it says "If you request a UPS
12 on call air pickup or a one-time pickup ^{add} \$3 per letter or
13 package to the rates shown"?

14 A Yes.

15 Q And turning to the FedEx Service Guide,
16 UPS-XE-Haldi-4, I have provided you with page 86 of that
17 Service Guide. Under Pickup and Delivery there, about the
18 middle of the page, Item 2, do you see that it states, "The
19 \$3 per package pickup charge" -- it refers to the \$3 per
20 package pickup charge?

21 A Yes.

22 Q Thank you -- and the Postal Service's charge, we
23 are clear, is per pickup, not per package, is that correct?

24 A Correct.

25 Q Do you remember those Priority Mail ads, Dr.

1 Haldi, where the Postal Service touted the fact that its
2 carriers pass by every address every day and that the
3 carrier would pick up Priority Mail shipments for free on
4 its regular run?

5 A I don't recall the ads. Are those TV ads?

6 Q Yes. Yes, they were.

7 A It's because I don't watch TV.

8 Q I don't watch it too much either, but those ads
9 seemed to catch my attention.

10 A Did you try the service?

11 Q I have not tried it recently, no.

12 Do you know though that in fact on his regular run
13 the carrier will pick up Priority Mail or any other mail for
14 that matter for free, assuming he can handle it?

15 A That is my understanding, that if you leave a
16 letter in the mailbox with the flag up, they will stop and
17 pick it up.

18 Q And if he is making a delivery and you want to
19 give him a Priority Mail package he will take it?

20 A That is my understanding.

21 Q Okay. The Postal Service delivers Priority Mail
22 every Saturday at no extra charge also, doesn't it?

23 A That is correct.

24 Q And I guess you don't remember then the ads where
25 the Postal Service mentioned the fact that UPS does not

1 deliver second day air shipments ^{on} Saturday at all, even
2 for an extra charge, is that correct?

3 A That would be -- that is correct. I don't
4 remember that.

5 Q Okay. That is correct you don't remember that.

6 Do you know if in fact UPS delivers second day air
7 shipments on Saturday, whether for an extra charge or not?

8 A I do not know.

9 Q You do not know? Okay.

10 Are you aware that FedEx charges \$10 per package
11 for Saturday deliveries?

12 A That I am aware of, yes.

13 Q Okay, and they charge \$10 per package for Saturday
14 pickups, is that correct?

15 A I don't know that. I never used it.

16 Is that in the Service Guide that you handed me?

17 Q It is not in the Service Guide that I handed you,
18 but I can provide you with copies of the Service Guides that
19 do indicate that and so I may as well do that, thank you.

20 A Okay.

21 MR. McKEEVER: Mr. Chairman, with your permission
22 I would like to provide the witness and counsel with a copy
23 both of a page printed off the FedEx Internet site as well
24 as two pages from the Service Guide that I have marked as
25 UPS-XE-Haldi-5.]

1 [UPS-XE-Haldi-5 was marked for
2 identification.]

3 BY MR. McKEEVER:

4 Q Dr. Haldi, if you'd take a look at that, the
5 first page is from the Internet site, and it indicates a
6 courier pickup charge of \$3 per package. We've already
7 discussed that.

8 A Right.

9 Q And Saturday pickup service, \$10 per package, and
10 Saturday delivery service, \$10 per package; do you see that?

11 A Yes.

12 Q And that same information is really just
13 reproduced on the other two pages out of the -- actually on
14 the next page out of the Service Guide, the third page just
15 indicates the effective date of those rates, and they are
16 the currently-effective rates; do you see that?

17 A Yes.

18 Q Dr. Haldi, you state on page 24 of your testimony
19 at lines 28-30, that Saturday delivery -- and I'm quoting
20 here: "is much less meaningful" -- that's the end of the
21 quote -- for, and then I'm picking up the quote again --
22 "for the many business firms that are closed on Saturdays."

23 Do you see that?

24 A Yes.

25 Q Do you agree that Saturday delivery is much more

1 meaningful for the many business firms that are open on
2 Saturdays?

3 A For those that are open, it would be, yes.

4 Q And, I take it, you agree that Saturday delivery
5 at no extra charge is highly desirable for business firms
6 who ship to residences; would you agree with that?

7 A I would think that that would be a desirable
8 feature, yes.

9 Q And if a shipper didn't want to have to worry
10 about whether the package would get to its destination on a
11 Saturday or not, that shipper would have to use the Postal
12 Service; is that correct?

13 A Say that again, please?

14 Q Well, a shipper sending a package on Thursday or
15 Friday and doesn't want to have to worry whether it's going
16 to -- there's going to be an attempt to deliver on a
17 Saturday or not, the Postal Service is more attractive to
18 that shipper because the shipper not only doesn't have to
19 pay the \$10 charge, but doesn't have to worry whether there
20 will, in fact, be a \$10 charge.

21 A Oh, you mean, if he desires Saturday delivery?

22 Q Right.

23 A I suppose that would be an added feature.

24 Q Thank you.

25 On your Table 3 on page 24, do you see that?

1 A Yes.

2 Q Under Sunday delivery for Priority Mail, you
3 indicate no. Am I correct that the Postal Service sometimes
4 delivers Priority Mail on Sundays during the peak season?

5 A Sometimes, is my understanding.

6 Q And that's for no extra charge?

7 A That's correct.

8 Q Now, the Priority Mail rates adopted in this case
9 will not go into effect until sometime during test year
10 2001; is that correct?

11 A That's correct.

12 Q And they will most likely remain in effect for a
13 couple of years at least?

14 A One would hope so.

15 Q Okay. Are you aware that Fedex and UPS typically
16 adjust their rates or charges every year?

17 A I believe that's their custom.

18 Q UPS usually does it in February; isn't that
19 correct?

20 A I don't know when they do it.

21 Q Well, in any event, UPS and Fedex will almost
22 certainly change at least once and perhaps more than that
23 before the Priority Mail rates approved in this case, next
24 change; is that correct?

25 A Based on history, I guess that would be a

1 reasonable presumption. I can't speak for them.

2 Q Okay, so the comparisons that you indicate in your
3 testimony likely understate Priority Mail's rate advantage
4 in the test year; is that correct, or at least a good part
5 of it?

6 A They could.

7 Q And for at least a year after that?

8 A Yes. You talk about changing your rates, you're
9 talking about changing the published rates.

10 The bulk of the business-to-business rates, as I
11 understand it, are negotiated, and I don't know if those
12 change every year or not.

13 They really provided no information as to either
14 the rates or when the rates change or anything else.

15 I'm not privy to any information about the
16 negotiated rates of either Fedex or UPS.

17 Q But what I indicated is true with respect to the
18 published rates; is that correct?

19 A The published rates, that's correct.

20 Q Okay.

21 Now, Dr. Haldi, on page 34 of your testimony, you
22 list some Fedex rates. How did you get those rates? How
23 did you arrive at them, the Fedex two-day rates?

24 A Well, those -- I believe those were published
25 rates off the Internet.

1 Q You took them off the Internet?

2 A I had an assistant of mine do that. I told him to
3 take them off the Internet, yes.

4 Q Do you know if your assistant added Fedex's fuel
5 surcharge?

6 Fedex does have a fuel surcharge; is that correct,
7 in effect?

8 A I believe they do.

9 Q And do you know what the percentage is; three or
10 four percent?

11 A I'm not sure what the percentage is. It's a small
12 amount.

13 Q Do you know whether the rates indicated there
14 reflect the fuel surcharge?

15 A That, I don't know.

16 Q Now, you indicate in the table that those are Zone
17 5 rates; is that correct?

18 A Yes.

19 Q Are you sure those --

20 A Well, the top ones were supposed to be Zone 5.

21 Q Yes.

22 A And the bottom ones are Zone 8.

23 Q Right, thank you.

24 Are you sure they are Zone 5 rates and not Zone 4
25 rates?

1 A Well, I will admit that I relied on my assistant
2 for this. I told him what to do, and hoped he did it right.
3 I didn't go back and cross-check that detail.

4 Q Where did you obtain the UPS two day rates, or do
5 you know, did your assistant obtain those?

6 A I assume he got them off the Internet.

7 Q Okay. Did you check those rates to see if they
8 were accurate?

9 A I didn't, no.

10 Q Particular the Zone 8 rates for 50 and 70 pounds?

11 A No.

12 Q Okay. How about the UPS select -- three day
13 select rates, how did you obtain them, off the Internet
14 again?

15 A Off the Internet, right.

16 Q And you don't know what procedure he used to come
17 up with those rates?

18 A No. I told him the table I wanted and told him to
19 fill in the blanks.

20 Q Okay. What table did you tell him that you
21 wanted?

22 A Well, I said I wanted to make these comparisons
23 between Zone 5 for the these weights. I said I thought
24 every 10 pounds would be sufficient, and I thought Zones 5
25 and 8 would be sufficient.

1 Q Okay. Well, in any event, the UPS Service Guide
2 is a Library Reference in this case and it contains the
3 rates, so they can be checked that way, is that correct?

4 A Yes, correct.

5 Q Okay.

6 A The basic purpose of the table, as stated in the
7 text, was just to compare what happens with the rates for
8 two, three pound packages versus what happens as the weights
9 and zones increase. And I think the general statement is
10 that as the weights go up and zones increases, Priority Mail
11 compares less favorably than it does in the one, two, three
12 pound range.

13 Q Now, you note several times in your testimony, Dr.
14 Haldi, that Priority Mail's rates are particularly
15 inexpensive in the lower weight ranges. I am talking about
16 that subject, five pounds and under, is that correct?

17 A Yes. Especially one and two pound -- well, the
18 two pound rate currently.

19 Q Okay. Am I correct that the vast majority of
20 Priority Mail volume is under five pounds?

21 A Yes.

22 Q Something like 95 percent?

23 A Something like that, yes.

24 Q And I think it is about 85 percent or so is two
25 pounds or less, is it?

1 A I believe that is correct.

2 Q Okay. And that is where the 25 percent of
3 Priority Mail volume that is protected by the Private
4 Express statutes largely resides, in those weight ranges,
5 isn't that true?

6 A I would presume so, yes.

7 Q Now, Dr. Haldi, you believe that the proposed --
8 Postal Service's proposed rate increase of 15 percent for
9 Priority Mail is too high, correct?

10 A Absolutely.

11 Q Okay. Now, you indicate on page 7 of your
12 testimony -- could you turn to that, please? At lines 2 to
13 3, that projected Priority Mail costs for the test year
14 represent a 39 percent increase from 1997 levels, is that
15 correct?

16 A Yes.

17 Q And according to your Table 1 on that same page,
18 the Postal Service's test year unit costs for Priority Mail
19 represents an increase from 1.993 to 2.452 before rates, is
20 that correct?

21 A Correct.

22 Q That is about 23 percent?

23 A Yes.

24 Q Dr. Haldi, is it your view that the Postal
25 Reorganization Act lists the protection of the Postal

1 Service's market share as a rate-making factor?

2 A I don't believe I have seen that in the Act the
3 few times I have referred to it.

4 Q Could you please turn to Table 8 on page 41 of
5 your testimony?

6 A I have it.

7 Q Okay. Am I correct that the 1999 market share
8 information you show there reflects the loss of Priority
9 Mail volume due to the increase in the First Class mail,
10 Priority Mail break point from 11 to 13 ounces? When I say
11 reflect, I mean that Priority Mail volume does not include
12 volume between 11 and 13 ounces, is that correct?

13 Do you want me to try that again? I made that a
14 little bit long.

15 A Yeah. Why don't you restate that, please?

16 Q Okay. Okay. Am I correct that the numbers, the
17 figures on which those percentages are based, do not include
18 volume that would have gone by Priority Mail if it were not
19 for the change in the break point?

20 A Well, some volume shifted when the break point
21 changed, yes.

22 Q Okay.

23 A It could have gone Priority Mail, but mailers
24 opted not to send it by Priority Mail.

25 Q Well, you are assuming that mailers made a

1 conscious choice, is that correct?

2 A That is correct.

3 Q Many of them may have just had an 11 or 12 ounce
4 piece and sent it not making any -- not knowing there was a
5 choice between First Class and Priority Mail, is that
6 correct?

7 A We don't know what they did, that's correct.

8 Q Okay. But we do know at least --

9 A There is an estimate by Witness Musgrave, I
10 believe, of the amount that shifted.

11 Q I think that is right, and that is in the record.

12 A Yes. Yes.

13 Q Now, the market share numbers that you show there
14 come ultimately from an organization known as the Colography
15 Group, is that correct?

16 A That is my understanding, yes.

17 MR. McKEEVER: Mr. Chairman, I believe this is my
18 last cross-examination exhibit. With your permission, I
19 would like to present the witness with a copy of a press
20 release from the Colography Group.

21 Mr. Chairman, I have marked that document as
22 UPS-XE-Haldi-6.

23 [Cross-Examination Exhibit No.
24 UPS-XE-Haldi-6 was marked for
25 identification.]

1 BY MR. McKEEVER:

2 Q Now, the first paragraph of that document refers
3 to a Postal Service market share in 1998 of all U.S.
4 domestic air cargo shipments of nearly 45 percent, is that
5 correct?

6 A That is what it says.

7 Q And that, looking at your table, the number you
8 show is 44.7 percent, is that right?

9 A Right.

10 Q That is nearly 45 percent, would you agree?

11 A Right.

12 Q Now, that same paragraph indicates that the Postal
13 Service is "the undisputed shipment leader in the \$31
14 billion domestic air market," is that correct?

15 A That is what it states.

16 Q And if you go down to the fifth paragraph, the one
17 that starts with a quote there, that indicates that the
18 president of the Colography Group indicated that "the
19 results reflect Priority Mail's growing influence in the
20 marketplace." Do you see that?

21 A Yeah, that is what it says.

22 Q If you would turn to the second page, please.

23 A Yes.

24 Q Take a look at -- right above the middle of the
25 page, there is a paragraph that is not set off, it says, "On

1 balance, the 1998 results," do you see that paragraph?

2 A I see that, yes.

3 Q Okay. In the second sentence in that paragraph,
4 the quote refers to "the expanding clout of Priority Mail,"
5 do you see that?

6 A Yes.

7 Q Dr. Haldi, could you turn to page 20 of your
8 testimony, please?

9 A Okay.

10 Q Lines 7 through 10. There you indicate, and I am
11 quoting here, that "competition for expedited document and
12 package delivery services exists at the local, regional and
13 national level," is that correct?

14 A That's correct.

15 Q I take it you agree then that there are a number
16 of other smaller competitors of the Postal Service that
17 compete in the two day expedited delivery market in addition
18 to the ones that you specifically mention?

19 A I believe that to be the case, yes.

20 Q And those smaller competitors have to compete with
21 the Postal Service, too, just as the larger competitors that
22 you mention do, is that correct?

23 A That's correct.

24 Q At the bottom of page 20, top of page 21, you
25 indicate that because businesses originate so much of

1 Priority Mail's volume, 88 percent is the number you use,
2 that it is vulnerable to competition, is that correct?

3 A That's correct.

4 Q I take it that fact suggests to you that Priority
5 Mail should receive a lower markup or cost coverage because
6 it operates in such a competitive market, is that correct?

7 A I think that is a good reason to keep the coverage
8 within bounds, because, otherwise, you can lose major
9 clients very easily, and they make huge dents in your
10 business if they shift.

11 Q Does that suggest to you that there should be
12 higher markups where class of mail faces less or no
13 competition?

14 A Generally, that would be the case, yes.

15 Q Turn to page 23 of your testimony, please, in
16 particular, lines 19 to 22. There you indicate, quote,
17 "unless and until Priority Mail becomes more competitive
18 with respect to the features described here, it should not
19 be saddled with a high coverage that fails to recognize the
20 realities of the competitive marketplace." Do you see that?

21 A Yes, I do.

22 Q I take it from that sentence, and this is what I
23 want to ask you, that you agree that adding service features
24 to a product justifies a higher markup?

25 A Not necessarily. Certainly, you would justify --

1 well, by markup, you are referring to a percentage or two an
2 absolute amount?

3 Q Percentage, cost coverage or markup.

4 A Not necessarily. I think it might if you became
5 resistant to competitive inroads. It would certainly
6 justify increasing the absolute amount by the amount of the
7 costs that you add to increase those features. Whether it
8 would justify adding a percentage on to those costs would
9 depend on the competitive marketplace, what the competitors
10 are doing.

11 Q Okay. Thank you. Could you turn to pages 56 and
12 57 of your testimony, please? In the testimony in those
13 pages, you indicate that, in light of the availability of
14 the Parcel Post entry discounts, it makes sense for a mailer
15 to shift from Priority Mail to the Parcel Post, Parcel
16 Select services by using consolidators, say. Is that the
17 thrust of your testimony?

18 A What are you referring to? Wait a minute.

19 Q I am not quoting. I am just trying to summarize
20 your testimony there, which is -- which I take it -- let me
21 try it again.

22 I think what you are trying to say there, and that
23 is what I want to make sure, is that in light of the
24 availability now of Parcel Post entry discounts, mailers may
25 shift from Priority Mail, some mailers, to the Parcel Post,

1 Parcel Select categories, is that correct?

2 A That is a possibility.

3 Q You highlight that as something that the
4 Commission should take into account and be concerned about,
5 is that right?

6 A Well, I think they should be aware of what is
7 happening in the marketplace. I don't think you should set
8 rates that are -- you know, with both eyes shut as to what
9 is going on in a competitive marketplace. That is a sure
10 recipe for disaster, typically.

11 Q And am I correct that your concern is that every
12 Priority Mail piece that shifts to one of the Parcel Post,
13 Parcel Select categories results in a significant loss of
14 contribution to institutional costs?

15 A If it shifts from Priority Mail to Parcel Select,
16 that would indeed reduce the contribution.

17 Q Substantially?

18 A Substantially. Mind you, if it comes from other
19 sources, say, it shifts from UPS or FedEx or any other
20 sources, then, of course, it is just extra business.

21 Q Okay.

22 A The Postal Service is in a position where it winds
23 up competing with itself here.

24 MR. McKEEVER: That was my point. Thank you.

25 Mr. Chairman, with that, I would like to move into

1 evidence cross-examination exhibits UPS-XE-Haldi-1, 2, 3, 4
2 and 5, not 6, which is the Colography Group press release,
3 but I would ask that all of those, UPS-XE-Haldi-1, 2, 3, 4,
4 5 and 6 be transcribed into the transcript of today's
5 proceedings as well, and that would conclude my
6 cross-examination.

7 MR. OLSON: Mr. Chairman, I would definitely
8 objection to these being moved into evidence. Witness Haldi
9 did not vouch for the FedEx Service Guidance or the UPS
10 Service Guide. I think Mr. McKeever is going to have to
11 find some other way to get those into evidence.

12 And I would actually object to even the
13 transcription of Exhibit 6. There was no questioning of
14 Witness Haldi over that Colography Group press report other
15 than to ask him to read a few sentences from it. And I can
16 see this in Mr. McKeever's brief in a few weeks, if it's
17 allowed to be transcribed, whether it's considered evidence
18 or not. And I would object to it even being transcribed.

19 MR. MCKEEVER: Mr. Chairman, I will withdraw my
20 request for the transcription of 6. I don't think it's
21 necessary, I guess, to be in the transcript volume.

22 With respect to the UPS and Fedex Service Guides,
23 the UPS Service Guide is a Library Reference that has been
24 referred to in interrogatory answers.

25 But for that reason, I don't think there is any

1 need for me to ask that it be admitted into evidence,
2 because I believe it either is or will be soon when other
3 witnesses adopt certain interrogatory responses.

4 So, let me modify my request then that Exhibits 1
5 and 2, which are not the Service Guides, be admitted into
6 evidence; that is, the answer of Postal Service Witness
7 Robinson that provided the PETE scores, with the added
8 information of the means, which I think Dr. Haldi testified
9 he did verify.

10 So, I move that into evidence, and that it be
11 transcribed. And I would also move into evidence, UPS-XE-2,
12 which is the Kingsley interrogatory answer, and I'll just
13 move that 3, 4, and 5, be transcribed into the record, along
14 with 1 and 2, and not admitted into evidence.

15 MR. COOPER: Mr. Chairman, if I might suggest that
16 the clear copies be included with the Kingsley response, so
17 that the transcription is as clear as possible.

18 MR. McKEEVER: Mr. Chairman, I would agree to that
19 request, and I guess, for purposes of identification, maybe,
20 to make it clear, I would propose that we mark that as
21 UPS-XE-Haldi-7, and that it be admitted into evidence and
22 transcribed into the record. I do only have two copies.

23 [UPS-XE-Haldi-7 was marked for
24 identification.]

25 CHAIRMAN GLEIMAN: This is getting a little

1 confusing in terms of keeping the scorecard here.

2 As I understand it, you want to admit 1 and 2 into
3 evidence; also, the additional materials as Exhibit 7.

4 MR. McKEEVER: That's correct, Mr. Chairman.

5 CHAIRMAN GLEIMAN: Counsel?

6 MR. OLSON: Mr. Chairman, I have no particular
7 objection to Number 1 coming in, since that's been, I guess,
8 verified by the witness.

9 But 2 is Mr. McKeever's markings on a
10 previously-admitted exhibit, and I think that adds nothing
11 to have his boxes added to it. He has already examined the
12 witness concerning this, and this is in no way the witness's
13 testimony.

14 MR. McKEEVER: Mr. Chairman, I will withdraw the
15 request that 2 be admitted into evidence, as long as it is
16 transcribed into the record. The numbers will speak for
17 themselves.

18 CHAIRMAN GLEIMAN: Okay, let's take care of what
19 we're going to admit into evidence first.

20 MR. McKEEVER: Exhibit 1 and 7, I think is the
21 request now.

22 CHAIRMAN GLEIMAN: Okay. Are we clear on 1 and 7,
23 no objections on 1 and 7?

24 MR. OLSON: No objection to 1 and 7.

25 CHAIRMAN GLEIMAN: Cross Examination Exhibits 1

1 and 7 will be admitted into evidence and transcribed into
2 the record.

3 [Exhibits Numbered UPS-XE-Haldi-1
4 and UPS-XE-Haldi-7 were received
5 into evidence and transcribed into
6 the record.]

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UPS-XE-HALDI-1

Taken from
Tr. 21/9376

RESPONSE OF UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF UNITED PARCEL SERVICE
(REDIRECTED FROM WITNESS ROBINSON)

UPS/USPS-T34-26. Describe and quantify all improvements in Priority Mail service performance since FY1996.

RESPONSE:

See attachment for ODIS data for FY 1996 and FY 1997.

See LR-USPS-I-170, Table 7 for ODIS data for FY 1998 and FY 1999.

See the table below for data from the Priority-End-To-End (PETE) service performance measurement system. Note: The PETE System was implemented in FY 1997 AP 5.

Priority End-To-End (PETE)

FY	PQ	% On Time Overnight Commitment	% On Time 2-Day Commitment
1997	2	85.99 %	70.75 %
	3	88.22 %	77.11 %
	4	85.99 %	71.69 %
1998	1	84.85 %	69.50 %
	2	82.73 %	60.77 %
	3	88.16 %	75.86 %
	4	91.26 %	82.88 %
1999	1	90.73 %	82.53 %
	2	88.15 %	67.21 %
	3	90.69 %	80.00 %
	4	91.37 %	84.62 %

ADDED:

MEANS

1997	86.73%	73.18%
1998	86.75%	72.25%
1999	90.24%	78.59%

Percentage of Time Priority Mail Meets Its Service Standard

<u>Overnight Standard</u>		<u>Two-Day Standard</u>	
1997		1997	
	85.99		70.75
	88.22		77.11
	85.99		71.69
Average:	<u>86.73</u>	Average:	<u>73.18</u>
 1998		 1998	
	84.85		69.50
	82.73		60.77
	88.16		75.86
	91.26		82.88
Average:	<u>86.75</u>	Average:	<u>72.25</u>
 1999		 1999	
	90.73		82.53
	88.15		67.21
	90.69		80.00
	91.37		84.62
Average:	<u>90.24</u>	Average:	<u>78.59</u>

Source: UPS/USPS-T34-26 [Robinson].

Notes: This is PETE data. The averages are simple (not weighted) averages.
Each entry represents performance in a quarter. (No data for first quarter of 1997.)

**FSM 1000 and SPBS VOLUME
PMPC AFFECTED VS. NON-AFFECTED PLANTS**

Attachment to APMU/USPS-T10-1a
page 1 of 1

	FY/AP	MIX	PREF	PRI	STND	TOTAL	FY/AP	MIX	PREF	PRI	STND	TOTAL	FY/AP	MIX	PREF	PRI	STND	TOTAL	FY/AP	MIX	PREF	PRI	STND	TOTAL				
PMPC	1997	1	1628.9	0	0	0	1628.9	1998	1	60651.2	0	13.6	0	60664.8	1999	1	118475.1	0	0	0	118475.1	2000	1	133517	0	0	0	133517
Total	2	3759.3	0	0	0	3759.3	2	65850	0	0	0	65850	2	120553.2	0	0.1	0	120553.3	2	135073.2	0	0	0	0	135073.2			
	3	7241.1	0	0	0	7241.1	3	70061.5	0	55.8	0	70107.1	3	122839	0	0	0	122839	3	132402.3	0	0	0	0	132402.3			
	4	9113.8	0	0	0	9113.8	4	85124.7	0	51.4	0	85176.1	4	105813.7	0	0	0	105813.7	4	113213.9	0	0	0	0	113213.9			
	5	15355	0	0	0	15355	5	79294.5	0	15.2	0	79309.7	5	127133.4	0	0	0	127133.4	5	134893.1	0	0	0	0	134893.1			
FSM 1000	6	23641.9	0	0	0	23641.9	6	84781.3	0	1.7	0	84783	6	129125.6	0	0	0	129125.6	6	133172.9	0	0	0	0	133172.9			
	7	29638.7	0	0	0	29638.7	7	95083.9	0	0.3	0	95084.2	7	131750	0	0	0	131750	7	55757.1	0	0	0	0	55757.1			
	8	34563.4	0	0	0	34563.4	8	104530.1	0	0	0	104530.1	8	130813.6	0	0	0	130813.6										
	9	39541.7	0	0	0	39541.7	9	104811.7	0	6.3	0	104818	9	132762.5	0	0	0	132762.5										
	10	42353.3	0	0	0	42353.3	10	100515.8	0	4.3	0	100520.1	10	122054	0	0	0	122054										
	11	44016.7	0	2.8	0	44019.5	11	103036.5	0	0	0	103036.5	11	121514.6	0	0	0	121514.6										
	12	46900.6	0	82.2	0	46982.8	12	109826.7	0	20.1	0	109846.8	12	124310	0	0	0	124310										
	13	52233.6	0	6.2	0	52239.8	13	111804.8	0	0	0	111804.8	13	126681.8	0	0	0	126681.8										
TOTAL	350187.8	0	91.2	0	350279	350279	1155383	0	168.5	0	1155531	1155531	1613827	0	0.1	0	1613827	1613827	838029.5	0	0	0	0	838029.5				
PMPC	1997	1	0	25367.3	10175.4	30987.8	66430.5	1998	1	0	28404.4	8606.2	38998.5	76009.1	1999	1	0	34412.6	1784.5	44614.3	80811.4	2000	1	0	41850	1734.3	39519.6	83103.9
Total	2	0	24565.1	10300.9	32767.1	67333.1	2	0	30180	6547	38527.2	75254.2	2	0	35444.1	1538.6	39676.6	76859.3	2	0	44406.7	1796.9	41840.8	88046.4				
	3	0	23570.6	13145.7	28790.2	65068.5	3	0	31727.5	4260.3	37034.7	73022.5	3	0	39900.5	1819.5	38608	80328	3	0	45311.4	1726.1	39690.7	86728.2				
	4	0	22650.4	19489.8	23821	65961.2	4	0	31820.6	6364.3	26941.5	65126.4	4	0	35491.5	2489.2	28239.4	66220.1	4	0	47920.3	2610.4	28637.9	79188.6				
	5	0	24337.1	14594	30387.8	69318.9	5	0	33208.4	4708.2	34849.6	72764.2	5	0	39556.9	1958.1	37681.1	79196.1	5	0	42325.8	1712.4	38280.9	82319.1				
	6	0	26760.8	11394	29915.8	68070.6	6	0	34865.8	4666.6	37089	76421.4	6	0	42328.5	2180.3	32996.9	77485.7	6	0	45662.2	1910.2	35606.7	83179.1				
	7	0	28995.2	11556.1	31566.3	70117.6	7	0	36228.8	4480.9	34842.8	75552.5	7	0	43889.9	2067.8	36830.8	82788.5	7	0	16403.1	954.7	16143.3	33501.1				
	8	0	26811.5	11493	31170.9	69475.4	8	0	36338.5	3547.3	34186.5	74052.3	8	0	42375.3	2060.4	36464.7	80900.4										
	9	0	25828	11579.7	29573	66980.7	9	0	35892.5	3403.6	30657.3	69953.4	9	0	41023.7	1797.9	33690.9	76512.5										
	10	0	24522.8	11654.7	27884.3	64061.8	10	0	32755.7	2916.1	28394.7	64066.5	10	0	38632.8	1727	30753.4	71413.2										
	11	0	23110.8	12335	27615.7	63061.5	11	0	32793.3	1954.4	27478.3	62226	11	0	39417.7	1818.8	30841.1	72085										
	12	0	24554.5	14844.1	29375	68773.6	12	0	33386.4	1800.1	29433.2	64619.7	12	0	43504	1854.8	34967.4	80342.1										
	13	0	27242.2	13295.4	33416.2	73953.8	13	0	34262.8	1570.1	34716.9	70549.8	13	0	41251.4	1764.9	38373.2	81389.5										
TOTAL	0	326316.3	165857.8	387171.1	879345.2	879345.2	0	431662.7	54825.1	433130.2	919818	919818	0	517528.9	24839.8	463937.8	1006342	1006342	0	283879.5	12447	239719.9	536046.4					
Non-PMPC	1997	1	0	0	0	0	0	1998	1	107061.2	0	475.7	0	107556.9	1999	1	348061.7	0	4166.8	0	352248.5	2000	1	409958.3	0	2965.7	0	412924
Total	2	294.5	0	0	0	294.5	2	128262.1	0	492.5	0	128754.6	2	359200.7	0	5004.3	0	364205	2	414185.7	0	2846.1	0	417031.8				
	3	1783.9	0	0	0	1783.9	3	146246.2	0	482.6	0	146728.8	3	354148.3	0	4698.9	0	358847.2	3	404827.8	0	2826.9	0	407754.7				
	4	5352.9	0	0	0	5352.9	4	144748.3	0	392.4	0	145140.7	4	308743.8	0	4083.6	0	312827.4	4	345858.2	0	2486.2	0	348344.4				
	5	10564	0	0	0	10564	5	177729.9	0	470.9	0	178200.8	5	363784	0	4928.3	0	368712.3	5	404043.5	0	2584.7	0	406628.2				
	6	18930.1	0	0	0	18930.1	6	202329.4	0	1153.6	0	203483	6	363612.3	0	5876.2	0	369268.5	6	401679.8	0	2515.2	0	404196				
	7	31352.3	0	0	0	31352.3	7	231456.6	0	1953	0	233409.6	7	373395.3	0	5733.4	0	379128.7	7	115752.4	0	946.9	0	116699.3				
	8	44276.7	0	0	0	44276.7	8	265635.4	0	2664.7	0	268300.1	8	376228	0	4183.5	0	380411.5										
	9	58134.8	0	0	0	58134.8	9	284935.5	0	3382.7	0	288318.2	9	376407.1	0	2631.4	0	379038.5										
	10	64494.7	0	61.7	0	64556.4	10	285629.1	0	3107.2	0	288736.3	10	354645.8	0	2415.8	0	357061.6										
	11	67267.9	0	142	0	67409.9	11	297152.3	0	3664.5	0	300816.8	11	355875.7	0	2580.4	0	358456.1										
	12	73090.9	0	492.8	0	73583.7	12	314758.3	0	3713.5	0	318471.8	12	370190.1	0	2730.2	0	372920.3										
	13	81263.3	0	636.6	0	81899.9	13	313489.9	0	3616.9	0	317106.8	13	381999.4	0	2659.1	0	384658.5										
TOTAL	456806	0	1333.1	0	458139.1	458139.1	2899454	0	25570.2	0	2925024	2925024	4686312	0	51491.9	0	4737804	4737804	2496406	0	17171.7	0	2513577					
Non-PMPC	1997	1	0	47981.6	41006.3	88987.9	158915	1998	1	0	58524.3	51150.7	72653.8	187000.1	1999	1	0	60190.4	43632.2	70167.6	179432.7	2000	1	0	79179.9	59399.1	85954.4	230374
Total	2	0	50114.6	42817.8	66159.4	163147.8	2	0	56671.2	64873.7	75353.4	201872.3	2	0	60826.9	45064.3	72809.4	183564	2	0	82542.2	60274.2	89196.6	237656.6				
	3	0	49134.5	41305.2	59055.4	153949.7	3	0	55259.9	47125.9	67455.3	174711.9	3	0	58357.2	42777.2	70327.7	176964.6	3	0	80345.7	61339.1	84254.3	231703.3				
	4	0	46331	41127.9	48497	140877	4	0	54866.9	49813.2	107650.4	217393	4	0	58364.2	50081.6	51454.9	166203	4	0	81342.8	78319.1	58271.5	225321				
	5	0	51741.3	44343.9	59622.2	160113.1	5	0	57052.5	50270.1	68006.8	178535.9	5	0	62062	46118	67211.7	181454.4	5	0	79149.5	64660.5	83373.4	232353.8				
	6	0	58080	44300.6	58909	163834	6	0	60238.8	50995.8	66017.3	182574.3	6	0	68447.8	47442.6	63905.8	185427.5	6	0	87888.1	69367.8	76649.4	239528.1				
	7	0	68574.7	44988.7	58915	178847.5	7	0	61129.2	49468.4	70880	186737.9	7	0	67708	50206.8	68511.3	192500.6	7	0	28815.1	19672.9	25803.7	76264.6				
	8	0	57354.5	45618.7	60218.2	167144.9	8	0	61088.9	51482	68221.7	185870.4	8	0	72281.4	51097.5	70496.7	199718.3										
	9	0	57100.5	45422	53399.7	160185.1	9	0	60388.9	50158.9	62014.7	177484.5	9	0	73476.2	50597.2	65165.7	194535.5										
	10	0	51938.1	50963.4	50530.5	157484.4	10	0	110184.3	43647	57906.6	216485	10	0	70787.3	53188.4	61754.7	191010.8										
	11	0	50396.5	41804.7	52820.9	148930.9	11	0	55094.5	41901.2	56485.7	158077.9	11	0	71480.8	51014.3	61909.4	189541										
	12	0	47945.7	49448	55421.1	156861.4	12	0	54904.5	38241.4	58230	156062.6</																

**EXTERNAL FIRST-CLASS MEASUREMENT SYSTEM
OVERNIGHT, TWO DAY, THREE DAY SERVICE STANDARD
FY 1997 THROUGH FY 1999 AND YTD PQ 2, FY 2000**

PMPC-SUPPORTED PERFORMANCE CLUSTER	OVERNIGHT				TWO DAY				THREE DAY			
	1997 PCT ONTIME	1998 PCT ONTIME	1999 PCT ONTIME	2000 PCT ONTIME	1997 PCT ONTIME	1998 PCT ONTIME	1999 PCT ONTIME	2000 PCT ONTIME	1997 PCT ONTIME	1998 PCT ONTIME	1999 PCT ONTIME	2000 PCT ONTIME
BOSTON MA	89.41	92.24	92.45	93.15	65.94	70.04	86.66	90.74	75.75	76.93	84.43	82.06
CENTRAL FLORIDA	90.95	92.23	93.36	92.38	91.53				76.64	82.57	89.7	83.26
CENTRAL NEW JERSEY	92.97	93.8	94.29	93.22	70.3	78.39	81.85	83.38	82.84	85.68	89.28	84.94
CONNECTICUT	91.75	94.09	94.22	93.58	72.71	75.9	79.82	83.66	71.27	78.95	83.48	80.02
HARRISBURG PA	94.42	95.84	95.18	95.29	65.52	69.86	80.89	75.37	70.38	73.45	77.99	75.64
LANCASTER PA	91.6	92.4	93.19	92.81	78.23	81.79	84.22	79.24	78	76.11	82.08	73.49
MAINE	92.98	92.66	94.25	94.58	75.2	81.74	90.23	89.68	66.11	71.61	83.58	79.68
MIDDLESEX-CENTRAL	91.03	92.7	93.18	93.37	81.91	87.97	90.9	89.59	76.81	80.4	87.68	83.29
NEW HAMPSHIRE	92.67	93.17	93.46	94.09	83.1	87.74	89.52	90.82	76.5	78.3	84.65	82.62
NEW YORK CITY	91.27	93.01	93.1	93.25	81.68	90.08	91.06	89.73	80.96	87.01	88.97	86.85
NORTH FLORIDA	93.79	94.25	94.39	93.81	81.24	87.96	87.51	86.09	79.11	83.12	83.6	78.7
NORTHERN NEW JERSEY	90.98	93.26	92.64	92.84	79.57	86.58	91.17	90.07	79.26	83.82	89.08	86.98
PHILADELPHIA PA	90.63	92.76	93.63	92.75	81.54	87.01	90.05	87.04	81.54	82.83	85.11	81.76
PITTSBURGH PA	92.46	93.11	94.35	94.8	80.38	86.74	90.61	90.18	81.43	85.75	88.61	85.97
SE NEW ENGLAND	91.77	94.09	93.71	94.39	84.62	88.63	92.09	91.87	74.63	79.18	86.52	82.67
SOUTH FLORIDA	92.4	94.04	93.79	92.78	74.3	84.66	87.66	81.85	76.75	83.28	86.9	77.25
SOUTH GEORGIA	92.33	93.88	94.89	94.46	81.76	87.84	89.19	84.96	77.45	82.37	85.82	80.97
SOUTH JERSEY NJ	91.91	92.15	92.73	92.64	81.15	86.53	89.07	88.53	77.33	83.26	84.42	81.97
SPRINGFIELD MA	92.23	94.2	95.63	95.37	82.47	87.65	91.88	90.14	74.08	80.49	86.51	81.06
SUNCOAST	91.15	93.2	94.28	94.18	83.88	89.61	91.93	90.07	80.96	85.47	88.32	85.57
TRIBORO	90.52	92.57	93.22	92.41	85.04	89.64	90.8	88.76	80.51	85.61	89.18	86.68
WESTCHESTER NY	91.57	94.1	93.13	92.5	85.87	91.2	90.47	88.4	78.28	85.74	86.68	80.09
WESTERN NEW YORK	93.16	94.93	94.77	95.21	80.84	86.41	90.19	91.54	78.11	82.14	84.8	83.19
SUBTOTAL	91.91	93.42	93.82	93.65	79.51	84.73	88.54	87.35	77.16	81.48	85.97	81.94

NON-SUPPORTED PERFORMANCE CLUSTER	OVERNIGHT				TWO DAY				THREE DAY			
	1997 PCT ONTIME	1998 PCT ONTIME	1999 PCT ONTIME	2000 PCT ONTIME	1997 PCT ONTIME	1998 PCT ONTIME	1999 PCT ONTIME	2000 PCT ONTIME	1997 PCT ONTIME	1998 PCT ONTIME	1999 PCT ONTIME	2000 PCT ONTIME
AKRON OH	92.28	94.45	93.79	94.39	80.92	84.05	89.27	86.71	80.92	86.07	87.97	84.82
ALABAMA	92.83	93.81	94.37	94.22	78.21	84.35	88.79	84.95	77.52	85.08	88.27	83.25
ALBANY NY	92.96	94.93	95.12	95.55	83.41	91.57	93.37	93.05	68.28	73.56	84.07	81.7
ALBUQUERQUE NM	92.2	92.75	93.87	94.26	85.14	89.72	92.37	91.95	79.02	77.54	80.72	76.5
APPALACHIAN	92.82	93.54	93.65	94.37	77.1	74.12	75.54	73.01	69.83	79.2	83.46	76.96
ARIZONA	90.6	92.25	92.86	93.84	66.65	76.74	86.64	82.23	78.62	84.04	86.63	83.81
ARKANSAS	91.87	92.81	93	92.17	66.55	78.43	79	75.65	75.32	80.2	84.35	75.63
ATLANTA GA	90.86	91.01	91.46	91.23	75.95	82.67	84.22	78.57	75.76	79.54	85.06	82.3
BALTIMORE MD	89.48	93.21	94.32	93.8	61.74	69.48	77.66	75.93	82.92	85.96	91.89	90.33
BIG SKY	92.34	93.93	95.2	94.59	80.92	86.76	91.82	90.1	67.45	64.59	77.49	72.11
CAPITAL	92.38	93.28	93.04	91.87	75.83	80.62	85.83	85.54	83.7	87.56	89.91	86.49
CARIBBEAN	85	87.17	89.14	88.22	81.99	87.03	90.07	87.24	54.06	55.93	66.31	50.8

CENTRAL ILLINOIS	89.61	91.82	93.42	94.01	70.59	83.44	89.29	86.38	74.53	79.31	83.47	81.78
CENTRAL PLAINS	94.39	95.37	96.14	96.17	83.15	87.82	90.8	89.15	81.66	82.61	86.99	85.35
CHICAGO IL	88.97	92.95	92.79	94.28	85.97	87.59	90.47	89.84	76.68	85.57	88.8	87.24
CINCINNATI OH	90.81	91.67	92.66	93.91	68.96	83.04	85.71	84.28	85.59	86.96	91.22	88.61
CLEVELAND OH	91.52	93.61	93.64	94.07	77.08	83.47	86.97	89.1	81.47	85.86	88.34	86.71
COLORADO/WYOMING	89.97	90.56	92.27	90.26	81.77	84.97	89.54	89.35	80.2	80.14	86.07	79.88
COLUMBUS OH	92	92.18	91.94	93.56	62.99	61.09	77.59	66.35	79.91	80.41	85.47	87.27
DAKOTAS	92.62	94.4	94.5	95.72	73.25	84.22	87.94	87.66	69.87	74.46	80.01	76.46
DALLAS TX	90.84	91.73	91.89	91.82	77.36	87.71	89.31	89.16	82.95	84.09	87.35	85.08
DETROIT MI	89.1	92.49	91.95	94.46	71.89	76.08	80.9	81.52	79.7	83.54	85.2	83.2
ERIE PA	93.7	95.7	95.02	95.24	66.33	81.72	81.48	78.55	77.5	77.92	85.17	80.57
FORT WORTH TX	91.27	92.37	92.52	93.18	81.56	83.01	89.12	87.19	76.06	79.84	80.01	81.79
GATEWAY	91.66	92.25	92.62	92.78	70.83	80.08	80.79	83.98	84.27	86.15	88.67	86.48
GREATER INDIANA	90.79	93.01	93.08	93.4	75.89	80.51	85.81	87.12	75.72	83.93	87.13	85.45
GREATER MICHIGAN	91.61	94.58	94.15	93.72	65.32	79.07	82.96	83.46	60.77	75.43	83.74	79.66
GREATER SC CAROLINA	93.21	93.97	93.45	93.08	60.56	74.92	85.72	84.51	66.63	74.62	83.13	78.92
GREENSBORO NC	90.44	90.92	92.23	91.61	71.05	78.96	84.69	81.9	73.57	77.23	82.94	77.32
HAWKEYE	90.85	93.87	93.76	95.03	78.68	81.84	86.53	83.09	75.04	77.61	83.32	81.64
HONOLULU HI	93.39	93.46	95.18	94.6	81.83	84.66	87.14	90.24	63.2	63.54	75.85	63.42
HOUSTON TX	90.68	92.31	92.21	93.32	80.13	85.16	87.34	88.09	84.87	88.34	88.92	89.41
KENTUCKIANA	92.04	93.83	94.33	94.75	74.31	81.84	88.17	87.27	80.49	83.23	85.76	85.47
LAKELAND	91.41	90.74	92.56	92.83	71.33	83.26	84.84	86.13	80.67	84.48	86.93	84.57
LAS VEGAS NV	91.65	93.01	92.64	91.8	84.54	85.34	88.69	82.62	82.71	83.59	86.94	82.99
LONG BEACH CA	92.32	93.38	93.49	94.06	77.9	81.21	84.65	82.08	82.07	87.59	89.45	84.03
LONG ISLAND NY	92.8	94.55	93.31	94.36	86.22	91.01	91.66	88.86	81.54	86.42	88.56	87.12
LOS ANGELES CA	90.75	92.77	93.12	93.37	76.65	81.15	87.89	83.98	79.35	87.99	92.47	88.23
LOUISIANA	91.12	92.96	92.93	93.53	71.99	77.73	82.03	77.49	78.22	80.25	82.82	76.3
MID-AMERICA	90.55	92.55	92.16	92.35	80.53	83.47	85.1	83.96	82.52	86.17	87.9	83.88
MID-CAROLINAS	88.48	91.64	92.47	92.23	69.86	79.65	85.43	79.38	72.16	82.32	86.88	80.28
MISSISSIPPI	91.59	93.02	93.51	94.34	78.27	81.27	87.33	87.03	73.93	77.74	83.55	82.53
NORTHERN ILLINOIS	88.45	91.81	92.33	94.21	72.66	79.44	81.27	81.53	80.74	83.42	85.3	84.28
NORTHERN VIRGINIA	91.66	93.23	93.03	93.56	81.88	87.66	90.73	89.05	84.06	87.56	90.38	89.79
NORTHLAND	92.12	94.1	93.45	92.76	81.64	87.03	88.72	89.01	83.36	87.78	89.06	85.89
OAKLAND CA	90.32	90.69	92.56	92.69	84.56	85.66	88.63	85.89	82.13	84.72	88.08	82.17
OKLAHOMA	91.89	93.73	92.87	93.57	77.75	84.3	85.83	82.16	65.64	72.35	78.94	79.25
PORTLAND OR	92.07	92.68	93	94.32	80.77	78.85	86.52	88.72	75.56	74.49	78.55	77.26
RICHMOND VA	89.76	91.93	91.62	90.96	70.03	77.77	82.36	73.85	72.04	77.23	79.95	76.29
RIO GRANDE	91.95	92.61	93.48	93.9	79.69	86.93	88.81	86.75	68.76	75.42	81.49	79.14
ROYAL OAK MI	88.56	91.65	92.12	91.98	73.84	81.56	84.19	79.98	82.64	85.64	85.26	81.93
SACRAMENTO CA	92.33	93.64	93.85	93.35	88.1	89.08	90.9	89.13	79.92	82.54	86.2	76.88
SALT LAKE CITY UT	92.53	92.88	92.51	94.39	68.1	73.5	81.95	82.04	80.68	83.68	86.86	86.42
SAN DIEGO CA	94.32	94.19	94.3	94.62	87.49	89.02	90.45	90.52	86.8	87.18	87.86	86.03
SAN FRANCISCO CA	91.18	92.06	92.85	93.66	77.8	79.69	86.8	83.62	77.85	79.87	86.59	79.44
SAN JOSE CA	91.89	92.76	93.59	94.37	85.89	87.2	87.89	86.05	81.39	84.03	84	76.2
SANTA ANA CA	93	93.96	93.35	94.49	82.44	83.86	86.67	85.76	80.23	86.03	88.69	84.4
SEATTLE WA	93.95	93.47	93.57	93.76	67.02	68.51	76.24	78.85	71.54	71.86	78.08	78.76
SPOKANE WA	91.98	93.6	93.48	94.31	75.66	79.29	83.48	85.15	58.13	56.5	68.14	69.53
TENNESSEE	92.3	92.97	93.08	92.98	77.13	81.74	86.35	82.95	81.74	82.94	86.91	83.08
VAN NUYS CA	93.75	94.57	94.72	94.4	82.42	84.61	88.92	86.9	83.83	88.99	91.47	84.83
TOTAL	91.47	92.91	93.21	93.52	76.49	82.07	86.18	84.47	76.96	80.64	84.93	81.44

1 CHAIRMAN GLEIMAN: Now, let's go back and deal
2 with the others.

3 MR. McKEEVER: My motion, Mr. Chairman, with
4 respect to those, is that 2, 3, 4, and 5, but not 6, be
5 transcribed into the transcript.

6 CHAIRMAN GLEIMAN: All right now, with respect to
7 Number 2, which is the USPS Rate and Service Guide, I
8 thought you said a moment ago -- and I may have
9 misunderstood, that that is part of a Library Reference, and
10 that you thought it would be admitted at some future point?

11 MR. McKEEVER: Well, Mr. Chairman, all I was doing
12 was explaining that I didn't see any need to move it now,
13 so, you know, those remarks, I guess, were gratuitous. I'll
14 withdraw the request that it be admitted into evidence
15 today, but do ask that it be transcribed. It's only a
16 couple of pages.

17 I think it will facilitate the reading of the
18 transcript and the cross examination of the witness.

19 CHAIRMAN GLEIMAN: Without objection, Cross
20 Examination Exhibit Number 3 will be transcribed.

21 [Exhibit Number UPS-XE-Haldi-3 was
22 transcribed into the record, but
23 not admitted into evidence.]

24
25

UPS-XE-HH-01-3



UPS RATE AND SERVICE GUIDE

UPS-XE-HH-01-3



Effective 02.07.2000 For Customers With A UPS Shipping Account

Domestic Services

UPS 2ND DAY AIR A.M.®

UPS is the only carrier to offer you guaranteed delivery before noon on the second business day to commercial destinations. UPS 2nd Day Air A.M. service is available for delivery to metropolitan commercial addresses where UPS Next Day Air® delivery is committed by 10:30 a.m. This service is not available to destinations where UPS Next Day Air delivery is committed by noon or end of day. UPS 2nd Day Air A.M. also offers optional Saturday pickup. Hundredweight rates are available for UPS 2nd Day Air A.M.

Customers Who Do Not Receive A Daily UPS Pickup

If you request a UPS On Call Air Pickup® or a one-time pickup, add \$3 per Letter or package to the rate shown.

- Any fraction of a pound more than the weight shown requires the next higher rate.
- The weight limit for a 2nd Day Air A.M. Letter containing a letter is 10 ounces.
- See pages 102 to 110 for additional charges, weight and size information, service restrictions, Hundredweight details and general information.

UPS 2nd Day Air A.M.®

Guaranteed Two-Day By Noon

Rates For Customers Who Receive A Daily UPS Pickup

Zones		242	243	244	245	246	247	248
Letter		\$6.90	\$7.20	\$7.50	\$7.80	\$8.00	\$8.40	\$8.90
Lbs.	1	7.10	7.50	7.90	8.80	9.30	9.90	10.20
	2	7.40	8.00	9.00	9.90	10.80	11.50	11.80
	3	7.90	8.50	10.00	11.00	12.30	13.10	13.60
	4	8.40	9.20	11.00	12.40	13.90	14.80	15.30
	5	9.10	10.00	12.00	13.90	15.40	16.50	17.10
	6	9.80	11.00	13.10	15.20	17.10	18.30	19.10
	7	10.50	11.80	14.10	16.60	18.90	20.10	21.20
	8	11.20	12.60	15.10	17.90	20.90	22.10	23.20
	9	11.70	13.60	16.30	19.40	22.70	24.20	25.30
	10	12.20	14.50	17.40	20.90	24.70	26.20	27.30
	11	12.90	15.20	18.40	22.20	26.50	28.00	29.10
	12	13.60	15.90	19.40	23.40	28.20	29.70	30.80
	13	14.40	16.70	20.50	24.70	29.70	31.20	32.40
	14	15.10	17.40	21.50	26.00	31.30	32.80	34.00
	15	15.80	18.10	22.50	27.20	33.00	34.50	35.70
	16	16.30	18.80	23.50	28.40	34.60	36.20	37.40
	17	16.80	19.40	24.50	29.50	36.30	38.10	39.30
	18	17.40	20.00	25.50	30.70	38.20	40.10	41.30
	19	18.10	20.70	26.30	31.90	40.00	41.90	43.10
	20	18.60	21.50	27.30	33.10	41.60	43.70	44.90
	21	19.10	22.30	28.30	34.20	43.30	45.50	46.90
	22	19.60	23.00	29.20	35.40	44.90	47.10	48.80
	23	20.30	23.70	30.20	36.40	46.40	48.90	50.60
	24	20.80	24.40	31.00	37.60	47.90	50.80	52.50
	25	21.30	25.20	32.00	38.90	49.30	52.50	54.20
	26	21.90	25.90	33.00	40.30	50.80	54.00	55.80
	27	22.60	26.60	33.80	41.50	52.10	55.70	57.50
	28	23.30	27.30	34.80	42.70	53.60	57.20	59.10
	29	24.00	28.20	35.80	43.70	55.20	58.80	60.80
	30	24.50	28.90	36.80	44.90	56.70	60.40	62.50
	31	25.20	29.60	37.90	46.00	58.40	62.10	64.20
	32	25.80	30.30	38.90	47.30	59.90	63.70	65.80
	33	26.30	30.90	39.90	48.40	61.40	65.50	67.60
	34	26.80	31.60	40.70	49.60	63.00	67.40	69.50
	35	27.50	32.40	41.50	50.60	64.50	69.20	71.30



Domestic Services

UPS 2ND DAY AIR®

UPS 2nd Day Air provides guaranteed on-time delivery to every address throughout the United States and Puerto Rico. This service is an economical alternative for time-sensitive shipments that do not require overnight or morning service. UPS 2nd Day Air also offers optional Saturday pickup. Hundredweight rates are available for UPS 2nd Day Air shipments.

Customers Who Do Not Receive A Daily UPS Pickup

If you request a UPS On Call Air Pickup® or a one-time pickup, add \$3 per Letter or package to the rate shown.

- Any fraction of a pound more than the weight shown requires the next higher rate.
- The weight limit for a 2nd Day Air Letter containing a letter is 10 ounces.
- See pages 102 to 110 for additional charges, weight and size information, service restrictions, Hundredweight details and general information.

UPS 2nd Day Air®

Guaranteed Two-Day

Rates For Customers Who Receive A Daily UPS Pickup

Zones	202	203	204	205	206	207	208	224*	225*	226*
Letter	\$6.20	\$6.50	\$6.70	\$7.00	\$7.30	\$7.60	\$7.80	\$11.10	\$11.10	\$15.50
Lbs. 1	6.40	6.70	7.20	7.80	8.30	8.80	9.10	13.20	13.20	24.20
2	6.60	7.20	8.00	8.80	9.60	10.20	10.50	14.60	14.60	25.60
3	7.10	7.70	8.90	10.00	11.00	11.60	12.00	16.10	16.10	27.10
4	7.60	8.20	9.90	11.20	12.30	13.10	13.60	17.60	17.60	28.60
5	8.20	8.90	10.80	12.50	13.80	14.60	15.30	19.30	19.30	30.30
6	8.90	9.70	11.60	13.60	15.30	16.20	17.10	20.90	20.90	31.90
7	9.40	10.50	12.60	14.80	16.90	18.00	18.90	22.40	22.40	33.40
8	9.90	11.30	13.60	16.10	18.60	19.80	20.70	24.00	24.00	35.00
9	10.40	12.00	14.60	17.30	20.40	21.60	22.50	25.80	25.80	36.80
10	10.90	12.70	15.60	18.50	22.10	23.40	24.30	27.60	27.60	38.60
11	11.40	13.40	16.50	19.50	23.80	25.10	26.00	29.20	29.20	40.20
12	12.10	14.10	17.30	20.70	25.30	26.60	27.50	30.50	30.50	41.50
13	12.90	14.90	18.10	22.00	26.60	27.90	29.00	32.00	32.00	43.00
14	13.50	15.50	19.10	23.20	27.90	29.20	30.30	33.30	33.30	44.30
15	14.00	16.00	20.00	24.30	29.40	30.70	31.80	34.80	34.80	45.80
16	14.40	16.70	21.00	25.30	30.90	32.30	33.40	36.40	36.40	47.40
17	14.90	17.40	22.00	26.30	32.40	34.10	35.20	38.20	38.20	49.20
18	15.40	17.90	22.80	27.30	34.00	35.90	37.00	40.00	40.00	51.00
19	15.90	18.40	23.50	28.40	35.40	37.50	38.60	41.60	41.60	52.60
20	16.50	19.10	24.30	29.40	36.90	39.00	40.10	42.90	42.90	53.90
21	17.00	19.90	25.20	30.40	38.40	40.60	41.70	44.20	44.20	55.20
22	17.50	20.60	26.00	31.40	40.00	42.20	43.40	45.70	45.70	56.70
23	18.00	21.20	26.80	32.40	41.40	43.70	45.00	47.30	47.30	58.30
24	18.50	21.90	27.60	33.40	42.70	45.30	46.60	48.90	48.90	59.90
25	19.00	22.50	28.30	34.60	44.00	46.80	48.20	50.50	50.50	61.50
26	19.60	23.10	29.20	35.80	45.30	48.30	49.70	52.00	52.00	63.00
27	20.30	23.80	30.00	36.90	46.60	49.70	51.20	53.50	53.50	64.50
28	21.00	24.50	30.90	37.90	47.90	51.00	52.80	55.10	55.10	66.10
29	21.50	25.10	31.70	38.90	49.20	52.30	54.30	56.60	56.60	67.60
30	22.00	25.80	32.70	40.00	50.70	53.80	55.80	57.80	57.80	68.80
31	22.50	26.50	33.70	41.00	52.10	55.30	57.30	59.10	59.10	70.10
32	23.00	27.10	34.70	42.00	53.40	56.90	58.90	60.40	60.40	71.40
33	23.50	27.60	35.50	43.00	54.90	58.50	60.50	62.00	62.00	73.00
34	24.00	28.30	36.20	44.10	56.20	60.10	62.10	63.40	63.40	74.40
35	24.50	29.10	37.00	45.10	57.70	61.70	63.70	64.70	64.70	75.70

*Zone 224 is metro Alaska and Hawaii, zone 225 is Puerto Rico and zone 226 is remote Alaska and Hawaii. Some shipments to Alaska require additional time in transit.



Visit www.ups.com or call 1-800-PICK-UPS® for guarantee details, service availability, delivery time commitments or to request a pickup.

Domestic Services

UPS 3 DAY SELECT®

The ideal mix of economy and guaranteed on-time delivery, UPS 3 Day Select guarantees delivery within three business days to every address in the 48 contiguous U.S. states. Hundredweight rates are available for UPS 3 Day Select.

Customers Who Do Not Receive A Daily UPS Pickup

If you request a one-time pickup, add \$3 per package to the rate shown.

- Any fraction of a pound more than the weight shown requires the next higher rate.
- See pages 102 to 110 for additional charges, weight and size information, service restrictions, Hundredweight details and general information.

UPS 3 Day Select® Residential Guaranteed Three-Day

Rates For Customers Who Receive A Daily UPS Pickup

Zones	302	303	304	305	306	307	308
Lbs. 1	\$5.40	\$5.60	\$5.90	\$6.20	\$7.00	\$7.40	\$7.60
2	5.60	5.80	6.20	6.90	7.90	8.40	8.70
3	6.00	6.30	6.90	7.60	9.00	9.50	9.90
4	6.40	6.80	7.50	8.30	9.90	10.40	11.00
5	6.70	7.30	8.10	9.00	10.80	11.40	12.10
6	7.10	7.80	8.70	9.70	11.70	12.30	13.10
7	7.50	8.30	9.30	10.40	12.50	13.40	14.30
8	7.90	8.80	9.90	11.10	13.40	14.40	15.40
9	8.30	9.30	10.50	11.80	14.30	15.40	16.50
10	8.70	9.80	11.10	12.40	15.10	16.40	17.70
11	9.10	10.30	11.70	13.10	16.10	17.50	18.80
12	9.50	10.80	12.30	13.80	17.00	18.50	20.00
13	9.90	11.30	12.90	14.50	17.90	19.50	21.10
14	10.30	11.80	13.50	15.20	18.80	20.50	22.30
15	10.70	12.30	14.10	16.00	19.70	21.50	23.40
16	11.10	12.80	14.80	16.70	20.60	22.50	24.50
17	11.50	13.20	15.40	17.50	21.50	23.50	25.60
18	11.90	13.70	16.10	18.20	22.50	24.60	26.70
19	12.30	14.20	16.70	18.90	23.40	25.60	27.80
20	12.70	14.70	17.30	19.60	24.30	26.60	28.80
21	13.10	15.20	17.90	20.30	25.10	27.50	29.80
22	13.50	15.70	18.50	21.00	25.90	28.40	30.90
23	13.90	16.20	19.10	21.80	26.80	29.40	31.90
24	14.30	16.70	19.70	22.50	27.70	30.40	33.00
25	14.80	17.20	20.30	23.20	28.70	31.40	34.10
26	15.20	17.70	20.90	23.90	29.60	32.40	35.20
27	15.60	18.20	21.60	24.60	30.60	33.50	36.40
28	16.00	18.60	22.20	25.30	31.50	34.50	37.50
29	16.40	19.10	22.80	26.00	32.40	35.50	38.60
30	16.80	19.60	23.40	26.70	33.40	36.50	39.70
31	17.20	20.10	24.00	27.40	34.30	37.50	40.70
32	17.60	20.60	24.70	28.10	35.30	38.50	41.80
33	18.00	21.10	25.30	28.80	36.10	39.40	42.90
34	18.40	21.60	25.90	29.50	36.90	40.30	43.90
35	18.80	22.10	26.50	30.20	37.80	41.20	44.90



Visit www.ups.com or call 1-800-PICK-UPS® for guarantee details, service availability, delivery time commitments or to request a pickup.

Domestic Services

UPS 3 Day Select® Residential

Guaranteed Three-Day

Rates For Customers Who Receive A Daily UPS Pickup

Zones	302	303	304	305	306	307	308
Lbs. 36	\$19.20	\$22.60	\$27.10	\$30.90	\$38.60	\$42.10	\$45.90
37	19.60	23.10	27.70	31.60	39.50	43.00	46.80
38	20.00	23.60	28.20	32.30	40.30	43.90	47.80
39	20.40	24.00	28.80	33.00	41.10	44.80	48.80
40	20.80	24.50	29.40	33.70	42.00	45.70	49.80
41	21.20	25.00	30.00	34.40	42.80	46.60	50.90
42	21.60	25.50	30.60	35.10	43.80	47.70	52.10
43	22.00	26.00	31.20	35.80	44.70	48.70	53.20
44	22.40	26.50	31.80	36.50	45.60	49.60	54.30
45	22.80	27.00	32.40	37.30	46.50	50.60	55.40
46	23.20	27.50	33.00	38.00	47.30	51.60	56.50
47	23.60	28.00	33.60	38.70	48.30	52.70	57.60
48	24.00	28.50	34.20	39.40	49.10	53.60	58.70
49	24.40	29.00	34.80	40.10	49.90	54.50	59.70
50	24.80	29.50	35.40	40.80	50.90	55.60	60.80
51	25.20	30.00	36.00	41.50	51.80	56.60	61.90
52	25.60	30.40	36.60	42.20	52.70	57.60	63.00
53	26.00	30.90	37.20	42.90	53.50	58.60	64.10
54	26.40	31.40	37.80	43.60	54.40	59.60	65.30
55	26.80	31.90	38.40	44.30	55.40	60.70	66.50
56	27.20	32.40	39.00	45.00	56.30	61.70	67.60
57	27.60	32.90	39.60	45.70	57.30	62.80	68.80
58	28.00	33.40	40.20	46.40	58.20	63.80	69.90
59	28.40	33.90	40.80	47.10	59.20	64.90	71.10
60	28.80	34.40	41.40	47.80	60.10	65.90	72.30
61	29.20	34.90	42.00	48.50	61.10	67.00	73.50
62	29.60	35.40	42.60	49.20	62.00	68.00	74.70
63	30.00	35.90	43.20	49.90	62.90	68.90	75.80
64	30.40	36.30	43.80	50.60	63.90	70.00	76.90
65	30.80	36.80	44.40	51.30	64.80	70.90	78.00
66	31.30	37.30	45.00	52.00	65.80	72.00	79.10
67	31.70	37.80	45.60	52.70	66.70	73.00	80.20
68	32.10	38.30	46.20	53.40	67.70	74.10	81.30
69	32.50	38.80	46.80	54.10	68.50	75.00	82.30
70	32.90	39.30	47.40	54.80	69.30	76.00	83.40

3 Day Select

Residential

3

Additional Information

VALUE-ADDED SERVICES

Saturday Delivery and Pickup

A fee of \$10 is assessed per request for Saturday Delivery of a domestic Letter or package, or international shipment. This service is available for UPS Next Day Air Early A.M.[®], UPS Next Day Air[®], UPS Worldwide Express PlusSM and UPS Worldwide ExpressSM. There is no Saturday Delivery fee for UPS Air Hundredweight shipments.

If a Saturday Pickup is requested, the charge per Letter, package or Hundredweight shipment is \$10. This service is available for UPS Next Day Air Early A.M., UPS Next Day Air, UPS Next Day Air Saver[®], UPS 2nd Day Air A.M.[®], UPS 2nd Day Air[®], UPS Worldwide Express Plus, UPS Worldwide Express and UPS Worldwide ExpeditedSM. If a Saturday Pickup is scheduled, but nothing is shipped, the \$10 service charge will be assessed.

Ship Notification

UPS OnLine[®] WorldShip[®]—Upon request, UPS will provide notification of a domestic shipment in transit for one or two parties. If Ship Notification is requested, the per-package charge for each notification is:

- \$.75—Fax Notification.
- No charge—E-mail Notification.

Verbal Confirmation of Delivery

A charge of \$2 is assessed per request for Verbal Confirmation of Delivery of a UPS Next Day Air Early A.M. package.

Weekly Service Charge

The Weekly Service Charge is based on a daily pickup account's weekly billing total. The billing structure is:

- \$50 or more in volume.....\$ 7
- \$.01 to \$49.99.....\$10.50
- \$0\$15



1 CHAIRMAN GLEIMAN: Okay, so we've taken care of
2 Number 3 now. The outstanding request then is Numbers 4 and
3 5 to be transcribed?

4 MR. McKEEVER: That's correct.

5 MR. OLSON: No objection.

6 CHAIRMAN GLEIMAN: Cross Examination Exhibits 4
7 and 5 will also be transcribed but not admitted into
8 evidence.

9 [Exhibits Numbered UPS-XE-Haldi-4
10 and 5 were transcribed into the
11 record, but not received into
12 evidence.]

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UPS-XE-HALDI-4



FedEx®

FedEx® Express Service

**FedEx® Ground Service,
including FedEx® Home Delivery**

Vol. 1

**Reliable time-definite and day-definite
choices for all your shipping needs**

Effective June 1, 2000

G U I D E

F R V I C E



Terms and Conditions

Shipments Within the U.S.

(Packaging and Marking, cont.)

Unacceptable packaging includes, but is not limited to, Styrofoam™, plastic bags, paper envelopes, FedEx Envelope, FedEx Packet, FedEx Pak, FedEx Box, FedEx Tube, and FedEx 10kg and FedEx 25kg boxes. We will refuse to accept packages not meeting these or any federal requirements. These shipments will not be accepted at FedEx Drop Boxes or unstaffed FedEx locations. For additional information or assistance concerning required packaging materials, FedEx Express customers may call the Packaging Design and Development Department at (800)633-7019.

D. Expanded polystyrene foam coolers (Styrofoam™) must be shipped inside of a sturdy outer container unless evaluated by the FedEx Packaging Design and Development Department, (800)633-7019. Expanded polystyrene foam coolers (Styrofoam™) containing blood, urine and other non-infectious liquid diagnostic specimens must be shipped inside of a sturdy outer packaging. No exceptions are permitted.

E. If a shipment is refused by the recipient, leaks, or is damaged, the shipment will be returned to the sender if possible. If the sender refuses to accept the returned shipment or it cannot be returned because of leakage, or damage due to faulty packaging, the shipper is responsible for and will reimburse FedEx for all costs and fees of any type connected with the legal disposal of the shipment, and all costs and fees of any type connected with cleanup of any spill or leakage.

F. FedEx Packet may not be available in all areas. It is subject to the same terms, conditions and rates as FedEx Pak.

PICKUP AND DELIVERY

A three dollar (\$3) pickup charge will apply to any package pickup request for services other than FedEx Express Freight and FedEx SameDay made to FedEx, no matter how the request is communicated, including requests using a FedEx automated shipping device.

1. The rates that we publish as a part of the FedEx Service Guide are valid for any package tendered for delivery by a FedEx Express service at a FedEx location.
- 2. The \$3 per-package pickup charge will not apply when a customer drops a package off at a FedEx location, including FedEx Drop Boxes, FedEx World Service Centers and FedEx Authorized ShipCenters; however, FedEx Express Freight, defined as pieces with billable weight of 151 lbs. or more, may be dropped off only at a designated FedEx Freight location.
3. When per-shipment or hundredweight pricing applies, the shipper will be assessed the \$3 pickup charge for the shipment. Where per-package pricing applies, the \$3 charge applies to each package.
4. This charge may not apply to shippers with a regular stop or discount, unless those shippers request a pickup after their courier's scheduled pickup time.
5. For packages tendered utilizing a FedEx Account Number, the \$3 per-package pickup charge will be assessed to the account number billed for the transportation charges. It will appear as a separate line item on the FedEx invoice. The pickup charge will be collected at the time the package is tendered to FedEx, whether paid for by cash (not accepted at all locations), check, money order or credit card.
6. A \$3 per-package pickup charge will be assessed for shipments from the U.S. to Puerto Rico.
7. The \$3 per-package pickup charge is in addition to any other applicable surcharges or special handling fees.

A. U.S. Package Service Pickup and Delivery:

We provide pickup service within our primary service area (see page 68 for service area definitions) at a cost of \$3 per package. (See FedEx Worldwide Directory for explanation of the service areas.) In addition to the \$3 per-package courier pickup charge, there is a special handling fee of \$10 for Saturday pickup service. Call as early in the day as possible to schedule a pickup.

Other than the Saturday delivery special handling fee, we provide delivery service at no additional charge within our primary service areas. Delivery service outside our primary service areas may be provided through cartage agents, generally at no additional charge. For more information, call Customer Service at 1-800-Go-FedEx (800-463-3339). Saturday delivery is not available for FedEx Standard Overnight or FedEx Express Saver shipments. Your shipment may be delayed if we determine that it is billed to a FedEx Account Number that is not in good credit standing.

There is no delivery to or from Alaska and Hawaii for FedEx Express Saver service. For residential deliveries via FedEx Express Saver and FedEx 2Day, deliveries can occur up to 7 p.m.

B. FedEx Express Freight Pickup and Delivery:

1. Pickup and delivery service for FedEx Express Freight shipments is available Monday through Friday.
2. Saturday pickup and delivery is not available for FedEx Express Freight shipments.
3. There is no delivery to or from Alaska and Hawaii for FedEx 3Day Freight.
4. The \$3 per-package courier pickup charge does not apply to FedEx Express Freight shipments.
5. In order to be accepted, FedEx Express Freight shipments must be of a size and shape that will fit through the smallest doorway or opening at both the shipper's and recipient's locations to allow unobstructed pickup and delivery. If a shipment is tendered to FedEx of a size or shape that will not fit through the smallest doorway or opening, the shipment may be considered undeliverable and handled within the Undeliverable Policy and Procedures. (See "Undeliverable Packages.")
6. When requested, FedEx may move shipments from positions beyond the adjacent loading area for an additional charge. The adjacent loading area is defined as a pickup or delivery site that is directly accessible from the curb and is no more than 50 feet inside the outermost door. To perform an inside pickup or inside delivery on any FedEx Express Freight shipment in our primary service areas, the shipment pickup and delivery:
 - a. must not cause damage to the shipment, handling equipment, or sender's or recipient's facility (walls, flooring, doorways, etc.);
 - b. must not cause delay to other shipments; and
 - c. must not endanger or compromise the safety of FedEx personnel. When inside pickup or delivery requires the transport of freight up or down stairways, the shipment will be refused or the inside pickup or delivery will not be performed.

An Inside Delivery Charge will be assessed when shipment breakdown is necessary to fit a shipment through a doorway. FedEx does not provide piece count or piece verification when a breakdown of a freight shipment occurs at the delivery site. Inside Delivery may not be performed, at our sole discretion, if it will interfere with the efficient performance of services to other customers or with the safety of FedEx personnel.
7. Extra labor beyond the driver may be available for the loading and unloading of freight when requested by the shipper or consignee. The charge for this is computed from the time the extra labor arrives at the place of pickup or delivery until loading or unloading is complete. NOTE: FedEx does not provide piece count, piece verification or skid building, and FedEx-provided extra labor should not be used for these purposes. Extra labor may not be performed in our sole discretion if it will interfere with the efficient performance of services to other customers or with the safety of FedEx personnel.
8. In order to be accepted, multiple pieces tendered as a FedEx Express Freight shipment must be palletized, stackable, and either banded or stretch-wrapped or shrinkwrapped together to form a single handling

UPS-XE-HALDI-5

Courier Pickup Charge	\$3 per package
Saturday Pickup Service	\$10 per package
Saturday Delivery Service	\$10 per package
FedEx Collect on Delivery (C.O.D.)	\$7.50 per package
Address Correction	\$10 per correction
Billing Special Handling Fee	\$10 per package
Reroute of Shipment	\$10 per package

When hundredweight rates apply, the above charges and special handling fees are assessed shipment.

 [Back to Top](#)

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► **FedEx continues to offer innovations** to fit your evolving business needs.

weekend

Saturday Service

FedEx offers Saturday service in many U.S. locations.

- Delivery: Saturday delivery available for FedEx Priority Overnight® and FedEx 2Day® shipments (\$10 special handling fee).
- Pickup: Many areas have courier pickup on Saturday (\$10 special handling fee*).
- Drop-off: Many FedEx World Service Centers®, FedEx Authorized ShipCenters® and FedEx ShipSites® are open on Saturday, and some FedEx® Drop Boxes have Saturday pickup. There is no extra charge to drop off your shipment. Call 1•800•Go•FedEx® (800-463-3339) for locations of Drop Boxes served on Saturday.

* A \$3 courier pickup charge may also apply.

weekend

Sunday Delivery

Schedule Sunday delivery by 3 p.m. via FedEx Priority Overnight service to selected U.S. ZIP codes in major metro areas.**

- Add a \$20 special handling fee to the FedEx Priority Overnight rate.
- Tender shipments on Friday or Saturday*** in every state except Hawaii.
- Courier pickup service, FedEx C.O.D. service and Hold at FedEx Location Service are not available on Sunday.

** See which ZIP codes are eligible on www.fedex.com or call 1•800•Go•FedEx (800-463-3339).

*** Packages for Sunday delivery can be accepted on Saturday from selected service areas. Call 1•800•Go•FedEx (800-463-3339) to see whether your origin location is included. Saturday pickups will be assessed a \$10 Saturday pickup charge, and a \$3 courier pickup charge may also apply.

hold for pickup

Hold at FedEx Location Service

Use this free service if it's more convenient to pick up your shipment, or if you won't be available to receive a delivery. We'll hold your shipment for you to pick up.

- The sender should mark "Hold at FedEx Location" in the Special Handling section of the airbill or air waybill, and write the FedEx location address where the shipment should be held for pickup.
- Shipments are often ready for pickup *before* the courier's scheduled delivery time.

C.O.D.

FedEx® Collect on Delivery (C.O.D.)

FedEx provides quick payment turnaround (typically next business day) to help you run your business efficiently. Available within the U.S. only.

- We call the customer before delivery so payment can be ready.
- Customer payment options: personal check, money order, cashier's check, company check or certified check.
- Use the FedEx C.O.D. Airbill to specify secured or unsecured payment type.
- A \$7.50 special handling fee applies, or \$50 per shipment for freight.

Change in U.S. Rates

Effective March 15, 1999, the transportation rates for U.S. domestic services in this guide reflect a small increase. Our international rates are unchanged — and rates are now lower for shipments sent in the FedEx 10kg Box and FedEx 25kg Box packaging (except to Mexico). Rates start on p. 28.

Shipping Dangerous Goods?

Perfume. Thermometers. Spray paint. Many common items are regulated as dangerous goods shipments. To learn about labeling, packaging, paperwork and new special handling fees, call 1•800•Go•FedEx® (800-463-3339) and press "81" to talk to the Dangerous Goods Hotline, or visit www.fedex.com.

FedEx® Online Service Guide

Don't miss our new FedEx Online Service

Guide on the Web at www.fedex.com. Access

service updates, in-depth service information,

a "Rate Finder" for Service Guide rates, our

tracking capability and FedEx interNetShip®.

Easier Airbill Designs

Good news for customers using preprinted U.S. airbills. We're making shipping simpler with a new peel-and-stick format. Just peel and apply — no pouches needed! Any FedEx account holder can order these preprinted with their address information. We've also redesigned our airbills to be clearer, better organized and faster to complete. See p. 20 for details.

New FedEx Sleeve and Medium FedEx Bag

Now, ship longer, bulkier items with ease using our new white plastic FedEx Sleeve and Medium FedEx Bag. These overwraps are ideal for skis, golf clubs and luggage. See p. 17 for details.

Courier Diane Gotelli
San Francisco, CA

1 MR. OLSON: Mr. Chairman, one further motion: Mr.
2 McKeever has now withdrawn his request that Exhibit 6 even
3 be transcribed, and I'd like to move to strike the cross
4 examination of Witness Haldi which was nothing more than an
5 effort to get otherwise non-admitted evidence into the
6 record so that it could be cited at a later time in brief, I
7 suspect.

8 And I think that there is no useful -- there was
9 no meaningful cross examination of the witness. He had no
10 familiarity with this particular press release.

11 He was simply asked to confirm certain words are
12 there, and I think it's inappropriate that those words
13 remain in the transcript so that they can be cited for their
14 substantive value.

15 I would move to strike the cross examination on
16 this issue.

17 CHAIRMAN GLEIMAN: Mr. Olson, a move to strike is,
18 as we say around here, an extraordinary act on our part.

19 I would respectfully request -- I've heard your
20 comments -- I would respectfully request that you put any
21 such motion in writing, and we will give an opportunity for
22 others to respond to it, and we will make a ruling at that
23 point, once we've seen the responses.

24 But let me also just point out that the Commission
25 is certainly in a position to weigh the evidentiary value of

1 statements that are in the record where materials have not,
2 in fact, been admitted into evidence.

3 But I don't say that in any way, shape, or form in
4 terms of discouraging a written motion on your part.

5 MR. OLSON: Thank you.

6 CHAIRMAN GLEIMAN: Counsel?

7 MR. McKEEVER: Mr. Chairman, I would just like the
8 Chair's indulgence. I know I have to provide two copies to
9 the Court Reporter. The copies are distributed throughout
10 the room, but I will undertake to make sure that the Court
11 Reporter does get two copies of UPS-XE-Haldi-1, 2, 3, 4, 5,
12 and 7, everything but 6, over a break, if not before.

13 CHAIRMAN GLEIMAN: Well, if you are finished with
14 your cross examination of the witness, you'll have an
15 opportunity during a break, because Dr. Haldi has been
16 sitting there for quite awhile now. Before we continue with
17 the cross examination by the Postal Service --

18 MR. COOPER: Mr. Chairman, I won't have any.

19 CHAIRMAN GLEIMAN: If Dr. Haldi is comfortable for
20 a few more minutes, then I think what I would like to do is
21 to see if we can move along and double up on the break. Is
22 there any followup to UPS's cross examination?

23 [No response.]

24 CHAIRMAN GLEIMAN: Are there questions from the
25 Bench?

1 Commissioner Goldway?

2 COMMISSIONER GOLDWAY: Dr. Haldi, there were some
3 questions about Priority Mail service standards and
4 performance, and I wondered if you have had a chance to look
5 at or have reviewed performance -- records of performance
6 for UPS and Fedex comparable products, and whether you have
7 any information on that?

8 THE WITNESS: I'm not aware of any published data
9 available to me or anybody else, for that matter, in the
10 public, from UPS or Fedex regarding their performance.

11 COMMISSIONER GOLDWAY: Are you aware of the study
12 that was done by Consumers Union that showed that Fedex and
13 UPS had higher performance rates than Priority Mail?

14 THE WITNESS: I didn't see the study, but I have
15 heard people refer to it, yes, ma'am.

16 COMMISSIONER GOLDWAY: And then I wondered, in the
17 discussion of competitive products, there was a great deal
18 of press touting the fact that Harry Potter's -- the new
19 Harry Potter book was being delivered by Fedex this week.

20 I wondered if you had seen that and had any
21 comments on the relative value of Fedex delivering that
22 product?

23 THE WITNESS: I have seen the publicity
24 surrounding the new Harry Potter book, but I hadn't followed
25 those details.

1 COMMISSIONER GOLDWAY: Okay, thank you.

2 CHAIRMAN GLEIMAN: Commissioner Omas?

3 COMMISSIONER OMAS: Dr. Haldi, I have just one
4 question: In your testimony on page 62, you propose a
5 modest drop ship discount for Zone-rated packages over five
6 pounds at designated sectional center facilities.

7 Would all Priority Mail over five pounds that
8 destinate at sectional center facilities be eligible for
9 this discount?

10 THE WITNESS: No, sir, it would have to be a drop
11 ship. If it simply is delivered to somebody who has a P.O.
12 Box at that SCF, it would not qualify.

13 It would have to contain mail of other classes
14 that are to be delivered beyond the SCF in order to qualify.

15 COMMISSIONER OMAS: Okay, also, Table 12 of your
16 testimony indicated that under your Priority Mail, Priority
17 Mail would contribute 2.3 billion to institutional costs.

18 Do you know how much of this is due to the
19 migration of the 12- and 13-ounce First Class Mail to
20 Priority Mail?

21 THE WITNESS: I didn't do a separate calculation
22 to break that out, but that is included in this figure of
23 2.3 billion, yes.

24 COMMISSIONER OMAS: So you have no idea what it
25 would take away from the First Class contribution?

1 THE WITNESS: I calculated the pieces. I'd have
2 to go back and calculate the contribution. I didn't make
3 that calculation, no, sir.

4 COMMISSIONER OMAS: All right, thank you.

5 CHAIRMAN GLEIMAN: Followup to questions from the
6 Bench?

7 [No response.]

8 CHAIRMAN GLEIMAN: If there is none, I take it
9 you'd like some time with your witness?

10 MR. OLSON: Just two or three minutes perhaps.

11 CHAIRMAN GLEIMAN: I'll tell you what, let's do
12 our break now, and we'll come back in ten minutes and
13 continue, if you do have redirect.

14 [Recess.]

15 CHAIRMAN GLEIMAN: Mr. Olson?

16 MR. OLSON: Thank you, Mr. Chairman. We do have a
17 couple of questions.

18 REDIRECT EXAMINATION

19 BY MR. OLSON:

20 Q Dr. Haldi, Mr. McKeever asked you a number of
21 questions about PETE and ODIS data, comparing '98 and '99,
22 various different timeframes.

23 When there is a percentage given for for example
24 PETE pieces that have an overnight standard that have 84.85
25 percent, for example, delivered on time, does that tell you

1 anything about the delivery of the pieces that are not
2 delivered on time?

3 A No, it doesn't, and that is the big hole in the
4 data that were available to me at the time I prepared my
5 testimony and that are still missing.

6 It is oftentimes referred to as the tail, and that
7 is where Priority Mail seems to suffer rather badly but it's
8 all based on anecdotal evidence.

9 Take a piece that isn't delivered in one day, you
10 don't have any percentages that show whether it is delivered
11 then in two days or three or four or five -- the same thing
12 for Priority Mail with a two day standard. If 78 percent
13 make the two day standard the 22 percent that don't make the
14 two day standard may not make a three day either. They may
15 take four, five or six days.

16 I have heard so many anecdotes about Priority Mail
17 that takes five, six, and even seven days to be delivered
18 that its reputation among people who mail often enough and
19 get feedback suffers badly in comparison to the competition
20 in that respect, the unreliability of the mail that doesn't
21 get there on time.

22 I mean if you could mail something with a two day
23 standard and feel it will surely get there in three days, it
24 would be a much higher quality service than it is.

25 Q And Dr. Haldi, following up on Commissioner

1 Goldway, she asked you a question about whether you had data
2 concerning UPS and FedEx service performance and as to
3 whether you were familiar with that Consumer Union study.
4 Do you recall that?

5 A I do recall the question, yes.

6 Q Okay, and the -- do you not have in your testimony
7 a section that discusses whether competitors offer
8 guarantees?

9 A Yes, I believe that is in one of my tables. I
10 believe it is Table 3 on page 24 shows that.

11 Q And what does that generally show?

12 A It shows that for their two day expedited services
13 all competitors offer a guarantee, which means, it is my
14 understanding is that you get your money back if they don't
15 make the service that they offer.

16 Q If the competitors were to have improved their two
17 day service from 72 to 78 percent, do you think that would
18 have any effect on their bottom line?

19 In other words, you have a feeling about if they
20 had, if they in fact had service performance that was that
21 low as to the effect that would have on the companies?

22 A Well, if they had to make good on their guarantee
23 38 percent of the time and they subsequently -- 28 percent,
24 I'm sorry from 72 percent and subsequently had to only make
25 good on their guarantee 22 percent of the time, that would

1 be some improvement but I think they would probably be out
2 of business if they had to carry more than a quarter of the
3 packages or about a quarter of the packages they -- more
4 than a fifth of the packages they deliver for free, they
5 would have big trouble making their bottom line.

6 MR. OLSON: Mr. Chairman, that's all we have.

7 CHAIRMAN GLEIMAN: Is there any recross?

8 MR. McKEEVER: Yes, Mr. Chairman. I do have a few
9 questions.

10 RECROSS EXAMINATION

11 BY MR. McKEEVER:

12 Q Dr. Haldi, you indicated in response to a question
13 from Mr. Olson that all competitors offer a guarantee.

14 I take it you were referring there to all of the
15 competitors that you mention in your testimony specifically
16 by name, is that correct?

17 A That is correct. Yes.

18 Q So you weren't referring to all of the competitors
19 out there?

20 A No. I can't claim to have done a comprehensive
21 survey of every competitor.

22 Q Mr. Olson -- or you testified in response to a
23 question from Mr. Olson that there was a gap in the record
24 in that we don't know what happens with respect to the
25 Priority Mail that is delivered late, is that correct?

1 A That is correct.

2 Q And you referred to only anecdotal evidence in
3 that respect, is that correct?

4 A That is correct.

5 Q Am I correct also that we do not know how much of
6 the Priority Mail that is delivered late consisted of
7 unidentified Priority Mail?

8 A That is correct.

9 Q Okay. Now -- and it is your testimony that, is it
10 your testimony that there is no evidence in the record
11 concerning how fast Priority Mail is delivered, aside from
12 its service standard?

13 In other words, is there any evidence that shows
14 "x" percent gets there in one day, "x" percent gets there in
15 two days, "x" percent gets there in three days, four days?

16 Is it your testimony that that evidence is not in
17 the record?

18 A Not the way you put it, but I believe it could be,
19 some of that could be deduced from the record. I believe
20 there is some testimony as to the amount of Priority Mail
21 that has a one day standard, the amount that has a two day
22 standard, and if you figure the percentage then that gets
23 there in one day that makes the standard, you could do some
24 computations of the type that you are alluding to, I
25 believe.

1 Q But you are not aware of any evidence concerning,
2 regardless of the service standard, how much of Priority
3 Mail volume gets to its destination regardless of standard
4 within one day, two days, three days, et cetera?

5 A I haven't seen that as such, no.

6 MR. MCKEEVER: That is all I have, Mr. Chairman.

7 CHAIRMAN GLEIMAN: Mr. Olson, anything further?

8 MR. OLSON: Nothing.

9 CHAIRMAN GLEIMAN: If that is the case, then Dr.
10 Halldi, that completes your testimony here today.

11 We appreciate your appearance and your
12 contributions to our record yet again, and we thank you, and
13 you are excused.

14 [Witness excused.]

15 MR. MCKEEVER: Mr. Chairman, if I may, I do have
16 copies of all of those cross examination exhibits that I can
17 now furnish to the reporter.

18 CHAIRMAN GLEIMAN: Why don't you call your witness
19 and while your witness is settling in we can take care of
20 the paperwork.

21 MR. MCKEEVER: Thank you, Mr. Chairman.

22 United Parcel Service calls Ralph Luciani to the
23 stand.

24 CHAIRMAN GLEIMAN: Mr. Luciani, before you settle
25 in too comfortably, if I could get you to stand and raise

1 your right hand.

2 Whereupon,

3 RALPH L. LUCIANI,

4 a witness, was called for examination by counsel for the
5 United Parcel Service and, having been first duly sworn, was
6 examined and testified as follows:

7 CHAIRMAN GLEIMAN: Please be seated.

8 DIRECT EXAMINATION

9 BY MR. McKEEVER:

10 Q Mr. Luciani, I have just handed you a copy of a
11 document identified as Direct Testimony of Ralph L. Luciani
12 on behalf of United Parcel Service and marked as UPS-T-5.

13 MR. McKEEVER: this document does reflect, Mr.
14 Chairman, the errata that was previously filed on June 22,
15 2000. Those corrections have been made in this copy of the
16 testimony.

17 However, Mr. Chairman, this copy does not include
18 Exhibits UPS-T-5C and UPS-T-5I which were filed under seal.

19 What I would suggest, Mr. Chairman, is that we
20 first introduce the public portion of the testimony and then
21 I introduce those exhibits separately so that they may be
22 handed to the court reporter separately for inclusion into a
23 sealed volume of the transcript.

24 CHAIRMAN GLEIMAN: I think that that is an
25 appropriate manner to proceed. That is how we have handled

1 material that has been filed under seal in the past, so --

2 MR. McKEEVER: Thank you, Mr. Chairman.

3 BY MR. McKEEVER:

4 Q Well, as I indicated, Mr. Luciani, I have handed
5 you a copy of the document marked as UPS-T-5.

6 If you were to testify orally today here, would
7 your testimony be as indicated in that document?

8 A Yes, it would.

9 MR. McKEEVER: Mr. Chairman, I move that the
10 direct testimony of Ralph L. Luciani on behalf of the United
11 Parcel Service and identified as UPS-T-5, with the exception
12 of Exhibits UPS-T-5C and T-5I, be admitted into evidence and
13 transcribed into the transcript of today's proceedings.

14 CHAIRMAN GLEIMAN: Is there any objection?

15 Hearing none, counsel will please provide two
16 copies of the direct testimony absent those exhibits of
17 Witness Luciani to the court reporter.

18 The testimony will be transcribed into the record
19 and received into evidence.

20 [Direct Testimony and Exhibits of
21 Ralph L. Luciani, UPS-T-5,
22 excluding UPS-T-5C and UPS-T-5I,
23 were received into evidence and
24 transcribed into the record.
25

UPS-T-5

**BEFORE THE
POSTAL RATE COMMISSION**

POSTAL RATE AND FEE CHANGES, 2000

DOCKET NO. R2000-1

**DIRECT TESTIMONY OF
RALPH L. LUCIANI
ON BEHALF OF
UNITED PARCEL SERVICE**

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
PURPOSE OF TESTIMONY AND SUMMARY OF CONCLUSIONS	2
THE POSTAL SERVICE HAS UNDERSTATED THE ATTRIBUTABLE COSTS ASSOCIATED WITH PARCEL POST AND PRIORITY MAIL.....	3
A. Advertising Costs.....	3
B. Parcel Post Final Adjustments.....	4
C. City Carrier Elemental Load Costs Should Be Distributed By Weight	7
D. The Cost of Sequencing Parcels by City Carriers Should Be Assigned to Parcels.....	10
E. The Cost of Exclusive Parcel Post Delivery Routes Should Be Treated as Specific Fixed Costs	12
THE POSTAL SERVICE HAS OVERSTATED THE REVENUES ASSOCIATED WITH PARCEL POST	14
CHANGES TO PARCEL POST, PRIORITY MAIL, AND EXPRESS MAIL REVENUES AND COSTS BY UPS WITNESSES	16
A. Base Year 1998.....	16
B. Test Year After Rates With Postal Service Proposed Rates	18
C. Test Year After Rates – Revised Cost Coverages.....	19
D. Parcel Post Volumes and Revenue Adjustment Factors	20
THE POSTAL SERVICE HAS OVERSTATED THE COSTS AVOIDED BY PARCEL POST WORKSHARING	21
A. DBMC-Entry Mail Processing Cost Avoidance Is Overstated	21
B. DDU-Entry Mail Processing Cost Avoidance Is Overstated.....	27
1. Sack Shakeout.....	27
2. The Discount Should Be Based on Machinable Cost Differences	28

C. DDU-Entry and DSCF-Entry Transportation Cost Avoidance Is Incorrect	29
1. Cubic Feet Per Piece for DDU-Entry and DSCF-Entry Parcels	29
2. Consistent Treatment of Alaska Air Costs.....	30
D. The DBMC-Entry Rates Are Based on a Reduction in DBMC's Institutional Cost Contribution, Not Just Avoided Costs.....	30
THE PASSTHROUGH PROPOSED FOR DDU AND DSCF WORKSHARING AVOIDANCES SHOULD BE REDUCED	31
CONCLUSION.....	34

LIST OF TABLES

	<u>Page</u>
Table 1: Illustration of Transportation Adjustment Double-Count	6
Table 2: Corrected Test Year Parcel Post Transportation Final Adjustment.....	7
Table 3: Distribution of City Carrier Regular Route Elemental Load Costs	9
Table 4: Specific Fixed Costs for Exclusive Parcel Post Routes	14
Table 5: Correction of Test Year OMAS and Alaska Parcel Post Revenue	16
Table 6: Base Year Revenue and Attributable Cost	18
Table 7: TYAR Revenue and Attributable Cost	19
Table 8: TYAR Revenue and Attributable Cost	19
Table 9: Corrected Projection of Parcel Post Volumes.....	21
Table 10: Rate Increases by Parcel Post Rate Category	21
Table 11: Top-Down Estimates of DBMC-Entry Mail Processing Avoided Costs	23
Table 12: Bottom-Up DBMC-Entry Mail Processing Cost Avoided	24

INTRODUCTION

1

2 My name is Ralph L. Luciani. I am a Vice President of PHB Hagler Bailly, an
3 economic and management consulting firm specializing in public policy and corporate
4 strategy. PHB Hagler Bailly was formed through the merger of Putnam, Hayes &
5 Bartlett, Inc. and Hagler Bailly, Inc. (collectively, "PHB") in 1998.

6 I have 15 years of consulting experience analyzing economic and financial issues
7 affecting regulated industries, including costing, ratemaking, business planning, and
8 competitive strategy issues. Since 1990, I have directed PHB's analytic investigations
9 of United States Postal Service ("Postal Service") costing and rate design issues. In
10 Docket No. R90-1 and again in Docket No. R94-1, I assisted Dr. George R. Hall in the
11 preparation of analyses and testimony regarding the attributable costs, cost coverages,
12 and rate design of Parcel Post, Priority Mail, and Express Mail. In Docket No. R94-1, I
13 assisted Dr. Colin C. Blaydon in the preparation of analyses and testimony concerning
14 the treatment of mixed mail costs in the In-Office Cost System ("IOCS"). In Docket No.
15 MC95-1, I presented testimony regarding the costs associated with parcels handled by
16 the Postal Service in First Class Mail and in Standard (A) Mail. I also presented
17 supplemental testimony in Docket No. MC95-1 regarding rate design for Standard (A)
18 Mail parcels. In Docket No. R97-1, I presented testimony regarding the costing and rate
19 design of Parcel Post and Priority Mail.

20 Since 1995, I have visited and observed the operations at a number of Postal
21 Service facilities, including the Washington BMC on two different occasions, two

1 Sectional Center Facilities, three Associate Offices/Delivery Units, a HASP ("Hub and
2 Spoke Project") facility, and an Air Mail Center.

3 I hold a B.S. with University Honors in Electrical Engineering and Economics
4 from Carnegie Mellon University. I also hold an M.S. with Distinction from the Graduate
5 School of Industrial Administration at Carnegie Mellon University. Prior to joining PHB
6 in 1985, I worked as an Edison engineer at General Electric Company and as a financial
7 analyst at IBM Corporation.

8 **PURPOSE OF TESTIMONY AND**
9 **SUMMARY OF CONCLUSIONS**

10 I have been asked to investigate the costing and rate design proposals of the
11 Postal Service as they pertain to Parcel Post and Priority Mail. In addition, I have
12 estimated the impact on the Base Year and Test Year revenues and attributable costs
13 of Parcel Post, Priority Mail, and Express Mail that result from the recommendations of
14 UPS witnesses Sellick (UPS-T-2 and UPS-T-4), Neels (UPS-T-1 and UPS-T-3),
15 Sappington (UPS-T-6), and myself. As part of this investigation, I have reviewed the
16 testimony and workpapers of Postal Service witnesses Harahush (USPS-T-3), Tolley
17 (USPS-T-6), Kingsley (USPS-T-10), Meehan (USPS-T-11), Baron (USPS-T-12),
18 Raymond (USPS-T-13), Kashani (USPS-T-14), Smith (USPS-T-21), Kay (USPS-T-23),
19 Eggleston (USPS-T-26), Daniel (USPS-T-29), Mayes (USPS-T-32), and Plunkett
20 (USPS-T-36).

21 Based on my review, I have reached the following conclusions with respect to the
22 Postal Service's proposals:

- 1 1. The Postal Service has understated the attributable costs associated with
2 Parcel Post and Priority Mail;
- 3 2. The Postal Service has overstated the revenues associated with Parcel
4 Post;
- 5 3. The changes recommended by UPS witnesses to the costs, revenues,
6 volumes, and cost coverages of Parcel Post, Priority Mail, and Express Mail lead to
7 significant changes in the rate increases necessary for these subclasses;
- 8 4. The Postal Service has overstated the costs avoided by Parcel Post
9 worksharing; and
- 10 5. The passthroughs for Parcel Post DSCF-entry and DDU-entry should be
11 decreased from those recommended by the Postal Service.

12 **THE POSTAL SERVICE HAS UNDERSTATED**
13 **THE ATTRIBUTABLE COSTS ASSOCIATED**
14 **WITH PARCEL POST AND PRIORITY MAIL.**

15 **A. Advertising Costs**

16 The Postal Service has agreed that it underestimated advertising costs for Parcel
17 Post, Priority Mail, and Express Mail in its initial filing. In the Base Year there should be
18 \$20 million of advertising costs for Parcel Post, an additional \$38.3 million for Priority
19 Mail, and an additional \$0.4 million for Express Mail. In the Test Year there should be
20 \$18.5 million of advertising costs for Parcel Post, an additional \$38.3 million for Priority
21 Mail, and an additional \$0.4 million for Express Mail. Postal Service witness Kay issued

1 an errata to her testimony in which she included these additional costs as Product
2 Specific costs under the Postal Service's costing method (USPS-T-23 , pages 14 and
3 16, as revised March 13, 2000).

4 Advertising costs are properly treated as specific fixed attributable costs under
5 the Commission's costing method. Thus, the Test Year After Rates attributable costs
6 under the Commission's costing method provided in Library Reference USPS-LR-I-131
7 need to be increased by \$18.5 million for Parcel Post, \$38.3 million for Priority Mail, and
8 \$0.4 million for Express Mail.

9 **B. Parcel Post Final Adjustments**

10 In a final step of his roll forward model, Postal Service witness Kashani adjusts
11 the rolled forward Test Year attributable transportation costs for Parcel Post downward.
12 The adjustments were derived by Postal Service witnesses Eggleston and Daniel based
13 on changes in the estimated relative volume mix by rate category. Ms. Eggleston
14 adjusts for the increased share of DBMC-entry Parcel Post pieces from the Base Year
15 to the Test Year (Tr. 13/5201). Using Ms. Eggleston's estimates of DBMC-entry, DSCF-
16 entry, and DDU-entry transportation costs per piece, Ms. Daniel adjusts Parcel Post
17 transportation costs for the inclusion of DSCF-entry and DDU-entry pieces in the Test
18 Year, since the DSCF-entry and DDU-entry discounts were not in effect during the Base
19 Year (Response to UPS/USPS-T28-3, filed April 5, 2000).

20 Ms. Daniel calculates that Parcel Post Test Year transportation costs should be
21 reduced by \$10 million Before Rates and \$21 million After Rates due to the "post-mix"

1 appearance of 30 million DSCF-entry and DDU-entry parcels.¹ Ms. Daniel assumes
 2 that Parcel Post's "pre-mix" transportation costs do not reflect any cost savings from
 3 entering parcels at the DSCF or at the DDU.²

4 However, Ms. Eggleston's Test Year transportation costs for DBMC-entry Parcel
 5 Post have already been reduced from what they otherwise would have been because
 6 7.11% of DBMC-entry pieces were entered at a DSCF, thereby already saving a leg of
 7 intermediate transportation from the DBMC to the DSCF (USPS-T-26, page 24, and
 8 Attachment M, page 3).³ This means that Ms. Eggleston's estimate of transportation
 9 cost incurred by DBMC-entry Parcel Post in the Base Year already reflects, before any
 10 further adjustment by Ms. Daniel to reflect the cost savings of DSCF-entry, the cost
 11 savings resulting from the 7.11% of those DBMC parcels that were actually entered at a
 12 DSCF even in the absence of a DSCF-entry discount. This lowers Ms. Eggleston's
 13 estimate of the transportation cost incurred by destination entry Parcel Post. Ms. Daniel
 14 then applies Ms. Eggleston's transportation cost estimate as if it did not reflect any
 15 transportation savings from DSCF entry. This yields a double-count of transportation
 16 savings.

17 Assume, for example, that 7.11% of combined DSCF and DBMC volume was
 18 entered at the DSCF in the Test Year both "pre-mix" and "post mix" -- in other words,
 19 there was no mix change at all. Obviously, there should be no mix adjustment in that

-
1. USPS-LR-I-97, USPS Transportation Summary, page 35 of 37. USPS LR-I-140 contains the Commission's costing version of Ms. Daniel's final adjustments.
 2. See "2001br" column in USPS-LR-I-97, page 32 of 37.
 3. Some of this volume arises from co-location of the DBMC and the DSCF.

1 situation. However, under Ms. Daniel's approach, there would be a mix adjustment. As
 2 shown in Table 1, below, Ms. Daniel would use the weighted average DBMC/DSCF-
 3 entry transportation cost per piece derived by Ms. Eggleston as the "DBMC-entry only"
 4 transportation cost in the post-mix case, even though the average already reflects the
 5 lower cost of DSCF entry. In other words, the approach would assume a pre-mix
 6 transportation cost of \$0.660 per cubic feet and a post-mix transportation cost of \$0.636
 7 per cubic feet, when no mix change has occurred. As a result, the approach would
 8 show that Parcel Post transportation costs are lower post-mix when in fact they have
 9 not changed.

Table 1: Illustration of Transportation Adjustment Double-Count

	Pre-Mix		Post-Mix	
	Volume Share	Transport Cost (\$/pc)	Volume Share	Transport Cost (\$/pc)
DBMC	92.89%	\$0.685	92.89%	\$0.660
DSCF	7.11%	\$0.330	7.11%	\$0.330
Weighted Average		\$0.660		\$0.636

10 The double-count can be easily fixed simply by recognizing that 7.11% of DBMC-
 11 entry volume is already entered at a DSCF in the pre-mix starting point, and therefore
 12 reducing Ms. Daniel's calculated DSCF-entry transportation savings to that extent. In
 13 so doing, the TYAR final adjustment for transportation is reduced by \$6.6 million to \$7.7
 14 million, thereby increasing Parcel Post attributable costs by the same amount, as
 15 summarized in the table below. See Exhibit UPS-T-5A for further detail.

Table 2: Corrected Test Year Parcel Post Transportation Final Adjustment
(Commission's Costing Method, Millions of Dollars)

	TYBR	TYAR
Transportation Final Adjustment As Filed (USPS-LR-I-140)	(10.0)	(20.9)
Corrected Transportation Final Adjustment	(2.3)	(14.3)
Increase in Parcel Post Attributable Costs	7.7	6.6

Source: Exhibit UPS-T-5A

C. City Carrier Elemental Load Costs Should Be Distributed By Weight.

Postal Service Witness Daniel distributes city carrier elemental load cost by weight within the First Class Mail Presort and Standard Mail (A) categories. Elemental load includes the time spent handling mail pieces at the point of delivery (USPS-T-28, page 8). Ms. Daniel notes, quite reasonably, that the cost of city carrier delivery of heavier parcels is significantly higher than for lower weight parcels in those categories (USPS-T-28, pages 3, 8-9).

Although Ms. Daniel's testimony was provided for the purpose of guiding the Postal Service's costing and rate design witnesses (USPS-T-28, page 3), Postal Service Witness Meehan fails to incorporate Ms. Daniel's recommendation in her distribution among the classes and subclasses of mail of elemental load cost for city carrier regular routes (Tr. 6/2665-67). If weight is a proper basis for reflecting cost differences within the narrow ranges from one ounce up to thirteen ounces for First Class Mail Presort and from one ounce up to sixteen ounces for Standard Mail (A), then it surely should be used in the case of the more significant weight differences between

1 the lighter weight and the heavier weight classes of mail. The Commission should apply
2 Ms. Daniel's recommendation to all classes of mail and distribute the parcel shape costs
3 for city carrier regular route elemental load time to subclasses by weight, rather than by
4 piece volumes.

5 The impact of distributing the parcel shape costs by weight for city carrier
6 elemental load time for regular routes is summarized in Table 3, below, which reflects
7 the Commission's costing method. The new distribution key is based on the product of
8 average weight and City Carrier System volume data for each subclass for parcel
9 shaped items.⁴ As Table 3 shows, the volume variable costs for Parcel Post and for
10 Priority Mail increase significantly. See Exhibit UPS-T-5B for further detail.

4. The CCS data is described by Mr. Harahush in USPS-T-3, USPS-LR-I-16, and USPS-LR-I-130. The cost studies performed by Ms. Daniel were used to derive the average weight for parcels in First Class Mail and Standard Mail (A). Billing determinant data (normalized to CRA data) was used to estimate the average weight for parcels for other subclasses.

Table 3: Distribution of City Carrier Regular Route Elemental Load Costs
(Commission Costing Method, Millions of Dollars, Base Year)

	As Filed – Distributed by Piece	Corrected – Distributed by Weight	Change
First Class	669.9	644.6	(25.3)
Priority Mail	49.9	69.0	19.1
Express Mail	24.5	25.6	1.2
Periodicals	94.1	86.8	(7.3)
Standard (A)	728.1	677.8	(50.3)
Parcel Post	26.4	80.6	54.2
Other	164.0	172.5	8.5
Total	1,756.9	1,756.9	0.0

Source: Exhibit UPS-T-5B

1 The distribution of city carrier Street Support costs is also affected by a change in
2 the underlying distribution of city carrier elemental load costs, and the impact on Street
3 Support costs is provided in Exhibit UPS-T-5B.

4 The two cents per pound charge used in the rate design for Parcel Post and
5 Priority Mail to account for weight-related non-transportation costs helps capture the
6 impact of weight on costs within those specific subclasses. Indeed, the Postal Service
7 argues that one of the reasons for the two cents per pound adder for Parcel Post is the
8 extra cost incurred by city carriers in delivering higher weight pieces (Tr. 13/5082).
9 Similarly, the allocation of elemental load to subclasses should be more heavily
10 weighted to those subclasses that contain heavier weight parcels.

1 The A.T. Kearney Data Quality Study recommended the development of
 2 "engineering studies that track weight in conjunction with other mail cost-causing
 3 characteristics through the entire production process" (Data Quality Study, Summary
 4 Report, April 16, 1999, page 94). The A.T. Kearney study also recommended updating
 5 the city carrier special studies which were last performed in the mid-1980's noting that
 6 this "will improve this data and will have a large impact on the precision of many sub-
 7 class's UVVCs [Unit Volume Variable Costs]" (*id.* at 44). Further investigation into the
 8 effect of weight on other cost components as part of this updating would lead to higher
 9 quality data in future rate cases.

10 **D. The Cost of Sequencing Parcels by City Carriers Should**
 11 **Be Assigned to Parcels.**

12 Letters and flat-shaped mail are sequenced (cased) for delivery by city carriers in
 13 the office, while parcels are sequenced (i.e., sorted into delivery order) outside the office
 14 during the loading of the city carrier's vehicle or while en route. Tr. 5/2093 (Kingsley),
 15 19/8081-82 (Raymond). Thus, while IOCS, which samples only in-office activities,
 16 captures the full sorting costs for letters and flats, it does not do so for parcels.⁵

17 Just as for the other shapes of mail which are sequenced by the carrier in-office,
 18 the cost for the sequencing of parcels is significant, as each individual parcel must be
 19 examined and put in proper delivery order. Unlike letters and flats, the sequencing
 20 costs for parcels are buried within city carrier Street Support costs or Driving Time,

5. My DDU visits confirm that substantial time is spent by carriers at their vehicle
 sorting parcels. Indeed, much of the vehicle loading time is spent sequencing
 the 30 or so parcels on the route, rather than loading the numerous flats and
 letters already cased in trays.

1 which include generic activities such as driving to the beginning of the route and driving
2 back to the office from the end of the route. Tr. 19/8084 (Raymond). Street Support
3 costs are distributed to subclasses as a piggyback off of the distribution of the
4 remainder of city carrier costs for each category – load, access, route, and office.
5 Therefore, the cost of sequencing parcels for delivery on city carrier regular routes is
6 distributed to all types of mail, not just to parcels.

7 I recommend that the cost of sequencing parcels be removed from city carrier
8 Street Support costs and distributed to subclasses directly by shape, as is done in the
9 case of the sequencing of letters and flats.

10 I have derived parcel sequencing costs by multiplying the cost per piece for
11 sequencing parcels by the volume of parcels delivered in each subclass as estimated
12 by Postal Service Witness Harahush. The cost per piece for sequencing parcels was
13 obtained by multiplying the city carrier wage rate by the city carrier sequencing time per
14 parcel taken from the Postal Service's confidential Engineered Standards study. The
15 Engineered Standards study is based on time standards rather than actual
16 observations. In practice, city carriers are likely not yet meeting those time standards
17 since they reflect more efficient operating procedures than are now used, Tr. 19/8122-
18 23 (Raymond), and thus the cost per piece for sequencing parcels obtained using the
19 results of the time standards study is a conservatively low estimate.

20 These parcel sequencing costs are then removed from Street Support. The
21 parcel sequencing costs are assumed to have the same volume variability as city carrier
22 in-office costs, since the activity is essentially the same in both cases. This change was

1 implemented only for those subclasses with heavier weight parcels -- Priority Mail and
2 Standard Mail (B) -- given that lighter weight parcels can include samples that are not
3 individually sequenced, and can include parcels that are removed by the carrier from
4 parcel hampers and sorted into letter or flat trays in the office (Tr. 5/2091, 19/8081-82,
5 8086).

6 The resulting change in volume variable costs for each subclass is shown in
7 Exhibit UPS-T-5C, which is being filed under seal because it uses data taken from the
8 Engineered Standards study. Total attributable costs increase due to the higher volume
9 variability of in-office costs.

10 The recommended methodology and the resulting cost distribution to individual
11 subclasses of mail would be much improved by a study of the cost of sequencing
12 parcels outside of the office. I urge the Commission to recommend that the Postal
13 Service perform such a study.

14 **E. The Cost of Exclusive Parcel Post Delivery**
15 **Routes Should Be Treated as Specific Fixed Costs.**

16 City Carrier Special Purpose Routes include Exclusive Parcel Post Routes,
17 Parcel Post Combined Routes, Collection Routes, OMMS and Other. Exclusive Parcel
18 Post Routes are regular routes devoted entirely to the delivery of Parcel Post. Tr.
19 6/2662-63. Thus, all of the costs associated with Exclusive Parcel Post Routes should
20 be assigned to Parcel Post. The total costs incurred in the Base Year for Exclusive
21 Parcel Post Routes was \$37.4 million (Tr. 6/2663).

1 Ms. Meehan's distribution of Special Purpose Route costs is based on a study
2 performed by Postal Service Witness Nelson in Docket No. R97-1 (Tr. 21/8553). Based
3 on the data Ms. Meehan has been able to obtain from that study, it is not possible to tell
4 what the distribution key was for each individual type of Special Purpose Route. Tr.
5 6/2663-65. However, across all of the SPR route types, Ms. Meehan distributes only
6 \$11.0 million to Parcel Post.⁶

7 It is clear that Parcel Post should be attributed some share of the costs of the
8 other types of Special Purpose Routes (e.g., Parcel Post Combined Routes). However,
9 in the absence of better data, a very conservative means of dealing with this issue is to
10 assign to Parcel Post the difference between the total cost of the Exclusive Parcel Post
11 Routes and the total Special Purpose Route costs attributed to Parcel Post. That
12 difference is \$26.4 million, as shown in Table 4, below. These costs may be treated as
13 a Product Specific cost under the Postal Service's costing method, or as a specific fixed
14 cost under the Commission's costing method.

6. The \$11.0 million results from adding the Special Purpose Route costs assigned to Parcel Post in USPS-LR-I-130-errata. See UPS-Luciani-WP-2.

Table 4: Specific Fixed Costs for Exclusive Parcel Post Routes*(Commission's Costing Method, Millions of Dollars, Base Year)*

	Special Purpose Route Costs
Exclusive Parcel Post Route Costs	37.4
Special Purpose Route Costs Assigned to Parcel Post	11.0
Amount to Treat as Parcel Post Specific Fixed Costs	26.4

1 Because this is a very conservative means of estimating the amount of costs that
2 should be attributed to Parcel Post, I urge the Commission to recommend that the
3 Postal Service perform a more refined investigation of this issue for subsequent rate
4 cases.

5 **THE POSTAL SERVICE HAS OVERSTATED THE**
6 **REVENUES ASSOCIATED WITH PARCEL POST.**

7 Postal Service Witness Plunkett projects a significant decline in OMAS and
8 Alaska volume from the Base Year to the Test Year, but, inexplicably, assumes OMAS
9 and Alaska revenues will increase significantly over this same period. This is
10 inconsistent and clearly wrong. He stated that he projected OMAS and Alaska revenue
11 based on the underlying growth of Parcel Post in conformance with historical practice
12 (Tr. 13/5020). Such an approach might be proper if he also projected an increase in
13 OMAS and Alaska volume based on the underlying growth of Parcel Post, but it makes
14 no sense in the face of the substantial decline in OMAS and Alaska volume which he
15 projects.

1 Since OMAS and Alaska pieces are subsets of the other Parcel Post rate
2 categories, Mr. Plunkett is double-counting revenues. Because OMAS and Alaska
3 volume are assumed to decrease from the Base Year to the Test Year, the volumes of
4 intra-BMC, inter-BMC, and DBMC in the Test Year are higher than they otherwise would
5 be. This makes the Test Year revenues for intra-BMC, inter-BMC, and DBMC higher
6 than they otherwise would be. To then increase the OMAS and Alaska revenue despite
7 the OMAS and Alaska volume decrease is inconsistent and is a clear double-count.

8 I have corrected this overstatement of Parcel Post revenues as shown in Table 5,
9 below. I used the Base Year revenue per piece for Alaska and OMAS provided by Mr.
10 Plunkett, adjusted it for the rate increase from Docket No. R94-1 to Docket No. R97-1
11 that took place in FY1999 (approximately 21%, given that the Alaska and OMAS pieces
12 are largely charged intra-BMC and inter-BMC rates), and then multiplied it by Mr.
13 Plunkett's volume estimates for Alaska and OMAS in the Test Year Before Rates. As
14 shown, the total revenue for Parcel Post decreases by \$8.1 million (\$23.5 million as filed
15 minus \$15.4 million corrected) in the Test Year Before Rates once corrected. See
16 Exhibit UPS-T-5D for further details, including the similar \$8.4 million correction in the
17 Test Year After Rates.

Table 5: Correction of Test Year OMAS and Alaska Parcel Post Revenue

	Postal Service As Filed			As Corrected		
	Base Year	Test Year	% Change	Base Year	Test Year	% Change
Revenue (\$000)	18,968	23,486	24%	18,968	15,390	-19%
Volume (000)	3,488	2,327	-33%	3,488	2,327	-33%
Rev./Pc. (\$/pc.)	5.43	10.09	86%	5.43	6.61	21%

Source: Exhibit UPS-T-5D

**CHANGES TO PARCEL POST,
PRIORITY MAIL, AND EXPRESS MAIL
REVENUES AND COSTS BY UPS WITNESSES**

A. Base Year 1998

UPS witnesses Sellick, Neels, and I recommend a number of changes to Parcel Post, Priority Mail, and Express Mail costing for the Base Year, including:

1. Use of the Domestic RPW as the sole source of Base Year Revenue, Pieces, and Weight for Parcel Post (Sellick, UPS-T-4);
2. Use of Postal Service Witness Degen's improvements to the Commission's Cost Segment 3 cost allocations (Sellick, UPS-T-2);
3. 100% volume variability for mail processing costs (Neels, UPS-T-1, and Sellick, UPS-T-2);

- 1 4. Reallocation of dedicated air network costs in Cost Segment 14 (Neels, UPS-T-
2 3);
- 3 5. Reallocation of highway transportation costs in Cost Segment 14 (Neels, UPS-T-
4 3);
- 5 6. Allocation of city carrier elemental load costs by weight for parcels (Luciani);
- 6 7. Distribution to parcels of the cost of sequencing parcels by city carriers (Luciani);
- 7 8. Distribution of the cost of Exclusive Parcel Post Special Purpose Routes solely to
8 Parcel Post (Luciani); and
- 9 9. Ms. Kay's advertising cost corrections (Luciani).

10 I have calculated the combined impact of these changes on Parcel Post, Priority
11 Mail, and Express Mail under the Commission's costing method. As a simplification,
12 piggyback factors are used to capture the impact of the recommended changes on cost
13 segments other than Cost Segments 3, 7, and 14. The results are summarized in Table
14 6, below.

Table 6: Base Year Revenue and Attributable Cost
(Commission's Costing Method, Millions of Dollars)

	As Filed (USPS-LR-I-130) ⁷			As Corrected		
	Revenue	Attributable Cost	Cost Coverage	Revenue	Attributable Cost	Cost Coverage
Priority Mail	4,187.4	2,693.2	155%	4,187.4	2,911.6	144%
Express Mail	854.5	619.5	138%	854.5	508.7	168%
Parcel Post	947.9	880.9	108%	823.6	1,041.1	79%

Source: UPS-Luciani-WP-3

1 **B. Test Year After Rates With Postal Service Proposed Rates**

2 Based on a simplified roll forward process, I have estimated the results of rolling
3 forward the Base Year to the Test Year After Rates, using the proposed Postal Service
4 rates as the basis. Additional changes to the Base Year changes noted above include:

- 5 1. A revised Parcel Post Test Year volume projection, based on corrected Base
6 Year volumes;
- 7 2. Corrected Parcel Post OMAS and Alaska Test Year Revenue; and
- 8 3. Corrected final adjustments for Parcel Post.

7. The Commission's Alaska Air treatment was not used in the filed version of USPS-LR-I-130. I have incorporated this treatment in the "As Filed" figures listed above. The Postal Service filed an errata to Workpaper B of the USPS-LR-I-130 workpapers, but did not incorporate these changes in the costs by subclass contained in USPS-LR-I-130. I have included the impact of this errata as part of the UPS recommended set of corrections.

- 1 The resulting cost coverages under the Postal Service's proposed rates are shown in
 2 Table 7, below.

Table 7: TYAR Revenue and Attributable Cost
(Commission's Costing Method, Postal Service Proposed Rates)

	As Filed (USPS-LR-I-131)				As Corrected			
	Revenue	Attributable Cost	Cost Coverage	Rate Increase	Revenue	Attributable Cost	Cost Coverage	Rate Increase
Priority Mail	5,542.3	3,389.0	164%	15%	5,542.3	3,653.7	152%	15%
Express Mail	1,068.6	719.3	149%	4%	1,068.6	590.6	181%	4%
Parcel Post	1,211.5	1,082.0	112%	2%	1,010.0	1,238.5	82%	2%

Source: UPS-Luciani-WP-3

3 **C. Test Year After Rates – Revised Cost Coverages**

- 4 I have calculated the Priority Mail and Parcel Post rate increases that would
 5 result from the cost coverage recommendations provided by UPS Witness Sappington,
 6 as shown in Table 8, below. Table 8 also shows the rate increase needed for Express
 7 Mail to cover its revised costs using the Postal Service's proposed markup ratio
 8 normalized to the systemwide coverage.

Table 8: TYAR Revenue and Attributable Cost
(Commission's Costing Method, Revised Cost Coverages)

	As Filed (USPS-LR-I-131)			As Corrected and Revised			
	Revenue	Attributable Cost	Rate Increase	Revenue	Attributable Cost	Cost Coverage	Rate Increase
Priority Mail	5,542.3	3,389.0	15%	5,787.9	3,288.2	176%	40%
Express Mail	1,068.6	719.3	4%	1,191.8	603.6	197%	13%
Parcel Post	1,211.5	1,082.0	2%	1,071.7	965.5	111%	25%

Source: UPS-Luciani-WP-3

1 **D. Parcel Post Volumes and Revenue Adjustment Factors**

2 I have updated Mr. Plunkett's analysis to derive Revenue Adjustment Factors for
3 Parcel Post based on the corrected Parcel Post Base Year volumes recommended by
4 Mr. Sellick. The results are provided in UPS-Luciani-WP-3. I then updated Postal
5 Service Witness Tolley's analysis of Parcel Post volumes to reflect Mr. Sellick's
6 recommendations by correcting the actual Parcel Post volume data for Base Year 1998,
7 and re-running Dr. Tolley's model to predict Parcel Post volume by rate category for the
8 Test Year Before and After Rates. The results are summarized in Table 9, below. See
9 UPS-Luciani-WP-3 for further detail.

Table 9: Corrected Projection of Parcel Post Volumes

(000)

	Postal Service As Filed		As Corrected	
	Base Year	TYBR	Base Year	TYBR
Intra-BMC	42,121	28,817	48,172	34,402
Inter-BMC	64,314	51,620	67,745	56,035
DBMC	209,713	298,009	150,562	220,429
Total	316,148	378,447	266,479	310,865

Source: UPS-Luciani-WP-3

**THE POSTAL SERVICE HAS OVERSTATED THE
COSTS AVOIDED BY PARCEL POST WORSHARING.**

A. DBMC-Entry Mail Processing Cost Avoidance Is Overstated.

As in Docket No. R97-1, the Postal Service is again proposing a much greater rate increase for inter-BMC and intra-BMC Parcel Post than for DBMC-entry Parcel Post, as shown in Table 10, below.

Table 10: Rate Increases by Parcel Post Rate Category

	R97-1 Postal Service Proposed Rate Increase	R2000-1 Postal Service Proposed Rate Increase
Non-workshared Inter-BMC	16.5%	10.0%
Non-workshared Intra-BMC	21.6%	9.4%
DBMC-Entry	3.7%	0.5%

Source: UPS-T-4, page 24 (R97-1), Tr. 13/5010

1 The Commission mitigated the differential somewhat in Docket No. R97-1.
2 Nevertheless, the Postal Service again proposes much higher rate increases for intra-
3 BMC and inter-BMC Parcel Post than for dropshipped Parcel Post.

4 These disparate rate increases by rate category are largely driven by increases
5 in the Postal Service's estimates of the dropshipment mail processing cost avoidance
6 derived using an outdated "top-down" estimation technique. In the outdated "top-down"
7 approach, outgoing mail processing costs at non-BMCs obtained from IOCS data are
8 divided by the Parcel Post volume entered upstream of the BMC to estimate the DBMC-
9 entry cost avoidance. The top-down approach uses (1) the old LIOCATT cost
10 breakdown in Cost Segment 3.1 that has since been abandoned for general cost
11 allocation purposes in favor of the MODS-based approach, and (2) a rough estimate of
12 the volume entered upstream of the BMC based on outdated studies (performed in
13 1990 and 1993).

14 Moreover, outgoing Parcel Post costs at non-BMCs include costs at MODS pools
15 for flat sorting machines, international mail, etc., that do not make much sense when
16 one is attempting to determine Parcel Post costs. Thus, it is no surprise that we see
17 inexplicable changes in the cost savings estimates over time, as shown in Table 11,
18 below. For example, as Table 11 shows, the outdated top-down technique's estimation
19 of outgoing mail processing costs have increased dramatically from Docket No. R97-1,

- 1 even though the volume of intra-BMC and inter-BMC mail entered upstream of the BMC
 2 which gives rise to these costs has fallen.⁸

**Table 11: Top-Down Estimates of DBMC-Entry
Mail Processing Avoided Costs**

	Postal Service R90-1	Postal Service R97-1	Postal Service R2000-1
Non-BMC Outgoing Mail Processing Costs	15,166	40,401	51,153
Volume Entered Upstream of BMC (000)	112,185	112,738	103,287
TY/BY Wage Rate Adjustment Factor	1.1677	1.053	1.124
Test Year DBMC Cost Avoided	14.1 (a)	37.7	55.7

(a) Derived separately for machinable and non-machinable and then averaged.

Source: R90-1, USPS-T-12 (Acheson); R97-1, USPS-T-28, Exhibit C (Crum); USPS-T-26 (Eggleston), Attachment F

- 3 Finally, the top-down technique has a basic presumption that non-BMC outgoing
 4 mail processing costs cannot be incurred by DBMC-entry parcels. I asked Mr. Sellick to
 5 test this presumption using the IOCS database and programs. Mr. Sellick calculated
 6 that nearly 20% of the non-BMC outgoing mail processing costs determined by the
 7 Postal Service is based on IOCS observations in which the Parcel Post piece examined

8. Ms. Eggleston asserted that an increased level of volume variability caused this 48% increase from Docket No. R97-1 to Docket No. R2000-1. Tr. 13/5170-71. However, as shown in the Commission's R97-1 Parcel Post workpapers (PRC-LR-15, DBMC.xls, page 12), using 100% volume variability for mail processing costs made little difference to the amount of non-BMC mail processing costs. This is because most of the low variabilities used by the Postal Service in Docket No. R97-1 affecting Parcel Post were for operations taking place at the BMC.

1 is a DBMC-entry parcel. See Exhibit UPS-T-5E. To state the obvious, counting costs
 2 incurred by DBMC-entry parcels as avoided by DBMC-entry parcels is a serious error.

3 As a result of Ms. Eggleston's modeling of Parcel Post costs, there is now
 4 available a better way of determining dropshipment rates than to rely on the Postal
 5 Service's outdated and erroneous top-down technique. DBMC-entry rates are
 6 determined by subtracting DBMC avoided costs from intra-BMC rates. Thus, the DBMC
 7 mail processing avoided cost can be determined by simply taking the difference
 8 between (1) the mail processing costs for intra-BMC parcels and (2) those for DBMC-
 9 entry parcels developed by Ms. Eggleston in her workflow models. Using this "bottom-
 10 up" approach yields a DBMC mail processing avoided cost of 24.9 cents per piece in
 11 comparison to the 55.7 cents per piece derived from Ms. Eggleston's "top-down"
 12 approach, as Table 12 shows.

Table 12: Bottom-Up DBMC-Entry Mail Processing Cost Avoided
(Postal Service As Filed)

	Machinable		Non-Machinable	
	Intra-BMC	DBMC-Entry	Intra-BMC	DBMC-Entry
Cost per Piece	92.2	67.3	193.9	178.0
DBMC Avoided Cost	24.9		15.9	

Source: USPS-T-26, Attachment A (Eggleston)

13 The weighted average savings based on a mix of 95% machinable and 5% non-
 14 machinable DBMC-entry parcels (per USPS-T-26, Attachment D) is 24.5 cents per
 15 piece. However, because both intra-BMC and DBMC-entry non-machinable parcels are
 16 proposed to be assessed a cost-based surcharge, it is more appropriate to use only the

1 machinable cost difference, rather than taking a weighted average of the machinable
2 and non-machinable avoidances, since the cost-based non-machinable surcharge takes
3 into account the cost differences between DBMC-entry parcels and intra-BMC parcels
4 with respect to non-machinability.⁹

5 The Postal Service determines the other Parcel Post discounts (DDU-entry,
6 DSCF-entry, OBMC-entry, and BMC presort) on the basis of the bottom-up approach,
7 and has done so since those discounts were instituted in Docket No. R97-1. The top-
8 down approach for DBMC-entry cost avoidance is an artifact of history previously
9 necessitated by the lack of workflow models. Now that the Postal Service has
10 developed workflow models that were accepted by the Commission in Docket No.
11 R97-1, the same models should be used to derive all mail processing avoided costs,
12 including that for DBMC entry.

13 Because the Postal Service's workflow models currently start at the origin SCF,
14 the bottom-up approach does not capture any DBMC-entry mail processing costs
15 avoided at the origin AO. Ms. Eggleston indicates that these origin AO costs are for
16 collection, placing parcels into containers, and loading containers. Tr. 13/5168. Postal
17 Service witness Degen has stated that these types of costs at the origin AO are
18 predominantly in pool LD43 and Function 4 costs in pool LD48 (Tr. 15/6547-49). As a
19 result, I have used the outgoing non-DBMC Parcel Post costs from (1) the LD43 cost
20 pool, (2) the Function 4 costs in the LD48 pool, and (3) conservatively, all of the non-

9. The fact that the top-down approach is unable to distinguish between machinable and non-machinable savings is another reason to move to the bottom-up approach.

1 MODS costs pools, divided by the Parcel Post volume entered upstream of the BMC to
 2 determine an additional 10.9 cents of cost savings not yet reflected in the workflow
 3 modeled savings.¹⁰ See Exhibit UPS-T-5F.¹¹

4 Adding the 10.9 cents of avoided costs at the AO to the 24.9 cents of savings
 5 from the workflow models from the origin SCF on yields a total mail processing avoided
 6 cost for DBMC of 35.8 cents. This is reasonably close to the 30 cents per piece DBMC-
 7 entry avoided mail processing cost savings determined by the Commission in Docket
 8 No. R97-1. That is not surprising, since the Docket No. R97-1 discount was
 9 implemented little more than a year ago. I recommend that 35.8 cents per piece be
 10 used in this proceeding.¹² Using a similar methodology, I have calculated the applicable
 11 avoided cost to be 36.4 cents per piece if 100% volume variability for mail processing is

10. The total would be 11.8 cents using uncorrected Parcel Post volumes. The top-down approach also requires adjustment for items such as how often an ASF acts as a BMC, and removal of platform acceptance costs. See USPS-T-26, Attachment F.

11. Inclusion of these outgoing AO costs as well as incoming sortation costs at the AO decreases Ms. Eggleston's derivation of the CRA multiplier from 1.154 to approximately 1.00. Moreover, a CRA multiplier focused solely on the non-BMC cost pools would be significantly lower than 1.00. See UPS-Luciani-WP-1, Section E. However, I followed Ms. Eggleston's practice of not applying the CRA multiplier in the derivation of Parcel Post destination entry cost avoidances using the bottom-up method, since Ms. Eggleston's approach is the correct one.

12. DBMC-entry parcels have more cubic feet per piece than do intra-BMC parcels. Ms. Eggleston's workflow models for intra-BMC and DBMC do not take this differential density into account. Indeed, the DBMC mail processing worksharing savings should be measured as the cost of intra-BMC pieces on average (with their lower cubic feet per piece) minus the cost of DBMC-entry pieces on average (with their higher cubic feet per piece). Thus, the estimate given above is conservatively high.

1 adopted by the Commission. See Exhibit UPS-T-5F. In addition, I urge the Commission
2 to recommend that the Parcel Post workflow models be expanded to include operations
3 at the origin AO so as to avoid any future use of the outdated top-down approach.

4 **B. DDU-Entry Mail Processing Cost Avoidance Is Overstated.**

5 **1. Sack Shakeout**

6 The Commission found in Docket No. R97-1 that the DDU-entry cost avoidance
7 should exclude the 2.1 cents cost per piece of sack shakeout. The Postal Service
8 asserts that the mailer is required to unload the mail and empty the contents of any
9 containers into a DDU specified container (Tr. 13/5169). However, Ms. Eggleston was
10 only able to cite one section (§ E652.3.8) of the Domestic Mail Manual ("DMM") which
11 requires shippers to unload pallets into a container specified by the DDU, *if* the DDU
12 cannot handle pallets, and to place bedloaded pieces into containers specified by the
13 DDU, *if* the DDU needs to maintain a 5-digit separation (Tr. 13/5199). There is no
14 specific requirement for a "sack shakeout" in the DMM. See DMM, § E652.3.8
15 (January 10, 1999). Moreover, Ms. Eggleston was unable to provide any information
16 with respect to the delivery units' container of choice, including the type of containers
17 and where the container is located (Tr. 13/5199).

18 Recent Mailers' Technical Advisory Committee meeting minutes make clear that
19 Postal Service employees at the DDU will assist in unloading DDU-entry mail when they
20 are available. Mailers' Technical Advisory Committee, Parcel IRT Meeting Minutes,
21 May 14, 1998, at 8, <<http://ribbs.usps.gov/mts/search.cfm>> (Issue Number 28). Thus, it
22 is questionable that the 4.36 cents per piece unloading costs said to be avoided by

1 DDU-entry -- let alone the sack shakeout costs of 2.1 cents per piece -- will actually be
2 avoided. Excluding only the 2.1 cents in sack shakeout costs is a reasonable way of
3 accounting for the likelihood of Postal Service assistance in unloading and the lack of
4 firm guidelines on DDU-entry policy in this regard.

5 **2. The Discount Should Be Based on Machinable Cost**
6 **Differences.**

7 The Postal Service proposes a non-machinable surcharge for DBMC-entry
8 Parcel Post. Yet, the DDU-entry cost avoidance deducted from the DBMC-entry rates is
9 based on an average of both the machinable and the non-machinable cost avoidances.
10 This leads to the nonsensical result that a machinable DBMC-entry parcel with 67.3
11 cents per piece of mail processing costs avoids 73.0 cents of costs if entered at the
12 DDU.

13 With the imposition of a surcharge for non-machinable DBMC-entry parcels, the
14 DDU cost avoidance should no longer be based on an average of both machinable and
15 non-machinable savings. The desire to avoid the non-machinable DBMC surcharge will
16 provide an incentive for mailers to send non-machinable parcels to the DDU or to the
17 DSCF. That incentive should not be improperly increased by inflating the avoided cost
18 calculation to reflect non-machinable costs that are not avoided. Using only the
19 machinable savings to derive the DDU-entry cost avoidance decreases the DDU-entry
20 cost avoidance by 5.7 cents per piece.

21 The sack shakeout and machinable-only savings adjustments reduce Ms.
22 Eggleston's proposed DDU-entry mail processing cost avoidance (off of DBMC-entry)
23 from 73.0 cents per piece to 65.2 cents per piece.

1 **C. DDU-Entry and DSCF-Entry Transportation Cost**
2 **Avoidance Is Incorrect.**

3 **1. Cubic Feet Per Piece for DDU-Entry and**
4 **DSCF-Entry Parcels**

5 In his Parcel Post rate design, Mr. Plunkett assumes that DSCF-entry and DDU-
6 entry parcels will have the same cubic feet per piece as intra-BMC parcels. In his
7 response to Presiding Officer's Information Request No. 3, Question 7, Tr. 13/5017, Mr.
8 Plunkett agreed that intuitively one would expect the physical characteristics of DSCF-
9 entry and DDU-entry parcels to more closely approximate DBMC-entry parcels rather
10 than intra-BMC parcels. I agree.

11 Thus, DDU-entry and DSCF-entry Parcel Post cubic feet per piece should be
12 based on the cubic feet per piece of DBMC-entry Parcel Post. DBMC-entry Parcel Post
13 has more cubic feet per piece than does intra-BMC or inter-BMC Parcel Post. As a
14 result, parcels entered at the DSCF or at the DDU are likely to incur higher
15 transportation costs for the transportation they use than non-dropshipped parcels using
16 those same transportation legs.

17 In the absence of alternative data, it is reasonable to expect that all drop-shipped
18 mail will have similar physical characteristics. Indeed, Mr. Plunkett estimates the
19 volume of DSCF-entry and DDU-entry parcels using total **DBMC** volume -- not total
20 Parcel Post volume -- as his basis. This implicitly assumes that the characteristics of
21 DSCF-entry and DDU-entry parcels are likely to resemble those of DBMC-entry parcels
22 rather than the characteristics of all parcels. Ms. Daniel assumes the same in her final
23 adjustments. The Commission should do likewise.

2. Consistent Treatment of Alaska Air Costs

The Postal Service distributes Alaska air costs only to intra-BMC and inter-BMC Parcel Post on the basis that only these rate categories are offered in Alaska. That was the Commission's approach as well in Docket No. R97-1. However, Ms. Eggleston has agreed that the DSCF-entry and DDU-entry rate categories are now offered in Alaska. Tr. 13/5202. She has also agreed that these DSCF-entry and DDU-entry parcels incur Alaska air costs. Tr. 13/5202. Accordingly, following the Commission's standard practice, Alaska air costs should be allocated to DSCF-entry and DDU-entry parcels.

This simply requires allocating the \$9.44 million of Test Year Alaska air costs for transportation so that DSCF-entry and DDU-entry volume incurs one leg of transportation in comparison to two legs for intra-BMC and inter-BMC volume.¹³ The transportation cost for DDU-entry and DSCF-entry parcels would be increased by 8.5 cents per cubic foot, and the transportation cost for inter-BMC and intra-BMC would be reduced by 3 cents per cubic foot. See Exhibit UPS-T-5G for further detail.

D. The DBMC-Entry Rates Are Based on a Reduction in DBMC's Institutional Cost Contribution, Not Just Avoided Costs.

In the past, the Commission has ensured that DBMC-entry Parcel Post rates were derived as a worksharing discount directly off of the intra-BMC Parcel Post rates. This preserves the contribution of DBMC-entry parcels to institutional costs.

13. The actual average legs taking into account holdouts and entry characteristics is 1.92 legs for intra-BMC and 1.96 legs for inter-BMC. See USPS-T-26, Attachment M, page 3.

1 In Docket No. R97-1, the Postal Service attempted to derive DBMC-entry rates
 2 by marking up the lower DBMC transportation costs per piece, rather than by deducting
 3 the transportation cost differential between DBMC and intra-BMC parcels from intra-
 4 BMC rates. This approach implicitly passes through not only 100% of DBMC-entry
 5 avoided transportation costs, but also passes along a "markup factor" on those savings.
 6 The Commission rejected this approach in Docket No. R97-1, and instead derived
 7 DBMC rates by deducting only the estimated DBMC-entry cost savings from the intra-
 8 BMC Parcel Post rates.

9 In this proceeding, the Postal Service again derives its proposed DBMC-entry
 10 rates by applying a markup factor (this time, 21%) to the estimated DBMC-entry
 11 transportation cost savings per piece. Tr. 13/4970. The Commission should reiterate
 12 its Docket No. R97-1 ruling, and again treat DBMC-entry like all other worksharing
 13 discounts by simply subtracting the passed through avoided DBMC-entry costs off of
 14 intra-BMC rates, as follows:

15 DBMC Rate = Intra-BMC Rate – DBMC Non-Transportation Discount – DBMC
 16 Transportation Savings.

17 The DBMC-entry transportation discount in each rate cell should be the
 18 difference between the intra-BMC transportation cost in that rate cell minus the DBMC-
 19 entry transportation cost in the same rate cell.

20 **THE PASSTHROUGH PROPOSED FOR DDU AND DSCF**
 21 **WORKSHARING AVOIDANCES SHOULD BE REDUCED.**

22 The Postal Service proposes a 9.4% rate increase for intra-BMC Parcel Post and
 23 a 10.0% rate increase for inter-BMC Parcel Post, while DBMC-entry rates would

1 increase by only 0.5%, DSCF-entry rates would increase by 0.7%, and DDU-entry rates
2 would not change at all. Tr. 13/5010.

3 DDU-entry Parcel Post is attracting substantial volumes with the promise of next-
4 day delivery from the DDU as well as through low rates (Tr. 5/1874).¹⁴ It is achieving
5 that next day delivery goal 97% of the time (Tr. 5/1912). In other words, through bypass
6 of the BMC network, shippers can obtain next-day delivery service for their parcels. By
7 the time a parcel reaches the DDU, it is nearly 100% likely to be delivered the next day,
8 whether it is sent by Parcel Post, by Priority Mail, or by First Class Mail. Indeed, my
9 tours of DDU operations confirm that there is little or no difference between the parcel
10 handling practices for Priority Mail and for Parcel Post once the parcels arrive at the
11 DDU.

12 Priority Mail is proposed to contribute approximately 63 cents to institutional
13 costs on every underlying dollar of attributed cost. A 63% markup on the attributed cost
14 of DDU-entry pieces is also appropriate. Using the Postal Service's costs, that would
15 produce an average target revenue per piece of \$1.57 for DDU-entry. The DDU-entry
16 transportation and non-transportation cost avoidances off of DBMC-entry total \$1.18 per
17 piece (Postal Service, as filed), for a pre-discounted cost for DDU-entry of \$2.14 (\$0.96
18 plus \$1.18).¹⁵ To get an average revenue of \$1.57 per piece for DDU-entry, the

14. Based on actual 1999 data, Mr. Plunkett estimates that there will be 28 million DDU-entry pieces in the Test Year (USPS-T-26, Attachment D; Tr. 13/5008).

15. The Test Year After Rates DDU-entry cost on average is \$0.96 per piece before markup (Postal Service, as filed; see Exhibit UPS-T-5H). The cost of DDU-entry parcels will be significantly higher once my suggested costing changes for the DDU-entry and DBMC-entry cost avoidances are incorporated.

1 transportation and non-transportation discount would need to be \$0.57 per piece (\$2.14
2 minus \$1.57). Thus, the transportation and non-transportation passthroughs would
3 need to be approximately 50% (\$0.57 discount divided by \$1.18 cost avoidance). See
4 Exhibit UPS-T-5H. After making the corrections to the DDU-entry costs I recommend
5 above, the Commission should follow a similar method in deriving the applicable
6 passthrough in order to ensure that DDU-entry has a markup similar to that of Priority
7 Mail.

8 Mr. Plunkett has noted that he constrained DDU-entry rates to take value of
9 service issues into account. Tr. 13/5005-06. He limited the DDU-entry passthrough to
10 80% in this manner. Tr. 13/5009. After making the corrections to DDU-entry costs I
11 recommend above, certainly the Commission should not pass through more than 80%
12 of the avoided costs.

13 Finally, I have conducted a bottom-up costing of parcel delivery costs.
14 Combining the cost from the Engineered Standards study for loading and access costs
15 with the volume variable costs for route time and in-office costs and adding the cost of
16 the manual sort to carrier route conducted by a clerk/mailhandler at the DDU yields a
17 total cost of \$1.14 per piece in comparison to the \$0.96 per piece noted above that was
18 derived using Mr. Plunkett's analysis. Only those costs from the Engineered Standards
19 study which captured the incremental time spent by carriers in dealing with an additional
20 parcel were included. For conservatism, when a range of time for an activity was cited
21 in the Engineered Standards study, the shortest amount of time was selected for use.
22 See Exhibit UPS-T-5I (filed under seal) for further detail.

**Parcel Post Transportation Cost Adjustment
(Millions of Dollars)**

LR-I-97 (Postal Service Costing)

	[A]	[B]	[C]	[D]	[E]	[F]
	BR01 Avg Unit	BR01 Mix Unit	BR01 Volume	BR01 Avg cost	BR01 Mix Cost	Difference
[1]	107.29	104.65	378.45	406.02	396.06	(9.960)
	AR01 Avg Unit	AR01 Mix Unit	AR01 Volume	AR01 Avg cost	AR01 Mix Cost	Difference
[2]	107.15	101.56	374.10	400.84	379.94	(20.901)

LR-I-97 (Postal Service Costing), using 7.11% DBMC dropped at DSCF Pre-Mix

	[A]	[B]	[C]	[D]	[E]	[F]
	BR01 Avg Unit	BR01 Mix Unit	BR01 Volume	BR01 Avg cost	BR01 Mix Cost	Difference
[1]	107.29	106.47	378.45	406.02	402.93	(3.094)
	AR01 Avg Unit	AR01 Mix Unit	AR01 Volume	AR01 Avg cost	AR01 Mix Cost	Difference
[2]	107.15	103.32	374.10	400.84	386.53	(14.315)

LR-I-140 (Commission Costing)

	[A]	[B]	[C]	[D]	[E]	[F]
	BR01 Avg Unit	BR01 Mix Unit	BR01 Volume	BR01 Avg cost	BR01 Mix Cost	Difference
[1]	107.09	104.46	378.45	405.26	395.32	(9.941)
	AR01 Avg Unit	AR01 Mix Unit	AR01 Volume	AR01 Avg cost	AR01 Mix Cost	Difference
[2]	106.95	101.37	374.10	400.09	379.23	(20.861)

LR-I-140 (Commission Costing), using 7.11% DBMC dropped at DSCF Pre-Mix

	[A]	[B]	[C]	[D]	[E]	[F]
	BR01 Avg Unit	BR01 Mix Unit	BR01 Volume	BR01 Avg cost	BR01 Mix Cost	Difference
[1]	107.09	106.47	378.45	405.26	402.93	(2.333)
	AR01 Avg Unit	AR01 Mix Unit	AR01 Volume	AR01 Avg cost	AR01 Mix Cost	Difference
[2]	106.95	103.13	374.10	400.09	385.80	(14.288)

- [A1] UPS-Luciani-WP-1, Section D [F11]
 [A2] UPS-Luciani-WP-1, Section D [L11]
 [B] [E] / [C] *100
 [C1] UPS-Luciani-WP-1, Section D [D11]
 [C2] UPS-Luciani-WP-1, Section D [J11]
 [D] [C] / [A]
 [E1] UPS-Luciani-WP-1, Section D [E11]
 [E2] UPS-Luciani-WP-1, Section D [K11]
 [F] [E] - [D]

Distribution of Elemental Load for Parcels by Weight
Weight of Parcels by Class/Subclass of Mail for each City Carrier Stop Type
Base Year 1998, Commission Costing Method

CLASS TITLE	AVG WEIGHT PER PARCEL	SDR			MDR			BAM		
		PARCELS (000)	LBS (000)	% of WEIGHT	PARCELS (000)	LBS (000)	% of WEIGHT	PARCELS (000)	LBS (000)	% of WEIGHT
FOOTNOTE	A	B	C	D	B	C	D	B	C	D
FIRST-CLASS MAIL:										
SINGLE-PIECE LETTERS	0.28	101,950	28,657	1.81%	35,419	9,956	1.76%	54,232	15,244	2.47%
PRESORT LETTERS	0.14	6,920	937	0.06%	2,265	307	0.05%	2,017	273	0.04%
TOTAL LETTERS										
SINGLE-PIECE CARDS		0			0			0		
PRESORT CARDS		0			0			0		
TOTAL CARDS										
TOTAL FIRST-CLASS		108,870	29,594	1.87%	37,684	10,263	1.81%	56,249	15,517	2.51%
PRIORITY MAIL	2.80	157,624	440,754	27.80%	59,342	165,934	29.29%	97,363	272,250	44.07%
EXPRESS MAIL	7.98	864	6,897	0.43%	941	7,512	1.33%	880	7,025	1.14%
MAILGRAMS		0	0	0.00%	0	0	0.00%	0	0	0.00%
PERIODICALS:										
IN-COUNTY	0.33	3,514	1,158	0.07%	1,039	342	0.06%	1,488	490	0.08%
OUTSIDE COUNTY:										
REGULAR	0.60	27,370	16,397	1.03%	8,094	4,849	0.86%	11,586	6,941	1.12%
NON-PROFIT	0.33	8,129	2,678	0.17%	2,404	792	0.14%	3,441	1,134	0.18%
CLASSROOM	0.62	231	144	0.01%	68	43	0.01%	98	61	0.01%
TOTAL PERIODICALS		39,245	20,377	1.29%	11,605	6,026	1.06%	16,613	8,626	1.40%
STANDARD A:										
SINGLE PIECE RATE	0.55	4,407	2,440	0.15%	1,624	899	0.16%	447	247	0.04%
COMMERCIAL STANDARD:										
ENHANCED CARR RTE	0.20	18,964	3,730	0.24%	6,955	1,761	0.31%	2,896	570	0.09%
REGULAR	0.55	239,591	132,657	8.37%	85,677	47,438	8.37%	35,177	19,477	3.15%
TOTAL COMMERCIAL										
AGGREGATE NONPROFIT:										
NONPROF ENH CARR RTE	0.38	126	48	0.00%	62	23	0.00%	32	12	0.00%
NONPROFIT	0.37	12,288	4,488	0.28%	4,312	1,575	0.28%	1,897	693	0.11%
TOTAL AGGREG NONPROFIT										
TOTAL STANDARD A		275,376	143,363	9.04%	100,630	51,697	9.13%	40,449	20,999	3.40%
STANDARD MAIL (B):										
PARCELS ZONE RATE	6.04	102,620	619,392	39.07%	34,448	207,921	36.70%	26,920	162,483	26.30%
BOUND PRINTED MATTER	3.07	80,061	245,984	15.51%	26,989	82,923	14.64%	34,007	104,485	16.91%
SPECIAL STANDARD	1.65	37,389	61,620	3.89%	16,192	26,686	4.71%	10,654	17,559	2.84%
LIBRARY MAIL	2.09	4,920	10,291	0.65%	1,708	3,573	0.63%	3,301	6,905	1.12%
TOTAL STANDARD (B)		224,990	937,287	59.11%	79,337	321,101	56.68%	74,882	291,432	47.17%
US POSTAL SERVICE	0.43	251	109	0.01%	256	111	0.02%	589	256	0.04%
FREE MAIL	0.87	6,063	5,271	0.33%	3,003	2,611	0.46%	813	707	0.11%
INTERNATIONAL MAIL	0.43	4,333	1,883	0.12%	2,888	1,255	0.22%	2,242	974	0.16%
TOTAL MAIL										
TOTAL SPECIAL SERVICES		0	0		0	0		0	0	
TOTAL VOLUME		817,617	1,585,536	100.00%	295,686	566,510	100.00%	290,079	617,786	100.00%

Notes:

[A] UPS-Luciani-WP-2-D, Summary.

[B] UPS-Luciani-WP-2-D, Parcel Volume (from USPS-LR-I-300).

These data include only a total volume for periodicals. In USPS-LR-I-130 and USPS-LR-I-80, RPW data are used to distribute the total volume to subclass for periodicals. (7.0.8, column 1).

[C] Total Weight is the product of number of parcels and average weight per piece.

[D] The percentage of weight is the number of pounds for each respective mail class divided by total weight for all mail classes.

Distribution of Elemental Load for Parcels by Weight**Total City Carrier Load and Street Support Costs
Base Year 1998, Commission Costing Method**

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	As Filed TOTAL LOAD	As Corrected TOTAL LOAD	Difference TOTAL LOAD	As Filed TOTAL STREET SUPPORT	As Corrected TOTAL STREET SUPPORT	Difference TOTAL STREET SUPPORT	Difference TOTAL LOAD AND STREET SUPPORT
	COLUMN NUMBER UNITS FOOTNOTES COLUMN SOURCE/NOTES	(1) \$(000) A	(2) \$(000) B	(3) \$(000) C	(4) \$(000) D	(5) \$(000) E	(6) \$(000) F	(7) \$(000) G
1	FIRST-CLASS MAIL:							
2	SINGLE-PIECE LETTERS	329,402	305,701	(23,700)	360,623	355,522	(5,101)	(28,801)
3	PRESORT LETTERS	303,879	302,259	(1,619)	199,351	199,002	(349)	(1,968)
4	TOTAL LETTERS	633,280	607,961	(25,320)	559,974	554,524	(5,450)	(30,769)
5	SINGLE-PIECE CARDS	21,094	21,094	-	18,812	18,812	0	0
6	PRESORT CARDS	15,542	15,542	-	8,617	8,617	0	0
7	TOTAL CARDS	36,637	36,637	-	27,429	27,429	0	0
8	TOTAL FIRST-CLASS	669,917	644,597	(25,320)	587,403	581,953	(5,450)	(30,769)
9	PRIORITY MAIL	49,893	68,961	19,068	31,786	35,890	4,104	23,172
10	EXPRESS MAIL	24,452	25,647	1,195	8,135	8,392	257	1,452
11	MAILGRAMS	104	104	-	69	69	0	0
12	PERIODICALS:							
13	IN-COUNTY	8,427	7,771	(656)	4,580	4,439	(141)	(797)
14	OUTSIDE COUNTY:							
15	REGULAR	65,632	60,524	(5,107)	52,653	51,554	(1,099)	(6,206)
16	NON-PROFIT	19,492	17,975	(1,517)	13,418	13,092	(326)	(1,843)
17	CLASSROOM	555	511	(43)	267	258	(9)	(53)
18	TOTAL PERIODICALS	94,105	86,783	(7,323)	70,919	69,343	(1,577)	(8,899)
19	STANDARD A:							
20	SINGLE PIECE RATE	1,580	804	(777)	4,459	4,292	(167)	(944)
21	COMMERCIAL STANDARD:							
22	ENHANCED CARR RTE	336,646	332,038	(4,608)	163,285	162,293	(992)	(5,800)
23	REGULAR	301,120	258,713	(42,407)	210,626	201,499	(9,127)	(51,534)
24	TOTAL COMMERCIAL	637,766	590,751	(47,015)	373,910	363,791	(10,119)	(57,134)
25	AGGREGATE NONPROFIT:							
26	NONPROF ENH CARR RTE	15,855	15,827	(29)	8,910	8,904	(6)	(35)
27	NONPROFIT	72,859	70,397	(2,463)	43,866	43,337	(530)	(2,993)
28	TOTAL AGGREG NONPROFIT	88,715	86,223	(2,491)	52,776	52,240	(536)	(3,027)
29	TOTAL STANDARD A	728,061	677,777	(50,283)	431,145	420,323	(10,822)	(61,105)
30	STANDARD MAIL (B):							
31	PARCELS ZONE RATE	26,355	80,558	54,203	12,930	24,596	11,666	65,868
32	BOUND PRINTED MATTER	22,629	34,680	12,051	12,428	15,022	2,594	14,645
33	SPECIAL STANDARD	10,606	9,059	(1,546)	5,455	5,122	(333)	(1,879)
34	LIBRARY MAIL	1,490	1,581	92	1,063	1,083	20	111
35	TOTAL STANDARD (B)	61,079	125,878	64,799	31,877	45,823	13,946	78,745
36	US POSTAL SERVICE	1,495	1,392	(103)	3,031	3,009	(22)	(125)
37	FREE MAIL	1,878	964	(915)	698	501	(197)	(1,111)
38	INTERNATIONAL MAIL	5,571	4,451	(1,120)	5,005	4,764	(241)	(1,361)
39	TOTAL MAIL	1,636,555	1,636,555	-	1,170,068	1,170,067	(0)	(0)
51	TOTAL SPECIAL SERVICES	120,300	120,300	-	34,172	34,172	0	0
52	TOTAL VOLUME VARIABLE	1,756,855	1,756,855	-	1,204,240	1,204,240	(0)	(0)
53	OTHER	25,476	25,476	-	890,493	890,493	0	0
54	GRAND TOTAL	1,782,332	1,782,332	-	2,094,733	2,094,733	-	-

Note:

- [A] USPS-LR-I-130-ERRATA, CS06&7.xls, 7.0.3.1, column 2.
 [B] UPS-Luciani-WP-2-B-1, 7.0.3.1, column 2.
 [C] [B] - [A]
 [D] UPS-Luciani-WP-2-C, LR-I-130-ERRATA, column 17.
 [E] UPS-Luciani-WP-2-B-1, CS 7 Detail, column 19.
 [F] [E] - [D]
 [G] [C] + [F]

Distribution of Elemental Load for Parcels by Weight

City Carrier Load Costs for Parcels by Stop Type
Base Year 1998, Commission Costing Method

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	As Filed				As Corrected				Difference
		PARCELS LOAD SDR	PARCELS LOAD MDR	PARCELS LOAD BAM	PARCELS TOTAL LOAD	PARCELS LOAD SDR	PARCELS LOAD MDR	PARCELS LOAD BAM	PARCELS TOTAL LOAD	
	COLUMN NUMBER UNITS FOOTNOTES COLUMN SOURCE/NOTES	(1) \$(000) A	(2) \$(000) B	(3) \$(000) C	(4) \$(000) D	(5) \$(000) E	(6) \$(000) F	(7) \$(000) G	(8) \$(000) H	(9) \$(000) I
1	FIRST-CLASS MAIL:									
2	SINGLE-PIECE LETTERS	17,152	6,899	3,626	27,677	2,486	1,012	479	3,977	(23,700)
3	PRESORT LETTERS	1,164	441	135	1,740	81	31	9	121	(1,619)
4	TOTAL LETTERS	18,317	7,341	3,761	29,418	2,568	1,043	487	4,098	(25,320)
5	SINGLE-PIECE CARDS	-	-	-	-	-	-	-	-	-
6	PRESORT CARDS	-	-	-	-	-	-	-	-	-
7	TOTAL CARDS	-	-	-	-	-	-	-	-	-
8	TOTAL FIRST-CLASS	18,317	7,341	3,761	29,418	2,568	1,043	487	4,098	(25,320)
9	PRIORITY MAIL	26,519	11,559	6,509	44,588	38,239	16,871	8,546	63,656	19,068
10	EXPRESS MAIL	145	183	59	387	598	764	221	1,583	1,195
11	MAILGRAMS	-	-	-	-	-	-	-	-	-
12	PERIODICALS:									
13	IN-COUNTY	591	202	99	893	100	35	15	151	(743)
14	OUTSIDE COUNTY:									
15	REGULAR	4,605	1,577	775	6,956	1,423	493	218	2,133	(4,823)
16	NON-PROFIT	1,368	468	230	2,066	232	81	36	349	(1,717)
17	CLASSROOM	39	13	7	59	12	4	2	19	(40)
18	TOTAL PERIODICALS	6,603	2,261	1,111	9,974	1,768	613	271	2,651	(7,323)
19	STANDARD A:									
20	SINGLE PIECE RATE	741	316	30	1,088	212	91	8	311	(777)
21	COMMERCIAL STANDARD:									
22	ENHANCED CARR RTE	3,191	1,744	194	5,129	324	179	18	521	(4,608)
23	REGULAR	40,310	16,689	2,352	59,351	11,509	4,823	611	16,944	(42,407)
24	TOTAL COMMERCIAL	43,500	18,434	2,545	64,479	11,833	5,002	629	17,464	(47,015)
25	AGGREGATE NONPROFIT:									
26	NONPROF ENH CARR RTE	21	12	2	35	4	2	0	7	(29)
27	NONPROFIT	2,067	840	127	3,034	389	160	22	571	(2,463)
28	TOTAL AGGREG NONPROFIT	2,089	852	129	3,070	394	163	22	578	(2,491)
29	TOTAL STANDARD A	46,330	19,602	2,704	68,636	12,438	5,256	659	18,353	(50,283)
30	STANDARD MAIL (B):									
31	PARCELS ZONE RATE	17,265	6,710	1,800	25,775	53,738	21,140	5,101	79,978	54,203
32	BOUND PRINTED MATTER	13,470	5,257	2,274	21,001	21,341	8,431	3,280	33,052	12,051
33	SPECIAL STANDARD	6,290	3,154	712	10,157	5,346	2,713	551	8,610	(1,546)
34	LIBRARY MAIL	828	333	221	1,381	893	363	217	1,473	92
35	TOTAL STANDARD (B)	37,853	15,454	5,006	58,314	81,318	32,647	9,148	123,113	64,799
36	US POSTAL SERVICE	42	50	39	131	9	11	8	29	(103)
37	FREE MAIL	1,020	585	54	1,659	457	265	22	745	(915)
38	INTERNATIONAL MAIL	729	563	150	1,441	163	128	31	322	(1,120)
39	TOTAL MAIL	137,559	57,598	19,393	214,550	137,559	57,598	19,393	214,550	-
51	TOTAL SPECIAL SERVICES	-	-	-	-	-	-	-	-	-
52	TOTAL VOLUME VARIABLE	137,559	57,598	19,393	214,550	137,559	57,598	19,393	214,550	-
53	OTHER	-	-	-	-	-	-	-	-	-
54	GRAND TOTAL	-	-	-	-	-	-	-	-	-

Notes:

- [A] USPS-LR-I-130-ERRATA, CS06&7.xls, 7.0.6.5, column 3. The cost of periodicals is distributed to subclass using RPW data, 7.0.8, column 1.
 [B] USPS-LR-I-130-ERRATA, CS06&7.xls, 7.0.6.6, column 8. The cost of periodicals is distributed to subclass using RPW data, 7.0.8, column 1.
 [C] USPS-LR-I-130-ERRATA, CS06&7.xls, 7.0.6.7, column 8. The cost of periodicals is distributed to subclass using RPW data, 7.0.8, column 1.
 [D] [A] + [B] + [C]
 [E] UPS-Luciani-WP-2-B-1, 7.0.6.5, column 3.
 [F] UPS-Luciani-WP-2-B-1, 7.0.6.6, column 8.
 [G] UPS-Luciani-WP-2-B-1, 7.0.6.7, column 8.
 [H] [E] + [F] + [G]
 [I] [H] - [D]

EXHIBIT UPS-T-5C:
DIRECT ATTRIBUTION OF
SEQUENCING OF PARCELS --
FILED UNDER SEAL

Test Year OMAS and Alaska Bypass Parcel Post Revenues

As Corrected TYBR Revenue for Alaska Bypass and OMAS Pieces

	[A] FY98 Volume	[B] FY98 Revenues	[C] FY98 Rev / Pc	[D] R97-1 Rate Increase	[E] TYBR Rev / Pc	[F] TYBR Volume	[G] TYBR Revenues
[1] AK Bypass IntraBMC	1,931,382	\$ 10,445,658	\$ 5.41	25%	\$ 6.75	1,321,376	\$ 8,918,337
[2] OMAS InterBMC	1,253,092	\$ 6,898,432	\$ 5.51	19%	\$ 6.53	809,498	\$ 5,286,574
[3] OMAS DBMC	303,822	\$ 1,624,524	\$ 5.35	13%	\$ 6.04	196,269	\$ 1,185,548
[4] Total OMAS	1,556,914	\$ 8,522,956	\$ 5.47	18%	\$ 6.44	1,005,768	\$ 6,472,122
[5] Total Alaska & OMAS	3,488,296	\$ 18,968,614	\$ 5.44	22%	\$ 6.61	2,327,144	\$ 15,390,459

Sources: [A1-4]: USPS-T-26, Attachment E; [A5]: [A1] + [A4].

[B1-4]: UPS-Luciani-WP-1, Section A, [Revenue Calculations]; [B5]: [B1] + [B4].

[C]: [B] / [A].

[D1-3]: UPS-Luciani-WP-1, Section A, [Avg Rev per Pc]; [D4-5]: ([E] / [C]) - 1.

[E1-3]: [C] * (1 + [D]); [E4]: ([B2] * (1 + [D2]) + [B3] * (1 + [D3])) / [A4]; [E5]: ([B1] * (1 + [D1]) + [B2] * (1 + [D2]) + [B3] * (1 + [D3])) / [A5].

[F1,4]: USPS-T-36, Attachment D; [F2]: [A2] / [A4] * [F4]; [F3]: [A3] / [A4] * [F4]; [F5]: [F1] + [F4].

[G1-3]: [E] * [F]; [G4]: [G2] + [G3]; [G5]: [G1] + [G4].

Comparison of As Corrected TYBR Revenue to As Filed Revenue for Alaska Bypass and OMAS Pieces

	[A] FY98 Volume	[B] TYBR Volume	[C] % Change	[D] FY98 Revenue	[E] As Filed		[F] As Corrected	
					TYBR Revenue	Change from FY98	TYBR Revenue	Change from FY98
[1] Alaska Bypass	1,931,382	1,321,376	-32%	\$ 10,445,658	\$ 12,933,342	24%	\$ 8,918,337	-15%
[2] OMAS InterBMC	1,253,092	809,498	-35%	\$ 6,898,432			\$ 5,286,574	-23%
[3] OMAS DBMC	303,822	196,269	-35%	\$ 1,624,524			\$ 1,185,548	-27%
[4] Total OMAS	1,556,914	1,005,768	-35%	\$ 8,522,956	\$ 10,552,739	24%	\$ 6,472,122	-24%
[5]	3,488,296	2,327,144	-33%	\$ 18,968,614	\$ 23,486,081	24%	\$ 15,390,459	-19%

Change from As Filed TYBR Revenue: \$ (8,095,623)

Sources: [A]: Step 1, Column [A].

[B]: Step 1, Column [F].

[C]: ([B] - [A]) / [A].

[D]: Step 2, Column [B].

[E]: USPS-T-36, Attachment K.

[F]: ([D] - [E]) / [E].

[G]: Step 1, Column [G].

[H]: ([G] - [D]) / [D].

Comparison of As Corrected TYAR Revenue to As Filed TYAR Revenue for Alaska Bypass and OMAS Pieces

	[A] TYBR Volume	[B] TYBR Revenue	[C] TYBR Rev / Pc	[D] Postal Service Proposed Rate Increase	[E] TYAR Rev / Pc	[F] TYAR Volume	[G] Corrected TYAR Rev	[H] As Filed TYAR Revenue
[1] Alaska Bypass	1,321,376	\$ 8,918,337	\$ 6.75	9.4%	\$ 7.38	1,203,857	\$ 8,888,933	\$ 13,079,899
[2] OMAS InterBMC	809,498	\$ 5,286,574	\$ 6.53	10.0%	\$ 7.18	747,053	\$ 5,366,639	
[3] OMAS DBMC	196,269	\$ 1,185,548	\$ 6.04	0.5%	\$ 6.07	181,129	\$ 1,099,564	
[4] Total OMAS	1,005,768	\$ 6,472,122	\$ 6.44			928,182	\$ 6,466,203	\$ 10,672,320
[5]	2,327,144	\$ 15,390,459	\$ 6.61			2,132,039	\$ 15,355,136	\$ 23,752,218

Change from As Filed TYBR Revenue: \$ (8,397,082)

Sources: [A]: Step 2, Column [B].

[B]: Step 2, Column [G].

[C]: [B] / [A].

[D]: Tr. 13/ 5010.

[E]: [C] * (1 + [D]).

[F1,4]: USPS-T-36, Attachment D; [F2]: [A2] / [A4] * [F4]; [F3]: [A3] / [A4] * [F4].

[G]: [E] * [F].

[H]: USPS-T-36, Attachment K.

DBMC-Entry Share of Non-BMC Outgoing Mail Processing Costs

BY 1998 Non-BMC Outgoing Mail Processing Costs (a)	\$54,433,924	1/
DBMC-Entry Share	\$9,342,929	2/
Non-DBMC-Entry Share	\$45,090,994	3/

Breakdown of BY 1998 Non-BMC Outgoing Mail Processing Costs		
DBMC Share	17.16%	4/
Non-DBMC Share	82.84%	5/

(a) Before removal of \$3,280,339 of ASF and platform acceptance costs.

Sources

Row 1/: UPS-Sellick-WP-3
 Row 2/: UPS-Sellick-WP-3
 Row 3/: UPS-Sellick-WP-3
 Row 4/: Row 2 / Row 1
 Row 5/: Row 3 / Row 1

**DBMC-Entry Mail Processing Avoided Cost
with Postal Service's Volume Variability for Mail Processing Costs**

Parcel Post Outgoing Cost at Origin AO

Column		[A] Total Outgoing	[B] DBMC Outgoing	[C] Platform OP 07	[D] non-DBMC Outgoing
Row					
	non-MODS Allied	6,707	0	817	5,890
	non-MODS Manual Parcel	3,247	612	47	2,588
	non-MODS Misc/Support	1,218	0	0	1,218
	MODS LD43	1,304	651	0	653
	MODS Support Fcn 4	518	0	0	518
[1]	Total	12,993	1,262	864	10,867

Total DBMC Entry Avoided Cost

	[E] With As Filed Volume, Entered Upstream of BMC/ASF	[F] With Corrected Volume, Entered Upstream of BMC/ASF
[2] BY98 Parcel Post Volume Entered Upstream of BMC/ASF (000's)	103,288	112,590
[3] Parcel Post Outgoing Mail Processing Costs at Origin AO, Base Year (\$/pc)	0.105	0.097
[4] Wage Rate Adjustment Factor	1.124	1.124
[5] Parcel Post Outgoing Mail Processing Cost at Origin AO, Test Year (\$/pc)	0.118	0.109
[6] DBMC Mail Processing Avoided Cost Starting at Origin SCF (\$/pc)	0.249	0.249
[7] Total DBMC-Entry Mail Processing Avoided Cost (\$/pc)	0.367	0.358

[A] UPS-Sellick-WP-3

[B] UPS-Sellick-WP-3

[C] USPS-LR-I-103, LR103PP0798.xls [Summary] Table 3.

[D] [A] - [B] - [C].

[1] Sum of selected non-MODS and MODS cost pools.

[2] [E]: USPS-T-26, Attachment F (revised 3/22/00), p. 2, line 6 (in thousands). [F]: UPS-T-5F, p. 3 of 3 (in thousands).

[3] [D1] / [2].

[4] USPS-T-26, Attachment D (revised 3/22/00), page 1, line 7.

[5] [3] * [4].

[6] See UPS-T-5 (Luciani), Table 12.

[7] [5] + [6]

**DBMC-Entry Mail Processing Avoided Cost
with 100% Volume Variability for Mail Processing Costs**

Parcel Post Outgoing Cost at Origin AO

Row	Column	[A] Ratio	[B] Total Outgoing	[C] DBMC Outgoing	[D] Platform OP 07	[E] non-DBMC Outgoing
	non-MODS Allied	1.00	6,732	0	817	5,915
	non-MODS Manual Parcel	0.92	2,997	565	47	2,385
	non-MODS Misc/Support	1.32	1,604	0	0	1,604
	MODS LD43	0.98	1,279	638	0	641
	MODS Support Fcn 4	0.03	14	0	0	14
[1]	Total		12,626	1,203	864	10,558

Total DBMC Entry Avoided Cost

	[E] With As Filed Volume, Entered Upstream of BMC/ASF	[F] With Corrected Volume, Entered Upstream of BMC/ASF
[2] BY98 Parcel Post Volume Entered Upstream of BMC/ASF (000's)	103,288	112,590
[3] Parcel Post Outgoing Mail Processing Costs at Origin AO, Base Year (\$/pc)	0.102	0.094
[4] Wage Rate Adjustment Factor	1.124	1.124
[5] Parcel Post Outgoing Mail Processing Cost at Origin AO, Test Year (\$/pc)	0.115	0.105
[6] DBMC Mail Processing Avoided Cost Starting at Origin SCF (\$/pc)	0.258	0.258
[7] Total DBMC-Entry Mail Processing Avoided Cost (\$/pc)	0.373	0.364

[A] UPS-Sellick-WP-3. PRC 100% VV / USPS Costs

[B] [A] * (UPS-T-5F, Exhibit F, page 1 [A]).

[C] [A] * (UPS-T-5F, Exhibit F, page 1 [B]).

[D] USPS-LR-I-103, LR103PP0798.xls [Summary] Table 3.

[E] [B] - [C] - [D].

[1] Sum of selected non-MODS and MODS cost pools.

[2] [E]: USPS-T-26, Attachment F (revised 3/22/00), page 2, line 6 (in thousands); [F]: Exhibit F [Corrected].

[3] [D1] / [2].

[4] USPS-T-26, Attachment D (revised 3/22/00), page 1, line 7.

[5] [3] * [4].

[6] UPS-WP-Luciani-1, Section F, pages 10 and 13. \$0.9606 - \$0.7022 = \$0.2584.

[7] [5] + [6]

**Volume of Parcel Post Pieces Entered Upstream of BMC/ASF
Using Corrected BY1998 Parcel Post Volumes**

Estimate of Inter-BMC Parcel Post volume deposited at BMCs by mailers in FY1998	2,946,908 1/
Proportion of Inter-BMC volume deposited at BMC by mailers	0.0435 2/
FY 1998 Inter-BMC Volume	67,745,000 3/
Total Piece Volume Plantloaded to BMCs	380,579 4/
Proportion of Parcel Post volume that is plantloaded by USPS	0.5% 5/
Proportion of Plantloaded Piece volume that is plantloaded to BMCs	68.4% 6/
FY 1998 non-DBMC Parcel Post Volume	115,917,000 7/
FY 1998 DBMC Volume	150,562,000 8/
Total Piece Volume Plantloaded to or Deposited (by a mailer) at a BMC or beyond	153,889,486 9/
FY 1998 Total Parcel Post Volume	266,479,000 10/
Total Piece Volume Plant Loaded to or Deposited Upstream of a BMC/ASF	112,589,514 11/

Sources

Row 1/: Row (2) * row (3).
Row 2/: Docket R97-1, USPS-T-28, Exhibit B.
Row 3/: Interrogatory Response UPS/USPS-3
Row 4/: Row (5) * row (6) * row (7).
Row 5/: 1993 Plant load study, R94-1, LR-G-157.
Row 6/: Docket No. R90-1 USPS-T-12, page 25.
Row 7/: Interrogatory Response UPS/USPS-3. Inter-BMC volume + intra-BMC volume.
Row 8/: Interrogatory Response UPS/USPS-3, DBMC volume.
Row 9/: Row (1) + row (4) + row (8).
Row 10/: Attachment E, page 1.
Row 11/: Row (10) - row (9).

**Application of Parcel Post Alaska Non- Pref Air Transportation Costs
to DSCF and DDU Entry**

As Filed

[1]	Test Year Alaska Air Non-Pref Transportation Costs	\$9,440,000
[2]	Inter-BMC cubic feet:	34,214,278
[3]	Intra-BMC cubic feet:	14,153,710
[4]	Total cubic feet:	48,367,988
[5]	Avg. number of intermediate legs traveled by an inter-BMC parcel	1.96
[6]	Avg. number of intermediate legs traveled by an intra-BMC parcel	1.92
[7]	Inter-BMC cubic foot-legs:	66,895,756
[8]	Intra-BMC cubic foot-legs:	27,214,697
[9]	Total parcel post cubic foot-legs:	94,110,452
[10]	Test Year Average Alaska Air Non-Pref Transportation Cost (\$/cf-leg):	\$0.10
	Alaska Non-Pref Air Transportation cost (\$/cf)	
[11]	Inter-BMC	\$0.1961
[12]	Intra-BMC	\$0.1929

Sources

[1]	USPS-T-26, Attachment M, page 2	[7]	[2] * [5]	[11]	[5] * [10]
[2], [3]	USPS-T-26, Attachment M, page 3	[8]	[3] * [6]	[12]	[6] * [10]
[4]	[2] + [3]	[9]	[7] + [8]		
[5], [6]	USPS-T-26, Attachment M, page 3	[10]	[1] / [9]		

As Corrected

[1]	Test Year Alaska Air Non-Pref Transportation Costs	\$9,440,000
[2]	Inter-BMC cubic feet:	34,214,278
[3]	Intra-BMC cubic feet:	14,153,710
[4]	DSCF-Entry cubic feet	1,556,328
[5]	DDU Entry cubic feet	15,916,060
[6]	Total cubic feet:	65,840,376
[7]	Avg. number of intermediate legs traveled by an inter-BMC parcel	1.96
[8]	Avg. number of intermediate legs traveled by an intra-BMC parcel	1.92
[9]	Avg. number of intermediate legs traveled by a DSCF entry parcel	1.00
[10]	Avg. number of intermediate legs traveled by a DDU entry parcel	1.00
[11]	Inter-BMC cubic foot-legs:	66,895,756
[12]	Intra-BMC cubic foot-legs:	27,214,697
[13]	DSCF-Entry cubic feet legs	1,556,328
[14]	DDU Entry cubic feet legs	15,916,060
[15]	Total parcel post cubic foot-legs:	111,582,841
[16]	Test Year Average Alaska Air Non-Pref Transportation Cost (\$/cf-leg):	\$0.08
	Alaska Non-Pref Air Transportation cost (\$/cf)	
[17]	Inter-BMC	\$0.1654
[18]	Intra-BMC	\$0.1627
[19]	DSCF entry	\$0.0846
[20]	DDU entry	\$0.0846

Change in Alaska Transportation Cost from As Filed (\$/cf)

[21]	Inter-BMC	-\$0.0307
[22]	Intra-BMC	-\$0.0302
[23]	DSCF entry	\$0.0846
[24]	DDU entry	\$0.0846

Sources

[1]	USPS-T-26, Attachment M, page 2	[15]	[11] + ... + [14]
[2], [3]	USPS-T-26, Attachment M, page 3	[16]	[1] / [15]
[4], [5]	Exhibit G: [DSCF and DDU Cubic Feet], Col [E] and [D]	[17] - [20]	[7] * [16]; [8] * [16]; [9] * [16]; [10] * [16]
[6]	[2] + ... + [5]	[23]	[19]
[7], [8]	USPS-T-26, Attachment M, page 3	[24]	[20]
[9], [10]	UPS-T-5G, page 3.	[21]	As Corrected [17] - As Filed [11]
[11] - [14]	[2] * [5]; [3] * [6]; [4] * [7]; [5] * [8]	[22]	As Corrected [18] - As Filed [12]

Application of Parcel Post Alaska Non- Pref Air Transportation Costs to DSCF and DDU Entry

Parcel Post Unit Transportation Costs by Zone (\$/cf)

	Inter-BMC		Intra-BMC		DSCF		DDU	
	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]
	As Filed	As Corrected	As Filed	As Corrected	As Filed	As Corrected	As Filed	As Corrected
Local	N/A	N/A	\$1.2264	\$1.1962	\$0.5362	\$0.6208	\$0.0908	\$0.1754
1-2	2.8016	\$2.77	\$2.2782	\$2.2479	-----	-----	-----	-----
3	3.3843	\$3.3536	\$2.2782	\$2.2479	-----	-----	-----	-----
4	4.2594	\$4.2287	\$2.2782	\$2.2479	-----	-----	-----	-----
5	5.8876	\$5.8569	\$2.2782	\$2.2479	-----	-----	-----	-----
6	7.5804	\$7.5497	-----	-----	-----	-----	-----	-----
7	9.1622	\$9.1315	-----	-----	-----	-----	-----	-----
8	12.4380	\$12.4073	-----	-----	-----	-----	-----	-----

Sources:

- [A] As Filed: USPS-T-26, Attachment N, page 1
- [B] [A] - (UPS-T-5G, page 1, line [21])
- [C] As Filed: USPS-T-26, Attachment N, page 1
- [D] [A] - (UPS-T-5G, page 1, line [22])
- [E] As Filed: USPS-T-26, Attachment N, page 1
- [F] [A] - (UPS-T-5G, page 1, line [23])
- [G] As Filed: USPS-T-26, Attachment N, page 1
- [H] [A] - (UPS-T-5G, page 1, line [24])

DDU-Entry and DSCF-Entry Test Year Cubic Feet

	[A] TY Billing Determinants		[C] Estimated CF/PC	[D] TY Cubic Feet	
	DDU	DSCF		DDU	DSCF
2	13,708,531	597,005	0.3036	4,162,409	181,273
3	5,231,643	525,289	0.4626	2,420,303	243,013
4	3,192,953	310,653	0.6123	1,955,167	190,225
5	1,704,386	206,130	0.7531	1,283,611	155,241
6	829,158	137,717	0.8858	734,466	121,989
7	627,255	113,322	1.0112	634,278	114,591
8	390,805	77,398	1.1301	441,638	87,465
9	386,282	53,174	1.2431	480,176	66,100
10	278,235	38,227	1.3508	375,828	51,635
11	215,311	33,103	1.4536	312,980	48,120
12	160,056	26,056	1.5521	248,420	40,441
13	115,471	18,347	1.6465	190,122	30,208
14	82,370	14,864	1.7372	143,093	25,822
15	54,685	13,394	1.8244	99,771	24,436
16	367,921	9,369	1.9085	702,183	17,880
17	91,101	7,539	1.9896	181,257	15,000
18	33,531	5,932	2.0680	69,341	12,267
19	36,124	5,808	2.1437	77,438	12,451
20	52,501	4,496	2.2170	116,394	9,967
21	60,139	4,552	2.2880	137,601	10,416
22	24,754	5,448	2.3569	58,343	12,841
23	48,647	4,022	2.4238	117,908	9,747
24	22,239	3,067	2.4887	55,345	7,634
25	29,623	2,683	2.5518	75,593	6,847
26	27,608	2,289	2.6132	72,145	5,981
27	13,300	1,372	2.6729	35,550	3,668
28	12,369	1,450	2.7311	33,782	3,959
29	15,816	1,029	2.7878	44,091	2,870
30	16,285	1,607	2.8431	46,299	4,570
31	20,762	933	2.8970	60,147	2,701
32	21,231	1,432	2.9496	62,623	4,225
33	2,631	756	3.0010	7,895	2,270
34	11,739	760	3.0512	35,817	2,319
35	11,385	417	3.1002	35,295	1,293
36	3,408	558	3.1482	10,728	1,756
37	4,869	661	3.1951	15,558	2,113
38	1,846	499	3.2410	5,983	1,618
39	13,900	700	3.2859	45,675	2,301
40	-	659	3.3299	-	2,193
41	5,915	373	3.3730	19,953	1,259
42	4,200	340	3.4152	14,344	1,162
43	13,693	407	3.4566	47,329	1,405
44	-	352	3.4971	-	1,229
45	-	197	3.5369	-	696
46	515	283	3.5759	1,843	1,012
47	3,615	492	3.6142	13,067	1,779
48	6,331	350	3.6518	23,119	1,279
49	-	204	3.6886	-	751
50	13,723	237	3.7249	51,117	884
51	969	326	3.7604	3,645	1,224
52	6,831	166	3.7954	25,926	628
53	-	121	3.8297	-	463
54	1,000	52	3.8634	3,863	199
55	-	242	3.8966	-	944
56	-	155	3.9292	-	608
57	4,892	2	3.9612	19,380	7
58	-	34	3.9928	-	135
59	4,877	79	4.0238	19,624	320
60	-	5	4.0543	-	22
61	-	16	4.0843	-	65
62	21,293	7	4.1139	87,596	31
63	-	94	4.1430	-	389
64	-	9	4.1717	-	37
65	-	3	4.1999	-	15
66	-	61	4.2276	-	256
67	-	4	4.2550	-	19
68	-	-	4.2820	-	-
69	-	-	4.3085	-	-
70	-	14	4.3347	-	62
Total	28,008,725	2,237,344		15,916,060	1,556,328

[A],[B]: USPS-T-36, Attachment E, page 4 and 5.

[C]: DBMC CF/PC from USPS-T-36, Attachment K, page 1.

[D]: [A] * [C]

[E]: [B] * [C]

**Target Transportation and Non-Transportation Passthrough for DDU-Entry
Using Postal Service DDU-Entry Costs as Filed**

[1] DDU-entry TYAR volume	28,215,002
[2] DDU-entry TYAR Preliminary Revenues (\$)	32,761,660
[3] DDU-entry Revenue per Piece (at Preliminary Rates) (\$/piece)	1.16
[4] Mark-up Factor	1.21
[5] Cost without Mark-up Factor (\$/piece)	0.96
[6] Target Markup	63.5%
[7] Target Revenue per Piece (\$/piece)	1.57
[8] Target Contribution Margin per Piece (\$/piece)	0.41
[9] Non-transportation Discount (off of DBMC-entry) (\$/piece)	0.73
[10] Transportation Discount (off of DBMC-entry) (\$/piece)	0.45
[11] DDU-entry Cost Before Discounts (\$/piece)	2.14
[12] Target Passthrough (\$/piece)	0.57
[13] Target Passthrough (%)	48.4%

- [1] UPS-T-5H, page 2, Total from Column [B].
 [2] UPS-T-5H, page 2, Total from Column [C].
 [3] [2] / [1].
 [4] Tr. 13/4970.
 [5] [3] / [4].
 [6] Priority Mail mark-up, LR-I-149, Commission Costing.
 [7] [5] * (1+[6]).
 [8] [7] - [3].
 [9] USPS-T-36, Attachment H, page 1, line 23.
 [10] UPS-T-5H, page 2, Average from Column [G].
 [11] [5] + [9] + [10].
 [12] [11] - [7].
 [13] [12] / ([9] + [10]).

DDU-Entry Avoided Transportation Cost

	[A]	[B]	[C]	[D]	[E]	[F]	[G]
	As Filed DDU Preliminary Rates	As Filed DDU TYAR Billing Determinants	As Filed DDU TYAR Preliminary Revenues	As Filed DDU Transport Cost (\$/piece)	As Filed DBMC Transport Cost (\$/piece)	As Filed DDU Avoided Transport Cost (\$/piece)	As Filed DDU Avoided Transport Cost (\$)
2	1.09	13,809,491	15,052,345	0.0199	0.2617	0.2417	3,338,133
3	1.12	5,270,173	5,902,593	0.0314	0.3987	0.3672	1,935,444
4	1.16	3,216,468	3,731,103	0.0422	0.5277	0.4855	1,561,540
5	1.20	1,716,938	2,060,325	0.0522	0.6490	0.5968	1,024,686
6	1.24	835,264	1,035,728	0.0614	0.7633	0.7019	586,264
7	1.27	631,875	802,481	0.0700	0.8714	0.8014	506,370
8	1.31	393,684	515,726	0.0780	0.9738	0.8959	352,683
9	1.34	389,127	521,430	0.0854	1.0712	0.9858	383,608
10	1.37	280,284	383,989	0.0923	1.1640	1.0717	300,379
11	1.41	216,896	305,824	0.0988	1.2527	1.1539	250,269
12	1.44	161,235	232,178	0.1049	1.3375	1.2326	198,744
13	1.47	116,321	170,992	0.1106	1.4189	1.3083	152,183
14	1.50	82,977	124,466	0.1159	1.4970	1.3811	114,598
15	1.53	55,088	84,285	0.1210	1.5722	1.4512	79,945
16	1.56	370,630	578,183	0.1258	1.6447	1.5189	562,941
17	1.59	91,772	145,918	0.1303	1.7145	1.5842	145,389
18	1.62	33,778	54,721	0.1346	1.7820	1.6475	55,648
19	1.65	36,390	60,043	0.1387	1.8473	1.7087	62,177
20	1.68	52,887	88,851	0.1425	1.9105	1.7680	93,503
21	1.71	60,582	103,596	0.1462	1.9717	1.8255	110,593
22	1.74	24,937	43,390	0.1497	2.0311	1.8814	46,915
23	1.77	49,005	86,739	0.1530	2.0887	1.9356	94,856
24	1.80	22,403	40,325	0.1562	2.1446	1.9884	44,545
25	1.83	29,842	54,610	0.1592	2.1990	2.0398	60,870
26	1.86	27,811	51,729	0.1621	2.2519	2.0898	58,119
27	1.89	13,398	25,322	0.1649	2.3034	2.1385	28,651
28	1.91	12,461	23,800	0.1676	2.3535	2.1860	27,238
29	1.94	15,932	30,908	0.1701	2.4024	2.2323	35,565
30	1.97	16,405	32,317	0.1725	2.4500	2.2775	37,361
31	2.00	20,915	41,829	0.1748	2.4965	2.3216	48,556
32	2.02	21,387	43,203	0.1771	2.5418	2.3647	50,575
33	2.05	2,650	5,433	0.1792	2.5861	2.4069	6,379
34	2.08	11,825	24,596	0.1813	2.6293	2.4481	28,948
35	2.11	11,469	24,199	0.1833	2.6716	2.4884	28,538
36	2.13	3,433	7,312	0.1852	2.7129	2.5278	8,677
37	2.16	4,905	10,595	0.1870	2.7534	2.5664	12,589
38	2.19	1,860	4,073	0.1887	2.7929	2.6042	4,843
39	2.21	14,003	30,946	0.1904	2.8316	2.6412	36,984
40	2.24	-	-	0.1921	2.8695	2.6775	-
41	2.27	5,959	13,527	0.1936	2.9067	2.7130	16,167
42	2.29	4,231	9,689	0.1951	2.9430	2.7479	11,626
43	2.32	13,793	32,001	0.1966	2.9787	2.7821	38,375
44	2.35	-	-	0.1980	3.0136	2.8157	-
45	2.37	-	-	0.1993	3.0479	2.8486	-
46	2.40	519	1,246	0.2006	3.0815	2.8809	1,496
47	2.43	3,642	8,850	0.2019	3.1145	2.9126	10,608
48	2.45	6,377	15,625	0.2031	3.1469	2.9438	18,774
49	2.48	-	-	0.2043	3.1787	2.9744	-
50	2.51	13,824	34,699	0.2054	3.2099	3.0045	41,535
51	2.53	976	2,470	0.2065	3.2405	3.0341	2,962
52	2.56	6,881	17,616	0.2075	3.2706	3.0631	21,078
53	2.58	-	-	0.2085	3.3002	3.0917	-
54	2.61	1,007	2,629	0.2095	3.3293	3.1198	3,143
55	2.64	-	-	0.2104	3.3579	3.1474	-
56	2.66	-	-	0.2114	3.3860	3.1746	-
57	2.69	4,928	13,257	0.2122	3.4136	3.2013	15,778
58	2.71	-	-	0.2131	3.4408	3.2277	-
59	2.74	4,913	13,461	0.2139	3.4675	3.2536	15,985
60	2.77	-	-	0.2147	3.4938	3.2791	-
61	2.79	-	-	0.2155	3.5197	3.3042	-
62	2.82	21,449	60,487	0.2162	3.5451	3.3289	71,404
63	2.84	-	-	0.2169	3.5702	3.3533	-
64	2.87	-	-	0.2176	3.5949	3.3773	-
65	2.89	-	-	0.2183	3.6192	3.4009	-
66	2.92	-	-	0.2189	3.6432	3.4242	-
67	2.94	-	-	0.2195	3.6667	3.4472	-
68	2.97	-	-	0.2201	3.6900	3.4698	-
69	3.00	-	-	0.2207	3.7128	3.4921	-
70	3.02	-	-	0.2213	3.7354	3.5141	-
Total		28,215,002	32,761,660				12,744,236
Average per Piece			\$ 1.16				\$ 0.45

[A] USPS-T-36, Attachment I, page 3.

[B] USPS-T-36, Attachment E, page 10.

[C] [A] * [B].

[D] USPS-T-36, Attachment G, page 5.

[E] USPS-T-36, Attachment G, page 3.

[F] [E] - [D].

[G] [B] * [F].

EXHIBIT UPS-T-5I:
BOTTOM-UP COSTING OF
DDU-ENTRY PARCEL POST --
FILED UNDER SEAL

1 CHAIRMAN GLEIMAN: If there is cross examination
2 on the material that has been filed under protective
3 conditions, then we will have to make accommodations. We
4 will hold off on any cross of that material until after we
5 finish the cross examination on the material that has been
6 filed in the open record and proceed as we have in the past.

7 MR. McKEEVER: Mr. Chairman, I would like to point
8 out that the copy that has just been admitted into evidence,
9 and I have given two copies to the reporter, just contains a
10 blank sheet where Exhibits 5C and 5I would be, indicating
11 that there are such exhibits.

12 CHAIRMAN GLEIMAN: Thank you.

13 BY MR. McKEEVER:

14 Q Mr. Luciani, I have just handed you a copy of
15 sealed Exhibits UPS-T-5C, entitled Direct Attribution of
16 Sequencing of Parcels, which was filed under seal on May 22,
17 2000, as well as a copy of Exhibit UPS-T5I, which is
18 entitled Bottom Up Costing of DDU Entry Parcel Post.

19 That was also filed under seal on May 22, 2000.

20 Do you adopt those exhibits as part of your
21 testimony here today?

22 A Yes, I do.

23 MR. McKEEVER: Mr. Chairman, I move that Exhibits
24 UPS-T-5C and UPS-T-5I be admitted into evidence in this
25 proceeding and transcribed as part of a sealed volume of the

1 transcript of the proceedings.

2 CHAIRMAN GLEIMAN: Is there any objection?

3 Hearing none, I will direct that counsel provide
4 the additional materials associated with Witness Luciani's
5 direct testimony to the court reporter and that testimony
6 will be transcribed into the record and received into
7 evidence in a separate volume.

8 [Direct Testimony and Exhibits of
9 Ralph L. Luciani, UPS-T-5C and
10 UPS-T-5I were received into
11 evidence and transcribed into the
12 record under seal.]
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THE EXHIBITS ARE UNDER PROTECTIVE SEAL
AND MUST BE OBTAINED THROUGH THE COMMISSION
(PAGES 11826-11834)

1 CHAIRMAN GLEIMAN: Mr. Luciani, have you had an
2 opportunity to examine the packet of designated written
3 cross examination that was made available to you earlier
4 today?

5 THE WITNESS: Yes, I have.

6 CHAIRMAN GLEIMAN: If the questions were put to
7 you today, would your answers be the same as those you
8 previously provided in writing?

9 THE WITNESS: Yes, with one exception.

10 With respect to AMZ/UP-T5-8, I initially read that
11 question to deal with whether I had any, done any
12 investigations of weight versus cost in the delivery
13 business with respect to UPS's internal business, so I would
14 like to modify that answer to state "no, other than as
15 reflected in my prior work in connection with postal
16 proceedings."

17 CHAIRMAN GLEIMAN: Has that change been included
18 in the packet?

19 MR. McKEEVER: That has been made in the packet,
20 Mr. Chairman. We have substituted a new page with that
21 answer in it in place of the prior answer.

22 CHAIRMAN GLEIMAN: Counsel, if you would please
23 provide two copies of the corrected designated written cross
24 examination of the witness to the court reporter, then we
25 will have that material transcribed into the record and

1 entered as evidence.

2 MR. McKEEVER: Thank you, Mr. Chairman.

3 I believe the copies are on the bench.

4 CHAIRMAN GLEIMAN: May be -- there's one copy on
5 the bench. How did they mysteriously get up here?

6 [Laughter.]

7 CHAIRMAN GLEIMAN: The mystery has been solved.

8 [Designated Written

9 Cross-Examination of Ralph L.

10 Luciani, was received into evidence
11 and transcribed into the record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED PARCEL SERVICE
WITNESS RALPH L. LUCIANI
(UPS-T-5)

Party

Amazon.com, Inc.

Interrogatories

AMZ/UPS-T5-1-10

PSA/UPS-T5-1

USPS/UPS-T5-23, 28, 30

Parcel Shippers Association

AMZ/UPS-T5-1-2, 4-10

PSA/UPS-T5-1-2

USPS/UPS-T5-3, 5-6, 8, 10-12, 17-18, 20-23, 29-31, 33-34

United States Postal Service

USPS/UPS-T5-1-36

Respectfully submitted,



Cyril J. Pittack
Acting Secretary

INTERROGATORY RESPONSES OF
UNITED PARCEL SERVICE
WITNESS RALPH L. LUCIANI (T-5)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
AMZ/UPS-T5-1	Amazon, PSA
AMZ/UPS-T5-2	Amazon, PSA
AMZ/UPS-T5-3	Amazon
AMZ/UPS-T5-4	Amazon, PSA
AMZ/UPS-T5-5	Amazon, PSA
AMZ/UPS-T5-6	Amazon, PSA
AMZ/UPS-T5-7	Amazon, PSA
AMZ/UPS-T5-8	Amazon, PSA
AMZ/UPS-T5-9	Amazon, PSA
AMZ/UPS-T5-10	Amazon, PSA
PSA/UPS-T5-1	Amazon, PSA
PSA/UPS-T5-2	PSA
USPS/UPS-T5-1	USPS
USPS/UPS-T5-2	USPS
USPS/UPS-T5-3	PSA, USPS
USPS/UPS-T5-4	USPS
USPS/UPS-T5-5	PSA, USPS
USPS/UPS-T5-6	PSA, USPS
USPS/UPS-T5-7	USPS
USPS/UPS-T5-8	PSA, USPS
USPS/UPS-T5-9	USPS
USPS/UPS-T5-10	PSA, USPS
USPS/UPS-T5-11	PSA, USPS
USPS/UPS-T5-12	PSA, USPS
USPS/UPS-T5-13	USPS
USPS/UPS-T5-14	USPS
USPS/UPS-T5-15	USPS
USPS/UPS-T5-16	USPS
USPS/UPS-T5-17	PSA, USPS
USPS/UPS-T5-18	PSA, USPS
USPS/UPS-T5-19	USPS
USPS/UPS-T5-20	PSA, USPS
USPS/UPS-T5-21	PSA, USPS

USPS/UPS-T5-22	PSA, USPS
USPS/UPS-T5-23	Amazon, PSA, USPS
USPS/UPS-T5-24	USPS
USPS/UPS-T5-25	USPS
USPS/UPS-T5-26	USPS
USPS/UPS-T5-27	USPS
USPS/UPS-T5-28	Amazon, USPS
USPS/UPS-T5-29	PSA, USPS
USPS/UPS-T5-30	Amazon, PSA, USPS
USPS/UPS-T5-31	PSA, USPS
USPS/UPS-T5-32	USPS
USPS/UPS-T5-33	PSA, USPS
USPS/UPS-T5-34	PSA, USPS
USPS/UPS-T5-35	USPS
USPS/UPS-T5-36	USPS

ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI
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.

ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI
TO INTERROGATORY OF AMAZON.COM

- 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 Straiberg, 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.

ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI
TO INTERROGATORY OF AMAZON.COM

(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).

ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI
TO INTERROGATORY OF AMAZON.COM

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.

ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI
TO INTERROGATORY OF AMAZON.COM

(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.

ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI
TO INTERROGATORY OF AMAZON.COM

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

ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI
TO INTERROGATORY OF AMAZON.COM

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.

ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI
TO INTERROGATORY OF AMAZON.COM

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?

ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI
TO INTERROGATORY OF AMAZON.COM

- (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.

ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI
TO INTERROGATORY OF AMAZON.COM

(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.

ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI
TO INTERROGATORY OF AMAZON.COM

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.

ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI
TO INTERROGATORY OF AMAZON.COM

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.

ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI
TO INTERROGATORY OF AMAZON.COM

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.

ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI
TO INTERROGATORY OF AMAZON.COM

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, other than as reflected in my prior work in connection with postal proceedings.

ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI
TO INTERROGATORY OF AMAZON.COM

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.

ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI
TO INTERROGATORY OF AMAZON.COM

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.

**ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI
TO INTERROGATORY OF THE PARCEL SHIPPERS ASSOCIATION**

PSA/UPS-T5-1.

Please refer to your work paper, WP-3, the Excel Worksheet "3-1.1 Summary Page."

(a) Please confirm that the rates you are proposing for Parcel Post will increase Parcel Post revenue per piece by 31.1%. If not confirmed, please provide the correct figure.

(b) Please confirm that your proposed rate increase for Parcel Post would result in the loss of 81,200,000 parcels, or a 25.7% decrease in volume. If not confirmed, please provide the correct figure.

(c) Please confirm that the rates you are proposing for Priority Mail will increase Priority Mail revenue per piece by 40.3%. If not confirmed, please provide the correct figure.

(d) Please confirm that your proposed rate increase for Priority Mail would result in the loss of 286,700,000 pieces, or a 21.1% decrease in volume, if not confirmed, please provide the correct figure.

Response to PSA/UPS-T5-1.

(a) – (b) Not confirmed, due to the errata filed on June 22, 2000. As revised, the Parcel Post rate increase that results from the recommendations of the UPS witnesses is 25%. See my revised Table 8 on page 19 of my testimony, UPS-T-5. The loss in volume from the Test Year Before Rates to the Test Year After Rates is 45.8 million, or 14.7%.

**ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI
TO INTERROGATORY OF THE PARCEL SHIPPERS ASSOCIATION**

(c) – (d) Confirmed that the recommendations of the UPS witnesses result in the figures cited.

**ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI
TO INTERROGATORY OF THE PARCEL SHIPPERS ASSOCIATION**

PSA/UPS-T5-2.

(a) Please confirm that Table 6 in your testimony, on page 18, sums UPS' proposed increases in Base Year attributable costs for Parcel Post, and shows an increase from the Postal Service's \$889.9 million to \$1,041.1 million, or an increase of \$160.2 million.

(b) Please provide the piggyback cost impact of each attributable cost change UPS is proposing, and explain any difference between the sum of these individual impacts and cost changes and the \$160.2 million Base Year impact in Table 6.

Response to PSA/UPS-T5-2.

(a) Confirmed, except that the figure \$889.9 in your question should be \$880.9, as shown in my testimony at page 18.

(b) The attributable cost changes, including piggyback where applicable, are \$4.4 million for Cost Segment 3, \$129.6 million for Cost Segment 7, \$5.7 million in Cost Segment 14, and \$20.5 million in Cost Segment 17. See UPS-Luciani-WP-3-1.4 and UPS-Luciani-WP-3.1.5 for the application of the piggyback. See page 3 of my testimony for the attributable cost change for Cost Segment 17 (advertising). See UPS-Luciani-WP-2-B-3 for the combined effect of the Cost Segment 7 attributable cost changes discussed on pages 7 to 14 of my testimony. See the testimony of Mr. Sellick (UPS-T-2) for the specific attributable cost changes to Cost Segment 3. See the testimony of Dr. Neels (UPS-T-3) for the specific attributable cost changes to Cost Segment 14.

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:

$7.11\% \cdot \text{Parcel Select Volume} \cdot (\text{DDU Cost Avoidance} - \text{DSCF Cost Avoidance})$.

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.

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

USPS/UPS-T5-4. Does your method for estimating volumes and revenues on page 19 of your testimony account for the cross-price elasticities estimated for each mail category? If yes, please explain how and where this is accomplished in your Workpaper 3. If no, please confirm that your volume and revenue forecasts are incorrect.

Response to USPS/UPS-T5-4.

The Parcel Post volume estimation model I use includes a Priority Mail cross-price. For Priority Mail, the volume changes in response to the TYAR price changes applied in my analysis are based directly on the volume changes in response to TYAR price changes in the Postal Service's models. It was presumed that the cross-price relationships embodied in the Postal Service's TYAR projections would remain applicable. I note that the cross-price elasticity of Parcel Post price changes on Priority Mail volume is relatively low at 0.055 (USPS-T-8, page 24), meaning, for example, that a 20% Parcel Post price increase increases Priority Mail volume by only 1.0%. My simplified projection of TYAR volume and price information is appropriate for purposes of indicating to the Commission the impact of the proposed UPS recommendations on the applicable mail classes. It is not intended to provide the precision that will be achieved by application of the Commission's more sophisticated modeling of the Test Year After Rates.

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

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:

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

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-

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

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.

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

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

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

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.

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

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.

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

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

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

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

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

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.

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

- 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

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

- 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.

**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.

**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 Eggleston 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.

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

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

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

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

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

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
TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE**

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.

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

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
TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE**

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
TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE**

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.

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

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.

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

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

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

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.

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

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-

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

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.

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

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.

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

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.

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

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.

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

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

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

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.

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

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.

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

- (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.

**ANSWER OF UNITED PARCEL SERVICE WITNESS LUCIANI
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.

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

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.

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

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.

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

- 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.

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

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

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

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.

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

(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.

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

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.

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

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.

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

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.

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

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.

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

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).

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

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.

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

USPS/UPS-T5-35. Please refer to page 1 of your Exhibit UPS-T-5I.

- a. Confirm that your costs for City Carrier Driving Route in line 5 are volume variable costs. If you do not confirm, please explain fully.
- b. Confirm that your costs for City Carrier In-Office in line 6 are volume variable costs. If you do not confirm, please explain fully.
- c. Confirm that your costs for City Carrier Loading/Delivery in line 4 do not take into account economies of scale or economies of scope. If you do not confirm, please explain fully.

Response to USPS/UPS-T5-35.

- (a) Confirmed.
- (b) Confirmed.
- (c) Not confirmed. The cost in line 4 for City Carrier loading/delivery of parcels takes into account the economies of scale and/or scope in the loading and delivery of parcels that the Engineered Standards study captures. The cost in line 4 is designed to capture only the incremental costs identified in the Engineered Standards study that are incurred as a result of an additional parcel. Activities identified in the Engineered Standards study that are performed regardless of the delivery of an additional parcel are excluded.

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

USPS/UPS-T5-36. Please refer to page 2 of your Exhibit UPS-T-51.

- a. What criteria did you use to determine the activities that are directly related to the time spent loading and delivering an additional parcel? Please be specific.
- b. What is your rationale for including activity 2121, "Make tally mark on ODR," in your calculation of the time spent loading and delivering an additional parcel?
- c. What is your rationale for including activity 2125, "Walk 1-20 paces," in your calculation of the time spent loading and delivering an additional parcel?

Response to USPS/UPS-T5-35.

- (a) An activity required as a result of a carrier dealing with an additional parcel.
- (b) My understanding is that a tally mark for each parcel is required.
- (c) The walk of 1 to 20 paces would be required in going to the door of the customer. To the extent that this walk might otherwise be undertaken on that day, my use of the shortest walk distance identified in the Engineered Standards study (i.e., 1 to 20 paces, rather than 21 to 60 paces or 61 to 120 paces) helps capture that impact.

1 CHAIRMAN GLEIMAN: Is there any additional written
2 cross examination for this witness?

3 MR. MAY: Yes, Mr. Chairman.

4 I have a copy of Mr. Luciani's response to Parcel
5 Shippers' Question Number 3, filed under seal.

6 I am going to give two copies of this to the
7 witness and ask that he identify it. Mr. Luciani?

8 Yes, and Mr. McKeever is kind enough to have two
9 copies already sealed and I ask that they be -- Mr. Luciani
10 has said that these are his responses --

11 CROSS EXAMINATION

12 BY MR. MAY:

13 Q Is that correct, Mr. Luciani?

14 A Yes.

15 MR. MAY: And I would ask that they be admitted
16 into evidence and printed in the sealed document that Mr.
17 McKeever proposed.

18 CHAIRMAN GLEIMAN: It is so ordered.

19 Mr. McKeever, if you would please provide those
20 copies.

21 MR. McKEEVER: Yes, Mr. Chairman. These
22 interrogatories were served late last week and in light of
23 Dr. Luciani's appearance today we provided answers today, so
24 that Mr. May would be able to have them.

25 I believe we have additional copies if others

1 should choose.

2 CHAIRMAN GLEIMAN: If they were filed under seal,
3 you may want to be careful about what you do with the
4 additional copies.

5 MR. McKEEVER: Obviously it would only be somebody
6 who signed the certification and -- but we do have extra
7 copies in the event appropriate people want a copy.

8 [Direct Testimony and Exhibits of
9 Ralph L. Luciani, PSA/UPS-T5-3 and
10 Witness Luciani's response were
11 received into evidence and
12 transcribed into the record under
13 seal.]
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THE EXHIBITS ARE UNDER PROTECTIVE SEAL
AND MUST BE OBTAINED THROUGH THE COMMISSION
(PAGES 11917-11924)

1 CHAIRMAN GLEIMAN: Does anyone else have written
2 cross examination for this witness? Mr. Reiter?

3 MR. REITER: Thank you, Mr. Chairman.

4 CROSS EXAMINATION

5 BY MR. REITER:

6 Q The Postal Service would like to designate the
7 witness's answers to our Question Number 37, and I will show
8 those to the witness.

9 Mr. Luciani, I have shown you copies of your
10 response to Postal Service Interrogatory 37. If I asked you
11 those questions orally today, would your answers be the
12 same?

13 A Yes, they would.

14 MR. REITER: Mr. Chairman, I will hand these
15 copies to the reporter and ask that they be entered into
16 evidence.

17 CHAIRMAN GLEIMAN: And transcribed into the
18 record. It is so ordered.

19 [Additional Cross-Examination of
20 Ralph L. Luciani, USPS/UPS-T5-37
21 was received into evidence and
22 transcribed into the record.]

23

24

25

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

USPS/UPS-T5-37. Please refer to your response to USPS/UPS-T5-1(d).

- (a) Please provide all evidence that you have to support your claim that 7.11 percent of DBMC volume is not entered at the destination SCF in the test year.
- (b) Please provide all evidence that you have to support your claim that all of the DBMC volume entered at the destination SCF in the base year, will become DSCF and DDU volume in the test year. Please address the fact that both of the new rate categories have much more stringent requirements than DBMC.
- (c) Please confirm that it is possible a mailer, who dropped DBMC volume at the destination DSCF in FY 1998, might not have enough volume at the 5-digit presort lever in order to meet the DSCF requirements, but still may drop DBMC mail at the destination DSCF for convenience.
- (d) Please confirm that a mailer who drops DBMC volume at the destination DSCF in the test year, may not have enough volume to justify transporting parcels to each delivery unit in order to receive the DDU rate.

Response to USPS/UPS-T5-37.

(a) In his Attachment D, Mr. Plunkett provides the Postal Service's volume estimates for DBMC entry, DSCF entry, and DDU entry mail in the Test Year based on actual RPW data covering a period in which the Docket No. R97-1 DSCF entry rates and DDU entry rates were in effect. His attachment shows that DSCF entry volume is less than 1% of total Parcel Select volume in the TYBR.

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

(b) My source is the actual source of the 7.11% figure, the workpapers of Ms. Mayes (USPS-T-37) in Docket No. R97-1. Ms. Eggleston's cited source for this 7.11% estimate is Mr. Hatfield's testimony (USPS-T-16) (Appendix I at 13) as adopted by the Commission in Docket No. R97-1. See USPS-T-26 at 27 and Attachment M, page 3. In turn, Mr. Hatfield's cited source was the Docket No. R97-1 workpaper prepared by Ms. Mayes. The workpaper prepared by Ms. Mayes (USPS-T-37, WP I. F.) was based on a survey conducted by the Postal Service in order to assess the likely volume of DSCF entry if the DSCF rate category were instituted. Ms. Mayes' workpaper clearly indicates that the 7.11% of DBMC "currently DSCF entered" is a measure of the "volumes already performing worksharing activities." Indeed, in her analysis, Ms. Mayes deducted only the DSCF entry cost savings for new DSCF entry volume, since the DSCF entry cost savings for currently DSCF-entered volume were already included in the Test Year costs (see Docket No. R97-1, USPS-T-37, WP. I.I, page 3, note (23)). Note that I am simply recommending that the Postal Service perform a final adjustment in which this same process used by Ms. Mayes -- adjusting to avoid a double count of DSCF entry savings -- is undertaken.

(c) Confirmed that such a situation is possible, although I do not believe this volume would qualify as DSCF entry since a 5-digit sort is required, and if no 5-digit sort has been undertaken, the shipment must be sent back to the BMC for sortation (see the testimony of Postal Service witness Crum in Docket No. R97-1, page 5). Nor do I believe that this was the type of volume that "qualifies for the worksharing program"

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

being surveyed by Ms. Mayes in determining the 7.11% figure to begin with, as discussed in part (b), above.

(d) Confirmed. See my response to part (c), above.

1 CHAIRMAN GLEIMAN: Anyone else? If not, that
2 brings us to oral cross examination.

3 Three parties have requested oral cross
4 examination of this witness -- Amazon.com, Parcel Shippers
5 Association, and the United States Postal Service.

6 Is there anyone else who wishes to cross examine
7 this witness?

8 MR. OLSON: Mr. Chairman, William Olson. We also
9 have a questions for APMU. It would be very brief.

10 CHAIRMAN GLEIMAN: I see no reason why you can't
11 proceed with questions on behalf of both of your clients.

12 I think alphabetically it works out that way
13 anyway.

14 CROSS EXAMINATION

15 BY MR. OLSON:

16 Q Mr. Luciani, hi. Bill Olson for Amazon.com at the
17 beginning. That is where we will start our questions, and I
18 would like to ask you to take a look at your response to
19 Amazon/UPS-T5-3(b) .

20 A Yes.

21 Q Okay, and you see there the question quotes from
22 your testimony, page 29, lines 13 to 16 or 14 to 16, saying
23 that parcels entered at the DSCF or at the DDU are likely to
24 incur higher transportation costs for the transportation
25 they use. The non-drop ship parcels using those same

1 transportation legs, correct?

2 A That is correct.

3 Q It is the DDU entered pieces that intrigues me
4 about that response.

5 Can you tell me what transportation segments are
6 used by mail entered at a DDU?

7 A My understanding is Ms. Eggleston signed
8 transportation costs to DDU entry Parcel Post. There's some
9 postal owned vehicle transportation cost, some box routes,
10 things of that sort, so it does get a minor amount of
11 transportation cost.

12 Q Isn't your testimony talking about purchase
13 transportation cost segment 14?

14 A It is talking about the assignment of
15 transportation costs to a particular rate category. Those
16 costs assigned by Ms. Eggleston went to that rate category.

17 Q To that cost segment or from that cost segment, do
18 you recall?

19 A There was some from cost segment 14 and some costs
20 from the postal owned vehicles, which I can't remember the
21 exact number, but I think it is number 9 perhaps.

22 Q Okay. Well, take a look at your response to the
23 next question then and (b), 4(b).

24 I guess I should direct you first to your
25 testimony at page 32, which goes with this.

1 At page 32 of your testimony, lines 12, 13, and
2 14, you talk about the per piece contribution of Priority
3 Mail and then you say a 63 percent markup of the attributed
4 costs of DDU entry pieces is also appropriate. See that?

5 A Yes.

6 Q Okay, and in our interrogatory we asked you is it
7 your recommendation that the Commission should assign an
8 explicit markup to rate categories, and your response was
9 no.

10 My question is how can you say that in view of
11 your language there at lines 13 and 14? Aren't you
12 assigning an explicit rate markup to DDU entered pieces,
13 which is a rate category?

14 A I am suggesting the pass-through amount for DDU
15 Parcel Post.

16 As a general matter I don't think implicit markups
17 are necessarily the way that one would assign pass-throughs
18 in general. However, for DDU Parcel Post, where we have
19 Priority Mail and DDU Parcel Post entry getting a comparable
20 level of service once they reach the DDU I think it is
21 appropriate here.

22 Q Okay, so your testimony is that your response
23 perhaps should have said when we said "Is it your
24 recommendation that the Commission should assign an explicit
25 markup to rate categories" -- your response was no. Is it

1 better perhaps for you to have said no, except for in this
2 case?

3 A Perhaps it could have been said that way.

4 What I am trying to say is that the implicit
5 markup should provide guidance to the Commission in setting
6 the pass-through.

7 Q Okay, but we are not dealing with an implicit
8 markup here, are we, but rather an explicit markup of 63
9 percent?

10 A That is the implicit markup is 63 percent.

11 Q Well, I understand that you then go on in your
12 testimony to fool with the pass-throughs, but is the purpose
13 not to get back to the point where you have a 63-percent
14 markup?

15 A There were two reasons I suggested a lower
16 pass-through. One was that the contribution per piece from
17 DDU Parcel Post should be significantly higher.

18 I propose a movement to about 60 cents per piece,
19 still well below that for Priority Mail.

20 The second was that my bottom-up costing of DDU
21 Parcel Post indicated that the costs were significantly
22 higher than the Postal Service was estimating, and that's
23 another reason that the pass-through should be decreased.

24 Q Okay, well, we're not talking at the moment about
25 a cost issue, but a rate design issue.

1 And you can have a variety of reasons for
2 adjusting pass-throughs, but my question is, simply, is it
3 not true that you set an explicit markup for DDU-entered
4 pieces and then work backward to get to that level by
5 adjusting your pass-throughs?

6 A I certainly set a markup. It is an implicit
7 markup, because it is a rate category.

8 Q Okay, but if you set it -- I don't mean to
9 interrupt you, but if you set it, don't you think that would
10 be what you would call an explicit markup?

11 A No, I don't think so. I've seen reference to
12 implicit markups throughout the Postal Service testimony. I
13 think it's a term here in Postal Service ratemaking that is
14 an implicit markup.

15 Now, I am using that implicit markup to back into
16 a pass-through that I believe is appropriate.

17 Q Okay, so, the only reason you're using the word,
18 implicit, is that this is a rate category; is that correct?

19 A It is a rate category, therefore it is implicit.
20 It has a value assigned to it, which is known, and here's
21 it's 63 percent.

22 Q And it is your position that, by definition, you
23 cannot have an explicit markup for a rate category; is that
24 your position?

25 A Could you restate that question? I didn't hear

1 it.

2 Q Yes. Is it your position then that because it's a
3 rate category, it, by definition, cannot have an explicit
4 markup?

5 A That's my general understanding of how the term is
6 used in Postal Service ratemaking, yes.

7 Q Okay.

8 I talked you a moment ago about the pass-throughs.
9 You were starting to state some of the reasons why you
10 believed -- I think you said the value of service was the
11 same for Priority Mail and for DDU-entered Parcel Post; is
12 that correct?

13 A I think I noted that the value of service was
14 similar, given that at the time they reach the DDU, the DDU
15 Parcel Post pieces provide a comparable level of service to
16 that of Priority Mail.

17 Q Okay, well, we asked you a question in that same
18 interrogatory about whether you had --

19 A Can you give me a reference?

20 Q Sure. (e) and (f). Part (e) is where we asked
21 you if you had examined fairness and equity, and the
22 fairness and equity implications of a divergence in markups
23 within a subclass, and you said you hadn't specifically
24 examined that criteria in the context of setting a
25 pass-through, correct?

1 A Yes. My understanding is that the ratemaking
2 criteria are not applied in setting pass-throughs.

3 Q Do you have anything to offer the Commission with
4 respect to the -- assuming fairness and equity were
5 applicable as to whether that should support your position?

6 A Certainly, I believe that the type of pass-through
7 I'm suggesting here, in the 50-percent range, is similar to
8 pass-throughs that the Commission has put forth in the past.

9 It's similar to pass-throughs that the Postal
10 Service is recommending in this case with respect to
11 Standard A.

12 So, in that sense --

13 Q Are you talking about the level of pass-through?
14 Just to clarify the percentage level of pass-through, is
15 that what you're speaking of?

16 A Yes, the 50-percent pass-through that I am
17 recommending.

18 Q And you say that is reminiscent of what the
19 Commission has done in other comparable situations?

20 A And what the Postal Service is doing in this
21 proceeding.

22 Q Okay. And then in response to (f), you say you
23 hadn't made an exhaustive review of all the 3622(b) criteria
24 except value of service.

25 Is that still your situation; you've only thought

1 about value of service for rate categories?

2 A Again, because it's a pass-through, I did not
3 apply the ratemaking criteria. I note the value of service
4 seems very similar.

5 Q Okay, well, take a look at your response to H in
6 that same interrogatory.

7 I says that you propose a dramatically smaller
8 48.4 percent versus 80 percent pass-through of cost
9 avoidance for DDU Parcel Post.

10 Please identify the fairness and equity Criterion
11 1 implications of such a divergence in cost avoidance
12 pass-throughs within a subclass.

13 And you say see my response to (f). Again, the
14 response to (f) says that you didn't make an exhaustive
15 review.

16 So, you can't speak to fairness and equity?

17 A Not any more than I just did with respect to the
18 level of the 50-percent pass-through.

19 Q And you're saying that the 50-percent is in line
20 with what the Postal Service has done in the past in
21 comparable cases; is that what you said?

22 A In the past, it is a pass-through that has been
23 used by the Commission, and I can -- in just reading Mr.
24 Moeller's testimony recently, I saw a number of
25 pass-throughs in that range.

1 [Pause.]

2 Q Could you take a look at your response Amazon-5?

3 [Pause.]

4 And we asked you a variety of questions about
5 comparing costs of handling various types of parcels, and
6 you said you hadn't analyzed such costs.

7 But you went on to say in the third sentence
8 there: I simply propose that the allocation of elemental
9 load costs, a subset of delivery costs, by weight per the
10 recommendations of Ms. Daniel. And you reference her
11 testimony at pages 8 and 9.

12 Is it your understanding that Witness Daniel
13 recommended to Witness Meehan that he distribute elemental
14 load based on weight?

15 A I don't know what Ms. Daniel and Ms. Meehan
16 discussed. I do know that Ms. Daniel certainly allocated
17 elemental load in her study by weight, and I do know that
18 Ms. Meehan did not do that in calculating costs for the base
19 year.

20 Q Okay, well, it's the word, recommendation, that
21 I'm interested. So you're now saying that you don't know
22 that she made any recommendation to Ms. Meehan or anyone
23 else that that's the way elemental load should be handled?

24 A Oh, I don't know --

25 MR. McKEEVER: Mr. Chairman, may I ask for

1 clarification of the question. When Mr. Olson says "anyone
2 else," does he mean -- include the Commission in that?

3 MR. OLSON: Well, let's break it apart for Mr.
4 McKeever.

5 BY MR. OLSON:

6 Q First of all, is it your position that Witness
7 Daniel did or did not make a recommendation to Ms. Meehan,
8 that Ms. Meehan handle -- redistribute elemental load costs
9 based on weight?

10 A I do not know whether she made or did not make a
11 recommendation to Ms. Meehan. I certainly know that in her
12 testimony that's what she did in her study that was used by
13 other Postal Service witnesses.

14 Q Okay, so that would not be a recommendation, as
15 much as it was simply the way she handled it in her study;
16 correct?

17 A No, I would say it was a recommendation to those
18 witnesses that that data be used that way.

19 Q Do you see anything that you can point to on pages
20 8 and 9 of her testimony that says that that's the way
21 elemental load ought to be handled in this docket?

22 A I need to refer to her testimony.

23 [Pause.]

24 Yes, my reading of page 8 of Ms. Daniel's
25 testimony is that quite clearly she is recommending that

1 elemental load be allocated by weight.

2 Q Can you specifically read the language that you
3 believe takes that position, or makes that recommendation?

4 A Sure. On line 25 of page 8 of Ms. Daniel's
5 testimony, it begins, "Since flats and parcels cost more to
6 load than letters, and flats and parcels are heavier on
7 average than letters, it seems reasonable that heavier
8 pieces of the same shape may cost more to load than lighter
9 pieces of the same shape. And she goes on in line 31 to
10 state, "Therefore, costs for the element load portion of
11 street delivery costs are" -- unfortunately, I don't have
12 page 9, but I believe she goes on to say it is allocated by
13 weight.

14 Q "Are allocated on the basis of weight within shape
15 instead of on the basis of pieces, as were done by Witness
16 McGrane in 97-1." to complete the sentence.

17 A Yes.

18 Q And you perceive that to be a recommendation as to
19 how the Postal Service and the Commission should treat
20 elemental load costs for parcels in this docket?

21 A Yes. I mean it is a very simple inference to go
22 from this is how I am dividing up the elemental load costs
23 among parcels, among pieces of mail in this study for cost
24 allocation purposes of several witnesses, I believe, in
25 First Class, to say that that is the way it should be done

1 for all classes of mail.

2 Q Did Witness Daniel's study parcels in her study?

3 A She studied all pieces to my knowledge.

4 Q Do you recall what classes of mail she studied?

5 A Specifically, I believe it dealt with -- I think
6 there is a reference in my testimony. My reference is to
7 First Class mail, presort and Standard mail A.

8 Q Okay. So that would not include Standard B,
9 correct?

10 A Specifically, the results of her study were not
11 used for Standard B.

12 Q Did not deal with Standard B, correct?

13 A I don't know that.

14 Q Well, you just read to us First Class, Standard A
15 and what was the other?

16 A First Class mail presort.

17 Q Okay. And does that -- do any of those include
18 Parcel Post?

19 A No, those subclasses do not include Parcel Post?

20 Q They didn't include Standard B at all?

21 A They do not include Standard B. The
22 recommendations, the results of Ms. Daniel's study were used
23 for those two subclasses, that is correct, and not used for
24 Parcel Post.

25 Q But isn't it true that her study was limited to

1 those classes of mail and not to Standard B or Parcel Post?

2 A Certainly, the genesis of her study may have been
3 focused on those two subclasses. The analysis that she
4 performs is completely appropriate for other subclasses.

5 Q So you find no problem extrapolating to Standard B
6 from her study?

7 A No.

8 Q Okay. Well, let's -- you talked about changing
9 your answer to an interrogatory before. Was it 8 you
10 changed as to whether you had done any study? We had asked
11 you in 7, had you written any articles, and you said, no,
12 published or unpublished, about the effect of weight in the
13 delivery business, correct?

14 A That is correct.

15 Q Okay. And then we asked you if you had done any
16 study and you said, no, you have not done any study. And
17 what did you add to that response?

18 A Let me turn to it. I added, comma, "other than as
19 reflected in my prior work in connection with Postal
20 proceedings."

21 Q Okay. And specifically what does that involve,
22 your critiques of prior Postal Service weight studies?

23 A Yes. For more than a decade I have been dealing
24 with Postal rate-making with Dr. Hall, on behalf of UPS in
25 1990 and 1994, and specifically in 1995 I dealt with the

1 incremental costs associated with the parcel shape versus
2 that of the other shapes. And certainly in there, in that
3 analysis was involved dealing with the possible complicating
4 factor associated with weight.

5 Q Okay. Well, take a look at 9 then. In this
6 particular docket, when we get to the study of Witness
7 Daniel, you said you had not examined Ms. Daniel's study to
8 the extent necessary to confirm whether or not it has
9 accurately captured all of the effects of weight on cost,
10 correct?

11 A Yes. Emphasis on "all."

12 Q Okay. Well, has she accurately examined some of
13 the effects of weight on cost?

14 A Her study, as I read it, was intended to analyze
15 the association between weight and cost. She notes that in
16 certain areas, it seems the data is insufficient and she
17 draws what I would call a middle ground, a way of dealing
18 with that issue by allocated elemental load delivery costs
19 by weight, and leaving the others not allocated by weight.
20 So, in that sense, it was a middle ground analysis based on
21 the data that she was able to have on hand.

22 Q So, are you recommending that the Commission adopt
23 Witness Daniel's study for rate-making purposes?

24 A Certainly, in the use of elemental load to be
25 distributed by weight, yes. I believe that is a very --

1 Q That one narrow slice you like and you want to
2 rely on that?

3 MR. MCKEEVER: Objection, Mr. Chairman, it is
4 argumentative. If Mr. Olson wants to rephrase it to remove
5 the "you like" bit, I have no objection to the question.

6 BY MR. OLSON:

7 Q Do you like her analysis of elemental load?

8 A I like her analysis of delivery cost as it is done
9 here. I don't know that I disagree with anything else she
10 has done. I have not reviewed the application, ultimately,
11 of her study to First Class presort, for example.

12 Q Or parcels.

13 A Or Standard mail A. I am not sure what you mean
14 by parcels.

15 Q Well, you were prepared to extrapolate her study
16 of First Class and First Class presort and Standard A to
17 Standard B on elemental load. Are you prepared to
18 extrapolate the rest of her analyses to Standard B?

19 A I wouldn't characterize it as an extrapolation.
20 It is a simple -- using her recommendation for distribution
21 of elemental load.

22 Q And you still want to characterize it as a
23 recommendation?

24 A As a recommendation that elemental load be
25 distributed on the basis of weight. Absolutely.

1 Q Do you believe that Witness Daniel's study is
2 credible for purposes of reliance in this area?

3 A She has examined delivery cost, I think she come
4 up with an appropriate middle ground way to take into
5 account the very real fact that larger parcels are more
6 costly to deliver. For example, you have to hand a large
7 parcel to the customer, as opposed to putting it in the box.
8 And in doing so --

9 Q But I just want to focus on her study and what you
10 relied on from her study. Let me ask you, other than her
11 study, do you have other bases for your testimony that leads
12 up to the chart that appears -- if I can find it -- where
13 you summarize the additional costs that ought to be
14 attributed to Standard B DDU and Priority Mail because of
15 the elemental load reallocation, is that -- do you have the
16 page reference for me? Oh, here, page 9.

17 MR. McKEEVER: Mr. Chairman, may I ask that Mr.
18 Olson repeat the question.

19 BY MR. OLSON:

20 Q Other than Witness Daniel's study, do you have any
21 basis for your recommendation that leads to the
22 redistribution of elemental load that appears in Table 3 on
23 page 9 of your testimony?

24 A It is based primarily on Ms. Daniel's
25 recommendations. Certainly, in my years of working on

1 Postal rate-making, it is quite clear, it has been quite
2 clear that weight and cost are related. The 2 cent per
3 adder that is within rate classes is a reflection of that,
4 for example.

5 Q Okay. What other -- you said primarily, what else
6 besides Witness Daniel's study in this docket are you
7 relying on?

8 A Again, I am relying on Witness Daniel's study and
9 the notion, and the understanding that heavier weight
10 parcels are more costly to deliver. Again, you have to hand
11 that heavy parcel to the customer as opposed to put the
12 small parcel in the box. That is just an understanding of
13 the delivery practices based on my work in the Postal rate
14 proceedings over the years. So, again, while it is based on
15 Ms. Daniel's study, it rings true from my analyses over the
16 years on Parcel Post costing.

17 Q So it is your subjective sense of the way in which
18 costs vary with weight that you rely upon?

19 A No, I would not say it is subjective. It is an
20 accepted notion, to my knowledge, that that is true. The
21 question is whether, to what degree -- to what degree is
22 weight and cost related? I know the Commission has
23 requested a number of studies on this. Ms. Daniel tried to
24 deal with that here, and she struck a middle ground position
25 that I think is reason and should be propagated through the

1 cost allocation process.

2 Q So you do find her study credible and recommend
3 that the Commission rely on it for the purpose of changing
4 the distribution of elemental load costs?

5 A Yes.

6 [Pause.]

7 Q Is there any other portion of Witness Daniel's
8 testimony, other than pages 8 and 9, on which you relied for
9 this recommended change in distribution of elemental load?

10 A Well, there were a number of interrogatory
11 responses that Ms. Daniel made. At this point, I'm not sure
12 whether all of those were entered into the record.

13 I think in those interrogatory responses, she
14 fleshed out further, her reasoning.

15 Q Anything in the testimony? Anything in her
16 testimony, other than pages 8 and 9?

17 MR. MCKEEVER: I take it, Mr. Chairman, that by
18 testimony, Mr. Olson is not referring to all of her
19 testimony, including responses on written cross, but only
20 the prepared direct testimony? I gather that is the sense
21 of his question.

22 MR. OLSON: Yes.

23 THE WITNESS: A this point, as I sit here, I can't
24 recall another reference. I believe she discussed it
25 somewhat later in her testimony, on pages 22 or 23, but I'm

1 not recalling specifically.

2 MR. OLSON: Mr. Chairman, I think that's all I
3 have for Amazon, and just a few more for APMU.

4 BY MR. OLSON:

5 Q Witness Luciani, in your testimony, you discuss
6 advertising costs in a particular errata that was filed by
7 Witness Kay, I believe; is that correct?

8 A Yes. Do you have a reference?

9 Q Pages 3 and 4 of your testimony.

10 [Pause.]

11 A Yes?

12 Q And you used that to alter the attribution of
13 costs to Priority Mail and -- or at least to Priority Mail,
14 correct?

15 A Yes, Priority Mail, Parcel Post, and Express Mail.

16 Q Okay. Well, I'm only focusing on Priority Mail at
17 the moment.

18 Do you recall another response by Witness Kay that
19 had to do with some item that is in Dr. Haldi's testimony
20 that deals with rehabilitation costs and the fact that there
21 was an error made by the Postal Service in its original
22 attribution of those costs, putting them all in the Priority
23 Mail line as opposed to distributing them among various
24 classes?

25 A I believe I saw the reference in Dr. Haldi's

1 testimony, not the original document.

2 Q Okay.

3 Do you have an opinion as to whether the
4 correction made in that errata ought to be made by the
5 Commission?

6 A No, not without examining the specifics of that.

7 Q And you haven't examined it?

8 A No.

9 [Pause.]

10 Q There is a response to an interrogatory from
11 Witness Sappington. I know you didn't write this, but it
12 simply is going to be a jumping off point for my asking you
13 a question or two.

14 And it has to do with whether any UPS witness
15 projected the effect of the proposed rate increase on the
16 volume of Priority Mail during the test year.

17 Specifically, it's APMU/USPS-T6-10, and Witness
18 Sappington's response was that the projected effects of the
19 40.3 percent rate increase that I recommend for Priority
20 Mail are summarized in the following tables.

21 The numbers in the table are drawn from Table 6 on
22 page 18 of Witness Luciani's testimony, and from Witness
23 Luciani's workpaper, UPS-Luciani-WP3-1.3 as revised.

24 Do you believe -- you do, in fact, have volume
25 testimony in that workpaper and in that portion of your

1 testimony; correct?

2 A Yes, I do.

3 Q At the beginning of your testimony -- let's take a
4 look at that Table 6 on page 18.

5 [Pause.]

6 Was this the subject of an errata, this table?

7 A I don't believe so.

8 Q So we're dealing there with Priority Mail revenue
9 attributable cost and cost coverage, correct?

10 A That's correct, in the base year.

11 Q Where do you deal with volume in that table or
12 anywhere else in your testimony?

13 A I deal with volume in Tables -- the underlying
14 table within Tables 6, 7, 8, captured in my Workpaper 3,
15 discusses the volume impact, in particular, for Priority
16 Mail.

17 Here we're only talking about the volume change
18 that arises from a different rate increase in the test year
19 after rates.

20 Q When you talk about the volumes in Tables 6, 7,
21 and 8 of your testimony, it's not by way of expressly
22 setting out volumes, but rather implicit in the revenue
23 calculation that you do, correct?

24 A I wouldn't say implicit, because they are
25 explicitly there in Workpaper 3, and they are used to come

1 up with these cost coverage calculations.

2 Q But there is nowhere where it describes the volume
3 effect on Priority Mail from the proposed rate increase that
4 you're recommending, correct, in pages 18 and 19 of your
5 testimony or anywhere in your direct testimony?

6 You have to go to the workpapers for that,
7 correct?

8 A You would have to refer to the workpapers. I
9 think it's fairly clear, because I do talk about the Parcel
10 Post volume changes with respect to rate changes that I have
11 volume data in Workpaper 3.

12 But, yes, you have to go to Workpaper 3.

13 Q Okay.

14 What model did you use to project your volumes?

15 A Oh, it was a highly simplified model, particularly
16 for Priority Mail, meant to just provide an order of
17 magnitude to the Commission to help it, give it some
18 guidance.

19 Q Did you use Witness Musgrave's model?

20 A No, I did not.

21 Q And why was that?

22 A In the interest of time, and the difficulty in
23 mining through those workpapers. I have done it in the
24 past.

25 Here, we just wanted to provide an indication of

1 the impact of the UPS recommendations on Priority Mail and
2 Parcel Post.

3 To get the correct figure, you would have to do
4 quite a number of calculations with the roll-forward model,
5 Mr. Musgrave's analysis, and so on.

6 And as such, to provide an order of magnitude
7 estimate, I did it in a simplified way.

8 Q Can you tell me what your simplified method of
9 projecting costs was?

10 A For projecting costs --

11 Q Excuse me, for projecting volumes.

12 A Okay, for projecting volume, again, here, for
13 Priority Mail, we're only talking about the change between
14 the test year before rates and the test year after rates.

15 So we're talking about a differential rate
16 increase that is being assigned, and also, of course, we're
17 talking about in the UPS recommendations, a change in the
18 underlying attributable costs for Priority Mail.

19 So to do that, I did a simplified analysis which
20 takes into account, how much cost and volume change as a
21 function of the Postal Service's proposed rate increase from
22 the test -- in the test year after rates, and simply ratio'd
23 that to the UPS recommended change.

24 So, in particular for volume, it is based on a
25 ratio analysis.

1 Q So you assumed that if a 15-percent increase as
2 the Postal Service is proposing would result in a certain
3 level of diminution in volume that a 40-percent increase
4 would result in a proportional diminution in volume?

5 A Basically, yes.

6 Q Am I missing a nuance?

7 A One has to assess how much the costs are changing
8 as a function of the rate increase, as well, in order to
9 target to the correct markup ratio that is required.

10 So there is more than that that is going on in the
11 calculation, but it is based on how much cost and volume
12 changed in Mr. Musgrave's model between the test year before
13 rates and the test year after rates.

14 And that is the basis for figuring out how much it
15 would change with the UPS recommended changes.

16 And, again, it's a simplified representation.

17 Q Do you view it to be a sufficiently sophisticated
18 volume estimate for the Commission to rely upon?

19 A I would want the Commission to run its own
20 sophisticated models, more -- it was more to provide an
21 order of magnitude so that they could think about and see
22 what kind of change this appeared to have.

23 But, again, it does not substitute for those
24 sophisticated roll-forward models and volume estimation
25 models that they would use.

1 Q And to the extent that your volume estimates are
2 inaccurate, let's say, then your revenue estimates would be
3 inaccurate, correct?

4 A Here again, we're only talking about the test year
5 after rates. Yes, to the extent that they are estimated and
6 estimated somewhat differently than a more sophisticated
7 model would yield, then the answer would be different,
8 correct.

9 Q And if the revenues would be different, then under
10 your simplified model, the contribution to institutional
11 costs would be inaccurate also, to the extent that your
12 original number is inaccurate, correct?

13 A To the extent my simplified estimate is incorrect,
14 yes.

15 Q Okay. Is it your understanding -- did you have a
16 criticism of Witness Musgrave's model? Do you have any
17 problems with it?

18 If it would have been easier to apply, would you
19 have used it? There are three questions all at once, and
20 you can pick any one you want.

21 MR. McKEEVER: Mr. Chairman, I do object to that
22 procedure. I was going to note that this is probably beyond
23 the scope of the testimony.

24 On the other hand, if Mr. Olson just wants Mr.
25 Luciani to ask himself his own questions, I have no

1 objection to that.

2 MR. OLSON: We can start there.

3 MR. McKEEVER: I do not know, Mr. Chairman, what
4 question is pending, and I would ask for Mr. Olson to repeat
5 it, please.

6 MR. OLSON: Okay.

7 BY MR. OLSON:

8 Q Let's start off with this: Do you have -- did you
9 ever have occasion to study Witness Musgrave's method to
10 project volume into a test year after rates scenario?

11 A I did not in this proceeding.

12 Q You've done that previously, however?

13 A I have worked with Mr. Musgrave's and Mr. Tolley's
14 models to a certain degree in past proceedings.

15 Q Do you have specific criticisms of Witness
16 Musgrave's model that caused you not to use it?

17 A No. And always my application of Mr. Musgrave's
18 model in the past was merely to try to attempt to estimate
19 the impact of UPS recommended changes.

20 And so I don't have specific criticisms. I'm not
21 necessarily accepting what he's done; I just have not
22 examined it from that perspective.

23 Q Does your estimate of after rates volumes include
24 any analysis of the price of competitive products to
25 Priority Mail?

1 A To the extent that Mr. Musgrave's model did in
2 coming up with the test year after rates results that he
3 did, mine would.

4 Q Is it your understanding that the Musgrave model
5 does include an analysis of the price of competitive
6 products?

7 A I don't specifically recall. Again, this is from
8 prior proceedings, but I believe it took into account, some
9 competitive aspects, but I'm not sure, specifically, which.

10 Q Do you believe it would be important to take into
11 consideration, the price of closely competitive products?

12 MR. McKEEVER: Mr. Chairman, I will object. I do
13 believe we are beyond the scope of Witness Luciani's
14 testimony when we start to talk about volume estimation
15 methods.

16 Mr. Luciani did describe that he came up with the
17 volume in order to provide some guidance to the Commission
18 with respect to the order or magnitude of what the
19 recommended rate increase might produce, but he's also
20 testified that he hasn't examined Mr. Musgrave's model in
21 this case.

22 I think detailed questions about that model are
23 well beyond the scope of the direct testimony of this
24 witness.

25 MR. OLSON: Well, he did indicate that he studied

1 it in the past and he did indicate that he has offered
2 volume estimates in this, you know, using this order of
3 magnitude language, I understand, but this -- and this is my
4 last question along these lines, but I do think it is
5 appropriate to ask him if he thinks that the factor which he
6 thought was in Witness Musgrave's model, the price of
7 closely competitive products, is an important consideration,
8 since his ratio method is based on Musgrave.

9 MR. McKEEVER: Mr. Chairman, the fact that it may
10 be the last question doesn't make it any less objectionable.
11 I believe that if Mr. Olson's question is directed to Dr.
12 Musgrave's work in prior proceedings, which he indicated at
13 the beginning of his statement, then it is certainly beyond
14 the scope, maybe -- well, maybe of anybody but Ms.
15 Musgrave's direct testimony in this case.

16 CHAIRMAN GLEIMAN: Do you want to try for a
17 different last question, Mr. Olson?

18 MR. OLSON: Well, let me try coming at this a
19 different direction and see if this meets the objection.

20 BY MR. OLSON:

21 Q Did you not say before, Mr. Luciani, that your
22 ratio method is based on an extrapolation of Witness
23 Musgrave's volume projection methodology?

24 A I think it would be more fair to say it is based
25 on an extrapolation of the Postal Service's roll forward of

1 costs, volumes and revenues associated with a particular
2 rate increase.

3 Q In this case we are talking about volumes. So,
4 with respect to your volume estimate and your simplified
5 order of magnitude ratio method that you describe, do you
6 not rely on the Musgrave volume projections?

7 A Embodied in what I did is a Musgrave volume
8 projection, but there is more to it than that because the
9 rate increase necessary is also associated with how much the
10 underlying costs change. So it is not quite as simple as
11 simply using Mr. Musgrave's model, although, certainly, in
12 what the Postal Service presented for the test year after
13 rates, it was based also, in part, on Mr. Musgrave's
14 results.

15 Q Would you agree that if Mr. Musgrave's model
16 contained serious flaws for failure to take into account
17 certain important factors, that those would be incorporated
18 then in your order of magnitude ratio method volume
19 estimates?

20 A Yes, to the extent that Mr. Musgrave's model may
21 or may not be flawed, that would be reflected in my use of
22 that as an underlying -- underpinning of what I have done.

23 MR. OLSON: Mr. Chairman, that is all I have.

24 Thank you.

25 CHAIRMAN GLEIMAN: Thank you, Mr. Olson.

1 I would like to go a little bit longer, but let's
2 talk a bit. Next is Parcel Shippers Association.

3 Mr. May, I don't want anything that would be
4 disruptive to your cross-examination. I don't know exactly
5 how long you plan to go, but if we could go for 20 minutes
6 or so and then break for lunch.

7 MR. MAY: That would be fine.

8 CHAIRMAN GLEIMAN: If that suits your purposes.
9 Then you can proceed when you are ready.

10 CROSS-EXAMINATION

11 BY MR. MAY:

12 Q Dr. Luciani, I would like to follow up with some
13 more questions about the DDU rate, your implicit coverage
14 methodology for the DDU rate. And as I think we reviewed
15 the testimony, the implicit coverage is one where you are
16 proposing it in the case of a rate category, and it is
17 called "implicit" because we don't actually have coverages
18 for rate categories, is that correct?

19 A That is correct, and the rate-making criteria are
20 not generally used in setting passthroughs.

21 Q Now, I believe you have proposed, at least in this
22 case, they use it only in the case of DDU Parcel Post, is
23 that correct?

24 A That is the only case and rate category, aside
25 from also DSCF entry, which I examined. I don't know

1 whether it would be appropriate in other -- for other
2 subclasses where there may be mitigating circumstances.

3 Q Well, what is so unique about these type of mail
4 pieces that the Commission should adopt this different
5 approach than they do generally?

6 A I think it is quite clear that what we have, or
7 what we have here for DDU Parcel Post entry can be viewed as
8 back door Priority Mail drop ship. Those pieces are
9 provided a comparable level of service once they reach the
10 DDU. And yet, as Dr. Haldis quite clearly points out, for a
11 piece that -- a 20 pound piece with a contribution of
12 \$15-\$16 Priority Mail, gets switched to DDU Parcel Post
13 entry, where you have 25 cents of contribution to
14 institutional cost. So here, all I am trying to do is take
15 that into account by proposing we lower the passthrough for
16 DDU Parcel Post entry to get a somewhat more significant
17 cost contribution from those pieces.

18 Q Well, don't economists typically argue that the
19 passthrough should be 100 percent because passing through
20 ensures that work is performed by the lowest cost provider?

21 A I don't know whether economists have generally
22 suggested that. Certainly, I have heard certain witnesses
23 suggest that that be the case, but a reference to Mr.
24 Moeller's testimony, for example, for Standard A we will see
25 any number of judgments being applied to put through

1 anywhere from zero to 100 percent in passthroughs.

2 Q Well, I am talking about cost avoidances. Perhaps
3 we should clear the record right here on that. In the case
4 of Standard A, we are not talking about a passthrough of the
5 costs avoided, are we?

6 A I am not sure what you are referring to.

7 Q In Standard A, when you speak about having less
8 than a 100 percent passthrough, the passthrough we are
9 talking about in Standard A, is it not the case that that is
10 a passthrough of costs and not a passthrough of cost
11 avoidances?

12 A I am not sure what you are referring to.

13 Q In DDU you are proposing that the Postal Service
14 pass through less than 100 percent of the costs avoided by
15 DDU, are you not?

16 A Yes. Yes.

17 Q Is it not the case that when the Commissioner and
18 others speak of a passthrough in the case of Standard A
19 parcels in order to arrive at a surcharge on those parcels,
20 the question is, how much of the cost differential between a
21 flat and a parcel will be passed through in the form of a
22 surcharge, isn't that what the passthrough is there?

23 A I have not examined the parcel surcharge issue in
24 this case. My reading of Mr. Moeller is that there are a
25 number of passthroughs aside from the one you are pointing

1 out, including nonprofit Standard A, et cetera. There are a
2 number of passthroughs there which appear to be passthroughs
3 of work sharing savings.

4 Q Mr. Luciani, it is your testimony that, when you
5 were asked to give a cite, you cited Standard A as an
6 example of another example of where less than 100 percent
7 was passed through. And I am trying to get you to
8 understand what is less than what has been passed through,
9 is it less than costs, or cost avoidances?

10 MR. McKEEVER: Mr. Chairman, I think then Mr. May
11 has to be more precise in his question. As Mr. Luciani
12 indicated, there are a number of passthroughs in Standard A.

13 CHAIRMAN GLEIMAN: Mr. May was fairly precise, I
14 think, in terms of talking about flat-parcel differential.
15 But, you know, if that example doesn't work, then perhaps he
16 can consider another one.

17 MR. McKEEVER: I think he had moved on from that,
18 but, Mr. Chairman, I will await his question.

19 BY MR. MAY:

20 Q The question I am asking, Mr. Luciani, can you
21 cite one case -- one case where the Commission has
22 recommended the passthrough of less than -- of only 50
23 percent of a cost avoidance for the purposes of determining
24 a rate discount? Cost avoidance.

25 A Docket Number R90-1. Witness Buc argues for a 100

1 percent pass-through. We are reluctant to recommend any
2 100-percent pass-through for a new discount.

3 There is no track record to use to assure
4 ourselves that projected savings will be realized fully, and
5 revenue shortfalls avoided.

6 Therefore, our recommendation mirrors the one for
7 Third Class, which has a 50-percent pass-through.

8 Q And that was --

9 MR. McKEEVER: Mr. Chairman, for the record, may I
10 ask Mr. Luciani what he was reading from there?

11 THE WITNESS: That would be Section 5, page 134 of
12 the Commission's decision in R90-1.

13 MR. McKEEVER: Thank you.

14 BY MR. MAY:

15 Q And that was for a brand new rate category; is
16 that correct?

17 A The language appears to be for a new rate
18 category, and we are talking about relatively new rate
19 categories here, DSEF and DDU.

20 Q Well, it isn't new; it's -- what you say is
21 relatively new; is that correct?

22 A They were instituted very recently in, I believe,
23 sometimes in 1999, after the base year in this case.

24 So, in that sense, we don't have particularly good
25 costs for those new rate categories in the base year.

1 Q And in the 1990 case that you cite the service had
2 never been instituted before, had it?

3 A That, I don't know, without reviewing it more.

4 Q Well, but isn't that the Commission's language; it
5 said that it is a new service?

6 Is that what you just cited to us?

7 A We are reluctant to recommend any 100-percent
8 pass-through for a -- and there are quotes around this,
9 quote/unquote "new" discount. So I'm not sure what they're
10 referring to, new, relatively new, or what.

11 Q Now, let us assume, just to see the implications
12 of this, assume that a test year cost for a DDU mail piece
13 in a particular subclass is 20 cents. That's the cost of
14 it.

15 And if the appropriate implicit markup is 150
16 percent --

17 A I'm sorry, I missed the very beginning of that.

18 Q Well, let's assume that a particular DDU mail
19 piece, a parcel, has in its class, 20 cents for that
20 particular mail piece.

21 A What is 20 cents?

22 Q That's what the attributable costs are.

23 A Okay.

24 Q And that the implicit markup for this DDU under
25 your proposal would be 150 percent. Let's suppose this

1 because you believed it should make the same contribution as
2 something else that was getting that same service.

3 A I believe I suggested a markup of --

4 Q Sixty-three.

5 A Sixty-three percent would be appropriate here.

6 Q I mean, this is a hypothetical, and I'm asking you
7 to assume, just for illustrative purposes that in this case
8 you thought it should be 150 percent.

9 A Okay, 20 cents attributable costs, a 150-percent
10 markup.

11 Q Coverage. So that gives you a 30 cent rate.

12 A Cost coverage -- 150 percent cost coverage, a 50
13 percent markup.

14 Q And then a DSCF mail piece, let's assume that's
15 attributable costs for 25 cents. It's more expensive
16 because it has to be handled more.

17 A Yes.

18 Q And that your implicit cost coverage for that is
19 not as high, it's not 150 percent, but it's 120 percent.

20 Now, that also would give you, would it not, a
21 rate of 30 cents for the DSCF?

22 A Given that example, on average, yes.

23 Q And so you'd have an equivalent DSCF and DDU rate
24 that would be the same; is that correct?

25 A Under your hypothetical example, correct.

1 Q Isn't that one of the problems that obtains in
2 trying to design specific rates by utilizing extraneous
3 factors which the Commission normally doesn't use such as --
4 in determining a rate such as the particular markup for
5 particular rate categories as opposed to a subclass?

6 A [No response.]

7 Q Isn't that the sort of problem this could lead to?

8 MR. McKEEVER: Mr. Chairman, Mr. May said this. I
9 wonder what the "this" is. I'm not sure what.

10 MR. MAY: His proposal to have implicit markups.

11 THE WITNESS: Certainly in certain instances you
12 might have to take into account, other factors in
13 determining what the ultimate pass-through should be, so
14 that you get a reasonable relationship between the rate
15 categories.

16 I think the Commission does that all the time in
17 setting the pass-throughs. I would urge them to do the
18 same.

19 I couldn't quite do that here, because of the --
20 I've made certain suggestions with respect to adjusting the
21 DDU and DSCF rate category cost avoidances.

22 And without knowing which of those would
23 ultimately be approved by the Commission, it's hard to come
24 through with a final recommended pass-through.

25 BY MR. MAY:

1 Q Let me ask you some questions now about the
2 so-called upper bound pass-through DDU cost coverage. If
3 you would refer to your testimony at page 33?

4 [Pause.]

5 And there, I believe you quote Mr. Plunkett. You
6 say Mr. Plunkett has noted that he constrained DDU rates,
7 DDU entry rates, to take value of service issues into
8 account; do you see that?

9 And then you give citations to the record.

10 A Yes.

11 Q And did Mr. Plunkett reduce the pass-through to 80
12 percent, solely to take value of service into account?

13 A He didn't actually adjust the pass-through to be
14 80 percent when he was questioned on what, exactly, he did
15 with respect to value of service, and given the fact that
16 DDU Parcel Post entry as a comparable level service to that
17 of Priority Mail, once it reaches the DDU.

18 He suggested that he had put into place, rate
19 constraints that had the effect of taking value of service
20 into account, and using where he started from and where he
21 ended up, you can back into an 80-percent pass-through.

22 Q But isn't it the case, though, that what his
23 objective was, was to mitigate the rate increases of
24 non-destination rate categories?

25 Wasn't that his objective in constraining the

1 pass-through?

2 A It seems as if he was reluctant to reduce the
3 rate. He noted that one of the reasons that he did not
4 reduce the rate was value of service considerations.

5 That's how I read his interrogatory response.

6 Q One of the reasons?

7 A I'd have to refer back to the interrogatory.

8 Q Would you confirm that in developing preliminary
9 rates -- preliminary, not the final rates, but the
10 preliminary rates, the Postal Service passed through 100
11 percent of all cost differentials except for non-machineable
12 surcharges?

13 A I believe that to be correct. It was close to
14 100. In some cases, it was slightly above 100 percent; in
15 some cases, slightly below 100 percent.

16 Q Well, I mean, in Mr. Plunkett's testimony, I
17 believe, which is at page -- since you have been quoting Mr.
18 Plunkett, I believe, on this subject, on page 14, lines 25
19 and 26, it says:

20 I imposed constraints in order to mitigate rate
21 changes. Is that in his testimony?

22 A I don't have that in front of me.

23 Q On page 14, he says: In all other cases, I have
24 developed surcharges and discounts applicable to Parcel Post
25 by passing through 100 percent of the relative costs.

1 MR. McKEEVER: Mr. Chairman, I would ask that if
2 Mr. May is going to quote from other testimony, that he
3 provide a copy to the witness.

4 MR. MAY: Well, I'll be happy to, but, indeed,
5 this witness was quoting Mr. Plunkett in his own testimony.
6 But I'd be happy to give him the pages.

7 CHAIRMAN GLEIMAN: That would be helpful and move
8 things along.

9 BY MR. MAY:

10 Q You have those pages before you, and --

11 A Yes.

12 Q -- and so you can confirm then that Mr. Plunkett
13 said that he passes, preliminary stage he passes through 100
14 percent at differentials?

15 A He says that in his testimony. The actual numbers
16 are very close to 100 percent, sometimes slightly above 100,
17 sometimes slightly less.

18 Q And again you see there where he said that the
19 reasons, on page 13, the reasons that he did the
20 constraining was not value of service. He said he did
21 the -- he imposed constraints in order to mitigate rate
22 changes.

23 A He says that in his testimony in response to an
24 interrogatory when he was asked about the value of service
25 considerations for DDU Parcel Post entry and with respect to

1 its service standard where it is being delivered apparently
2 close to 100 percent of the time on the next day, whether
3 that should be taken into account in his pass-through
4 calculation.

5 He noted that I took into account such value of
6 service considerations in the rate constraints I employ -- I
7 am not quoting him directly. That is my recollection of
8 what he said in that interrogatory response.

9 Q Well, I mean do you refer to his response to UPS's
10 Question 3?

11 MR. MCKEEVER: Mr. Chairman, once again, if
12 counsel would provide a copy to the witness, maybe the
13 witness can confirm or not confirm that, but to ask the
14 witness to remember is quite a feat.

15 MR. MAY: Well, but he just said, he just quoted
16 it.

17 MR. MCKEEVER: No, he said he didn't quote it. He
18 said, Mr. Chairman, he said exactly the reverse. He said
19 that is my recollection of it and it is not a quote.

20 CHAIRMAN GLEIMAN: He did say, I believe, that he
21 was paraphrasing, so perhaps you can refresh his memory, Mr.
22 May.

23 BY MR. MAY:

24 Q Is that the response?

25 A Yes. UPS/USPS-T36-3.

1 Q And to assist the record on this point, is it not
2 the case that in that response he said, "In considering the
3 value of service of these particular rate categories, I did
4 not consider the value of service of the work sharing
5 pass-throughs apart from the other elements used in rate
6 design."

7 Is that what he said?

8 MR. McKEEVER: Mr. Chairman, Mr. May unfortunately
9 removed the copy of the answer from Mr. Luciani, so I can't
10 understand how counsel could ask the witness to confirm as a
11 quote something that the witness doesn't have in front of
12 him.

13 CHAIRMAN GLEIMAN: Well, I'll tell you what.
14 Let's show it to the witness again and let's the witness
15 confirm or not confirm the quote and then, Mr. May, you tell
16 me when it would be a convenient time -- soon --

17 MR. MAY: Soon.

18 CHAIRMAN GLEIMAN: I will let you define "soon" --

19 THE WITNESS: Yes, the sentence you read is in
20 that interrogatory response.

21 He went on to note, and this is what I believe I
22 was paraphrasing, "The constraints that I imposed as the
23 final stage in rate design were intended to capture value of
24 service considerations and were applied to the rate
25 themselves rather than to the pass-throughs used to develop

1 the rates."

2 BY MR. MAY:

3 Q And I believe Mr. Plunkett's testimony that you
4 have in front of you, on pages 13 and 14, and you have that
5 in front of you, Mr. Plunkett says, quote, "Therefore in the
6 second phase of rate development I imposed constraints in
7 order to mitigate rate changes." Correct?

8 A I'm sorry, can you give me the reference?

9 Q Yes, line 20 -- it's on pages 13 and 14, at the
10 bottom of the page 13 and it goes on.

11 A Yes. He notes that he imposed constraints in
12 order to mitigate rate changes.

13 Q And indeed these rate increases that he was
14 concerned about and that he was trying to restrain are
15 that -- those were generally for nondestination entry mail?
16 Those were the rates that he was trying, rate increases he
17 was trying to mitigate, the rates on nondestination Parcel
18 Post?

19 A As I sit here and read it, it seems like this is a
20 paragraph that follows his discussion of DSCF and DDU entry
21 and therefor I take it to mean that he is talking about
22 those two rate categories.

23 Q But when he says I impose constraints in order to
24 mitigate rate changes, what rate changes is he trying to
25 mitigate by imposing the constraints?

1 A I think he goes on to note that rates have been
2 constrained such that no rate is allowed to increase by more
3 than 10 percent and moreover for the newest rate categories
4 rate changes were restricted so that no rate could change by
5 more than 2 percent in either direction.

6 Q All right. Now would you confirm that using
7 Plunkett's pass-through methodology, which you just referred
8 to there, he would have proposed larger pass-throughs if
9 destination entry cost avoidances had been smaller?

10 A I can't agree. I mean that would be a fair
11 reading of his testimony but not -- his written testimony --
12 his written testimony but not his response to the
13 interrogatory that we asked where it said how did you take
14 into account value of service, and he said, well, I applied
15 rate constraints.

16 So therefore obviously there is more to it than
17 just that.

18 MR. MAY: If you want to break now, Mr. Chairman,
19 this is convenient.

20 CHAIRMAN GLEIMAN: That would be great.

21 For those of us who are interested in the Tour de
22 France, I probably didn't pronounce that the way that some
23 would, but if you watched any of it last night, they had a
24 commercial on for a bar that has a lot of power in it, and
25 the commercial was advising you not to bonk -- "b-o-n-k" --

1 I feel like I am about to bonk, so it would be a good time
2 to break for lunch and get some sustenance.

3 We will come back at a quarter of the hour. We
4 will take an hour.

5 [Whereupon, at 12:47 p.m., the hearing was
6 recessed, to reconvene at 1:45 p.m., this same day.]

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A F T E R N O O N S E S S I O N

[1:50 p.m.]

Whereupon,

RALPH L. LUCIANI,

the witness on the stand at the time of the recess, having been previously duly sworn, was further examined and testified as follows:

CHAIRMAN GLEIMAN: Mr. May, you may proceed when you are ready.

MR. MAY: Thank you, Mr. Chairman.

CROSS-EXAMINATION [resuming]

BY MR. MAY:

Q Mr. Luciani, when we left off, I would like to explore a little bit your criticisms of the Postal Service's cost avoidance model for destination BMC, and you variously criticize a number of points, and I would like to just address several of those. If you will refer to page 22 of your testimony.

A Yes.

Q On lines 9 to 11 there, would you confirm that, if you can kind of distill your argument there, that it is simply that the Postal Service should not use information on basic function, that is incoming, outgoing, et cetera, in determining DBMC cost avoidance?

A The basic argument is that the entire approach is

1 outdated, in particular, that no longer, to my
2 understanding, is the basic function, incoming, outgoing,
3 transit and other, used in the cost allocation scheme for
4 cost segment 3.

5 Q And so using basic function is just obsolescent
6 then, in other words?

7 A I wouldn't say obsolescent. I would say that we
8 are offered a superior choice using the work models.

9 Q Have you performed an analysis of whether the IOCS
10 data collectors accurately record basic function when they
11 take a tally?

12 A I have not examined that. I worry that if that
13 particular question is no longer used in the cost allocation
14 scheme, that it becomes viewed as less important in the IOCS
15 gathering, which could lead to inaccurate results staying in
16 there merely because experts from the Postal Service haven't
17 reviewed it carefully.

18 Q Well, do you have any data regarding whether IOCS
19 data collectors accurately record basic function?

20 A No, I don't.

21 Q You are just concerned?

22 A I am concerned.

23 Q Would you please confirm that you, yourself, have
24 used basic function in determining your DBMC cost avoidance
25 at origin associate offices?

1 A Yes, I was forced to by the --

2 Q No, just confirm. Just confirm that, please.

3 A Yes, I was forced to.

4 Q Thank you. Now, what percentage of Parcel Post
5 costs at non-BMCs are in cost pools, quote, "that do not
6 make much sense when one is attempting to determine Parcel
7 Post costs"? That is a quote from your testimony at page
8 22.

9 A I would have to review a Library Reference that I
10 don't believe I have with me. Library Reference 103, I
11 believe is that Library Reference. There are costs in a
12 number of MODS pools that don't seem to reflect the basic
13 understanding as to what is being processed, but the amount
14 I do not have right here in front of me.

15 Q Okay. Well, let's take flat sorting machines just
16 as an example. Is it your belief that no costs in the flat
17 sorting machine cost pool should be distributed to Parcel
18 Post subclass, because they aren't really incurred by Parcel
19 Post parcels?

20 A It is questionable whether they are incurred. It
21 could well happen, as Ms. Eggleston points out. It just
22 seems that we are confronted with a lot of cost pools, a lot
23 of costs, or costs in cost pools that don't seem to make a
24 whole lot of sense. And given that we have a better model
25 to use, why not use it?

1 Q Well, if some of these nonsensical costs were
2 incurred by employees handling parcels, then is it not the
3 case that some of those costs would be costs that would be
4 avoided through mailer worker sharing?

5 A Yes.

6 Q Now, would you confirm that your estimate of the
7 DBMC cost avoidance comes from two different analyses, your
8 model, (1), a top-down estimate of costs avoided at origin
9 AOs and (2), bottom-up costs avoided at other origin
10 facilities?

11 A I agree with the first part of the question, and a
12 bottom-up cost at other origin SCFs, yes.

13 Q Thank you. Now, what checks did you perform to
14 confirm that all the costs that were not included in your
15 bottom-up estimate of avoided origin AO costs were in fact
16 included in the top-down estimate of costs avoided and vice
17 versa?

18 A I am not sure I follow your question.

19 Q Well, you have a cost model, I think you have
20 agreed, where you have determined the costs that are avoided
21 by a destination BMC, and among those costs are the origin
22 costs, and that you used two different methods to accumulate
23 those costs?

24 A That's correct.

25 Q And I am simply asking you, I mean what checks did

1 you, yourself, perform to ensure that if a particular cost
2 was not captured in the origin AO methodology, that it was
3 captured in the bottom-up methodology, and vice versa, that
4 if it wasn't in the bottom-up methodology, it was caught in
5 the other one? Did you perform any checks to be sure that
6 you had caught all of the costs?

7 A I reviewed Ms. Eggleston's work flow model to see
8 what was modeled and what was not. There were a number of
9 interrogatories that were asked to try to flesh out what
10 costs were incurred at the origin AO and what MODS pools
11 that would be reflected in, including non-MODS pools as
12 well, and those are the ones I specifically isolated in
13 order to determine the amount of costs avoided at the origin
14 AO.

15 Q And so that would be the limit of the checks that
16 you performed to ensure that all costs were captured, what
17 you have just told us?

18 A All costs were captured in the sense that the work
19 flow model captures everything down to that point.

20 Q Okay. Now, would you confirm that your top-down
21 method for estimating costs avoided at origin AOs only
22 includes outgoing LD 43 and LD 48 costs? Those would be
23 unit distribution manual and customer service costs, are
24 those two codes, LD 43 and LD 48.

25 A No, I don't believe so.

1 Q And plus the non-MODS costs.

2 A Let me check.

3 Q I think perhaps it will help you to look at your
4 testimony at pages 25 and 26.

5 A Yes, based on the response of Mr. Degen, those ar
6 the cost pools I selected for origin A0 activities.

7 Q Okay. Now would you confirm that Witness Degen
8 also stated, and I do have for your reference, if you don't
9 have his testimony handy, a copy of the particular response
10 that Degen made.

11 [Pause.]

12 BY MR. MAY:

13 Q I believe the response Mr. Degen made to the UPS
14 interrogatory there was that, and just to quote it, he said,
15 "Additionally, costs for some, not necessarily typical,
16 parcel pieces may appear in other Function 4 cost pools."
17 Do you see that?

18 A Yes, he did say that.

19 Q Now could you confirm by that quote "other
20 Function 4 cost pools" would include cost pools that you did
21 not include in your top-down model of origin A0 costs?

22 A I only included the Function 4 costs in the LD 48
23 pool --

24 Q Why did you not include the other costs, the
25 Function 4 costs?

1 MR. MCKEEVER: Mr. Chairman, I would request that
2 the witness be permitted to finish an answer before counsel
3 interrupts.

4 BY MR. MAY:

5 Q Did you not conclude your answer, Mr. Luciano?

6 A No, I did not.

7 Q Please do so.

8 A I only included the Function 4 costs in the LD 48
9 pool because those were the ones specifically identified by
10 Mr. Degen and he noted that those were the typical pools in
11 which costs would be incurred.

12 I did include all of the costs associated with the
13 non-MODS pools to be conservative.

14 Q But you didn't include these other Function 4
15 costs to which he alluded?

16 A I did not.

17 Q Have you performed any analysis to validate your
18 assumption that origin AO costs for collection placing
19 parcels into container and loading containers and the
20 non-MODS costs are only incurred in the LD 43 and LD 48 cost
21 pools?

22 A Could I hear that one more time?

23 Q Well, have you performed your own independent
24 analysis to determine whether the costs that you identify,
25 these Function 4 costs, whether they are -- independently

1 whether to determine if they are the only costs that are in
2 LD 43 and 48 cost pools?

3 A No, I relied upon the witness, on the testimony of
4 Mr. Degen.

5 Q Have you performed any analysis to validate that
6 no origin AO costs other than the ones you have identified
7 are incurred by non-DBMC parcels?

8 A I will have to hear that one again.

9 Q Well, have you yourself performed any analysis to
10 validate that no origin AO costs other than the ones you
11 have identified in your testimony are incurred by non-DBMC
12 parcels? Or did you simply rely on Postal Service
13 witnesses?

14 A It's the non-DBMC parcels that I am not certain
15 what you are referring to.

16 Q Well, I mean it would be inter-BMC and intra-BMC
17 are non-DBMC parcels.

18 A Right. I am relying on the testimony of Mr.
19 Degen.

20 Q Now would you refer to your testimony again at
21 pages 24 and 25. I am going to ask you about the
22 machinable, nonmachinable mix.

23 You state on that page, page 24 continuing on,
24 quote, "However, because both intra-BMC and DBMC entry
25 nonmachinable parcels are proposed to be assessed a

1 cost-based surcharge it is more appropriate to use only the
2 machinable cost difference rather than taking a weighted
3 average of the machinable and nonmachinable avoidances since
4 the cost-based nonmachinable surcharge takes into account
5 the cost differences between DBMC entry parcels and
6 intra-BMC parcels with respect to nonmachinability."
7 Correct.

8 A Correct.

9 Q Now just for clarification, I mean the
10 implications of that of course are that since nonmachinable
11 parcels are more expensive that if you include the costs
12 avoided by drop shipping on nonmachinable parcels it will
13 show greater cost avoidance, will it not?

14 A Again, I am not following your question.

15 Q Well, I mean you have testified that you believe,
16 and I just quoted it, that it is more appropriate to use
17 only the machinable cost difference --

18 A Yes.

19 Q -- and not include nonmachinable cost
20 differences --

21 A Yes.

22 Q -- in determining cost avoidances. Now I mean
23 because is it not the case that nonmachinable parcels that
24 are drop shipped to the DDU and DSCF would save more --
25 would have more cost avoidance because they are more

1 expensive than machinable parcels?

2 A They would have greater cost avoidance, but they
3 would avoid the surcharge at the DBMC.

4 Q Well, yes, but I am just talking about the cost
5 avoidance. They would have more cost avoidance and
6 therefore if they are included in the average of cost
7 avoidance you will get a higher average cost avoidance, will
8 you not -- which is what the Postal Service did, right?

9 A If you are referring to DDU --

10 Q Yes, DSCF and DDU.

11 A -- and DSCF calculation, yes.

12 Q So they took an average of, they took the
13 nonmachinable and said well, how much are we saving on
14 those, and then the machinables and said how much are we
15 saving on those, and then they gave them a weighted average
16 and came up with a bottom line cost avoidance for the two,
17 to which you object. Is that not right?

18 A That's how they derived the total DDU cost
19 avoidance, correct.

20 Q And you believe that they should not have done
21 that because, as you say in here, that since there is a
22 surcharge imposed on the nonmachinables or will be if this
23 recommendation is adopted, there will be, that you don't
24 need to take nonmachinable cost avoidance into account, is
25 that your testimony?

1 A That's right. You can't subtract costs that are
2 not included in the base rate.

3 Q Would you please define cost based surcharge --
4 it's just how you described a surcharge as a cost based
5 surcharge.

6 A The work flow models were used to create a cost
7 differential for machinable and nonmachinable parcels.

8 Q Now a cost based surcharge, a fully cost based
9 surcharge, the surcharge would cover 100 percent of the
10 costs, would it not?

11 A There may be other considerations involved in
12 setting the pass-through for the surcharge but the costs
13 have been identified by Ms. Eggleston.

14 Q And in this case the surcharge for both intra-BMC
15 and DBMC nonmachinable parcels is based on a pass-through of
16 only 35 percent of the costs, isn't that the case?

17 A Let me check.

18 [Pause.]

19 THE WITNESS: Which rate categories were you
20 asking about?

21 BY MR. MAY:

22 Q Intra-BMC and DBMC.

23 A Yes. Mr. Plunkett is proposing a 35 percent
24 pass-through.

25 Q Yes. Now would you please explain how a surcharge

1 that is based only on a 35 percent pass-through, quote,
2 using your language, "takes into account the cost
3 differences between DBMC entry parcels and intra-BMC parcels
4 with respect to nonmachinability"?

5 A That would be a criticism of Mr. Plunkett's
6 pass-through. Perhaps he should have increased it based on
7 any considerations that he took into account.

8 He is suggesting an application of 35 percent.
9 That wouldn't mean that one would want to make up for that
10 decision by doing the cost avoidances incorrectly.

11 Q Well, but isn't it the case that the surcharge
12 only reflects one-third of the cost difference?

13 A Mr. Plunkett is proposing a 35 percent
14 pass-through. That is correct.

15 Q But you are using that and you are trying to
16 justify your claim that they should not average machinable
17 and nonmachinable by claiming the costs -- the full costs
18 are already taken of in the surcharge and only a third of
19 the costs are. How do you explain that?

20 A That is a decision by Mr. Plunkett not to pass
21 through the entire surcharge.

22 That would be a different consideration than in
23 calculating the costs correctly.

24 Q That may be Mr. Plunkett's decision but it is your
25 decision to use his 35 percent surcharge and to claim that

1 it is covering 100 percent of the cost difference, isn't
2 that what you are claiming?

3 A No. My claim is that Ms. Eggleston has calculated
4 the entire cost differential and therefore to calculate the
5 DDU cost differential correctly one must not subtract costs
6 that are not avoided, that are not included in the base
7 rate.

8 Q Well, but two-thirds of the costs are included
9 because the surcharge doesn't cover two-thirds of the costs,
10 isn't that the case?

11 A The surcharge recommended by Mr. Plunkett is not
12 100 percent, I agree.

13 Q Now could you confirm elsewhere that a surcharge
14 that is based upon a pass-through of only 35 percent results
15 in rates for nonmachinables, intra-BMC and DBMC, parcels
16 being based upon a de facto averaging of the costs for
17 machinable parcels and nonmachinable parcels?

18 A By the time you get to the end result in the rate
19 design process, you have got a number of considerations
20 taken place, including rate constraints, rate change
21 constraints and any other items that Mr. Plunkett took into
22 account.

23 Q Now, would you -- I'd like to ask you some
24 questions about the elemental load costs by weight, about
25 which you were cross examined this morning.

1 Again, I'd like you to direct your attention to
2 your responses to Amazon interrogatories, and in this case,
3 7 and 8.

4 In Number 8, you, I believe, have corrected your
5 answer today, but just to review that, you have, in Number
6 7, in response to the question of whether you have ever
7 written any articles, published or unpublished, about the
8 effect of weight on cost, and the answer was no.

9 And then there was a question as to whether you
10 had done any studies, research or consultation concerning
11 the effect of weight on cost in the delivery business, and
12 your answer to that was originally no.

13 But then it was amended to say, no, but I have in
14 previous cases, had occasion to study the effect of weight.
15 I don't want to misquote you, but isn't that fundamentally
16 what --

17 A Yes, in my work in Postal rate proceedings, that's
18 correct.

19 Q But notwithstanding your amended answer today,
20 may we take for granted that you do not pass yourself off as
21 an expert on the effect of weight on delivery elements,
22 particularly elemental load, as an expert?

23 A I certainly have expertise in Postal ratemaking an
24 the application of cost to various weight cells in various
25 means to identify surcharges for parcels.

1 So in that context, I certainly have expertise. I
2 have not done, as I answer here, consulting with various
3 delivery companies on the relationship between weight and
4 cost; that's correct.

5 Q Are you -- I mean, how else can I rephrase it?

6 Do you regard yourself, and are you offering
7 yourself to this Commission as an expert witness on the
8 effect of weight on elemental load costs?

9 A I certainly have expertise in Postal ratemaking
10 and the impact in Postal ratemaking of the relationship
11 between weight and cost.

12 In that sense, and using that expertise, I have
13 reviewed the study of Ms. Daniel, and believe it an
14 appropriate middle ground to allocate elemental costs based
15 on weight.

16 Q You are relying Ms. Daniel's, quote, study; is
17 that correct?

18 A Yes, and have a number of Postal Service
19 witnesses, are relying on her study.

20 Q Would you refer to your response to Amazon's
21 Question 5 to you? In that answer, you note that you
22 haven't analyzed total delivery costs for parcels as a
23 function of weight.

24 Isn't that what you say?

25 A That's correct.

1 Q And just to clear the record, have you performed
2 any quantitative analysis -- quantitative analysis -- of
3 whether elemental load costs for parcels are a function of
4 weight.

5 Have you?

6 A I have not performed a quantitative analysis. I
7 have reviewed Ms. Daniel's analysis.

8 Q Would you refer to your answer to Amazon's
9 Question 9?

10 [Pause.]

11 Now, in that answer you say you have not examined
12 Mrs. Daniel's study to the extent necessary to confirm
13 whether or not it has accurately captured all of the effects
14 of weight on cost; do you see that?

15 A Yes.

16 Q So, once again then, you're not offering a quality
17 of judgment about her study; you're just saying you are
18 relying on it as have other witnesses?

19 A I am relying on it, as have other witnesses.

20 And, again, as I stated earlier today, I believe
21 it is a middle ground approach that Ms. Daniel puts forward
22 to allocate a portion of the delivery costs, based on
23 weight, in order to capture the very real fact that heavier
24 parcels cost more to deliver.

25 You have to hand the parcel to the customer at the

1 door, as opposed to shove the little parcel in the box. I
2 think that's very clear that there is a differential in cost
3 that should be taken into account in Postal Service
4 ratemaking.

5 Q But that's a kind of a judgment that any of us are
6 capable of making. That's kind of what you would say, well,
7 that's a common-sense judgment.

8 You don't need to be an expert to have that
9 intuitive sense; do you?

10 A I'm happy to use common sense backed up with my
11 expertise.

12 Q And so that's your version of common sense, but,
13 in fact, as we learned this morning, the Postal Service has
14 not made the proposal you have proposed.

15 You were the proponent of distributing elemental
16 load costs on the basis of weight, not the Postal Service.

17 A No, that's not fair. Ms. Daniel is the proponent
18 of allocating elemental load costs on the basis of weight.

19 Q Ms. Daniel has not testified in this proceeding
20 that elemental load costs should be charged to parcels on
21 the basis of weight.

22 She has not testified to that; has she?

23 A She has not directly testified that elemental load
24 should be distributed on the basis of weight.

25 Q But you have?

1 A For larger parcels.

2 Q But you have?

3 A In the costing of those parcels.

4 Q But you -- that is your testimony.

5 A My testimony is that her analysis, which has
6 reviewed the cost of delivery, which has concluded that it
7 would be the best approach to distribute elemental load on
8 the basis of weight should be applied in the cost allocation
9 process.

10 She did not recommend that it be applied in the
11 cost allocation process, but she did not not recommend it,
12 either.

13 Q So, I take it then that if we want to evaluate
14 your recommendation, it's Mrs. Daniel's testimony and not
15 yours that the Commission will have to rely upon?

16 A They'll have to rely -- the Commission will have
17 to rely on Ms. Daniel's testimony, as have a number of other
18 Postal Service witnesses, in order to conclude that it is
19 quite reasonable to allocate elemental load on the basis of
20 weight, and therefore take the very small step to apply that
21 to the costing for larger parcels in this proceeding.

22 Q Now, I want to ask you a little something about
23 this so-called study. You've called it a study, you have.

24 Has Mrs. Daniel ever said she did a study of
25 elemental load costs, of weight on parcels?

1 Did she say she did a study? I'm using the word,
2 study, S-T-U-D-Y, which presumably you have -- I mean, you
3 have -- you mean something by a study.

4 I'd like to know what you mean when you call it a
5 study.

6 MR. McKEEVER: Mr. Chairman, we have several
7 questions there. The first one, I think, was, did Ms.
8 Daniel use the word, study; and the second one is what Mr.
9 Luciani means by the word, study, as I hear it.

10 MR. MAY: That's very helpful, counsel.

11 MR. McKEEVER: Always happy to oblige.

12 THE WITNESS: I am using the word, study, in the
13 sense that Ms. Daniel has analyzed the cost of delivery as
14 part of her work and her testimony. I don't have her entire
15 testimony here to see whether she called it a study.

16 I call it a study because she has looked at the
17 data, analyzed it, reviewed it carefully, and came up with a
18 conclusion.

19 BY MR. MAY:

20 Q I mean, is that the same thing like if I'm going
21 to take an exam tomorrow and I go home and study; that's the
22 study? I've looked at something?

23 A No, because here we're talking about testimony
24 that clearly has a number of workpapers behind it, that took
25 much time, much time to put forth and took a lot of thought.

1 Q Did she conduct any actual field testing to
2 determine the effect of weight, or did she simply change her
3 assumptions about the effect of weight?

4 A I'm not aware of the specific studies that Ms.
5 Daniel did.

6 Q Well, I know, but that's the point. I don't
7 believe that you can -- well, if you can, prove me wrong.
8 Point to anywhere where Ms. Daniel referred to her work as a
9 study.

10 You, however, do call it a study, and that's what
11 I'm examining. What do you mean when you say study?

12 A When I say study, I take it to mean, as I said
13 before, that Ms. Daniel was asked to look at a particular
14 issue, she looked at the available data, drew reasonable
15 inferences based on her expertise in Postal Service costing
16 over the years, and drew a conclusion from that analysis,
17 and that, to me, is a study.

18 Q I'm sorry, finish.

19 A She's putting forth her expert judgment on a
20 particular issue.

21 Q I am going to show you a copy of Witness Daniel's
22 answer to AAPS Question 3, and I have copies for the
23 Commission and your counsel.

24 [Pause.]

25 CHAIRMAN GLEIMAN: Counsel, we are trying to

1 figure out how come you just give us four copies up here.
2 We are trying to figure out which one of us doesn't count.

3 MR. MAY: I am blaming my secretary for the
4 moment.

5 CHAIRMAN GLEIMAN: Good answer. Which one of us
6 does your secretary think doesn't count?

7 MR. MAY: Oh, excuse me.

8 CHAIRMAN GLEIMAN: That's fine. I can look off of
9 one of the others. Thank you.

10 BY MR. MAY:

11 Q Have you had a chance to examine that handout?

12 A Yes.

13 Q Now, according to that answer, Ms. Daniel said, I
14 reexamined previous assumptions on the impact of weight on
15 costs.

16 A Yes, I see that.

17 Q I reexamined previous assumptions. In this
18 docket, elemental load costs are treated as weight related
19 within shape. This departs from the assumption in Docket
20 Number R97-1 that assume these costs have varied in
21 proportion to volume within shape. Assumptions regarding
22 access and route costs were also examined, but these were
23 not changed. To the best -- it goes on to say, to the best
24 of my knowledge, no other studies have been undertaken since
25 Docket R97-1 to study the effect of weight on carrier street

1 time costs.

2 So, is it a fair interpretation of her answer
3 there that what she was to change the assumptions that the
4 Postal Service had in R97 and now has new assumptions as
5 opposed to experiential and operating data that confirm a
6 position and make it something more than an assumption?

7 A I don't read it that way.

8 Q Please tell me.

9 A She says no other studies have been conducted
10 aside from the one she has conducted. She has reviewed the
11 assumptions based on the available data. That, to me, is a
12 study.

13 Q If she reexamines her assumptions, says, gee, I
14 don't think that was a good assumption, that is, in your
15 lexicon, what a study is, is that correct?

16 A It would be a little less cavalier than that.
17 However, it would be one in which she is putting forth
18 expert testimony based on her judgment of all these costs,
19 analyzes it, looks at what has been done before, evaluates
20 it. If she changes her assumption, it is because she
21 believes something has not been captured. And it is quite
22 clear, as she points out, that heavier weight parcels are
23 more costly to deliver. She wants to take that into
24 account. I do, too.

25 Q To quote her answer, which says, "I reexamined

1 previous assumptions." She does not say there that I have
2 Postal people test what the impact of weight was in this
3 particular cost element. She doesn't say any of that, does
4 she? She says she reexamined previous assumptions.

5 A A reexamination of studies can -- assumptions can
6 involve review of how those assumptions were formulated and
7 so on. I don't necessarily draw that she did something
8 cavalier from this statement.

9 Q Well, but we don't know, do we, what she did?

10 MR. McKEEVER: Mr. Chairman, I object. I think
11 these questions probably should have been asked of Ms.
12 Daniel as to what she did. And I think that there is
13 testimony where she presents data on cost by weight among
14 different ounce increments.

15 MR. MAY: Well, certainly, not Parcel Post, Mr.
16 Chairman.

17 CHAIRMAN GLEIMAN: Well, Mr. May, I think that, as
18 one of the Postal Service counsel was given to saying
19 occasionally, asked and answered. You have asked the
20 witness a number of times whether he considered what Ms.
21 Daniel undertook to be a study, and he has given a response
22 to that on several occasions.

23 You can ask one more time if you would like, and
24 then I would respectfully request that you move on.

25 MR. MAY: No, I don't need to, Mr. Chairman. He

1 has said what he understands the study to be.

2 BY MR. MAY:

3 Q Would you refer to your testimony at page 10,
4 lines 1 to 4? And you there say that the -- refer to the
5 A.T. Kearney data quality study and you say that that study
6 recommended the development of engineering studies that
7 track weight in conjunction with other mail cost causing
8 characteristics through the entire production process. Do
9 you see your testimony there?

10 A Yes.

11 Q Did what you call Ms. Daniel's study do that?

12 A It would appear that it would not qualify as the
13 engineering study that A.T. Kearney is looking for, nor the
14 study that everyone is looking for that dispositively
15 answers this with the kind of precision we would like. But
16 we are faced with a cost allocation that is clearly wrong.
17 Can we do better? Yes, we can by using Ms. Daniel's
18 recommendations.

19 Q Just a few final questions. If you will refer to
20 Table 5 on page 16 of your testimony. Now, I am going to
21 ask you some questions about OMAS and Alaska revenue.

22 A Was it page 5?

23 Q Table 5 on page 16.

24 A Yes.

25 Q Now, would you confirm that in Table 5, you, what

1 you call correct, because you say "as corrected," you
2 correct the Postal Service's estimate of OMAS and Alaska
3 Parcel Post revenue, but do not correct the Postal Service's
4 estimate of OMAS and Alaska Parcel Post volume, is that
5 right?

6 A That's correct, because the error was in the
7 relationship between the change in volume and the change in
8 revenue.

9 Q Now, would you refer to your response to the
10 Postal Service's Question Number 8?

11 A Yes.

12 Q Would you confirm that your testimony is that,
13 quote, "The revenue estimate cannot be correct if the volume
14 estimate is correct. In turn, the volume estimate cannot be
15 correct if the revenue estimate is correct", right?

16 A That's correct. That is the inconsistency here.

17 Q Well, have you performed any analysis to determine
18 whether it is the volume that is incorrect or the revenue
19 that is incorrect, since both can't be correct?

20 A Both can't be correct. I have not analyzed
21 whether one or the other is wrong, merely that the
22 relationship between the two is wrong. You can accept one
23 or the other and end up with my same adjustment.

24 Q But if the volumes, if it is the volumes that are
25 incorrect and not the revenue, then your correction to the

1 Postal Service's estimate of test year OMAS and Alaska
2 Parcel Post volume would be inappropriate, would it not?

3 A Any change to the volume for OMAS and Alaska,
4 because of the way Mr. Plunkett derived it, would change the
5 volume for inter-BMC, intra-BMC and DBMC, exclusive of OMAS
6 and Alaska, and, therefore, would change their revenues.
7 The simplest way to correct for this is to do what I have
8 done.

9 Q Well, let me ask you this, since it is kind of
10 50/50, you flip the coin to decide whether you would correct
11 revenue or correct volume, or did you have a more
12 substantive basis for choosing that it was revenue that was
13 wrong rather than volume?

14 A One merely needs to follow the flow of Mr.
15 Plunkett's work papers to discern that he is creating volume
16 first. He is multiplying those volumes by billing
17 determinants, each rate category's volume, except for Alaska
18 and OMAS. So the easiest correction is to correct his
19 revenue calculation for Alaska and OMAS.

20 Q Well, why is that easier than correcting his
21 revenue -- correcting his volume?

22 A It is easier for those that want to correct Mr.
23 Plunkett's work papers to make that correction, it is more
24 towards the final stage of his analysis.

25 Q Well, does it mean it is more accurate, or it is

1 just easier for you to do?

2 A My before is you could do it in either direction
3 and end up with about the same adjustment and it would be
4 easier to do, which is a winner.

5 MR. MAY: That is all I have, Mr. Chairman.

6 CHAIRMAN GLEIMAN: Thank you, Mr. May.

7 Mr. Reiter.

8 MR. REITER: Thank you, Mr. Chairman.

9 BY MR. REITER:

10 Q Good afternoon, Mr. Luciani.

11 A Good afternoon.

12 Q Would you look at your response to Postal Service
13 Interrogatory 4, please?

14 A Yes.

15 Q We asked you whether your method for estimating
16 volumes and revenues accounted for the cross price
17 elasticities for each mail category and you responded that
18 "the Parcel Post volume estimation model I use includes a
19 Priority Mail cross price." Is that correct?

20 A That is correct.

21 Q That sentence of your answer, does that refer to
22 your testimony as it was originally filed on May 22nd?

23 A It included a Priority Mail cross price as filed.
24 In the errata I adjusted that cross price to correct its
25 usage.

1 Q My question was was that cross price used in your
2 original testimony filed on May 22nd?

3 A A cross price was used in my testimony as
4 originally filed.

5 I adjusted that cross price to be, in the errata
6 to be correct.

7 Q Did that change account for the reduction of your
8 recommended increase in Parcel Post rates from 31 to 25
9 percent?

10 A I believe that was part of the change from 31
11 percent to 25 percent.

12 I think that also a Postal Service interrogatory
13 pointed out that I had inadvertently used one set of prices
14 for a quarter that involved a transition between rate
15 increases and should have used the subsequent quarter, and
16 that correction as well -- those two, as I understand it,
17 combined to yield 25 percent.

18 Q Earlier when you were talking to Mr. Olson, I
19 believe you said that one of the reasons for your implicit
20 cost coverage for DDU is that your bottoms-up DDU cost
21 estimate showed higher costs.

22 Am I correct in that?

23 A Yes, based on my analysis of the engineered
24 standards study it appears that the cost to deliver parcels
25 are higher than what one can get from the Postal Service

1 costing.

2 Q Hypothetically if your bottoms-up cost estimates
3 for DDU had been lower, would you have suggested a lower
4 implicit cost coverage?

5 A No. I think this was additional evidence to
6 support a lower pass-through. However, I think the idea or
7 the fact that we have only a 25 cent contribution from these
8 DDU Parcel Post entry pieces in comparison to the on-average
9 \$2 per contribution from Priority Mail would override that.

10 Q Would you look at your answer to Postal Service
11 Interrogatory 17, please.

12 A Yes.

13 Q You confirm there that it is appropriate in your
14 opinion to allocate FY 1998 costs to rate categories that
15 did not exist in that year, is that correct?

16 A Oh, absolutely. It's -- these -- Alaska Air is
17 just simply allocated to any rate category that makes use of
18 Alaska Air, so only DBMC should be excluded.

19 Q In your response also you refer to your answer to
20 Number 18, but there you discuss test year costs, isn't that
21 correct?

22 A I do. I believe 18 dealt with test year cost --

23 Q Okay, but the question --

24 A -- extrapolated from base year --

25 Q I'm sorry. Go ahead.

1 A The question talked about test year costs in the
2 Parcel Post transportation model that are extrapolated from
3 base year '98 data.

4 Q But the question in 17 related to base year costs,
5 and we were asking how you could allocate base year costs to
6 rate categories that did not exist in the base year.

7 A First, the rate category in the sense that there
8 was a discount being offered was not in existence in the
9 base year. However, there were a number of parcels dropped
10 at the DDU and DSCF in the base year. They just did not
11 receive a discount.

12 Second, we are not looking for Alaska Air. My
13 understanding is how the Commission has allocated Alaska Air
14 to the rate categories within Parcel Post. It's not been a
15 cost causality analysis. There has been no analysis that
16 the bypass program is associated with intra and so on. It's
17 just simply any rate category that makes use of Alaska Air
18 should pay a pro rata share of it and that is what I applied
19 in the test year and in my recommendations.

20 Q But in the base year there were no such rate
21 categories -- do you agree with that?

22 A In the base year the DDU and DSCF rate categories
23 were not in existence, so to the extent there has been extra
24 volume in Alaska that is causing even more Alaska Air costs,
25 perhaps there should be a final adjustment to increase

1 Parcel Post costs associated with even more Alaska Air costs
2 that are going to take place in the future.

3 I don't know what those will be. I just simply
4 recommend allocating what we have to those that use it.

5 Q Would you look at your answer to Postal Service
6 Interrogatory 22, please, specifically Part (d).

7 A Yes.

8 Q You confirm there, I believe, that if no DDU
9 parcels are in sacks then the cost of dumping sacks will be
10 avoided. That was in part (c) but then in part (d) you
11 suggest that these avoided costs will be offset by any
12 additional costs caused by the container entry profile used
13 for these DDU pieces.

14 A Yes. I am worried that if indeed they aren't
15 using sacks under the DMM requirements they can only use
16 pallets, sacks or bedload. Those are the only three that I
17 saw allowed under the DMM requirements and certainly if
18 you're causing the DDU to handle the pallet or you're --
19 even worse, it would seem -- just dropping the parcels, the
20 bedloaded parcels off there for the folks to pick up, you
21 could have additional cost.

22 Q What kind of additional costs?

23 A What kind of additional costs? I don't know what
24 containers you are suggesting they are coming in.

25 If indeed there are no sacks, the DMM says it has

1 to be a pallet or a bedload.

2 I would be particularly worried about bedload
3 parcels and whether -- how those are handled by the mailer
4 who may or may not be unloading them, as we know, and
5 whether they are just put on the dock there for someone else
6 to pick up.

7 It seems to me that that is something worthy of
8 study if indeed they are doing that as to whether that is
9 causing additional costs.

10 Q For someone else to pick up, you said? Who are
11 you referring to?

12 A The Postal Service employees.

13 Q Your assumption is what there? What is the
14 scenario that you are positing?

15 A I am positing that the mailer during the drop
16 shipment comes in -- you are positing that there are no
17 sacks, okay? I am not positing that. You are positing
18 that.

19 The mailer comes in with the drop ship and it is
20 either a pallet or a bedload or a container that is not
21 allowed under the DMM perhaps, and if indeed it depends on
22 how those are handled by mailer -- do they unload them, do
23 they cause -- does the Postal Service assist in unloading?
24 How are they handled on the dock? Are they just simply laid
25 on the dock?

1 There is no requirement for bedload parcels to be
2 put anywhere unless there's some sort of five-digit sort
3 that needs to be maintained, so I would be worried, I would
4 think a sack would be better than bedload, but again we
5 don't know.

6 No data has been presented on the container
7 profile of drop ship mail.

8 Q So you are worried that mailers come to DDU's,
9 unload their parcels, leave them on the dock, drive off, and
10 that's what --

11 A Not that they drive off, but they cause the Postal
12 Service employees to incur cost that would be otherwise
13 avoided.

14 Q And what are those costs?

15 A Those costs would be picking up the bedload
16 parcels off the dock, helping unload those bedload parcels.
17 All of those would be -- are included in the cost avoidances
18 that is being represented here, and perhaps they are
19 nonavoided.

20 Q You are assuming that whoever is unloading the
21 vehicle is not putting them into some sort of containers to
22 move them around the facility?

23 A That's correct. I am assuming, one, that the
24 Postal Service is assisting in unloading at times, and even
25 if they don't there is no DMM requirement to do anything

1 with those bedloaded parcels if they are not five digit
2 sorted.

3 Q And this concern is based on some observation you
4 made?

5 A No, not a direct observation of a drop ship. I
6 have requested to observe one but haven't managed to have
7 that arranged for me.

8 Q So what is the basis for that concern?

9 A My basis is when I ask about this to the Postal
10 Service all I get is look at the DMM, and the DMM doesn't
11 have these requirements in there.

12 When I look at the MTAC minutes it seems to
13 suggest, well, it doesn't say in the DMM that we are allowed
14 to help you unload but maybe we can unload.

15 So it seems to me that the cost avoidances there
16 are a little bit uncertain. I think I took a reasonable
17 middle ground approach by taking out 2 cents but leaving in
18 the unloading costs.

19 Q Okay. We're going to talk about unloading a
20 little bit later, but I want to ask you in the meantime to
21 look at your answer to our Question Number 37, please.

22 A Yes.

23 Q Is it fair to say from your answer that you
24 believe the assumption that 7.11 percent of DBMC volume is
25 dropped at the destination -- I'm sorry, volume dropped at

1 the destination SCF is inaccurate?

2 A My suggestion is that it was Ms. May's assumption,
3 based on a survey in R97-1. That was the premixed
4 assumption.

5 It's the one Ms. Eggleston used in her
6 transportation cost development.

7 I don't know whether it's wrong or right. I do
8 know that it was used in premix, and that it disappears
9 post-mix, so we need to take it into account in the final
10 adjustment.

11 Q Is it your testimony that no DBMC parcels will be
12 dropped at the destination SCF?

13 A I think I answered one of these interrogatories,
14 one part of the interrogatory dealing with that.

15 I think I noted that it confirmed that such a
16 situation is possible, although a five-digit sort would be
17 required.

18 And to my knowledge, what we are talking about
19 here is adjusting between premix and postmix in a fair and
20 reasonable way, based on the assumptions we had for premix
21 volumes and the assumptions we have for postmix volume.

22 If, on occasion, there is a piece that's dropped
23 at the SCF that does not require for DSCF rates, perhaps
24 that should be taken into account, but the best we know,
25 that could be none.

1 Q Could you look at page 10 of your testimony and
2 also your answer to our Interrogatory 29, please?

3 [Pause.]

4 A Interrogatory 29?

5 Q Twenty-nine, yes.

6 A And page?

7 Q Ten.

8 A Yes?

9 Q You refer there to DDU visits; is that correct?

10 A Yes.

11 Q But didn't you say in response to Amazon
12 Interrogatory 4(g) that you only went on one DDU visit
13 during the time you were preparing your testimony?

14 A Could you refer me to the exact -

15 Q I'm sorry, Amazon 4(g).

16 A Actually, the cite on page 10 where I talk about
17 DDU visits?

18 Q Page 10.

19 A Footnote 5?

20 Q Yes.

21 A Okay, yes. I visited a number of DDUs thus far.

22 Q When?

23 A One in R97-1, one during this proceeding in
24 R2000-1, and one during a 1995 proceeding as well. So
25 that's what I mean by the plural of DDU visits.

1 Q But in terms of the time period, either since DDU
2 rates were established, which is what Amazon asked you
3 about, or in preparing the testimony, then your answer would
4 be one visit; is that correct?

5 A I need to refer to Amazon now. Amazon 4?

6 Q 4(g).

7 [Pause.]

8 A And the question is?

9 Q During the time since DDU rates went into effect
10 -- I believe you already answered this in Amazon.

11 You said that you visited one DDU. Am I recalling
12 that answer correctly?

13 A Since the institution of DDU entry discounts for
14 Parcel Post in 1999.

15 Q And I suppose, by definition, that's the only
16 visit you went on in the course of preparing your testimony?

17 A That's correct.

18 Q Thank you.

19 And you said in response to Amazon that that visit
20 was to Laurel, Maryland?

21 A Yes.

22 Q At that facility, who conducted the tour?

23 A You did.

24 Q I don't seem to recall conducting the tour. I --

25 A You were the host. It was the --

1 Q I was the gracious host who arranged the tour for
2 you.

3 A Yes, thank you.

4 Q But the actual Postal employee who took you around
5 and told you what was what at the facility, hopefully was
6 not me, because -- do you remember who that was?

7 A I don't recall his name. I believe it was the
8 Postmaster of the Laurel, Maryland, facility.

9 Q That will do, thank you.

10 And my next question was going to be who else from
11 the Postal Service accompanied you on that tour. I believe
12 you have answered that.

13 A You and Mr. Alverno.

14 Q On the tour, how much time did you spend observing
15 carriers loading vehicles?

16 A I would say for approximately 25 minutes.

17 Q And how many carriers did you observe?

18 A It was a loading time that day, and there were a
19 number of carriers coming to their vehicles, so somewhere
20 between five and ten.

21 Q And what was the total time each carrier spent
22 loading his or her vehicle; do you recall, or did you not
23 see all of that?

24 A I certainly did not see all of them. Those that I
25 observed spent significant times with their parcels, versus

1 -- with their parcels.

2 They have to put their parcels in the back and
3 sort of sort them in an order that makes sense to them.
4 These are the big parcels.

5 Whereas the flat trays and the letter trays just
6 get pushed up front all at once. So there was substantial
7 time spent.

8 It seemed to dominate -- that's not fair. It
9 seemed that of the loading time spent, about 50 percent of
10 it may have been putting the parcels in the back, and that
11 may have been two, three minutes per carrier.

12 Q How many carriers did you see from start to finish
13 loading their vehicles?

14 A Start to finish? I would say I trained my eyes on
15 perhaps two from start to finish.

16 Q Now you mentioned their putting trays in the front
17 part of their vehicles.

18 A Yes.

19 Q They didn't do that -- you didn't mean to imply
20 they did that in no particular order; did you?

21 A Oh, of course not. It all made sense, at least to
22 them, as to what order they wanted it in, in order to make
23 deliveries in the most efficient manner that they were used
24 to, yes.

25 Q So what steps did they go through in dealing with

1 a tray of mail?

2 A The tray of mail was carted out and then placed,
3 the entire tray was placed up near the driver, up in front
4 of the vehicle.

5 Q How did the carrier decide where in the vehicle to
6 place the tray?

7 A I was focusing mostly on parcels, but it certainly
8 seemed that it was slightly different for each driver, but
9 near their hands, so that they could reach over and get it.

10 Q Did those trays have labels of any kind to
11 indicate what mail was in it for the carriers? Did you
12 notice that?

13 A I did not directly notice that. I believe that
14 there was a DPS tray, a letter tray, a flat tray; that
15 seemed to be the general tray profile.

16 Q Would you characterize what you saw as they would
17 look at the tray, see what was in it, what the label said,
18 and then decide where to put it in their vehicle, based on
19 that?

20 A Yes, although most seemed to know which tray was
21 which, without spending much time examining the tray out at
22 the dock.

23 Q It took a relatively small amount of time for
24 them, is that what you're saying, to take the tray, look at
25 it, and decide where to put it?

1 A Yes, when you consider, on a per-piece basis, that
2 there were many, many pieces in these trays, versus the one
3 at a time that was spent pulling the parcels from a hamper,
4 looking at the address and moving it around the back of the
5 truck.

6 Q But putting aside the piece issue, in terms of the
7 activity, would you say that they are relatively similar,
8 looking at the tray or parcel, seeing what it was, where it
9 was going, and deciding where in the vehicle to put it?

10 A No, I didn't get that impression, because it
11 seemed like they knew that this tray, where it went in the
12 Postal vehicle, because they did it every day, whereas for
13 the parcel, they had to look at the address and say, well,
14 it's late in my route, or early in my route, and had to
15 think about it a little bit more.

16 That was my impression.

17 Q Did all the carriers follow the same procedures in
18 loading their vehicles?

19 A No, each one seemed to have optimized it from
20 their own perspective. It was mostly similar in the sense
21 that the parcels were loaded in the back of the vehicle,
22 one-by-one in that sense.

23 But the order that they did it seemed to be a
24 little bit different, depending on who was doing it.

25 Q And did the Postmaster, did you recall him giving

1 you any opinion about the diversity of methods?

2 A I think his impression was, if it worked for the
3 carrier, that that was okay.

4 Q Did you observe carriers casing letters or flats
5 at that visit or previous visits?

6 A Yes. I did not spend a whole lot of time at that,
7 but I did see them casing the mail.

8 Q How would you describe the steps that they go
9 through in doing that?

10 A Again, not having focused on that in particular,
11 but having focused on parcels, it seemed that they had a
12 number of pieces to sort.

13 They would put them in various slots in front of
14 them to sort that mail, and then pull it down into the case
15 in the appropriate order.

16 Q Do you know if carriers are allowed to be, let's
17 call it "as creative," in casing their mail as they are in
18 loading their vehicles?

19 A I don't know that, but it seemed as if that if you
20 were within the range of reasonableness, and it worked for
21 you, you could. You could do some variance around the
22 basics.

23 Q And with respect to which, the loading the vehicle
24 or casing?

25 A With respect to casing and the order, but mostly

1 the order in which you did things.

2 Q Do you know if in casing there is essentially one
3 right answer, one place to put a piece of mail, a letter or
4 flat in the case?

5 A I don't know whether there is one right answer.
6 It seemed for the most part that it was more alike than
7 different between the carriers, but some did follow some
8 slightly different procedures.

9 Q You are talking about casing or loading the
10 vehicle?

11 A I am talking about casing and loading. Now, in
12 the sense of loading, the final step, which is the one I am
13 worried about, is that there was significant time spent out
14 at the dock sequencing the parcels in the back of the truck,
15 and that is all I was trying to reflect in my costing,
16 because that is buried now in a street support number which
17 doesn't isolate those costs and attribute them to parcels.

18 Q So, do you happen to know if a carrier was
19 substituting for another one and was casing letters or
20 flats, he or she would essentially case it in the same way?

21 A No, I don't know that.

22 Q You don't.

23 A But now, ultimately, what I used was the
24 engineering standard study to come up with the number that I
25 used to determine how much cost was spent loading the

1 parcels. So my tour was more to confirm that, indeed,
2 significant time was spent out at the dock loading the
3 parcels.

4 Q Based on what you saw, would you assume that if
5 you had -- you could do a test and give two carriers the
6 exact same mail, and see how they loaded the vehicles, that
7 one would do it differently from the other?

8 A I think that they may do a different order. One
9 may be faster than the other.

10 Q No, in terms -- I'm sorry. Just in terms of where
11 the mail ends up in the vehicle.

12 A Location seems somewhat different between the
13 carriers, but it certainly seemed, as far as the large
14 parcels, which is what I was concerned about, they were
15 ordered sequentially in the back of the vehicle in some
16 manner that made sense to the carrier.

17 Q Earlier, in answering questions from Mr. Olson, I
18 believe you said that DDU mail received the same level of
19 service as priority mail once it go to the DDU?

20 A Yeah, they seemed to receive a comparable level of
21 service once at the DDU.

22 Q Could not that statement be made for a number of
23 classes of mail, that once it reached the DDU, it received
24 essentially the same level of service? And by that, do you
25 mean that it gets delivered that day after it comes in?

1 A In part. I don't know whether it would apply to a
2 whole number of different classes. Again, I was focused on
3 the Parcel Post and Priority Mail.

4 Q Do you know whether it would apply to Special Rate
5 mail?

6 A I don't know specifically. I did not observe any
7 different handling practices, for example, for Special Rate
8 4th at the DDU. But, again, I was not looking directly.

9 Q So you were looking for parcels?

10 A I was looking predominantly for Parcel Post and
11 Priority Mail to see what the handling practices were at the
12 DDU.

13 Q Were you sure of the class of mail of all the
14 non-Priority Mail parcels you saw?

15 A In a sense that some could be Special Rate 4th or
16 bulk rate.

17 Q Right. Or even First Class, for that matter,
18 non-Priority?

19 A I did not examine each and every piece that they
20 were handling there at the Postal -- at the DDU. I didn't
21 want, of course, to obstruct what they were doing. It
22 struck me that much of it -- these were large parcels, and
23 First Class parcels would have to be, I don't know, below
24 11, 13 ounces, something like that. So we are typically
25 talking about Parcel Post and Priority Mail, at least on a

1 volume basis.

2 Q But whether they were First Class or Priority
3 would depend on the weight, would it not?

4 A That is correct.

5 Q And it is certainly possible for a relatively
6 large parcel to be light, is it not?

7 A A large parcel could be light, that's correct.

8 Q So when you were talking about level of service,
9 were you primarily focused on delivery priority or other
10 factors? I wasn't clear on what you said.

11 A I was focused here on DDU practices for Parcel
12 Post as it compared to Priority Mail. It seemed that they
13 received a comparable level of service once you reached the
14 DDU. That just confirmed again my -- or the interrogatories
15 that were asked of the witnesses that talked about how fast
16 DDU entry parcels were delivered. And for the most part
17 they are delivered next day. And so it seemed that those
18 parcels receive a comparable level of service. And,
19 therefore, I believe should yield a significant, or more
20 significant contribution to institutional cost than under
21 the current design.

22 Q And I believe you said that you didn't examine
23 and, therefore, are not sure whether other classes of mail,
24 once they reach the DDU, receive that same level of service.
25 Did I understand you correctly?

1 A Yes. I did not look. It would not surprise me,
2 it would not be surprising that certain other classes have a
3 similar delivery standard. I don't know whether there would
4 be mitigating circumstances as to whether you would markup
5 or not markup, or do a different passthrough for those
6 subclasses. I was focused simply on DDU Parcel Post entry
7 and its relationship to Priority Mail.

8 MR. REITER: Thank you.

9 That is all I have, Mr. Chairman.

10 CHAIRMAN GLEIMAN: Is there any follow-up?
11 Questions from the bench?

12 [No response.]

13 CHAIRMAN GLEIMAN: That brings us to redirect.
14 Counsel, would you like some time with your witness?

15 MR. MCKEEVER: Just a few minutes, Mr. Chairman.

16 CHAIRMAN GLEIMAN: Five?

17 MR. MCKEEVER: That will do. Thank you.

18 [Recess.]

19 CHAIRMAN GLEIMAN: Mr. McKeever?

20 MR. MCKEEVER: We have no redirect, Mr. Chairman.

21 CHAIRMAN GLEIMAN: If you have no redirect, then,
22 Mr. Luciani, that completes your testimony here today. We
23 appreciate your appearance, your contributions to our
24 record. We thank you, and you are excused.

25 [Witness excused.]

1 CHAIRMAN GLEIMAN: Mr. Costich, would you like to
2 introduce our next witness?

3 MR. COSTICH: Thank you, Mr. Chairman. The OCA
4 calls Mark Ewen.
5 Whereupon,

6 MARK D. EWEN,
7 a witness, having been called for examination and, having
8 been first duly sworn, was examined and testified as
9 follows:

10 CHAIRMAN GLEIMAN: Counsel, whenever you are
11 ready.

12 DIRECT EXAMINATION

13 BY MR. COSTICH:

14 Q Mr. Ewen, do you have before you two copies of a
15 document labeled OCA-T-5?

16 A I do.

17 Q Could you identify that document?

18 A It is my direct testimony.

19 Q And it was prepared by you or under your
20 supervision?

21 A Yes.

22 Q If you were to testify orally today, would this be
23 your testimony?

24 A Yes.

25 MR. COSTICH: Mr. Chairman, I will hand two copies

1 of the document identified as OCA-T-5 to the reporter and
2 ask that it be admitted into evidence.

3 CHAIRMAN GLEIMAN: Is there any objection?

4 [No response.]

5 CHAIRMAN GLEIMAN: Hearing none, I will direct
6 counsel to provide those two copies to the court reporter
7 and the testimony of Witness Ewen will be transcribed into
8 the record and received into evidence.

9 [Direct Testimony of Mark D. Ewen,
10 OCA-T-5, was received into evidence
11 and transcribed into the record.]

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OCA-T-5
Docket No. R2000-1

DIRECT TESTIMONY
OF
MARK D. EWEN
ON BEHALF OF
THE OFFICE OF THE CONSUMER ADVOCATE

MAY 22, 2000

	<u>TABLE OF CONTENTS</u>	Page
I.	STATEMENT OF QUALIFICATIONS	1
II.	PURPOSE AND SCOPE OF TESTIMONY	2
III.	OVERVIEW OF POSTAL SERVICE APPROACH.....	3
IV.	CRITIQUE OF POSTAL SERVICE APPROACH.....	8
	A. Witness Baron's Theoretical Basis	8
	B. Real World Basis for the Stops Effect	10
	C. Statistical Evidence for the Stops Effect.....	12
V.	WITNESS BARON'S MEASURE OF THE STOPS EFFECT	14
VI.	CONCLUSION.....	18

UNITED STATES OF AMERICA
Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Postal Rate and Fee Changes, 2000)

Docket No. R2000-1

DIRECT TESTIMONY
OF
MARK D. EWEN

1 I. STATEMENT OF QUALIFICATIONS

2 My name is Mark Ewen, and I am a Senior Associate with Industrial Economics,
3 Incorporated (IEc) of Cambridge, Massachusetts. I have been employed by IEc for
4 approximately five years. I am an economist and financial analyst, specializing in utility
5 economics, economic damages estimation, and financial analysis of entities that are the
6 subjects of environmental enforcement actions. As part of this work, I have testified and
7 submitted expert reports before Federal Administrative Court and Federal District Court.
8 While this testimony constitutes my first appearance before the Postal Rate
9 Commission, I participated in the assessment of postal ratemaking and policy during the
10 Docket No. R97-1 rate case, while working with Sharon Chown on behalf of a different
11 client. In that proceeding, I contributed to a number of analyses undertaken by my firm,
12 including analyzing the United States Postal Service's methods for estimating volume-
13 variable load-time costs generated on city delivery carrier routes. I received a Bachelor
14 of Arts degree in economics and political science from the University of North Dakota,
15 and a Masters in Public Policy from the University of Michigan.

Docket No. R2000-1

OCA-T-5

1 II. PURPOSE AND SCOPE OF TESTIMONY

2 On behalf of the Office of the Consumer Advocate, I was asked to review the
3 approach proposed by the Postal Service to estimate volume variable load-time costs
4 for city delivery carriers, focusing on the testimony and analysis of Witness Baron
5 (USPS-T-12). This testimony presents the results of my review.

6 As in his Docket No. R97-1 testimony, Witness Baron proposes to discard certain
7 components of the Commission's established treatment of volume variable load-time
8 costs. Specifically, he argues that a certain increment of estimated accrued load time
9 *for each and every stop* should be regarded as independent of mail volume, and
10 therefore should not vary as loaded volume at a stop changes. Witness Baron defines
11 this concept as the "stops effect." He then defines a measure of "fixed time at stop"
12 with available load-time data and argues that this portion of accrued load-time costs
13 should be treated as access costs. Furthermore, after estimating the direct volume
14 variability of the remaining load-time accrued cost pool (commonly referred to as
15 "elemental" load time), he considers the residual component, or coverage-related load-
16 time, to be an unattributable institutional cost. This treatment differs from the
17 established approach of attributing coverage-related load-time based on the proportion
18 of mail delivered to single subclass stops.

19 In its Opinion and Recommended Decision, Docket No. R97-1, the Commission
20 specifically rejected this approach, concluding that the stops effect concept is
21 theoretically flawed. The Commission was correct to do so, for the reasons specified in
22 its decision. Primarily, this concept should be rejected because it has no real world

Docket No. R2000-1

OCA-T-5

1 explanation for the alleged fixed costs incurred at every stop, and because the statistical
2 analysis used by Witness Baron does not demonstrate that any fixed costs exist. In
3 addition, I will demonstrate that Witness Baron's quantitative measure of the stops
4 effect concept, irrespective of its theoretical flaws, must necessarily overstate any
5 alleged stops effect and is incorrect. For these reasons, I recommend that the
6 Commission again reject the Postal Service's approach and employ its established
7 approach for evaluating volume variability of load time and attributing related costs.

8 The remainder of my testimony is divided into three sections. Section III
9 summarizes the Postal Service's approach. Section IV provides a critique of the
10 theoretical underpinnings of the stops effect concept, and summarizes the
11 Commission's opinion concerning this approach in Docket No. R97-1. Section V
12 expands the record on this issue by illustrating the effects of alternative, and equally
13 plausible, approaches for estimating the stops effect as defined by Witness Baron.

14 III. OVERVIEW OF POSTAL SERVICE APPROACH

15 Both the Commission and the Postal Service maintain the same premise that the
16 purpose of the load time analysis is to estimate the portion of load time that varies with
17 volume. The established Commission approach begins by dividing total accrued load
18 time into two categories. The first category, "elemental" load time, represents the
19 portion of total time that varies directly with volume at a stop. Related elemental load
20 time costs are attributed to mail classes using a piece-based distribution key. The
21 second category, coverage-related load time, represents the residual of total load time
22 remaining after elemental load is estimated. Volume indirectly influences coverage-

Docket No. R2000-1

OCA-T-5

1 related load time to the extent volume affects the number of stops covered on a route.
2 Coverage-related load-time costs are attributed based on the percentage of deliveries
3 made to single subclass stops. These two categories effectively capture the direct stop-
4 level influences of volume on load time and indirect system-level effects of volume on
5 the number of stops covered.

6 Witness Baron proposes to abandon the Commission's established treatment of
7 coverage-related load time. His proposal deviates from the established approach in two
8 important ways. First, he rejects the definition of coverage-related load-time as the
9 residual of total accrued load-time after the elemental component has been removed.
10 Second, he does not employ the Commission's approach of attributing coverage-related
11 costs based on the proportion of stops where only one subclass of mail is delivered.

12 The basic premise for Witness Baron's argument regarding the treatment of
13 coverage-related load-time is that any load time increment dependent upon the number
14 of stops receiving mail should be completely independent of the mail volume delivered.
15 He therefore replaces the Commission's residual definition of coverage-related load-
16 time with a concept referred to as the "stops effect." Witness Baron characterizes the
17 stops effect as the "...increase in time that results from the accessing of a new stop"
18 and regards this increment of time as "...independent of the amount and mix of volume
19 delivered at that stop." USPS-T-12, p. 7. It is a fixed component of time that carriers
20 repeat at every stop.

21 He defines this time increment for each stop type (SDR, MDR, and BAM) using
22 data from the 1985 load time field test. In his definition, he assumes that the average

Docket No. R2000-1

OCA-T-5

1 load times recorded in the field test for the lowest quintile of one-letter deliveries
 2 represent a reasonable proxy for the fixed amount of time carriers spend preparing to
 3 load and collect mail. He then calculates the ratio of this time increment relative to
 4 average load times for the entire sample of stops in the 1985 load time field test.
 5 Finally, Witness Baron multiplies this ratio by 1998 accrued load-time costs to estimate
 6 the portion of these costs related to the stops effect, repeating this process for each
 7 stop type. This pool of fixed-time costs is then transferred to the access cost pool.

8 The following simple formula illustrates this calculation:

9 $FTC_k = (AFT_k / ATT_k) * ALTC_k$, where

10 FTC_k equals fixed load time costs attributed to the stops effect for stop
 11 type k,
 12 AFT_k (average fixed load time) equals the average load-time, in seconds,
 13 of the lowest quintile of one-letter sampled deliveries from the 1985
 14 load time field test for stop type k,
 15 ATT_k (average total load time) equals the average load time for all
 16 sampled deliveries from the 1985 load time field test for stop type k,
 17 and
 18 $ALTC_k$ equals accrued load-time costs for stop type k.

19 Table 1 summarizes the derivation of the Postal Service's fixed time costs. As
 20 the table shows, these costs represent approximately 14 percent of accrued load-time
 21 costs for SDR stops, 2.2 percent of MDR stop costs, and 5.8 percent of BAM stop costs.
 22 These "fixed time costs" are then transferred to the access cost pool, and their volume
 23 variability is estimated using the established approach for access time.

Docket No. R2000-1

OCA-T-5

Table 1					
FIXED-TIME COSTS ATTRIBUTABLE TO THE STOPS EFFECT					
Stop Type	Average Fixed Time (seconds) (a)	Average Total Time (seconds) (b)	Percent Fixed-Time Costs (c)	Accrued Load Time Costs (\$000) (d)	Fixed-Time Costs (\$000) (e)
SDR	1.052	7.515	13.999%	\$1,571,780	\$220,025
MDR	1.110	50.432	2.201%	\$948,109	\$20,868
BAM	0.919	15.971	5.754%	\$336,286	\$19,351
Total				\$2,856,175	\$260,244
(a) USPS-T-17, Docket No. R97-1, Table 2.					
(b) USPS-T-17, Docket No. R97-1, Table 2.					
(c) equals (a)/(b).					
(d) Response to OCA/USPS-T12-8.					
(e) equals (c)*(d).					

1 After removing the stops effect pool of accrued load-time costs, Witness Baron
2 estimates elemental load time from the remaining pool of accrued load-time costs using
3 the standard regression equations generated from the 1985 Load Time Variability (LTV)
4 study.^{1,2} Witness Baron treats coverage-related load time, or the portion of accrued
5 load-time costs that remains after fixed-time costs and elemental load-time costs have
6 been removed, as an unattributable, institutional cost.

¹ Witness Baron presents the load-time regression equations for SDR stops (equation 1) and MDR and BAM stops (equation 2) on pages 4 and 5 of USPS-T-12. In LR-H-137, the Postal Service provides a more detailed description concerning the estimation of these equations.

² For the MDR and BAM stop type regressions, Witness Baron reinterprets the "possible deliveries" variables and related coefficients to derive what he refers to as the "deliveries effect." He defines this effect as the extent to which actual deliveries increase with respect to increases in volume and regards it as a volume variable component of load time. Docket No. R97-1, USPS-T-17, pp. 16-23. Although I do not directly assess this approach in my testimony, the Commission expressly rejected this respecification in R97-1. PRC Op. R97-1, ¶ 3290.

Docket No. R2000-1

OCA-T-5

1 I compare the results of this approach for calculating the volume variability of
 2 load-time to those generated by the established Commission approach in Table 2. As
 3 illustrated in this table, the Postal Service's approach yields significantly lower estimates
 4 of volume variable and attributable load-time costs compared to the established
 5 Commission approach. In particular, the Postal Service's approach reduces the pool of
 6 total accrued costs from which elemental load-time volume variability is estimated. In
 7 addition, it treats the remaining portion of load-time costs after elemental load-time has
 8 been calculated as an institutional cost, instead of attributing these costs on the basis of
 9 mail delivered to single subclass stops.

Table 2		
COMPARISON OF LOAD TIME COST ESTIMATES (\$000)		
	PRC Methodology (a)	Postal Service Methodology (b)
1. Total Accrued Costs	\$2,856,175	\$2,856,175
2. Fixed-Time Costs	\$0	\$260,244 ^(c)
3. Volume Variable Fixed-Time Costs	\$0	\$18,933 ^(c)
4. Adjusted Accrued Load (line 1-line 2)	\$2,856,175	\$2,595,931
5. Elemental Load	\$1,751,769	\$1,736,424 ^(d)
6. Coverage Related Load (line 4-line 5)	\$1,104,406	\$859,507
7. Attributable Coverage-Related Load	\$192,807 ^(e)	\$0
8. Total Volume Variable and Attributable Load Time Costs (line 3+line5+line 7)	\$1,944,576	\$1,755,357
(a) OCA/USPS-T12-8, sum of column labeled "previous" from tables 1, 2, and 3 (b) OCA/USPS-T12-8, sum of column labeled "new" from tables 1, 2, and 3 (c) Fixed-time costs transferred to access cost pool; volume variable fixed-time costs calculated using standard methods for access cost component. (d) Includes direct volume variable load-time costs related to mail shape and volume, and Witness Baron's "deliveries effect" at MDR and BAM stops. (e) Calculated using single-subclass stop ratios from USPS-T-11, Workpaper B, CS06&7, Worksheet 7.0.4.2.		

Docket No. R2000-1

OCA-T-5

1 IV. CRITIQUE OF POSTAL SERVICE APPROACH

2 A. Witness Baron's Theoretical Basis

3 Witness Baron offers two theoretical justifications for the Postal Service's
4 measure of fixed time at a stop. First, he argues the approach is consistent with the
5 Commission's Recommended Decision in Docket No. R90-1, where it concludes that
6 coverage-related load time "is independent of volume delivered at a stop," depending,
7 instead, on whether the "stop receives mail at all." USPS-T-12 at 7 citing PRC Op. R90-
8 1, ¶ 3125. He asserts that the stops effect approach meets this criterion, while the
9 established method does not.

10 In the Docket No. R97-1 Recommended Decision, the Commission sought to
11 clarify the meaning of this statement. Most importantly, it places the critical quotation
12 used by Witness Baron to justify the stops effect approach in the broader context of
13 related statements made by the Commission in other proceedings. Specifically, the
14 Commission cites from the R87-1 docket, where the Commission said:

15 [T]he intent of the LTV analysis was to find the volume variable portion of
16 total load time, given that a stop actually had mail. The coverage-related
17 load time analysis was intended to find the additional volume variability
18 resulting from the fact that additional deliveries are caused by additional
19 volumes.

20 PRC Op. R97-1, ¶ 3278, citing PRC Op. R87-1, ¶ 3373. Placed within this broader
21 context, the Commission draws the reasonable conclusion that Witness Baron "reads
22 far too much into the Commission's previous descriptions of the distinction between
23 elemental and coverage-related load time," and that the Commission's prior statements
24 regarding coverage-related load "do not mean that coverage-related load time is

Docket No. R2000-1

OCA-T-5

1 completely insulated from all influence of volume, direct or indirect." PRC Op. R97-1, ¶
2 3278.

3 In raising this justification again in the current proceeding, Witness Baron offers
4 no additional support for it other than to reiterate his interpretation of the R90-1
5 decision, an interpretation that is inconsistent with the Commission's own provided in
6 R97-1.

7 The second justification offered by Witness Baron is that the stops effect
8 measure is consistent with the "activity-based functional" approach for allocating total
9 accrued street-time costs across the six major street-time activities, including load-time,
10 driving time, curb running time, foot/park & loop running time, collection time, and street
11 support. USPS-T-12, pp. 7-8. Total street-time costs are allocated to each major
12 activity based on the percentage of total street-time that carriers spend conducting each
13 activity. Witness Baron correctly observes that to complete this allocation, each
14 functional category must be viewed and measured as a "separable, explicitly defined"
15 activity. USPS-T-12, p. 8.

16 From this basic premise, Witness Baron concludes that the elemental and
17 coverage-related components *within* load time must also be regarded as "distinct,
18 separately identified" actions. USPS-T-12, p. 8. This conclusion stretches the
19 "mandate" of the functional approach too far. The functional approach provides the
20 basis for allocating total street-time and related accrued costs to each major category of
21 carrier activity. For the carrier activity of interest in this testimony, load-time, the next

Docket No. R2000-1

OCA-T-5

1 step is to determine the portion of this time that varies with volume, either directly or
2 indirectly.

3 To complete this procedure, it is unnecessary to separately identify and regard all
4 of the actions occurring during the loading process as distinct.³ Indeed, as the
5 Commission has stated:

6 There was then, and is now, no need to decide whether new stops might
7 affect load time because they require a "fixed observable activity" to be
8 repeated at each new stop, or because they might require a variety of
9 additional activities that are directly related to the loading of mail, and vary
10 in duration from stop to stop.

11 PRC Op. R97-1, ¶ 3282. Once the proper proportion of total accrued carrier
12 street-time and related costs have been allocated to load time, Witness Baron's activity-
13 based functional approach has served its purpose. By stretching the purported
14 requirements of this approach to say that elemental and coverage-related load time
15 must be regarded as "distinct, separately identified actions," Witness Baron
16 unnecessarily restricts the assessment of attributable load-time costs.

17 B. Real World Basis for the Stops Effect

18 In addition to the theoretical limitations identified by the Commission concerning
19 Witness Baron's stops effect model, the Docket No. R97-1 decision cites the empirical
20 inadequacies of his proposal:

21 Clearly, neither the STS nor the LTV surveys of load time contemplated
22 that there was a "fixed observable activity" taking up an "independently
23 measurable, separable block of time" at every stop that is unrelated to the

³ For that matter, while elemental and coverage-related load time may represent the two "measured components" of load time, they are not single, discrete actions in the functional sense, but rather likely comprise a number of actions a carrier engages in when loading mail.

Docket No. R2000-1

OCA-T-5

1 need to load mail at that stop or they would have made some effort to
2 identify it.... It does not correspond to any engineering concept,
3 operational reality, or empirical data that witness Baron can identify.

4 PRC Op. R97-1, ¶ 3279. Furthermore, Witness Baron acknowledges that to his
5 knowledge, the new ES Study, which the Postal Service is using for the first time to
6 allocate carrier street time to its functional activities, did not collect any stops effect
7 data. OCA/USPS-T12-4.

8 It is not surprising that these studies did not attempt to measure this theoretical
9 fixed-time component, as Witness Baron cannot explicitly define what carrier activities
10 might take place during this block of time. He refers generally to this moment of carrier
11 activity as that of "...preparing to handle mail pieces, mail bundles, or mail-related
12 equipment," and suggests that this work occurs, "immediately after the carrier reaches
13 the stop, and just prior to the initiation of the piece, bundle, or equipment handling."
14 OCA/USPS-T12-1. This general characterization, however, fails to identify any set of
15 "separable, explicitly defined" activities related to fixed time at stop. We are left to
16 identify on our own what these preparation activities might entail.

17 I cannot identify any explicit activity or set of activities that a carrier is likely to
18 engage in at each and every stop for an equal period of time. The strictures of Witness
19 Baron's definition of the stops effect, and the brief moment in which it might occur,
20 necessarily preclude most everything a carrier does while loading mail. For example, it
21 cannot involve a carrier identifying whether mail exists for a stop; this task is completed
22 before access begins, suggesting carriers should be prepared to immediately begin
23 loading activities once they have reached a stop. Furthermore, Witness Baron points

Docket No. R2000-1

OCA-T-5

1 out that the Postal Service's "ES Study" accurately draws clear distinctions between
2 carrier activities and precisely measures the proportions of time spent on each specific
3 function. USPS-T-12, p. 37. Presumably, this assertion applies to the proportion of
4 total route time spent loading mail. If so, it is curious that Witness Baron effectively
5 changes the proportional allocation of total carrier time to load-time through the
6 implementation of the stops effect. In sum, these factors confirm that the stops effect
7 concept lacks a physical hypothesis that is grounded in operational data.

8 C. Statistical Evidence for the Stops Effect

9 If Witness Baron were to proffer a clear hypothesis about the physical rationale
10 for the stops effect, one would logically look to statistical means for testing for its
11 existence and magnitude. For example, the results of the load-time regressions relied
12 upon by Witness Baron could yield further insight into the possible presence of a stops
13 effect.⁴ Witness Baron indicates that fixed time at stop is equivalent to the time spent at
14 "zero volumes loaded." Docket No. R97-1, USPS-T-17, p. 9. The intercept of the load-
15 time regression for each stop type, α , represents a prediction of carrier load-time at zero
16 volumes and deliveries. However, because the Postal Service regression analyses use
17 dummy variables for different receptacle and container types, each receptacle/container
18 effectively has its own intercept term. For example, for certain quick-loading receptacle
19 types, the coefficient on the receptacle dummy is negative, indicating that the fixed time

⁴ Witness Baron confirms that he considered using the regressions to develop a measure of the stops effect concept; however, he further concedes that he rejected this option for the same reasons we discuss here -- the results of the LTV regressions provide no indication that a stops effect exists. Tr. 18/7302-03.

Docket No. R2000-1

OCA-T-5

1 component of load costs for this receptacle is lower than the intercept term alone. At
2 this type of stop, if one were to view the intercept alone as a measure of the stops
3 effect, it would overstate the stops effect.

4 Because Witness Baron defines the stops effect as a fixed component that
5 applies to each and every stop, regardless of the type of container or receptacle,⁵ the
6 stops effect from the load-time equations should be the fixed component for the lowest
7 coefficient for the receptacle and container type dummy variables. This approach yields
8 an indication of any carrier time at a stop with zero volumes, while controlling for the
9 influence of receptacle type on the intercept coefficient's value.

10 Table 3 illustrates the implicit fixed components for the least cost delivery
11 receptacle from the Postal Service's regression analysis. As the table shows, the
12 intercept coefficients alone are negative for MDR and BAM stops. In addition, after
13 adjusting these coefficients for potential receptacle type influences, the inferred fixed-
14 time at stop measure for all three stop types are negative. As a result, the adjusted
15 intercept values from these regressions provide no indication that a true stops effect
16 component is embedded in the load-time measurement data from the 1985 field test.

⁵ Docket No. R97-1, NAA/USPS-T17-3. Confusingly, Witness Baron offers conflicting testimony in this proceeding. He suggests that fixed time at stop may vary for certain reasons, like due to stop or delivery type, the way in which the stop is accessed, or receptacle type, while remaining fixed with respect to volume. He further suggests that he is forced to assume that the stops effect is some fixed amount of time (about one second), due to the fact that no data exist that directly measure fixed time at stop. Tr.18/7296-7297. If so, the derivation of the stops effect seems unnecessary, since the load-time regressions explicitly capture and measure these influences, including that of stop and receptacle type.

Docket No. R2000-1

OCA-T-5

Table 3				
INFERRED STOPS EFFECT FROM LOAD TIME REGRESSION EQUATIONS (seconds)				
Stop Type	Intercept Coefficient*	Lowest Coefficient for Receptacle Dummy*		Inferred Stops Effect
		Type	Coefficient	
SDR	1.1	MR5	-3.4	-2.3
MDR	-2.9	MR7	-24.8	-27.7
BAM	-2.8	MR8	-7.2	-10.0
* USPS-LR-H-137.				

1 V. WITNESS BARON'S MEASURE OF THE STOPS EFFECT

2 Witness Baron indicates that no data are available to directly measure "zero
3 volume" load time (the most direct measure of the stops effect). As a result, any
4 measure must be inferred from available load-time data sets. To draw this inference,
5 Witness Baron uses load time estimates for single-piece deliveries as an upper-bound
6 proxy of the stops effect. In Tables 1 and 2 of his testimony in Docket No. R97-1,
7 Witness Baron calculates the fixed-time costs attributable to the stops effect for SDR,
8 MDR and BAM stop types using this method. Witness Baron's critical assumption,
9 however, is that the "stops effect" should be based on the average time for the lowest
10 quintile of recorded single-delivery times.

11 Witness Baron states that, by definition, the lowest recorded load time observed
12 across all single-piece deliveries from the load time field test **must** represent an upper-
13 bound quantification of the stops effect. Docket No. R97-1, USPS-T-17, p. 10. Thus,
14 by his own definition, Witness Baron overestimates the stops effect by instead using the
15 average of the lowest quintile. In effect, Witness Baron implicitly assumes that roughly
16 10 percent of all single letter stops will have a load time, which very likely includes a

Docket No. R2000-1

OCA-T-5

1 volume variable cost component associated with the loading of the single letter, that is
2 less than his measure of the "stops effect."

3 Witness Baron's testimony fails to justify his use of the average of the lowest 20
4 percent of recorded load times. Changes in the segment of the sample used to
5 represent the "lowest single-delivery load time" can have significant effects on the
6 calculation of fixed-time costs due to the stops effect. For example, Table 4 illustrates
7 the relationship between the portion of the sample used and the resulting calculations of
8 fixed-time costs for SDR stops.

Table 4		
SAMPLE SELECTION AND CALCULATION OF FIXED TIME COSTS		
Segment of SDR Sample	Percent Fixed Time (a)	Fixed-Time Costs, SDR Stops (\$000) (b)
Average of All One-Piece Deliveries	49.057 %	\$ 771,061
Average of Lowest 20% of Sample (Witness Baron's Calculation)	13.999 %	\$ 220,028
Average of Lowest 10% of Sample	11.714 %	\$ 184,117
Average of Lowest 5% of Sample	9.681 %	\$ 152,166
Lowest Value of Sample	5.323 %	\$ 83,661
(a) Values derived from USPS LR-H-140.		
(b) equals (a)*\$1,571,780 (total accrued load-time costs for SDR stops).		

9 The results shown in the above table demonstrate how the percent fixed time,
10 and thus fixed time costs, can vary significantly depending upon what segment of the
11 total sample of observed load times is used. For example, the lowest recorded load
12 time across the sample of 1373 single-piece SDR deliveries is 0.4 seconds.⁶ The ratio

⁶ Note that Witness Baron's testimony in Docket No. R97-1 states that the highest recorded single-piece delivery time is 6.34 seconds for SDR stops. Baron observes that, "clearly, 6.34 is too high as an approximation of the amount of time spent prior to loading a single letter." USPS-T-17, p. 10. However, I believe that this value is stated in error; the highest recorded single-piece delivery time is 634 tenths of a second, or 63.4 seconds.

Docket No. R2000-1

OCA-T-5

1 of this fixed time to total time yields the percent fixed time, which is applied to total base
2 year 1998 SDR accrued load time costs to determine fixed SDR costs. Rather than use
3 0.4 seconds as the basis for his calculations of fixed-time costs due to the stops effect,
4 however, Witness Baron uses significantly higher values based on the average times
5 across the lowest quintiles of SDR, MDR and BAM samples.

6 Witness Baron offers insufficient justification for the use of the average of the
7 lowest quintile of recorded times rather than the average of the lowest five percent, or
8 ten percent of recorded times. Furthermore, because Witness Baron argues that the
9 lowest recorded single-delivery load time of 0.4 seconds must, by definition, represent
10 an upper-bound measurement of the stops effect, his measure of the stops effect is
11 incorrect.⁷

12 It is unclear why Witness Baron does not employ this value of 0.4 seconds to
13 derive an estimate *for the upper bound* of fixed-time costs, under his definition thereof.
14 Witness Baron dismisses this option by questioning the accuracy of the 0.4 second
15 value and citing its relative infrequency in the sample as a whole. Docket No. R97-1,
16 USPS-T-17, p. 11. If one looks at the frequency distribution of the sample, however, it
17 is apparent that 0.4 seconds is not a statistical outlier but is in fact consistent with the
18 overall distribution of the timed events. USPS LR-H-140. For example, the sample of
19 1373 load-times for single-delivery SDR stops yields 151 unique time measurements.
20 Of these unique time measurements:

⁷ Witness Baron confirms the difficulty he faced in determining the segment of the sample to employ, suggesting the selection process was not very "scientific" and represented his "best guess as to where we should draw the line." Tr.18/7310.

Docket No. R2000-1

OCA-T-5

1 • 94 have five or fewer observations throughout the sample. The
2 measurement of 0.4 seconds is observed five times in the SDR
3 sample. This means that approximately 62 percent of time
4 measurements are observed less frequently, or with equal
5 frequency, as compared to the lowest observed measurement of
6 0.4 seconds.⁸

7 • The average number of observations per unique time measurement
8 is 9 observations, and the median number of observations is three.
9 The five observations of .4 seconds fall between these two
10 measures of central tendency.⁹

11 The sample provides additional indications that Witness Baron's approach likely
12 overstates fixed-time at stop, to the extent it exists at all. Out of the total sample of
13 1373 single-delivery SDR stops, 113 observations produced load-times *less than* the
14 average load-time across the lowest quintile of observations (*i.e.*, Witness Baron's proxy
15 for calculating fixed time costs due to the stops effect). As a result, the Postal Service's
16 measure of fixed time at stop exceeds *total* load times for over eight percent of the
17 observations in this sample. Similar arguments to those above can be made for the
18 sample of one-letter deliveries at MDR and BAM stops as well.

⁸ The related percentages for MDR and BAM stops are approximately 67 percent and 87 percent, respectively.

⁹ For MDR stops, the lowest recorded value of 0.5 seconds appears once in the sample. The average number of observations per unique time measurement in the sample of one-letter deliveries at MDR stops is 1.3, and the median is 1. For BAM stops, the lowest recorded value of 0.5 seconds appears twice in the sample. The average number of observations per unique time measurement in the sample of one-letter deliveries at BAM stops is 1.5, and the median is 1.

Docket No. R2000-1

OCA-T-5

1 As demonstrated above, equally plausible alternative sample subsets yield
2 varying measures of the stops effect as defined by Witness Baron. In fact, the evidence
3 suggests that this time increment, if it indeed exists, is likely too short to be measured.
4 Even Witness Baron concedes this possibility:

5 Given that the 1985 measurements indicate that even loading one letter
6 takes as little as one second, it is conceivable that fixed time at a stop -
7 the time spent prior to any handling of mail or mail-related equipment - is
8 less than one second, and therefore so low as to be virtually
9 unmeasurable. In this case, a data collector could validly conclude that
10 fixed time at a stop is virtually zero, or alternatively, that zero is the best
11 possible point estimate of this fixed time. OCA/USPS-T12-9.

12 In summary, the Postal Service's method for measuring the stops effect is
13 arbitrary. No data exist to support direct measurement of the stops effect, and the
14 Postal Service's selection of a subset of single-piece delivery load times as a proxy for
15 the stops effect is unsubstantiated.

16 VI. CONCLUSION

17 In this proceeding, the Postal Service has again proposed significant changes to
18 the established treatment of volume-variable load-time costs. It proposes to abandon
19 the notion of coverage-related load-time and seeks to replace it with a concept referred
20 to as the stops effect. As a result of this approach, the amount of attributable load-time
21 decreases significantly.

22 Based upon my review of the relevant testimony and supporting data, I conclude
23 that the Postal Service's proposed stops effect approach is not justified. It is a fictional
24 construct founded upon an incorrect interpretation of prior Commission opinions.
25 Additional justification for the approach is based on a strained and unnecessary

Docket No. R2000-1

OCA-T-5

1 extension of the activity-based functional approach for allocating total street-time among
2 the major carrier activities into the assessment of load-time volume variability. No data
3 exist that directly measure the effect, nor do the results of the load-time regression
4 equations provide a hint that carriers might spend some fixed amount of time at each
5 stop where zero mail volumes are loaded. Furthermore, even if such an effect exists, it
6 cannot be accurately imputed using available data. As a result, the Postal Service's
7 analysis of the stops effect is neither theoretically nor empirically supported. For these
8 reasons, I recommend that the Commission maintain its established treatment of load-
9 time costs, as outlined in the Docket No. R97-1 Recommended Decision and
10 summarized here in Section III.

1 CHAIRMAN GLEIMAN: Mr. Ewen, have you had an
2 opportunity to examine the packet of designated written
3 cross-examination that was made available earlier today?

4 THE WITNESS: I have.

5 CHAIRMAN GLEIMAN: And if those questions were
6 asked of you today, would your answers be the same as those
7 you previously provided in writing?

8 THE WITNESS: Yes.

9 CHAIRMAN GLEIMAN: That being the case, counsel,
10 if you could please provide two copies to the court
11 reporter, I will direct that the material be received into
12 evidence and transcribed into the record.

13 [Designated Written
14 Cross-Examination of Mark D. Ewen,
15 OCA-T-5, was received into evidence
16 and transcribed into the record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF OFFICE OF THE CONSUMER ADVOCATE
WITNESS MARK D. EWEN
(OCA-T-5)

Party

Newspaper Association of America

United States Postal Service

Interrogatories

USPS/OCA-T5-3-9, 15, 19, 22-23, 26, 28

USPS/OCA-T5-1-29

Respectfully submitted,



Cyril J. Pittack
Acting Secretary

INTERROGATORY RESPONSES OF
OFFICE OF THE CONSUMER ADVOCATE
WITNESS MARK D. EWEN (T-5)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
USPS/OCA-T5-1	USPS
USPS/OCA-T5-2	USPS
USPS/OCA-T5-3	NNA, USPS
USPS/OCA-T5-4	NNA, USPS
USPS/OCA-T5-5	NNA, USPS
USPS/OCA-T5-6	NNA, USPS
USPS/OCA-T5-7	NNA, USPS
USPS/OCA-T5-8	NNA, USPS
USPS/OCA-T5-9	NNA, USPS
USPS/OCA-T5-10	USPS
USPS/OCA-T5-11	USPS
USPS/OCA-T5-12	USPS
USPS/OCA-T5-13	USPS
USPS/OCA-T5-14	USPS
USPS/OCA-T5-15	NAA, USPS
USPS/OCA-T5-16	USPS
USPS/OCA-T5-17	USPS
USPS/OCA-T5-18	USPS
USPS/OCA-T5-19	NNA, USPS
USPS/OCA-T5-20	USPS
USPS/OCA-T5-21	USPS
USPS/OCA-T5-22	NNA, USPS
USPS/OCA-T5-23	NNA, USPS
USPS/OCA-T5-24	USPS
USPS/OCA-T5-25	USPS
USPS/OCA-T5-26	NNA, USPS
USPS/OCA-T5-27	USPS
USPS/OCA-T5-28	NNA, USPS
USPS/OCA-T5-29	USPS

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-1-9

USPS/OCA-T5-1. Please refer to your testimony at pages 8-9.

- (a) Please confirm that if a variable X is independent of another variable Y, then X is fixed with respect to changes in Y.
 - (b) If your answer to (a) is anything other than an unqualified "confirmed," please explain how X can be independent of Y and yet vary in response to Y. Please give examples of this phenomenon.
 - (c) Please refer to page 8 line 6 of your testimony, where, quoting the Commission, you state that "coverage-related load time 'is independent of volume delivered at a stop.'"
- (1) One interpretation of this quotation is the following, derived from witness Baron's testimony: Coverage-related load time is fixed with respect to volume delivered at a stop. (See for example, USPS-T-12, page 8, 2-4 and page 9 lines 3-13). Do you believe that this interpretation of the quotation at page 8 line 6 of your testimony reads far too much into the language of that quotation? If so, please state specifically what about this interpretation constitutes reading "far too much" into the quotation. Please also explain fully how and why the interpretation reads "far too much" into the quotation, and what about the quotation stands in conflict with Mr. Baron's interpretation.
 - (2) Do you believe Mr. Baron's interpretation just given to the quotation "coverage-related load time is independent of volume delivered at a stop" violates the Webster's Dictionary (any edition) definition of any of the individual words in this quotation? If so, please provide the dictionary definition of each word Mr. Baron's interpretation is violating, and explain fully how each violates the definition.

RESPONSE TO USPS/OCA-T5-1:

- (a) Confirmed.
- (b) N/A
- (c) (1) and (2). Yes, I do believe that witness Baron reads too much into the language of the quotation. I base this conclusion on the fact that the Commission has clearly stated in its interpretation of this quotation that it did not

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-1-9

mean to suggest that "coverage-related load time is completely insulated from all influences of volume, direct or indirect." PRC Op. R97-1, 3278. As such, I do not quibble with witness Baron's reading of the quotation, in a dictionary sense, but rather point out that this interpretation appears to be at odds with the spirit and intent of the Commission's words, as it explained in Docket No. R97-1.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-1-9

USPS/OCA-T5-2. Please refer again to your statement at page 8 line 6 that "coverage-related load time 'is independent of volume delivered at a stop.'" You state at page 8 lines 10-11 that in its R97-1 Decision, "the Commission sought to clarify the meaning of this statement."

- (a) Please explain the ambiguity in this statement that requires clarification.
- (b) Please explain which specific words or phrases from this statement are ambiguous, and explain why the dictionary definitions of the words are insufficient to convey their true meanings.
- (c) Do you confirm that the additional load time that results when, due to volume growth, a carrier delivers mail at a previously uncovered delivery point is coverage-related load time? If you do not confirm, please explain why this additional load time is not coverage-related load time.

RESPONSE TO USPS/OCA-T5-2:

- (a) I have not testified that the statement was ambiguous. However, witness Baron interpreted that statement to mean that coverage-related load time must equal a fixed, and equal, amount of time at each stop (i.e., the stops effect). While it is unclear to me how witness Baron interpreted the Commission's statement to imply a fixed amount of time at every stop, the Commission clarified its position by rejecting witness Baron's interpretation. It concluded that coverage-related load time is not necessarily completely insulated from volume influences and may vary from stop to stop.
- (b) See response to (a).
- (c) Not confirmed. In covering the previously uncovered stop, I presume the carrier engages in typical mail loading activities. As such, a certain increment of the total load time required to complete these activities will be dependent upon the volume delivered at that stop. The elemental load time variability analysis

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-1-9

captures this proportion. The remaining increment of time, commonly referred to as coverage-related load time, may be in part influenced by system-level volume effects or other non-volume-related factors (e.g., receptacle type).

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-1-9

USPS/OCA-T5-3. Please refer to your testimony at page 8 lines 10-13. You refer in these lines to the "critical quotation" that "coverage-related load time is independent of volume delivered at a stop" (from page 8 line 6 of your testimony). You cite to the Commission as stating that this quotation must be placed "in the broader context of related statements made by the Commission in other proceedings."

- (a) Please state the exact conclusion, implication, finding, or other result of this "broader context" that invalidates Mr. Baron's interpretation (presented at the second sentence in USPS/OCA-1(c)(1)) of the above "critical quotation." Please be specific.
- (b) Again referring to Mr. Baron's interpretation given to the "critical quotation," please explain what specific error made in that interpretation is revealed by the "broader context" enunciated by you in your testimony. Please explain how and why the "broader context" reveals this error.
- (c) Please identify the specific parts of the "broader context" which dictate that coverage-related load time is both independent of mail volume and yet not fixed with respect to mail volume. Please explain why these parts of the "broader context" invalidate the view that the words "independent of" mean "fixed with respect to."
- (d) At page 8 lines 16-19 of your testimony, you quote the Commission as stating that "[t]he coverage-related load time analysis was intended to find the additional volume variability resulting from the fact that additional deliveries are caused by additional volumes." Please explain how this fact invalidates Mr. Baron's interpretation of the "critical quotation."
- (e) Please refer to your testimony at page 8 line 24 through page 9 lines 1-2. Please explain how a block of time can be independent of mail volume and not be "completely insulated from all influence" of mail volume. Please give examples of postal and non-postal operations that are independent of mail volume and yet are not completely insulated from all influence of mail volume.

RESPONSE TO USPS/OCA-T5-3:

- (a) The "broader context" reveals that the elemental load time analysis effectively captures stop level volume effects, and that the remaining increment of load time may be influenced by a variety of mail loading activities and may vary across stops.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-1-9

- (b) The specific error revealed by the broader context involves the analytic leap *made by witness Baron from his interpretation of the critical quotation to the conclusion that coverage-related load time represents a fixed component of time that carriers repeat at every stop.*
- (c) The question is not clear. The relevant volume effects on load time are captured using the elasticities generated by the LTV regressions. Since load time is not 100 percent volume variable, some portion of total load time remains. This portion, or coverage-related load-time, may be influenced by a variety of activities that may vary from stop to stop. Understanding exactly how coverage-related load-time manifests itself in the act of loading mail is not necessary, since the Commission has adopted the technique of attributing coverage-related load-time using single-subclass stop ratios. Witness Baron, on the other hand, interprets the critical quotation to mean that coverage-related load-time represents a fixed activity that cannot vary in duration from stop to stop. It is this disconnect that invalidates Witness Baron's leap from coverage-related load time being "independent of" volume delivered at a stop to it being "fixed with respect to" this volume.
- (d) See response to (c).
- (e) I am not arguing that coverage-related load-time is independent of mail volume. See response to (c).

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-1-9

USPS/OCA-T5-4. Please refer to page 3 lines 20-22 of your testimony where you state that the Commission's approach defines coverage-related load time as the residual time that remains after elemental load time is subtracted from total load time.

- (a) Please explain fully the engineering concept, if any, to which this definition of coverage-related load time corresponds.
- (b) Please explain fully the operational reality, if any, to which this definition of coverage-related load time corresponds.

RESPONSE TO USPS/OCA-T5-4:

- (a) I presume that the term, engineering concept, in this context correlates with the "activity-based functional approach" witness Baron refers to in allocating total accrued street-time costs across major street-time activities. USPS-T-12, pp. 7-8. As I argue in my testimony (pp. 9-10), the functional approach used to dissect these activities is necessary to complete this allocation; however, the subsequent estimation of volume influences results from a statistical procedure that is not dependent upon these same engineering concepts.
- (b) The operational reality of the Commission's definition of coverage-related load time is that it conforms to the generally accepted view that a portion of load time varies, either directly or indirectly, with respect to volume, and another portion does not.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-1-9

USPS/OCA-T5-5. Please refer to the Commission's definition of coverage-related load time as the residual time that remains after elemental load time is subtracted from total load time.

- (a) Please confirm that as elemental load time increases, coverage-related load time decreases, according to this definition. If you do not confirm, please explain how coverage-related load time is affected by increases in elemental load time.
- (b) If your answer to part (a) is confirmed, please explain why, from an operational or engineering perspective, coverage-related load time falls as elemental load time rises.

RESPONSE TO USPS/OCA-T5-5:

- (a) Not confirmed. The relationship of elemental and coverage-related load-time depends upon their interaction with volume increases. For example, elemental load time would increase as a result of increased volume at a stop, as would total load time. In this case, coverage-related load time would not change.
- (b) N/A

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-1-9

USPS/OCA-T5-6. Please refer to USPS-LR-I-89, Cs06&7.xls, sheet 7.0.4.2, cells D22 through F26, which list the elasticities of SDR, MDR, and BAM load times with respect to letter volume, flat volume, parcel volume, accountables volume, and collection volume. The sum of these five elasticities is 62.09% for SDR, 72.00% for MDR, and 50.15% for BAM.

- (a) Please confirm that the Commission's load time analysis regards 62.09%, 72.00%, and 50.15% as the Base Year aggregate elasticities of SDR, MDR, and BAM load time, respectively, with respect to an equal-percentage increase in total stop-level volumes across all volume categories (letters, flats, parcels, accountables, and collections). If you do not confirm, please list what you believe are the Base Year 1998 aggregate elasticities of SDR, MDR, and BAM load times with respect to an equal percentage increase in stop-level volumes across all volume categories, according to the Commission analysis.
- (b) Assuming your answer to 6(b) [sic] is confirmed, please explain why you believe the estimated aggregate elasticities of SDR, MDR, and BAM load time with respect to total mail volumes at a stop are only 62.09%, 72.00%, and 50.15%, respectively, instead of 100%. Please fully explain, in other words, why these three elasticities fall below 100%.
- (c) Do you believe that the operation of loading mail at one delivery point can be expected to exhibit increasing returns to scale? Please fully explain the rationale for your answer.

RESPONSE TO USPS/OCA-T5-6:

- (a) Confirmed.
- (b) The fact that these elasticities fall below 100 percent suggests that other factors, in addition to mail volume, influence the amount of time a carrier spends loading mail. These factors might include, for example, the characteristics of the stop, receptacle type, and opening or closing a mail satchel.
- (c) It is possible that the operation of loading mail at a single delivery point can exhibit increasing returns to scale. For example, at a stop receiving two identical pieces of mail, the time required to load both pieces would likely be less than

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-1-9

double the time required to load one of the pieces. This phenomenon could be explained, for example, by the fact that the pieces may be loaded simultaneously, or, if loaded separately, by greater ease with which the carrier handles the receptacle when loading the second piece.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-1-9

USPS/OCA-T5-7. Please refer to your Testimony at page 11 lines 4-7. Did the new ES study collect any data measuring coverage-related load time as defined by the Commission (i.e., as equal to the residual of total load time over elemental load time)? If your answer is yes, please specify the ES data that measure this residual, and how it does so.

RESPONSE TO USPS/OCA-T5-7:

To my knowledge, no. According to the USPS, however, the study did collect sufficient data to accurately identify the portion of route time carriers spend completing mail loading activities. In addition, the LTV study collected detailed data at the stop level on load time, stop type, receptacle/container type, shape/volume components, and possible deliveries. This information is sufficient to estimate how load time varies with respect to these variables. Used in concert, the ES and LTV studies capture the direct and indirect effects of volume changes, which is the prerequisite for their use for ratemaking purposes. Through this approach, there is no need to directly measure coverage-related load-time, as it is derived through a statistical procedure. In contrast, witness Baron does attempt to impute a direct measure, *a priori*, of a coverage, or "stops" effect, using a data source, the LTV study, that did not directly measure this effect.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-1-9

USPS/OCA-T5-8. Please fully identify the activities that a carrier engages in that are coverage-related load activities, based on the definition of coverage-related load time as the residual of total load time over elemental load time. Please also explain fully how these coverage-related activities are distinguished from the elemental load time activities.

RESPONSE TO USPS/OCA-T5-8:

I do not know exactly what mix of load-related activities a carrier might engage in that would represent coverage-related load time. However, this knowledge is not necessary to effectively implement the Commission's approach. The mix of activities and their effect on load-time is implicitly captured in the statistical procedure used to estimate volume influences. It is witness Baron who establishes the standard that the separately-measured components within load time must represent functionally distinct and identifiable activities, and then fails to meet this standard in his explanation of the stops effect.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-1-9

USPS/OCA-T5-9. Please refer to your testimony at page 12, lines 6-10. Please fully identify the "physical hypothesis that is grounded in operational data" that applies to the concept of coverage-related load time as the residual of total load time over elemental load time. Please "proffer a clear hypothesis about the physical rationale" for this concept of coverage-related load time.

RESPONSE TO USPS/OCA-T5-9:

I have not testified that a physical hypothesis grounded in operational data is necessary to implement the Commission's methodology. In using these phrases to critique witness Baron's approach, I am referring to his stipulated requirement that the elemental and coverage-related components within load time must be regarded as "distinct, separately identified" actions. USPS-T-12, p. 8. I then point out how he fails to meet this mandate by not explicitly identifying the carrier activities that might occur during fixed time at stop, and further he is unable to infer its presence from the load time regressions, nor accurately impute this increment of time directly from available data. In contrast, the established Commission approach does not need to incorporate this requirement into the estimation of load-time variability, since the statistical procedure employed implicitly captures the mix of activities occurring during a load and accurately estimates how they are influenced by volume.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-10-16

USPS/OCA-T5-10. In challenging witness Baron's concept of fixed time at a stop, the Commission's Docket No. R97-1 Recommended Decision argued that this concept "is not required to allow the effect of stop coverage to be measured by a regression of non-elemental load time on system-level stops coverage" (page 177, paragraph 3279).

- (a) Please confirm that the "non-elemental load time" that the Commission is referring to in this quotation is coverage-related load time. If you do not confirm, please state your complete understanding of the Commission's definition of "non-elemental load time" in this quotation.
- (b) Please confirm that the Commission has defined "coverage-related load time" as the excess (or residual) of total accrued load time over elemental load time. If you do not confirm, please state your complete understanding of the Commission's definition of coverage-related load time.
- (c) Please state whether you are aware of any regression analysis that estimates equations that define the residual of total accrued load time over elemental load time as functions of system-level stops coverage and/or any other explanatory variables. If you are aware of any such regression analyses, please provide all documentation of such analyses, and answer the following with respect to each:
 - 1) Who performed the analysis?
 - 2) When was the analysis conducted and what data does it use?
 - 3) What are the dependent and independent variables of the regression equations, what are the regression coefficient-t-statistics, R-squares, and any other diagnostic statistics (e.g. F-Tests); and what elasticities, marginal load times, or marginal costs do these regressions produce?
 - 4) Is the dependent variable in these equations a measure of the residual of total accrued load time over elemental load time?

RESPONSE TO USPS/OCA-T5-10:

- (a) Confirmed, presuming that the Commission is referring to the portion of total accrued load time that is not elemental load-time.
- (b) Confirmed.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-10-16

- (c) I am not aware of a regression equation that explicitly measures coverage-related load-time as a function of system-level stops coverage and/or any other explanatory variables.

USPS/OCA-T5-11. In referring to witness Baron's argument that the residual defined as total accrued load time minus elemental load time is institutional cost, the Docket No. R97-1 Decision states the following (at page 176, paragraph 3276):

He [witness Baron] argues that once elemental load time is deducted from accrued load time, the residue should be considered an institutional cost. He does not consider it relevant that the residue can be shown to vary in proportion to system-level stop coverage.

- a. Do you agree that the residual load time—that is, the excess of total accrued load time over elemental load time—"can be shown to vary in proportion to system-level stop coverage?" Please explain fully.
- b. If your answer to part (a) is in the affirmative, are you aware of any existing empirical or other analyses that suggest that that residual load time "varies in proportion to system-level stop coverage." If your answer is yes, please describe fully each such analysis, and provide all documentation of each. Include in your descriptions answers to the following:
 - 1) Who did the analysis?
 - 2) When was the analysis conducted and what data does it use?
 - 3) How does the analysis define "system-level stop coverage?"
 - 4) If the analysis included regression equations, what are the dependent and independent variables of these equations, what are the regression coefficients, t-statistics, R-squares, and any other diagnostic statistics (e.g. F-Tests), and what elasticities, marginal load times, or marginal costs do these regressions produce?
 - 5) Is the dependent variable in these equations a measure of the residual of total accrued load time?
- c. If your answer to part (a) is in the affirmative, but you have no knowledge of any existing regression or other analyses that show that residual load time (total accrued load time minus elemental load time) varies in proportion to system-level stop coverage, please specify what type of study you believe could be conducted to show that residual load time varies in proportion to system-level stop coverage.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-10-16

RESPONSE TO USPS/OCA-T5-11:

- (a) Yes. For example, total system load-time varies in response to variations in total system volume. The variation in total system load-time manifests itself in two ways, by causing variation in load times at a stop, and/or by causing variation in the number of stops covered. Since the elemental load time analysis assesses the extent to which load time varies with respect to volume at a stop, it follows that the variation in load time caused by the number of stops covered is embedded in the "residue."
- (b) As I stated in response to USPS/OCA-T5-10(c), I am not aware of an empirical analysis that explicitly measures how residual load time varies in response to system-level stop coverage; however, the qualitative analysis described in (a) suggests that residual load time should vary in response to system-level stop coverage. The Commission has concluded that this variation is similar to the elasticity of stops with respect to volume. See, for example, PRC Op. R97-1, ¶ 3268.
- (c) I have not proposed the development of such a study as part of my testimony, since it is not needed to implement the Commission's approach for attributing total accrued load time costs. I agree with the Commission, however, that the issue of attributing multiple subclass stop access and coverage-related load-time merits further study. See, for example, PRC Op. R94-1, ¶ 3152.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-10-16

USPS/OCA-T5-12. Please refer to page 177, paragraph 3279 of the Commission's Docket No. R97-1 Recommended Decision, where the Commission describes witness Crowder's "mathematical derivation of the established model of system-level load time variability" as a "clear and comprehensive explication of the established load time analysis."

- a. At the beginning of the presentation of her model of "system-wide load time," witness Crowder's Docket No. R97-1 Testimony defines system-wide coverage-related load time as "non-elemental load time which includes the fixed time incurred as a result of the need to make a load, e.g., fixed time to open and close the satchel and mail box." Ms. Crowder also states in this reference that "like access time," coverage-related load time 'is variable to the same extent as stops coverage is considered variable." (Docket No. R97-1, JP-NOI-1, page 10 lines 24-26 through page 11 lines 1-2).
 - (1) Do you agree with Ms. Crowder that coverage-related load time includes fixed time? If you agree, please explain fully in what sense you believe this included fixed time is "fixed." Do you believe, for example, that this fixed time is fixed with respect to volume and volume mix? If not, in what sense is it fixed?
 - (2) Do you agree that Ms. Crowder's system-wide load time model, which contains the definition of system-wide coverage-related load time as time that includes fixed time, is a "clear and comprehensive explication of the established load time analysis?" Please explain fully.
 - (3) Do you believe that coverage-related load time is variable to the same extent that accrued access time is variable? Please explain fully.
- b. Have you evaluated Ms. Crowder's "mathematical derivation of the established model of system-level load time variability?" If your answer is yes, please consider the following mathematical principal: For a nonlinear equation of Y as a function of X, the average value of Y over a given range of X does not equal the value of Y defined at the corresponding average value of X. Do you confirm that Ms. Crowder's mathematical derivation of system-level load time variability violates this mathematical principal? Please explain your answer fully.

RESPONSE TO USPS/OCA-T5-12:

- (a)(1) Yes. Since the load time variability analysis suggests that load time at a stop is influenced by factors other than volume (i.e., elemental load time variability is

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-10-16

less than 100 percent), the non-volume-related, or "fixed," factors that affect load time at that stop must be embedded in the coverage-related component. This time increment is fixed with respect to volume and volume mix at a stop, but may vary across stops due to factors other than volume (e.g., receptacle type).

(a)(2) I have not evaluated Ms. Crowder's system-wide load time model as part of my testimony.

(a)(3) I believe that it is reasonable to assume that volume influences the coverage of stops in much the same way as volume influences the coverage of accesses, since accesses and stops are directly linked (a carrier obviously must access a stop to get to the stop).

(b) No.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-10-16

USPS/OCA-T5-13. The Commission's Docket No. R97-1 Recommended Decision, at page 179, paragraphs 3283-3284, makes the following statements:

Witness Baron argues that witness Crowder's mathematical derivation of the established system-level load time model is invalid in every respect, because it assumes that the average value of the load time function equals the function of the average value of the cost driver.

It is true that models that use average values for the independent variable under investigation are only approximations of models that attempt to account for the specific distribution pattern of the independent variable across a sample. They are close approximations, however, where the function is well behaved. The elemental variability function is such a function.

- a. Do you believe the assumption "that the average value of the load time function equals the function of the average value of the cost driver" is an incorrect or invalid assumption? Please explain fully.
- b. Do you believe "witness Crowder's mathematical derivation of the established system-level load time model" is valid despite the fact that it "assumes that the average value of the load time function equals the function of the average value of the cost driver?" Please explain fully.
- c. If your answer to part (b) is in the affirmative, do you believe the assumption that "the average value of the load time function equals the function of the average value of the cost driver" is therefore **not relevant** to witness Crowder's mathematical derivation of the established system-level load time model?
- d. If you believe the assumption that "the average value of the load time function equals the function of the average value of the cost drive" **is** relevant to Ms. Crowder's mathematical derivation of the established system-level load time model, then please explain fully how can that derivation be valid if the assumption is incorrect.
- e. Please refer to the first paragraph of the above quotation from the Docket No. R97-1 Recommended Decision, where, according to the Commission, "[w]itness Baron argues that witness Crowder's mathematical derivation of the established system-level load time model is invalid in every respect...."
 - (1) Please specify, what, in your view, are the different "respects" of witness Crowder's model that may or may not be valid.
 - (2) Which of these respects or aspects of witness Crowder's model are valid and which are invalid? In particular, which are valid despite the Crowder

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-10-16

model's assumption that the average value of the load time function equals the function of the average value of the cost driver. Which are invalid because of this assumption? Please explain your answers fully.

- f. Please refer to the second paragraph of the quotation from the Docket No. R97-1 Decision cited at the beginning of this interrogatory. (Paragraph 3284 at page 179). Do you believe that the "elemental variability function" is a "close" approximation of a model that attempts "to account for the specific distribution pattern of the independent variable across a sample?" Please explain fully why you believe the elemental variability function is or is not a "close approximation" of such a model.
- g. Consider the SDR, MDR, and BAM load time regressions estimated by the Commission in its Docket No. R90-1 Recommended Decision and used to derive the alternative BY 1998 elemental and volume-variable coverage-related load time costs presented in Table 2 of your Docket No. R2000-1 Testimony (OCA-T-5 at page 7). Do you believe that these load time regressions are "close approximations" of "models that attempt to account for the specific distribution pattern of the independent variable across a sample?" Please explain fully the reasons for your answer.
- h. Do you believe the SDR, MDR, and BAM regressions cited in part (g) of this interrogatory are "close approximations" to linear regressions? Please explain fully the reasons for your answer.

RESPONSE TO USPS/OCA-T5-13:

- (a) The assumption is not precisely correct in the sense that, since the load-time function is non-linear, the average value of the load-time function does not equal the function of the average values of the cost drivers; however, I have not evaluated the validity of the assumption relative to the derivation of Witness Crowder's load time model. Furthermore, the assumption is not required to implement the Commission's method of using single-subclass ratios to attribute coverage-related load-time costs.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-10-16

- (b) I have not analyzed Witness Crowder's mathematical derivation of the established system-level load-time model.
- (c) N/A
- (d) See response to (b).
- (e) See responses to (a) and (b).
- (f) I have not performed a comprehensive statistical analysis to demonstrate the closeness of the approximation.
- (g) The elemental load-time costs presented in Table 2 of my testimony are derived from the SDR, MDR, and BAM load time regressions estimated by the Commission in its Docket No. R90-1 Recommended Decision, using data from the 1985 LTV study. This study collected data at the stop level from a sample of stops related to a variety of factors that potentially affect load time, including stop type, receptacle/container type, and shape/volume characteristics. In this sense, these regressions represent a model that attempts to account for the specific distribution pattern of the independent variables across a sample.
- (h) I have not performed a comprehensive statistical analysis to determine whether these regressions are close approximations to linear regressions.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-10-16

USPS/OCA-T5-14. At page 48, lines 3-6 of Docket No. R2000-1, MPA-T-5, witness Crowder states that "when volume on a route increases and there is less than 100% delivery coverage on the stop, then some of the volume goes to newly covered stops/deliveries (causing whatever fixed stop/delivery time is appropriate)...."

- a. Do you agree with witness Crowder that when some of the mail volume resulting from a volume increase goes to a previously uncovered stop, it causes corresponding additional fixed stop time? Please explain fully.
- b. If you do not agree, is it your position that no additional fixed stop time occurs as a result of a carrier going to a newly covered stop in response to volume growth? Please explain fully.

RESPONSE TO USPS/OCA-T5-14:

- (a) Yes. In covering the previously uncovered stop, the carrier will likely engage in certain loading activities that are not influenced by the amount of volume at that stop. For example, the carrier will have to open and close the receptacle regardless of how much mail is loaded. I would regard this time as fixed with respect to the volume loaded at the stop. However, depending upon the characteristics of the stop, the fixed time may be minimal. For example, the LTV dataset contains several measured load times of less than one second. OCA-T-5, pp. 15-17.
- (b) N/A

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-10-16

USPS/OCA-T5-15. At Appendix B, page 10, footnote 9 of Docket No. R2000-1, MPA-T-5, witness Crowder, evaluates "the volume-load time relationship observed at the stop level." She states that "at the stop level, the cost-volume curve does have a positive intercept, indicating fixed stop time," and that "[e]xtending the plot of this curve to zero volume would indicate a positive intercept value, revealing the fixed stop load time."

- a. Do you agree with Ms. Crowder that some of total load time "at the stop level" is "fixed stop load time?"
- b. If you agree, would you regard this "fixed stop load time" as coverage-related load time? In addition, would you regard this "fixed stop load time" as the coverage-related load time that the Commission referred to when it stated in its R97-1 Decision (as quoted by you at page 8 lines 16-19 of your Testimony) that:

[t]he coverage-related load time analysis was intended to find the additional volume variability resulting from the fact that additional deliveries are caused by additional volume.

Please explain your answers fully.

- c. If you agree with Ms. Crowder that some of load time "at the stop level" is "fixed stop load time," in what sense do you believe this "fixed stop load time" is fixed? For example, is it fixed with respect to volume and volume mix? Please explain fully.

RESPONSE TO USPS/OCA-T5-15:

- (a) Yes, since the carrier is likely engaged in loading activities at the stop level that are not influenced by the volume of mail delivered to the stop.
- (b) The elemental load time analysis estimates the portion of load time at the stop level that varies with volume delivered at the stop level. By definition, therefore, "fixed stop load time" cannot be embedded in the elemental portion of load time. As such, it must be embedded in the residual portion of total load time, after the elemental portion has been estimated. As defined by Witness Crowder in the citation provided above, the intercept of the cost-volume curve represents fixed

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-10-16

stop time; however, since the load time regressions are non-linear, residual coverage-related load time evaluated using the means of the volume parameters will not necessarily be exactly equal to fixed stop time as measured by the intercept of the cost-volume curve.

- (c) This time increment is fixed with respect to volume and volume mix at a stop, but may vary across stops due to factors other than volume (e.g., receptacle type).

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-10-16

USPS/OCA-T5-16. At page 48, footnote 46 of MPA-T-5, witness Crowder makes the following statement:

When there is less than 100% coverage, a volume increase causes an increase in coverage which reduces average volume per stop on the route. If there are stop/delivery-level load time scale economies (i.e., elemental load time variability is less than 100%), then average per piece load time actually increases (coverage-related load time is positive). On the other hand, if there are no such scale economies (i.e., elemental load time variability is 100% and there is no fixed stop/delivery time), then average load time per piece does not change and changes in coverage have no effect on per piece load time (i.e., coverage-related load time is zero).

- a. Do you agree that if there are no scale economies in the loading of mail at the individual stop or delivery point, then there is "no fixed stop/delivery time?" Please explain your answer fully.
- b. Do you agree that if there are no scale economies in the loading of mail at the individual stop or delivery point, then "coverage-related load time is zero?" Please explain fully.
- c. Do you believe that if there is no fixed stop or delivery time, coverage-related load time can still be positive? Please explain fully.

RESPONSE TO USPS/OCA-T5-16.

- (a) Yes, defining "no scale economies" to mean that unit costs are constant with respect to volume changes.
- (b) Yes, defining "no scale economies" to mean that unit costs are constant with respect to volume changes.
- (c) If no fixed stop or delivery time exists because no scale economies exist, then coverage-related load time will be zero.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-10-16

USPS/OCA-T5-17. Please refer to Table 2, page 7 of your testimony. Please note that for purposes of this interrogatory, an estimate of coverage-related load time based on the Commission's definition of coverage load as the excess of total over elemental load time is referred to as "PRC coverage-related load time." The cost of this "PRC coverage-related load time" is referred to as "PRC coverage-related load time cost."

- (a) Please confirm that the BY 1998 PRC accrued coverage-related load time cost of \$1,104,406,000 reported in Table 2, page 7 of your testimony equals the sum of the following three PRC coverage-related load time costs by stop type: \$612,733,000 for SDR stops, \$330,615,000 for MDR stops, and \$161,057,000 for BAM stops. If you do not confirm, please specify how this \$1,104,406,000 is allocated across the SDR, MDR, and BAM stop types.
- (b) Please note that the \$612,733,000 in PRC accrued coverage-related load time cost for SDR stops divided by the average FY 1998 city carrier wage rate of \$25.92/hour (Docket No. R2000-1, USPS-LR-I-127, page 440) equals 23,639,406 hours. The ratio of these hours to the total of 12,802,475,000 SDR actual stops in FY 1998 (Workbook Cs06&7.xls, USPS-LR-I-80 at sheet 7.0.4.1, cell L65) equals 6.65 seconds in PRC coverage-related load time per SDR stop.
 - (1) Please confirm that this 6.65 seconds in PRC coverage-related load time per SDR stop is an estimate of the average additional load time that is caused specifically by a carrier going to a new, previously uncovered SDR stop in response to volume growth. If you cannot confirm, explain what operational activities are performed during the 6.65 seconds of PRC coverage-related load time.
 - (2) If your answer to part (1) is anything other than an unqualified confirm, please specify how this 6.65 seconds in PRC coverage-related load time per SDR stop constitutes a measure of coverage-related as opposed to other load time. Include in this explanation an answer as to why, from an operational and engineering perspective, this 6.65 seconds per stop is coverage-related load time as opposed to elemental load time or institutional load time?
 - (3) Consider the additional load time that occurs solely because a carrier delivers mail to a previously uncovered SDR stop that now gets mail due to volume growth. Confirm that this additional load time is the same amount of time regardless of (1) how much mail is delivered to the new SDR stop and (2) how that new mail is distributed across mail shape categories and mail subclasses. If you do not confirm, explain how this additional coverage related load time varies with volume in amount or by shape and class.

**ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-10-16**

- (4) Consider the additional letter route access time that results from the fact that, due to volume growth, a carrier walks up to a previously uncovered SDR stop to deliver mail. Confirm that this additional carrier walking time is the same regardless of how much mail is delivered at that new stop or how that new mail is distributed across mail shape categories and subclasses. If you do not confirm, explain how this additional access time varies with volume in amount or by shape and class.
- (c) Please confirm that the BY 1998 total accrued load time cost of \$2,856,175,000 reported in Table 2, page 7 of your testimony equals the sum of the following three accrued load time costs by stop type: \$1,571,780,000 for SDR, \$948,109,000 for MDR, and \$336,286,000 for BAM. If you do not confirm, please specify how this \$2,856,175,000 total accrued cost is allocated across stop types.
- (d) Please observe that the \$1,571,780,000 in total accrued BY 1998 SDR load time cost divided by the average FY 1998 city carrier wage rate of \$25.92/hour (Docket No. R2000-1, USPS-LR-I-127, page 44) equals 60,639,671,000 hours. The ratio of these hours to the 12,802,475,000 SDR actual stops accessed in BY 1998 (Workbook Cs06&7.xls, USPS-LR-I-80, at sheet 7.0.4.1, cell L65) equals 17.05 seconds of total accrued load time per SDR stop. The excess of this 17.05 seconds of total accrued load time per SDR stop over the 6.65 seconds of "PRC coverage-related load time" per SDR stop is 10.40 seconds per stop.
- (1) Please confirm that this 10.40 seconds is elemental load time per SDR stop.
- (2) If you do not confirm, please report your alternative measure of BY 1998 elemental load time per SDR stop.

RESPONSE TO USPS/OCA-T5-17:

- (a) Confirmed, with the exception that the figure for BAM stops should equal \$161,058,000.
- (b)(1) Not confirmed. Coverage-related costs vary by type of stop. The average value, assuming, *arguendo*, it is coverage-related, is not relevant for cost attribution. Further, it is not necessary to define the specific operational activities performed at each stop for proper cost attribution under the PRC method. The coverage-

**ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-10-16**

related load time increment represents the load time that is not accounted for in the volume variability measure estimated by the LTV regressions.

(b)(2) The load time variability analysis, through a statistical procedure, establishes the portion of load time that varies directly with volume loaded at a stop. This portion of total load time is commonly referred to as elemental load time. The residual portion of total load time yielded by this procedure is referred to as coverage-related load time and, therefore, by definition cannot be considered elemental load time. From an operational or engineering perspective, this increment of time represents the operational activities performed by the carrier that are not directly accounted for by the volume variability analysis. A portion of the residual is treated as an institutional cost, as not all of coverage-related load time is attributed on the basis of the percentage of stops receiving only one subclass of mail.

(b)(3) Not confirmed. The "additional load time" at the new stop will have both elemental and coverage-related components, and will be dependent upon the magnitude of the volume increase (including shape/subclass distribution)

(b)(4) Not confirmed. I am not aware of any analysis that evaluates whether or not access time has an "elemental" component.

(c) Confirmed.

(d)(1) I confirm that the 10.4 seconds represents a measure of the average elemental load time per SDR stop.

(d)(2) N/A

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-10-16

USPS/OCA-T5-18. Confirm that there is a difference between the carrier activities that take place during the elemental load time at an SDR stop and the carrier activities that take place during the coverage-related load time at an SDR stop (as measured based on the PRC definition of coverage-related load time). If you confirm, please list all differences between the activities involved in elemental load time and coverage related load time. If you do not confirm, please explain why the two different types of load time receive different variabilities and different distribution keys.

RESPONSE TO USPS/OCA-T5-18:

I am unsure that I understand the question. The specific activities undertaken by a letter carrier are likely to vary considerably for both the elemental and the coverage-related load time, depending upon volume, piece characteristics, weight, receptacle type, and possibly a host of other variables, such as weather. The statistical procedure used to partition elemental and coverage-related load time indicates that a portion of a carrier's loading activities at a stop are directly influenced by the volume loaded at the stop, while another portion is not. However, I cannot disaggregate each and every movement of the carrier into an elemental and coverage-related component based on every different type of stop, receptacle, volume mix, and weather conditions, since it implies that the elemental and coverage-related components of load time could be, or have been, measured through direct observation. For these reasons, I rely on the LTV regressions to derive this split.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-10-16

USPS/OCA-T5-19. Please refer to your Testimony at page 3 line 18 through page 4 line 3 where you present the Commission's established approach for distributing elemental load time costs and PRC coverage-related load time costs across mail classes. Please explain fully why the PRC costing methodology uses a different distribution method to allocate SDR elemental load time cost across mail subclasses than it uses to allocate SDR coverage-related load time cost across mail subclasses.

RESPONSE TO USPS/OCA-T5-19:

SDR elemental load time costs are properly attributed to all classes of mail based on the volume-related elasticities derived from the LTV regressions. SDR coverage-related load time costs are not "allocated across mail classes." A *portion* of SDR coverage-related load costs are assigned to individual subclasses of mail based on the single subclass stop method. See PRC Op. R94-1, ¶¶ 3095 - 3152.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-10-16

USPS/OCA-T5-20. Please refer to Table 2, page 7 of your testimony. Please note that for purposes of this interrogatory, an estimate of coverage-related load time based on the Commission's definition of coverage load as the excess of total over elemental load time is referred to as "PRC coverage-related load time." The cost of this "PRC coverage-related load time" is referred to as "PRC coverage-related load time cost."

- (a) Please note that the \$161,057,000 in PRC accrued coverage-related load time cost for BAM stops divided by the average FY 1998 city carrier wage rate of \$25.92/hour (Docket No. R2000-1, USPS-LR-I-127, page 440) equals 6,213,630 hours. The ratio of these hours to the total of 1,288,917,000 BAM actual stops in BY 1998 (Workbook Cs06&7.xls, USPS-LR-I-80 at sheet 7.0.4.1, cell L67) equals 17.35 seconds in PRC coverage-related load time per BAM stop.
- (1) Confirm that this 17.35 seconds in PRC coverage-related load time per BAM stop [is] an estimate of the average additional load time that is caused specifically by a carrier going to a new, previously uncovered BAM stop in response to volume growth. If you do not confirm, please explain the source of the 17.35 seconds in PRC coverage-related load time.
- (2) If your answer to part (1) is anything other than an unqualified confirm, please specify how this 17.35 seconds in PRC coverage-related load time per BAM stop constitutes a measure of coverage-related as opposed to other load time. Include in this explanation an answer as to why, from an operational and engineering perspective, this 17.35 seconds per stop is coverage-related load time as opposed to elemental load time or institutional load time.
- (5) [sic] Consider the additional letter route access time that occurs because, due to volume growth, a carrier **walks up to** a previously uncovered BAM stop to delivery mail. Confirm that this additional carrier walking time [is] the same amount of additional time regardless of (1) how much mail is delivered at that new stop and (2) how that new mail is distributed across mail shape categories and subclasses? If you do not confirm, explain how this additional coverage-related [] time varies with volume in amount or by shape and class.
- (b) Please observe that the \$336,286,000 in total accrued BY 1998 BAM load time cost divided by the average FY 1998 city carrier wage rate of \$25.92/hour (Docket No. R2000-1, USPS-LR-I-127, page 44) equals 12,973,983 hours. The ratio of these hours to the 1,288,917,000 BAM actual stops accessed in BY 1998 (Workbook Cs06&7.xls, USPS-LR-I-80, at sheet 7.0.4.1, cell L67) equals 36.24 seconds of total accrued load time per BAM stop. The excess of this 36.24 seconds per BAM stop over the 17.35 seconds of "PRC coverage-related load time" per BAM stop is 18.89 seconds per stop.

**ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-10-16**

- (1) Please confirm that this 18.89 seconds is elemental load time per BAM actual stop.
- (2) If you do not confirm, please report your alternative measure of BY 1998 elemental load time per BAM actual stop.

RESPONSE TO USPS/OCA-T5-20:

(a)(1) See response to 17(b)(1).

(a)(2) See response to 17(b)(2).

(a)(5)[sic] See response to 17(b)(4).

(b) I confirm that the 18.89 seconds represent a measure of the average elemental load time per BAM stop.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-10-16

USPS/OCA-T5-21. Observe that the ratio of SDR coverage-related load time per stop (6.65 seconds) to SDR elemental load time per stop (10.40 seconds) is 63.89%, and that the ratio of BAM coverage-related load time per stop (17.35 seconds) to BAM elemental load time per stop (18.88 seconds) is 91.91%.

- a. Confirm that the ratio of coverage-related load time per actual stop to elemental load time per actual stop is much higher for BAM stops than for SDR stops.
- b. If you confirm, please provide an explanation of the "operational reality" that explains this difference in the ratios, and "a clear hypothesis about the physical rationale" for why the ratio of coverage-related to elemental load time per stop is so much higher for BAM stops than for SDR stops.
- c. If you do not confirm, please explain why the ratio of PRC coverage related load to elemental load time is about 64% for SDR stops but nearly 92% for BAM stops.

RESPONSE TO USPS/OCA-T5-21:

- (a) Not confirmed.
- (b) N/A
- (c) Assuming, *arguendo*, the interrogatory's figures are accurate, coverage-related time for SDR stops is 39 percent of average stop time, and coverage-related time for BAM stops is 48 percent of average stop time. I have not performed any analysis to assess the statistical significance of that difference and have no opinion as to whether that difference can be appropriately characterized as "much higher."

**ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-10-16**

USPS/OCA-T5-22. Please observe that the ratio of total BY 1998 accrued coverage-related load time workhours to aggregate annual BY 1998 actual stops equals 6.65 seconds for SDR stops and 17.35 seconds for BAM stops.

- a. Confirm that the BAM coverage related load time per stop is much higher than the SDR coverage related load time per stop.**
- b. If you confirm, explain fully why is the BAM coverage-related load time per actual stop 10.70 seconds higher than the SDR coverage-related load time per actual stop.**
- c. If you do not confirm, explain how coverage related load time for BAM stops is almost three times as large as the coverage related load time for SDR stops.**

RESPONSE TO USPS/OCA-T5-22:

- (a) Not confirmed. The average coverage-related load-time per BAM stop is higher than the average coverage-related load-time per SDR stop, based on this measurement approach. I have not performed any analysis to assess the statistical significance of that difference, and therefore have no opinion as to whether that difference can be appropriately characterized as "much higher."**
- (b) N/A**
- (c) Average coverage-related load time for BAM stops is higher than for SDR stops for two reasons. First, average total load time at BAM stops is roughly twice that of SDR stops. Second, the results of the LTV regressions indicate that the portion of load time that is elemental is lower for BAM stops relative to SDR stops. As a result, the residual component of load time remaining after the volume variable component has been estimated and removed (i.e., coverage-related load time), is larger for BAM stops relative to SDR stops.**

USPS/OCA-T5-23. Please refer to your Testimony at page 13 lines 4-7. For purposes of this interrogatory, coverage-related load time based on the Commission's definition of coverage-related load time as the excess of total over elemental load time is referred to as "PRC coverage-related load time." The cost of this "PRC coverage-related load time" is referred to as "PRC coverage-related load time cost."

- (a) Do you believe that PRC coverage-related load time per stop type is fixed with respect to container type? Please explain your answer fully.
- (b) Do you believe that PRC coverage-related load time per stop is fixed with respect to receptacle type? Please explain your answer fully.
- (c) Do you believe that PRC coverage-related load time per stop varies with changes in any stop or delivery point characteristics (besides volume) other than receptacle and container type?
- (d) Are you aware of any empirical or other analyses, either conducted by the Postal Rate Commission or by witnesses involved in postal rate cases, beginning with Docket No. R87-1, that show or attempt to show that annual system-level PRC coverage-related load time or PRC coverage-related load time per stop are functions of container type, receptacle type, or any other non-volume stop or delivery point characteristic at SDR, MDR, or BAM stops? If so, please describe the results of these analyses. Please include in your description answers to the following questions:
 - (1) Do the analyses show that annual system-level PRC coverage-related load time or PRC coverage-related load time per stop are affected by receptacle type, container type, or any other non-volume stop or delivery characteristic?
 - (2) If your answer to part (d)(1) is yes, please explain exactly how these analyses demonstrate that PRC coverage-related load time is affected by whatever stop or delivery point characteristics influence this type of load time. Also, please show how the Commission's established methodology for calculating accrued coverage-related load time cost, volume-variable coverage-related load time cost, and the distribution of this volume-variable cost across mail subclasses accounts for the effects of stop and delivery point characteristics on coverage-related load time.
 - (3) If your answer to part (d)(1) is yes, please present the quantitative results of these analyses. In particular, please present estimates of changes in system-level PRC coverage-related load times or in PRC coverage related load times per stop that can be expected to result from specified changes in receptacle type, container type, or other (non-volume) stop and delivery

point characteristics. If you present such estimates, please state whether you believe these estimates are operationally sensible and, if so, why.

RESPONSE TO USPS/OCA-T5-23:

- (a)-(b) No. The LTV regressions indicate that total load time per stop varies with respect to container and receptacle type. The elemental load time analysis estimates the portion of load time that varies with volume at a stop. It follows that the influence of container and receptacle type on load time will be embedded in the excess of total stop load time over elemental load time.
- (c) The results of the load time variability analysis indicate that the variation in the independent variables specified in the load time regressions do not explain all of the variation of the dependent variable. For example, the R-squared statistics for the regressions for all three stop types are less than one. As a result, it seems likely that other variables besides those specified in the LTV regressions influence total load time, and thereby coverage-related load time as well.
- (d) No.

USPS/OCA-T5-24. Do you believe that coverage-related load time is a period of time that varies from stop to stop? Please explain your answer fully.

RESPONSE TO USPS/OCA-T5-24:

Yes.

USPS/OCA-T5-25. If your answer to USPS/OCA-T5-24 is that coverage-related load time does vary from stop to stop, please explain the relevance of this variation to the correct attribution of load time costs across mail subclasses. Specifically, please describe fully the most effective way to explicitly account for this stop-to-stop variation in coverage-related load time in the computation of annual system-level accrued and volume-variable coverage-related load time costs by stop type.

RESPONSE TO USPS/OCA-T5-25:

This question is beyond the scope of my testimony. However, I am not aware of any reason why variation in coverage-related load time by type of stop would affect the methodologies for computing system-level accrued load time. Moreover, the volume variable coverage-related load time is not used for cost attribution.

USPS/OCA-T5-26. Please answer the following:

- (a) Please refer to Table 2 on page 7 of your Testimony. Please show how the estimate of \$1,104,406,000 in aggregate annual accrued coverage-related load time cost that is computed through application of the PRC's methodology accounts for the fact that coverage-related load time varies from stop to stop.
- (b) Please show how the estimate of \$192,807,000 in aggregate annual volume-variable coverage-related load time cost that is computed through application of the PRC's methodology accounts for the fact that coverage-related load time varies from stop to stop.

RESPONSE TO USPS/OCA-T5-26:

- (a) As an aggregate, system-wide figure derived from the stop level load time variability analysis, the variation in coverage-related load time is embedded in the total.
- (b) The figure is not volume-variable coverage-related load time cost; it is attributable coverage-related costs based on single subclass stop ratios. In effect, the PRC method assumes that average residual coverage-related costs at single subclass stops are the same as average residual coverage-related costs at all stops.

USPS/OCA-T5-27. Please refer to the Docket No. R97-1 Decision at page 179 paragraph 3283, where the Commission refers to Witness Crowder's mathematical derivation of a system-level load time model as the "mathematical derivation of the **established** system-level load time model." (Emphasis added). Please also refer to the Docket No. R97-1 Decision at page 180, paragraph 3286. The Commission states in this latter paragraph that acceptance of the "basic logic" of Witness Crowder's "load time model derivation...depends only on the validity of the assumption that a functional relationship exists between average load time per stop, $(E(g(x)))$, and average volume per stop $(E(x))$."

- (a) Please explain fully how this "assumption that a functional relationship exists between average load time per stop, $(E(g(x)))$, and average volume per stop $(E(x))$ " is valid.
- (b) Please specify the functional relationship assumed to exist by the Commission, and show how this functional relationship can be applied to derive the "established system-level load time model." Please show, in particular, how one could use this functional relationship to derive the Commission's measure of annual system-level accrued coverage-related load time cost and the Commission's measure of annual system-level volume-variable coverage-related load time cost.

RESPONSE TO USPS/OCA-T5-27:

- (a) I have not evaluated this as part of my testimony.
- (b) I have no knowledge of the functional relationship assumed to exist by the Commission. Please note that, for purposes of attribution, the Commission does not employ a "measure of annual system-level volume-variable coverage-related load time cost."

USPS/OCA-T5-28. Please confirm that the single subclass stop ratios that the Commission's methodology applies to accrued SDR, MDR, and BAM coverage-related load time costs in order to compute corresponding volume-variable coverage-related load time costs are the same single-subclass stop ratios that the Commission's methodology applies to accrued SDR, MDR, and BAM access costs, respectively, to compute volume-variable costs. If you do not confirm, please show how the single subclass stop ratios applied in the Commission's methodology to accrued coverage-related load time cost differ from the single subclass stop ratios applied to accrued access time cost.

RESPONSE TO USPS/OCA-T5-28:

Not confirmed; I do not agree that single subclass stop ratios are employed to compute "volume-variable" coverage-related load or access costs. The ratios are used to attribute these load and access costs to the appropriate subclasses of mail. See for example, PRC Op. R94-1, ¶¶s 3095 - 3152.

USPS/OCA-T5-29. Please refer to the Commission's Docket No. R97-1 Decision at page 177, paragraph 3279, where the Commission states that witness Baron's fixed-time at stop concept "is not required to maintain a meaningful functional distinction between load time and access time."

- (a) Please fully describe the functional distinction between coverage-related load time and access time.
- (b) Please show how the Commission's cost attribution analysis as applied to load time and access time costs accounts for this functional distinction. Explain your answer fully.

RESPONSE TO USPS/OCA-T5-29:

- (a)-(b) I have not analyzed this statement, as it is not necessary for purposes of my testimony.

1 CHAIRMAN GLEIMAN: Is there any additional written
2 cross-examination for Witness Ewen?

3 MR. COOPER: Yes.

4 CHAIRMAN GLEIMAN: Mr. Cooper.

5 CROSS-EXAMINATION

6 BY MR. COOPER:

7 Q Mr. Ewen, I am handing you two copies of your
8 answers to Postal Service Interrogatories 30 through 37.
9 Would you review those briefly?

10 A Yes.

11 Q These questions were answered by you, the answers
12 were prepared by you or under your direct supervision; is
13 that correct?

14 A Yes.

15 Q And if you were to be asked those questions orally
16 today, your answers would remain the same as those in the
17 packet; is that right?

18 A Yes.

19 MR. COOPER: Mr. Chairman, I ask that these
20 documents be entered into the evidentiary record and
21 transcribed.

22 CHAIRMAN GLEIMAN: If you would please provide two
23 copies to the Court Reporter, it is so directed.

24 [Additional Designated Written

25 Cross examination of Mark D. Ewen,

1 USPS/OCA-T5-30 through
2 USPS/OCA-T5-37, was received into
3 evidence and transcribed into the
4 record.]
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UNITED STATES OF AMERICA
Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Postal Rate and Fee Changes)

Docket No. R2000-1

ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE
WITNESS: MARK EWEN (USPS/OCA-T5-30-37)
(July 7, 2000)

The Office of the Consumer Advocate hereby submits the answers of Mark Ewen to interrogatories USPS/OCA-T5-30-37, dated June 27, 2000. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,



TED P. GERARDEN

Director

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ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-30-37

USPS/OCA-T5-30. Please refer to your response to USPS/OCA-T5-2(c) where you state:

In covering a previously uncovered stop, I presume the carrier engages in typical mail loading activities. As such, a certain increment of the total load time required to complete these activities will be dependent upon the volume delivered at the stop. The elemental load time variability analysis captures this proportion.

- a. Please list in detail each and every "typical mail loading activity" in which the carrier engages at a previously uncovered stop. For each activity, indicate whether the time is volume related or not volume related.
- b. Please confirm that you are stating that "a certain increment of total load time required to complete these activities" is dependent on the volume delivered at the stop. If you do not confirm, please explain the precise meaning of the second sentence of this quotation.
- c. Please confirm that the incontrovertible logic of this statement is that "a certain increment of total load time required to complete these activities" is not dependent upon the volume delivered at the stop. If you do not confirm please explain and justify the use of the words "a certain increment" in the second sentence of this quotation.
- d. Please confirm that in this quotation you identify the activities dependent upon the volume delivered at the stop as being captured by the "elemental load time variability analysis." If you do not confirm please explain the sentence that states "The elemental load time variability analysis captures this proportion."
- e. Please confirm that this must mean that the activities not dependent upon the volume delivered at the stop are not captured by the elemental load time variability analysis.
- f. Please confirm that the total volume variable load time at a stop is the sum of the elemental and volume-variable coverage-related load time at that stop. If you do not confirm, please indicate the source of additional volume variable load time at a stop.
- g. Please confirm that the sum of elemental and volume-variable coverage-related load time at a stop is less than the total accrued load time at that stop. If you do not confirm, please explain why the load time variability is less than 100 percent.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-30-37

RESPONSE TO USPS/OCA-T5-30:

- (a) I have performed no studies or reviews of the specific activities of letter carriers at various types of stops, nor is such an undertaking necessary or relevant for my conclusions.
- (b) Confirmed.
- (c) Not confirmed. Depending upon the characteristics of the stop, the increment of load time dependent upon volume at the stop may or may not represent all the total load time incurred at the stop.
- (d) I confirm that the elemental load time variability analysis develops a statistical estimate of the volume-related and non-volume-related load time activities for stops with different volume and non-volume characteristics.
- (e) Not confirmed. The regression analysis that underpins the elemental load time variability analysis estimates the effects of both volume-related and non-volume-related characteristics.
- (f) Confirmed, to the extent that elemental and coverage related costs are relevant at the stop level. However, because aggregate elemental load time is derived from elasticities that are computed using the mean values of the independent variables, the elemental load time at an individual stop is not particularly relevant for cost attribution.
- (g) Not confirmed. In addition to the previous response, I note that the sum of attributable coverage-related and elemental load costs for a particular stop depends on the characteristics of the stop. See response to part (c) above.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-30-37

USPS/OCA-T5-32. Please refer to your response to USPS/OCA-T5-1 where you confirm that:

If a variable X is independent of another variable Y, then X is fixed with respect to changes in Y

Please also refer to USPS/OCA-T5-3 where you state:

It is this disconnect that invalidates Witness Baron's leap from coverage-related load time being "independent of" volume at a stop to it being "fixed with respect to" this volume.

Please assume that the variable Y represents the volume at a stop and the variable X represents the coverage related load time at that stop. Confirm that if X (coverage related load time at the stop) is independent of Y (volume at the stop) then X (coverage related load time at the stop) is fixed with respect to changes in Y (volume at the stop). If you do not confirm, please provide a definition both intuitive and mathematical of independence that allows X to be independent of Y but still vary with respect to Y.

RESPONSE TO USPS/OCA-T5-32

Confirmed.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-30-37

USPS/OCA-T5-31. Please refer to your response to USPS/OCA-T5-2(c) where you state:

The remaining increment of time, commonly referred to as coverage-related load time, may be in part influenced by system-level volume effects or other non-volume-related factors (e.g. receptacle type)

- a. Please confirm that this quotation implies that coverage-related load time is not influenced by volume at the stop, although it may be influenced by system volume. If you do not confirm, then please answer the following:
 - (1) Please explain the operational basis for concluding that coverage-related load time is influenced by volume at the stop.
 - (2) Please show how the effect of volume on coverage-related load time at the stop is different than the effect of volume on elemental load time at the stop.
- b. Please confirm that the total load time on a route is the total load time on the stops on that route. If you do not confirm, please explain how the total load time on a route can be greater than or less than the sum of the load times of the stops on that route.
- c. Please confirm that system-level volume can influence the load time on a route as well as the load time at an individual stop.
- d. Please confirm that the way that system-wide volume can influence coverage-related load time is through creating a covered stop that was previously uncovered. If you do not confirm, please explain in detail the way in which system-wide volume influences coverage-related load time. Please recognize that stating, "Understanding exactly how coverage-related load-time manifests itself in the act of loading mail is not necessary" is not responsive to this interrogatory.

RESPONSE TO USPS/OCA-T5-31:

- (a) Confirmed, with the proviso that the elemental and coverage-related costs for a specific stop are not particularly relevant for cost attribution.
- (b) I confirm that total load time on a route is equal to the sum of load times at each stop on that route.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-30-37

USPS/OCA-T5-33. Please refer to USPS/OCA-T5-8 where you state:

I do not know exactly what mix of load-related activities a carrier might engage in that would represent coverage-related load time. However, this knowledge is not necessary to effectively implement the Commission's approach.

- a. Do you know any load-related activities a carrier might engage in that would represent coverage-related load time?
- b. Please provide a list of load activities you do know of that the carrier might engage in that would represent coverage-related load time, even if this list is not "exact." Please show how these coverage-related load time activities differ from the elemental load time activities.

RESPONSE TO USPS/OCA-T5-33:

I have performed no studies or reviews of the specific activities of letter carriers at various types of stops, nor is such an undertaking necessary or relevant for my conclusions. The distinction between elemental and coverage-related load time for a particular stop, to the extent that distinction has any relevance for cost attribution, is not activity based—it is based on a statistical regression analysis.

**ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-30-37**

- (c) Confirmed.
- (d) Confirmed that one way that system-wide volume can influence coverage-related load time is through its effect on the overall number of stops covered.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-30-37

USPS/OCA-T5-34. Please refer to USPS/OCA-T5-4 where you state:

Understanding exactly how coverage-related load-time manifests itself in the act of loading mail is not necessary, since the Commission has adopted the technique of attributing coverage-related load-time using single subclass stop ratios.

- a. Confirm that it is your testimony that the use of single subclass ratios precludes the need for understanding how coverage-related load time is generated from the act of loading mail. If you do not confirm, please explain in detail how coverage-related load time is generated from the act of loading mail.
- b. Is it your testimony that the use of statistical measurement methodology (like single subclass stop ratios) precludes the need for understanding the process generating the costs being measured?

RESPONSE TO USPS/OCA-T5-34:

- (a) Confirmed that cost attribution for load time costs does not require knowledge of the specific activities involved in loading the mail. It is not necessary to prepare time-and-motion studies to directly measure the volume-variable component of load time costs—both the Commission's method and Mr. Baron's method rely on a statistical analysis. Similarly, it is not necessary to understand the specific activities associated with those costs that are not volume variable—it is only necessary to know that, for proper cost attribution, all costs at single subclass stops should be assigned to that subclass. Under Mr. Baron's methodology, wherein the sum of coverage-related costs and elemental costs is less than total load time, some costs associated with single subclass stops are not fully attributed.
- (b) Yes, to the extent that you mean that volume-variable load time requires a detailed computation from time and motion or other industrial engineering

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-30-37

USPS/OCA-T5-32. Please refer to your response to USPS/OCA-T5-1 where you confirm that:

If a variable X is independent of another variable Y, then X is fixed with respect to changes in Y

Please also refer to USPS/OCA-T5-3 where you state:

It is this disconnect that invalidates Witness Baron's leap from coverage-related load time being "independent of" volume at a stop to it being "fixed with respect to" this volume.

Please assume that the variable Y represents the volume at a stop and the variable X represents the coverage related load time at that stop. Confirm that if X (coverage related load time at the stop) is independent of Y (volume at the stop) then X (coverage related load time at the stop) is fixed with respect to changes in Y (volume at the stop). If you do not confirm, please provide a definition both intuitive and mathematical of independence that allows X to be independent of Y but still vary with respect to Y.

RESPONSE TO USPS/OCA-T5-32:

Confirmed.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-30-37

studies. However, a statistical study such as the LTV regression requires some basic understanding of the process being modeled for proper hypothesis testing.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-30-37

USPS/OCA-T5-33. Please refer to USPS/OCA-T5-8 where you state:

I do not know exactly what mix of load-related activities a carrier might engage in that would represent coverage-related load time. However, this knowledge is not necessary to effectively implement the Commission's approach.

- a. Do you know any load-related activities a carrier might engage in that would represent coverage-related load time?
- b. Please provide a list of load activities you do know of that the carrier might engage in that would represent coverage-related load time, even if this list is not "exact." Please show how these coverage-related load time activities differ from the elemental load time activities.

RESPONSE TO USPS/OCA-T5-33:

I have performed no studies or reviews of the specific activities of letter carriers at various types of stops, nor is such an undertaking necessary or relevant for my conclusions. The distinction between elemental and coverage-related load time for a particular stop, to the extent that distinction has any relevance for cost attribution, is not activity based—it is based on a statistical regression analysis.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-30-37

USPS/OCA-T5-35. Please refer to USPS/OCA-T5-9 where, in referring to "the requirement that the elemental and coverage-related components within load time must be regarded as 'distinct, separately identified' actions," you state:

In contrast, the established Commission approach does not need to incorporate this requirement into the estimation of load-time variability, since the statistical procedure employed implicitly captures the mix of activities occurring during a load and accurately estimates how they are influenced by volume.

- a. Is the "statistical procedure" you refer to the estimating of the SDR, MDR, and BAM regression models? If not, please precisely define what "statistical procedure" you are referring to.
- b. Please demonstrate mathematically how the statistical procedure you refer to "implicitly captures the mix of activities occurring during a load and accurately estimates how they are influenced by volume."
- c. Please provide the criteria by which you established that the statistical procedure accurately estimates how the "mix of activities" is influenced by volume. Please include both the standards of accuracy you used in this evaluation and the evidence confirming that the statistical procedure meets or exceeds this standard.
- d. Did you review the statistical properties of the load time regression models?
- e. Consider the following simple example.

Five pieces of mail are loaded at a single delivery residential stop. The elemental load time variability with respect to these pieces is 50%, and total load time at the stop is 10 seconds. Further, suppose that 1 more (additional) piece is now delivered at this stop.

- i. Please explain within the context of the following simple numerical example how the statistical procedure employed by the established Commission approach implicitly captures the mix of activities occurring during a load and accurately estimates how these activities are influenced by volume.
- ii. What is the effect on elemental load time of delivering this additional piece?
- iii. What is the effect on coverage-related load time of delivering this additional piece?

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-30-37

USPS/OCA-T5-34. Please refer to USPS/OCA-T5-4 where you state:

Understanding exactly how coverage-related load-time manifests itself in the act of loading mail is not necessary, since the Commission has adopted the technique of attributing coverage-related load-time using single subclass stop ratios.

- a. Confirm that it is your testimony that the use of single subclass ratios precludes the need for understanding how coverage-related load time is generated from the act of loading mail. If you do not confirm, please explain in detail how coverage-related load time is generated from the act of loading mail.
- b. Is it your testimony that the use of statistical measurement methodology (like single subclass stop ratios) precludes the need for understanding the process generating the costs being measured?

RESPONSE TO USPS/OCA-T5-34:

- (a) Confirmed that cost attribution for load time costs does not require knowledge of the specific activities involved in loading the mail. It is not necessary to prepare time-and-motion studies to directly measure the volume-variable component of load time costs—both the Commission's method and Mr. Baron's method rely on a statistical analysis. Similarly, it is not necessary to understand the specific activities associated with those costs that are not volume variable—it is only necessary to know that, for proper cost attribution, all costs at single subclass stops should be assigned to that subclass. Under Mr. Baron's methodology, wherein the sum of coverage-related costs and elemental costs is less than total load time, some costs associated with single subclass stops are not fully attributed.
- (b) Yes, to the extent that you mean that volume-variable load time requires a detailed computation from time and motion or other industrial engineering

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-30-37

- f. Confirm that it is your testimony that the use of statistical procedure eliminates the need for understanding the underlying operational activities that gives rise to the cost being measured.

RESPONSE TO USPS/OCA-T5-35:

- (a) Yes.
- (b) The statistical models estimate load time for different types of stops by computing coefficients that estimate the relationship between load time and various volume and non-volume characteristics. When applied to the characteristics of an individual stop (to the extent that this is relevant for cost attribution), the regression coefficients can be used to determine the volume-related and non-volume-related components of the load time for that stop. Such an approach is, by inspection, more accurate than simply assuming that every stop has an identical fixed time component associated with it, regardless of the stop characteristics.
- (c) I did not conduct a quantitative assessment of the statistical procedure, nor develop an explicit standard for judging its accuracy. I based this conclusion on the fact that the SDR, MDR, and BAM regressions have been in use for a number of rate cases, and have been thoroughly debated before the Commission. Please see response to part (b).
- (d) I did not perform a review of the statistical properties of the load time regression models as part of my testimony.

**ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-30-37**

studies. However, a statistical study such as the LTV regression requires some basic understanding of the process being modeled for proper hypothesis testing.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-30-37

- (e)(i) The statistical procedure is used to define the elemental load time; in this example, 5 seconds. If this example represents a single subclass stop, then the Commission's method defines coverage related costs as the difference between total load time and the elemental load time, to ensure that all costs for the stop are assigned to that sub-class.
- (e)(ii and iii) The change in elemental load time and coverage-related time in this example that are associated with an individual letter increase is indeterminate without the underlying statistically-estimated load time equation.
- (f) See response to USPS/OCA-T5-34(a).

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-30-37

USPS/OCA-T5-35. Please refer to USPS/OCA-T5-9 where, in referring to "the requirement that the elemental and coverage-related components within load time must be regarded as 'distinct, separately identified' actions," you state:

In contrast, the established Commission approach does not need to incorporate this requirement into the estimation of load-time variability, since the statistical procedure employed implicitly captures the mix of activities occurring during a load and accurately estimates how they are influenced by volume.

- a. Is the "statistical procedure" you refer to the estimating of the SDR, MDR, and BAM regression models? If not, please precisely define what "statistical procedure" you are referring to.
- b. Please demonstrate mathematically how the statistical procedure you refer to "implicitly captures the mix of activities occurring during a load and accurately estimates how they are influenced by volume."
- c. Please provide the criteria by which you established that the statistical procedure accurately estimates how the "mix of activities" is influenced by volume. Please include both the standards of accuracy you used in this evaluation and the evidence confirming that the statistical procedure meets or exceeds this standard.
- d. Did you review the statistical properties of the load time regression models?
- e. Consider the following simple example.

Five pieces of mail are loaded at a single delivery residential stop. The elemental load time variability with respect to these pieces is 50%, and total load time at the stop is 10 seconds. Further, suppose that 1 more (additional) piece is now delivered at this stop.

- i. Please explain within the context of the following simple numerical example how the statistical procedure employed by the established Commission approach implicitly captures the mix of activities occurring during a load and accurately estimates how these activities are influenced by volume.
- ii. What is the effect on elemental load time of delivering this additional piece?
- iii. What is the effect on coverage-related load time of delivering this additional piece?

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-30-37

USPS/OCA-T5-36. Please refer to your response to USPS/OCA-T5-4. This interrogatory asked you to explain fully the engineering concept to which the Commission's residual measure of coverage-related load time corresponds. In your answer, you state that you "presume that the term, engineering concept, in this context correlates with the 'activity-based functional approach' witness Baron refers to in allocating total accrued street-time costs across major street-time activities." For purposes of this follow-up interrogatory, please now presume that the term, "engineering concept" means what you thought it meant when, quoting the Commission at page 11, lines 2-3 of your testimony, you claim that witness Baron's fixed-time at stop measure "does not correspond to any engineering concept, operational reality, or empirical data that witness Baron can identify."

- a. Given the meaning of the term "engineering concept" as used in this citation from page 11, lines 2-3 of your testimony, please explain fully the engineering concept, if any, to which the Commission's residual measure of coverage-related load time corresponds. (Note: this residual measure is accrued load time minus elemental load time).
- b. Does the meaning of the term "engineering concept" as used in the citation from page 11, lines 2-3 of your testimony "correlate with the activity-based functional approach?" Please explain fully.

RESPONSE TO USPS/OCA-T5-36:

- a) It is Witness Baron who establishes the standard that coverage-related costs must have some specific, engineering or activity based, rationale. As stated in my responses to USPS/OCA-T5-30, -33, -34, and -35, the Commission's methodology does not require such a standard.
- b) No. The referenced citation relates to sub-components of load time; the activity-based functional approach applies to segregating costs between load time and other activities.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-30-37

- f. Confirm that it is your testimony that the use of statistical procedure eliminates the need for understanding the underlying operational activities that gives rise to the cost being measured.

RESPONSE TO USPS/OCA-T5-35:

- (a) Yes.
- (b) The statistical models estimate load time for different types of stops by computing coefficients that estimate the relationship between load time and various volume and non-volume characteristics. When applied to the characteristics of an individual stop (to the extent that this is relevant for cost attribution), the regression coefficients can be used to determine the volume-related and non-volume-related components of the load time for that stop. Such an approach is, by inspection, more accurate than simply assuming that every stop has an identical fixed time component associated with it, regardless of the stop characteristics.
- (c) I did not conduct a quantitative assessment of the statistical procedure, nor develop an explicit standard for judging its accuracy. I based this conclusion on the fact that the SDR, MDR, and BAM regressions have been in use for a number of rate cases, and have been thoroughly debated before the Commission. Please see response to part (b).
- (d) I did not perform a review of the statistical properties of the load time regression models as part of my testimony.

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-30-37

USPS/OCA-T5-37. Please refer to your response to USPS/OCA-T5-7. You state:

In addition, the LTV study collected detailed data at the stop level on load time, stop type, receptacle/container type, shape/volume components, and possible deliveries. This information is sufficient to estimate how load time varies with respect to these variables. Used in concert, the ES and LTV studies capture the direct and indirect effects of volume changes, which is the prerequisite for their use for ratemaking purposes.

Please show how the ES and/or LTV studies—either alone or in concert—quantify the effects of variations in "shape/volume components" on the residual measure of coverage-related load time. Please include in this demonstration answers to the following:

- a. Do the ES and/or LTV studies show that the residual measure of coverage-related load time per piece varies by shape category? For example, do the studies show that coverage-related load time per piece is higher for flats than for letters, and higher for parcels than for flats? If so, please present specific results showing how coverage-related load time per piece varies by shape, and how the residual measure of coverage-related load time "captures" this variation.
- b. Does the single-subclass stop method of distributing coverage-related load time costs across mail subclass capture the effect of variation in shape/volume components on coverage-related load? If yes, please explain how this single subclass method captures this effect.

RESPONSE TO USPS/OCA-T5-37:

- (a) I have not testified that the ES or LTV studies show specifically how coverage-related load time, as derived by the Commission, varies by shape category, overall volume at stop, or other factors affecting load time. The LTV regressions estimate how load time varies with respect to certain stop characteristics (e.g., stop type, receptacle type) and shape/volume factors. The coefficients for the shape/volume factors are used to derive the elasticities of load time with respect to volume, which are then applied to the ES load time proportion to derive

ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-30-37

- (e)(i) The statistical procedure is used to define the elemental load time; in this example, 5 seconds. If this example represents a single subclass stop, then the Commission's method defines coverage related costs as the difference between total load time and the elemental load time, to ensure that all costs for the stop are assigned to that sub-class.
- (e)(ii and iii) The change in elemental load time and coverage-related time in this example that are associated with an individual letter increase is indeterminate without the underlying statistically-estimated load time equation.
- (f) See response to USPS/OCA-T5-34(a).

**ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-30-37**

elemental load time. The residual, or coverage-related load time is the portion of the total load time proportion (as yielded by the ES study) that remains.

- (b) Yes. The single subclass stop attribution method, combined with the residual computation of coverage-related load, ensures that all costs at single-subclass stops are properly attributed.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.

Emmett Rand Costich
EMMETT RAND COSTICH

Washington, DC 20268-0001
July 7, 2000

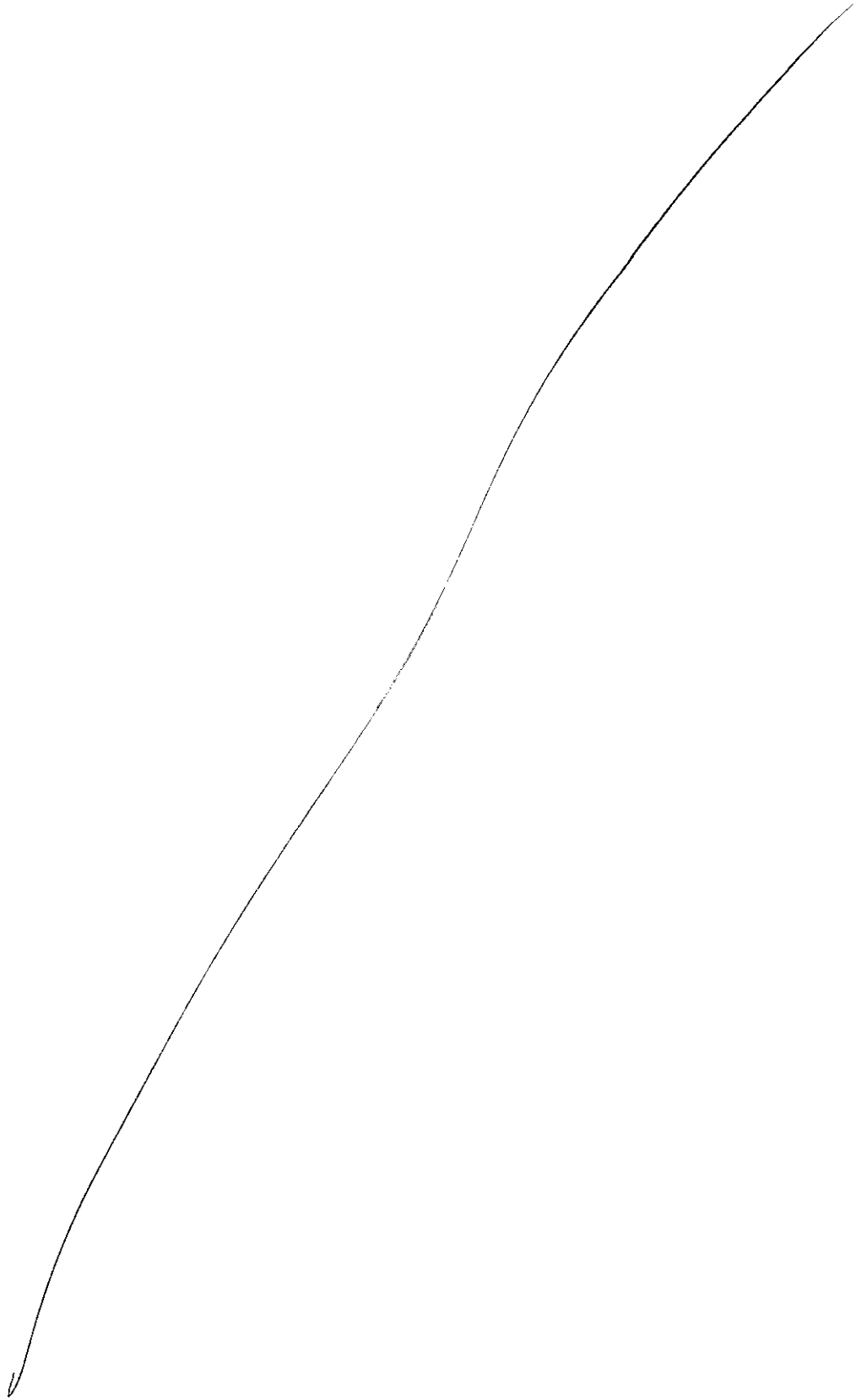
ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-30-37

USPS/OCA-T5-36. Please refer to your response to USPS/OCA-T5-4. This interrogatory asked you to explain fully the engineering concept to which the Commission's residual measure of coverage-related load time corresponds. In your answer, you state that you "presume that the term, engineering concept, in this context correlates with the 'activity-based functional approach' witness Baron refers to in allocating total accrued street-time costs across major street-time activities." For purposes of this follow-up interrogatory, please now presume that the term, "engineering concept" means what you thought it meant when, quoting the Commission at page 11, lines 2-3 of your testimony, you claim that witness Baron's fixed-time at stop measure "does not correspond to any engineering concept, operational reality, or empirical data that witness Baron can identify."

- a. Given the meaning of the term "engineering concept" as used in this citation from page 11, lines 2-3 of your testimony, please explain fully the engineering concept, if any, to which the Commission's residual measure of coverage-related load time corresponds. (Note: this residual measure is accrued load time minus elemental load time).
- b. Does the meaning of the term "engineering concept" as used in the citation from page 11, lines 2-3 of your testimony "correlate with the activity-based functional approach?" Please explain fully.

RESPONSE TO USPS/OCA-T5-36:

- a) It is Witness Baron who establishes the standard that coverage-related costs must have some specific, engineering or activity based, rationale. As stated in my responses to USPS/OCA-T5-30, -33, -34, and -35, the Commission's methodology does not require such a standard.
- b) No. The referenced citation relates to sub-components of load time; the activity-based functional approach applies to segregating costs between load time and other activities.



ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-30-37

USPS/OCA-T5-37. Please refer to your response to USPS/OCA-T5-7. You state:

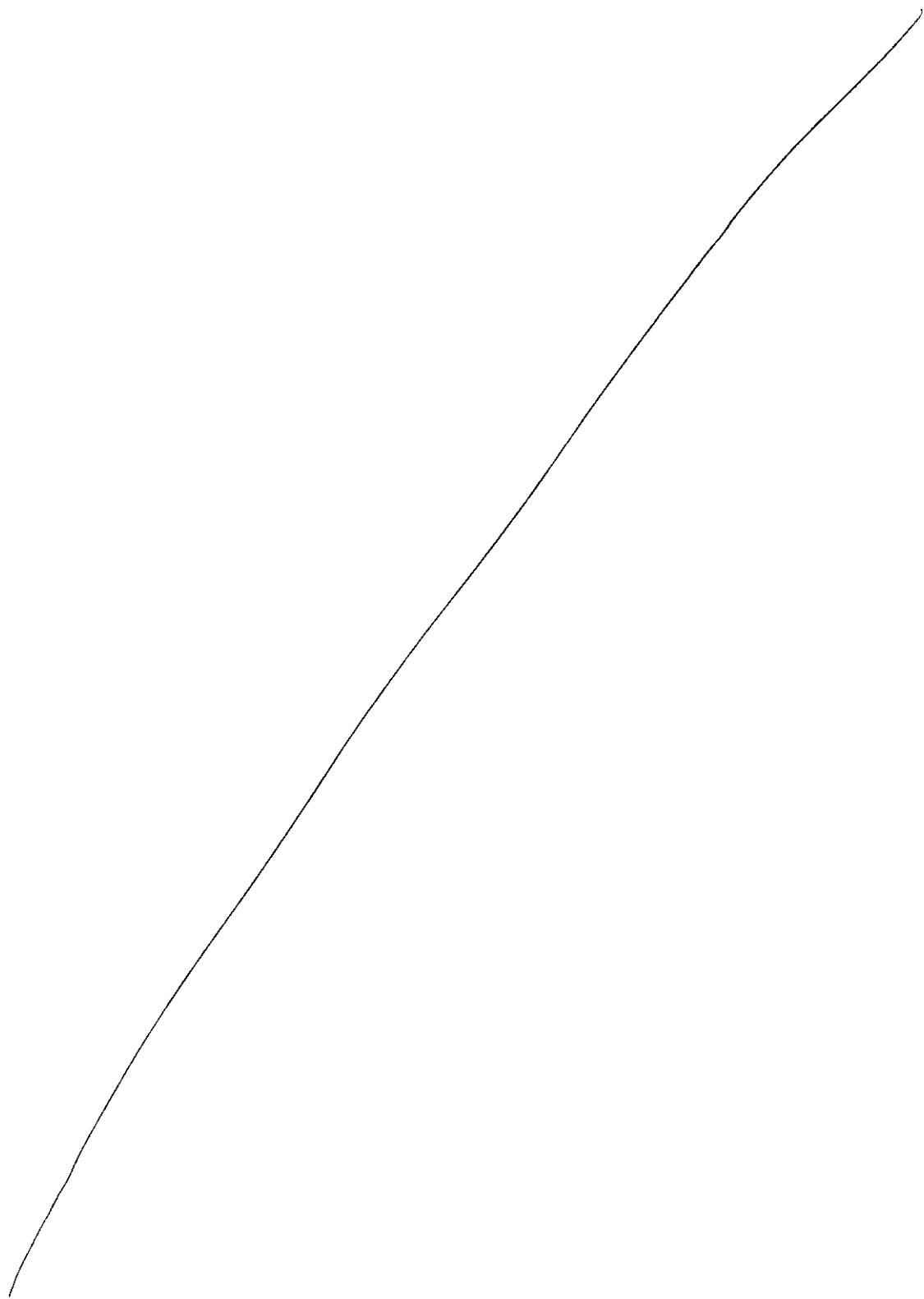
In addition, the LTV study collected detailed data at the stop level on load time, stop type, receptacle/container type, shape/volume components, and possible deliveries. This information is sufficient to estimate how load time varies with respect to these variables. Used in concert, the ES and LTV studies capture the direct and indirect effects of volume changes, which is the prerequisite for their use for ratemaking purposes.

Please show how the ES and/or LTV studies—either alone or in concert—quantify the effects of variations in “shape/volume components” on the residual measure of coverage-related load time. Please include in this demonstration answers to the following:

- a. Do the ES and/or LTV studies show that the residual measure of coverage-related load time per piece varies by shape category? For example, do the studies show that coverage-related load time per piece is higher for flats than for letters, and higher for parcels than for flats? If so, please present specific results showing how coverage-related load time per piece varies by shape, and how the residual measure of coverage-related load time “captures” this variation.
- b. Does the single-subclass stop method of distributing coverage-related load time costs across mail subclass capture the effect of variation in shape/volume components on coverage-related load? If yes, please explain how this single subclass method captures this effect.

RESPONSE TO USPS/OCA-T5-37:

- (a) I have not testified that the ES or LTV studies show specifically how coverage-related load time, as derived by the Commission, varies by shape category, overall volume at stop, or other factors affecting load time. The LTV regressions estimate how load time varies with respect to certain stop characteristics (e.g., stop type, receptacle type) and shape/volume factors. The coefficients for the shape/volume factors are used to derive the elasticities of load time with respect to volume, which are then applied to the ES load time proportion to derive



ANSWERS OF OCA WITNESS MARK EWEN
TO INTERROGATORIES USPS/OCA-T5-30-37

elemental load time. The residual, or coverage-related load time is the portion of the total load time proportion (as yielded by the ES study) that remains.

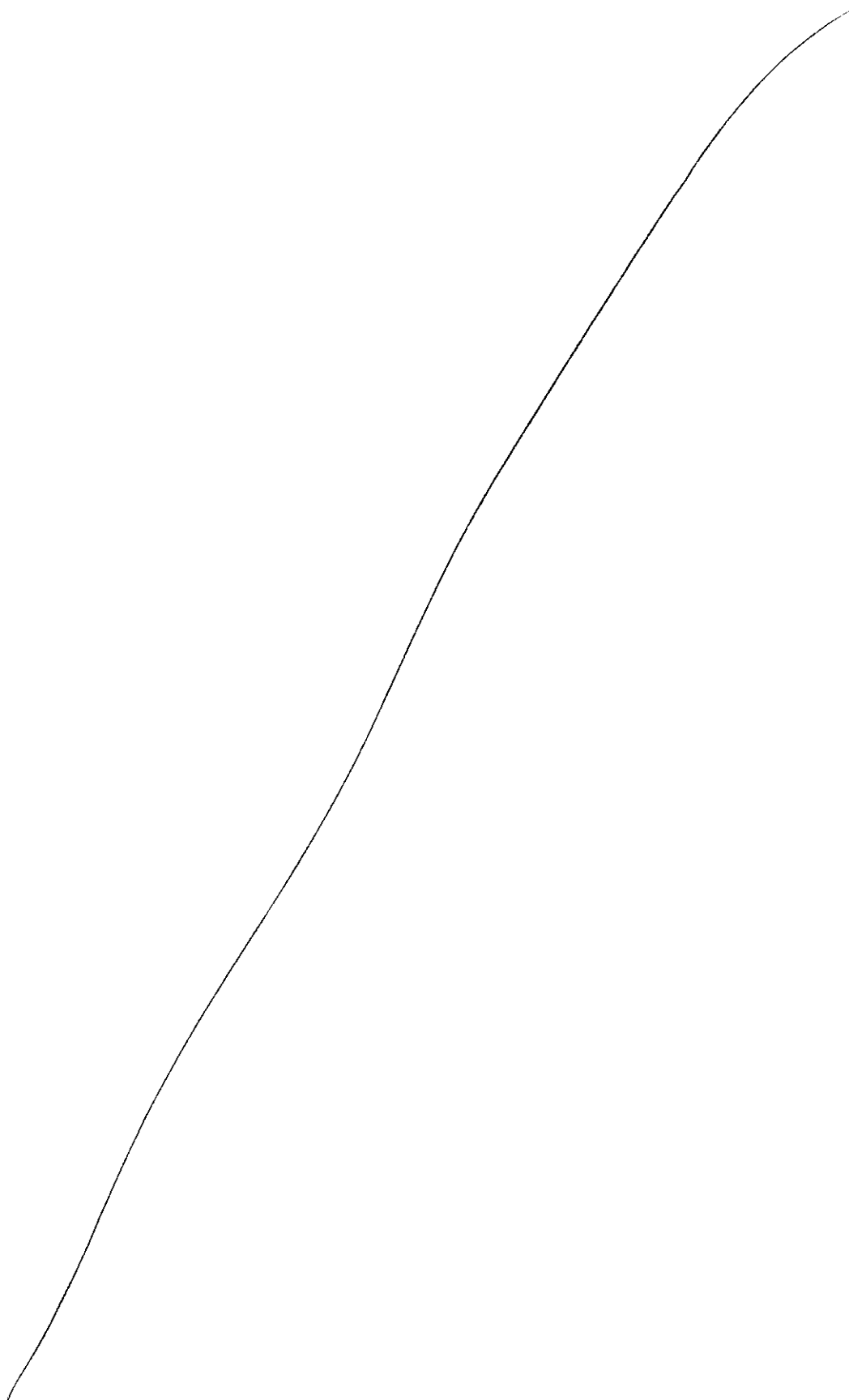
- (b) Yes. The single subclass stop attribution method, combined with the residual computation of coverage-related load, ensures that all costs at single-subclass stops are properly attributed.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.


EMMETT RAND COSTICH

Washington, DC 20268-0001
July 7, 2000



1 CHAIRMAN GLEIMAN: Is there any Additional
2 Designated Written Cross Examination for the witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, that brings us to oral
5 cross examination. One party has requested oral cross, the
6 Postal Service. Is there any other party that wishes to
7 cross examine?

8 [No response.]

9 CHAIRMAN GLEIMAN: If not, then, Mr. Cooper, you
10 may begin when you are ready.

11 MR. COOPER: Thank you, Mr. Chairman.

12 CROSS EXAMINATION

13 BY MR. COOPER:

14 Q Good afternoon, Mr. Ewen.

15 A Good afternoon.

16 Q I have one sort of housekeeping matter with
17 respect to your answer to Postal Service Interrogatory
18 Number 2, Part (a).

19 The final sentence of that response contains the
20 word, insulted. Was that the word you intended to use
21 there?

22 A I did not.

23 Q What was the correct word?

24 A I believe, insulated.

25 Q Than you. I just wanted to make sure the record

1 was clear on this.

2 A Thank you.

3 Q Now, Mr. Ewen, your testimony concerns load time
4 costs; is that correct?

5 A Yes.

6 Q Now, in your review of load time costs, did you
7 familiarize yourself with how the Commission analyzes city
8 carrier street costs, in general?

9 A Generally, yes.

10 Q Okay. So you're familiar with how the Commission
11 analyzes travel time costs and access time and route time?

12 A Generally.

13 Q Okay. Now, those components of load time that I
14 have just mentioned, those are discrete activities; are they
15 not?

16 MR. COSTICH: Mr. Chairman, I believe counsel just
17 referred to all of those subcomponents and components as
18 elements of load time.

19 Is that --

20 MR. COOPER: I didn't intend to say that. Those
21 were street time, elements of city carrier street time. Let
22 me rephrase the question.

23 BY MR. COOPER:

24 Q Those elements such as travel time, access time,
25 route time, which comprise altogether, city carrier street

1 time, those are discrete activities; is that right?

2 A They are separated into separate discrete
3 functional categories.

4 Q And there is no overlap among the categories; is
5 there?

6 A Not the way they are measured, no.

7 Q Well, even in concept, there is no overlap; is
8 there?

9 A In concept, no.

10 Q Okay. Now, can you tell me what your
11 understanding is as to why the Commission and the Postal
12 Service have treated these separately when they have
13 analyzed city carrier street time costs?

14 A My understanding is that they are generally
15 recognized to exhibit different volume variabilities,
16 perhaps, simply different sorts of activities, and perhaps
17 different causal relationships between various activity
18 characteristics and the cost incurred to complete those
19 activities.

20 Q So, it would be theoretically possible for the
21 Commission and the Postal Service to just analyze city
22 carrier costs, in aggregate, for example?

23 A Analyze them how?

24 Q Say, regress total accrued city carrier street
25 time against changes in volume?

1 A For what purposes?

2 Q To determine attributable city carrier street time
3 costs.

4 A I presume that would be possible, yes, to craft an
5 aggregate analysis, systemwide analysis.

6 Q Okay, but as you stated there, these subcomponents
7 are considered different in a meaningful way so that it
8 would be desirable to treat them separately?

9 A I think that's been the general conclusion that
10 folks have come to.

11 Q And these are true functional categories; are they
12 not? They describe activities that carriers perform?

13 A I think they describe activities, and to a certain
14 extent they describe, in my mind, geographical locations, so
15 a combination of both.

16 Q Can you tell me which ones describe a geographical
17 location?

18 A Well, I guess I'm thinking of, for example, access
19 time. Obviously the carrier is engaged in, perhaps, walking
20 activity to deviate from the sidewalk to the front stoop.

21 But it's also characterized by a physical location
22 on the route.

23 Q So there are activities which may have a reference
24 to a particular geographical location?

25 A Right.

1 Q Now, load time has in the past been broken down in
2 to further subcomponents; is that right, in its analysis?

3 A It is broken into components, yes.

4 Q And elemental load time and coverage-related load
5 time are two such components; is that right?

6 A Yes.

7 Q Now, can you restate for me your general
8 understanding of what elemental load time is?

9 A It is the component of total load time that varies
10 directly with respect to volume at a stop.

11 Q Okay, and so you've defined it as a component
12 which varies with volume?

13 A Yes, directly with volume, delivered to the stop.

14 Q Now, what variability of load time is captured in
15 elemental load time?

16 Does that encompass all of the variability with
17 volume in load time?

18 A At certain stops it may, but on an aggregate
19 basis, I don't think so.

20 Q Okay, what does it leave out? What variability
21 would be left out?

22 A It leaves out some variability in load time with
23 respect to a variety of other characteristics that might
24 influence load time, like receptacle type, perhaps the
25 weather, non-volume-related factors.

1 Q Would it leave out system level volume effects, as
2 you have used the term?

3 A As it's calculated, I think, yes.

4 Q Okay, would you tell me what you mean by system
5 level volume effects?

6 A Well, it seems to me that system level volume
7 effects affect both volume at a stop and overall,
8 systemwide, the number of stops covered along a route.

9 Q Yes, but what are these system level volume
10 effects; can you describe them to me?

11 A I think I just did. They influence both volume at
12 a stop, which influences total load time at a stop, and also
13 influences the number of stops covered along a route, which
14 indirectly influences the amount of total load time on a
15 route.

16 Q Well, I have heard you tell me what they
17 influence, but I'm not sure I've heard you tell me what they
18 are. Can you give me an example of what volumes would
19 change to create a system level volume effect?

20 A Volumes of mail. I'm not sure --

21 Q Volumes of mail, in total? Volumes of mail at a
22 stop? Just can you be more explicit?

23 A Well, I think -- I don't know what else I can say,
24 other than what I have already said, in that overall system
25 level volume is going to influence total volume at each

1 stop, which affects load time at that stop and the number of
2 stops covered.

3 And so it is the combination of those two effects
4 that is going to affect load time along a route.

5 Q Okay. I am trying to understand this.

6 Let me give you an example and maybe this will
7 help.

8 A Okay.

9 Q Let's suppose the total mail volume goes up by 10
10 percent on a route and this causes a new stop to be -- mail
11 to be delivered to a stop that formerly had not had mail
12 delivered to it.

13 Is the load time at that stop part of the system
14 level volume effect that you are talking about?

15 A I think a portion of it is, yes. A portion of the
16 load time results from the fact that there is higher system
17 level volume.

18 Q And what portion would not be a result of the
19 system level volume increase?

20 A Well, there would be certain load time at that
21 stop not affected that results from factors other than
22 volume like having to open and close a satchel. Not all of
23 those may be related to volume at the stop.

24 Q Would the increase in the number of stops be a
25 system level volume effect?

1 A Yes, I think so.

2 Q Would the increase in total load time that
3 occurred in response to the increase in system, in aggregate
4 volume be a systemwide volume effect?

5 A Well, I think in one sense you can regard it as a
6 system level volume effect. Some of that is going to
7 manifest itself in the delivery of mail at the stop so that
8 load time, that incremental increase in load time is related
9 to volume at the stop.

10 There are other costs incurred that result from
11 the coverage of the stop that is driven by that increase in
12 volume, so the combination of those two in concert yields
13 the increase in load time at the stop relative to volume.

14 Q Can we agree that in analyzing attributable city
15 carrier street time costs, and specifically load time costs,
16 we can ignore certain system level volume effects that
17 you -- I guess maybe -- is the weather a system level volume
18 effect? That wouldn't be, would it?

19 A I don't think so. I guess it would affect
20 activities at the stop.

21 Q Okay. Can you tell me once again what activities
22 might comprise elemental load time?

23 A What activities? At a particular stop?

24 Q That would be fine.

25 A I responded to this in interrogatory responses.

1 You know, I don't entirely know specifically what activities
2 at a stop might be measured as or regarded as elemental
3 related load time activities.

4 Q I think you said you don't know exactly but can
5 you give us any idea of what activities might be taken into
6 account?

7 A Well, I can postulate that the moment when the
8 carrier has grabbed the mail and is moving his arm toward
9 the receptacle that that time is related to the volume to be
10 delivered at that stop, but we have no independent measure
11 of those sorts of activities so I don't know for sure what
12 particular mix of activities at a stop or the mix of
13 movements that a carrier engages in a stop that might be
14 regarded as elemental load time activities.

15 They are not separately measured in a distinct
16 fashion at the stop level.

17 Q So you wouldn't know if placing mail in a mail
18 receptacle would be elemental load time?

19 A Not entirely, no. Part of it may or may not.
20 They have to open the receptacle as part of that loading
21 process.

22 Q So are you saying that it could be
23 coverage-related load time?

24 A Could be, yes. You know, I might say that the
25 notion of disaggregating or dissecting coverage in elemental

1 load time at the stop level doesn't have a lot of meaning to
2 me, so that is part of the reason.

3 Q All right, but we know what load time is in terms
4 of its activities, right?

5 A We certainly know what -- well, we know what load
6 time, generally speaking, we know what load time --

7 Q What activities generally comprise load time?
8 When does load time begin?

9 A When the carrier pauses at the stop -- to my
10 knowledge.

11 Q Okay, and when does it end?

12 A When he turns and leaves the stop.

13 Q So all the activities from when he pauses, first
14 pauses at the stop to when he leaves the stop are load time
15 activities?

16 A Yes, as measured by the LTV studies or as measured
17 by the ES study.

18 Q Right, so in order to measure load time some data
19 collectors had to go out and look and say aha! -- that is
20 load time?

21 A That's right.

22 Q Okay, but we can't do that with respect to
23 elemental load time or coverage-related load time. We can't
24 go out -- if we wanted to measure elemental load time we
25 couldn't, you are saying we couldn't go out and look in the

1 field and say, aha! -- that is elemental load time?

2 A I think it would be virtually impossible to
3 disaggregate that at the stop level and I don't think it has
4 much relevance for cost attribution purposes.

5 Q Because for every activity that we might observe
6 we wouldn't know if it would be elemental load time or
7 coverage-related load time?

8 A That's correct.

9 Q It could be either one?

10 A It could be either one.

11 Q When I asked you in an interrogatory what coverage
12 related load time was, you said these activities vary by
13 type of stop. Could you tell me what you mean by that?

14 A Well, I think it is evident that, likely evident
15 that elemental load time or the variability of load time
16 with respect to volume at a stop varies with respect to the
17 stop because it is pretty clear from the LTV regressions,
18 for example, that different receptacle types have a
19 significant influence on load time at a stop, and I guess I
20 am inferring to the fact that dealing with the receptacle is
21 likely in effect a load time that is impounded in the
22 coverage related component of overall load time.

23 Q But I believe you just told me that the receptacle
24 type could also affect the elemental load time as well?

25 A Well, I am postulating about that.

1 I think they couldn't be separately measured, but
2 I have been asked in these interrogatories to take a crack
3 at it and I have tried to take a bit of a crack at it and
4 try to identify some components of the loading activity, the
5 load time related to dealing with those components, whether
6 those might be impounded or embedded in the different
7 components of load time as estimated by the regression
8 analysis.

9 Q But you can't tell me for certain that placing
10 mail in one type of receptacle would be elemental load time
11 or coverage related load time?

12 A That's true. For all I know there might be some
13 interactions between volume and the receptacle type.

14 Q Okay. Now at pages 2 and 12 of your testimony you
15 stated that Witness Baron's analysis of load time lacks a
16 real world explanation and is not grounded in operational
17 data. Do you recall that?

18 A That's -- I'm looking for that --

19 Q Take your time.

20 A I recall it generally.

21 Q Take your time.

22 A You said 2 and 12?

23 Q Yes.

24 A Okay.

25 Q Now you were referring to fixed time at stop in

1 those instances?

2 A That's right.

3 Q In analyzing cost behavior, would you agree with
4 me that it is advantageous to have a clear definition of the
5 activity whose costs are being measured?

6 A For purposes of allocating street time costs, for
7 example, that's right -- to generate these functional
8 categories you have to differentiate the activities in
9 combination with the geographical locations we have talked
10 about to make those allocations.

11 Q And if we could determine a functional definition
12 for coverage-related load time that would be useful too,
13 would it not?

14 A In some hypothetical world we could split those
15 and analyze them separately as separate components of load
16 time and we recognize that they had different variabilities
17 or different relationships to volume.

18 I suppose it would be useful to split that.

19 Q It would assist us in determining what types of
20 distribution keys to use and what cost-causing
21 characteristics were associated with that activity, isn't
22 that right?

23 A Potentially, yes.

24 Q Now, going back to fixed time at stop and your
25 reference to page 2 -- reference at page 2 of your

1 testimony, is it your testimony that for Mr. Baron's fixed
2 time at stop to be a valid concept, that specific activities
3 that a carrier conducts during this fixed time must be
4 defined?

5 A I think that is the standard that he sets forth as
6 separating out this component of load time as a distinct
7 functional activity.

8 Q Do you consider that to be a requirement of any
9 such attribution analysis?

10 A For an attribution analysis?

11 Q Or any analysis of load time costs.

12 A I don't consider it necessary for purposes of
13 attributing load time costs, no.

14 Q So, according to your standards, it doesn't need
15 to be demonstrated that fixed time at stop is devoted to an
16 activity that is separate and distinct from other
17 activities?

18 A I think it is if you are using Mr. Baron's
19 methodology, because that is the stipulation that he sets
20 forth as the reason for his methodology. I am not setting
21 that standard.

22 Q Let's set aside his rationale.

23 A Okay.

24 Q I am just asking you if you believe that, in order
25 to analyze fixed time at stop, you would need to meet that

1 requirement?

2 A Not necessarily. I think there might be other
3 means of assessing fixed time at stop. I think I inferred
4 one in my testimony.

5 Q So, according to your standards, it is not a fatal
6 flaw that Mr. Baron's fixed time at stop lacks a physical
7 hypothesis that is grounded in operational data?

8 A I guess I am saying it is not fatal from my
9 perspective, but it is fatal from his perspective.

10 Q You are saying that he is being internally
11 inconsistent?

12 A That is correct.

13 Q Okay.

14 A Thank you.

15 Q I would like to talk to you about coverage related
16 load time again in the context of a hypothetical.

17 A Okay.

18 Q To try to get a little more clarity as to what
19 this concept means. Suppose there is a 1 percent increase
20 in volume, total volume, and that some of the new volume
21 goes to previously uncovered stops. Now, none of these new
22 stops are single subclass stops. They all, upon the first
23 day that they receive mail, receive multiple subclasses of
24 stop -- of mail.

25 A Okay.

1 Q Now, as you analyze it, would coverage related
2 load time in this scenario be zero or some positive number?

3 A Coverage related load time would be some positive
4 number.

5 Q And how much of that coverage related load time
6 would be attributed to classes of mail?

7 A In this case, zero.

8 Q Okay. So the attributable coverage related load
9 time would be zero?

10 A I believe so.

11 Q Do you have any sense as to why we call it
12 coverage related load time? What does the word "coverage,"
13 what role does the word "coverage" have in that definition?

14 A I think it is called coverage related load time
15 because there is at least general recognition that there is
16 some coverage related phenomena related to load time, that
17 system level volume produces -- increases in system level
18 volume produces increased coverage along a route, and there
19 is probably some load time as a result that is variable with
20 that load time.

21 Why we refer to the entire residual of the load
22 time that results from the elemental calculation as coverage
23 related load time, I am not entirely certain.

24 THE REPORTER: Would you pull that mike towards
25 you?

1 THE WITNESS: Sure.

2 BY MR. COOPER:

3 Q Would you refer to your response to Postal Service
4 Question Number 19? Also, keep handy your responses to
5 Questions 25 through 28. Now, in these responses, you seem
6 to draw a distinction between volume variable costs and
7 attributable costs. You object to certain costs as being
8 referred to as volume variable coverage related load time
9 costs. Do you recall that?

10 A Yes.

11 Q What is the nature of your objection?

12 A Well, the point I am getting at here is the
13 process of attributing load time costs, particularly for
14 coverage related costs, differs from the various volume
15 variability analyses of coverage related load time that have
16 been proffered over the years and in this current
17 proceeding. And so I am making that distinction between
18 attribution and volume variability as a result of that. I
19 think that distinction has been source of confusion in our
20 exchange of interrogatory responses throughout here.

21 Q So your concern was that the term "attributable"
22 could encompass more than just volume variability, is that
23 right?

24 A It could encompass more or an entirely different
25 set of costs from those calculated under a volume

1 variability analysis, yes.

2 Q Now, I am going to make a statement and I will see
3 if you agree with it.

4 A Okay.

5 Q The coverage related load time analysis used by
6 the Commission in the past was intended to find the
7 additional volume variability resulting from the fact that
8 additional deliveries are caused by additional volumes. Do
9 you agree with that statement?

10 A I think that is the intent of it, yes. I think
11 that is the coverage related phenomena that I was referring
12 to earlier.

13 Q Let me now refer you to your responses to Postal
14 Service Interrogatory 17(b)(1), and 23(a) and (b).

15 [Pause.]

16 A What was the second?

17 Q 23, Subparts (a) and (b).

18 [Pause.]

19 A Okay.

20 Q I believe that in these responses, you state that
21 coverage-related load time varies from stop to stop in
22 response to changes in stop type characteristics such as
23 receptacle and container types.

24 Now, this stop-to-stop variation, I presume, is
25 relevant to cost attribution?

1 A Variation related to receptacle type?

2 Q Well, any of the stop-to-stop variation that you
3 refer to. You say it could be a response to stop type
4 characteristics such as receptacle and container types.

5 A With respect to coverage-related load time?

6 Q Yes. You say that coverage-related load time
7 varies from stop to stop.

8 A It may, if you're using a volume variability
9 analysis to attribute coverage-related load time costs. It
10 doesn't particularly matter when you're using single
11 subclass stop ratios to do that.

12 Q Okay, so depending on how you're analyzing the
13 costs, it could come into play?

14 A Yes, I suppose so.

15 Q Okay. And depending on how you analyze cost,
16 could coverage-related load time at an individual stop come
17 into play?

18 A Perhaps. I guess, hypothetically, I could think
19 of a scenario where you would analyze coverage-related load
20 time that way.

21 I don't think we have the data to do it, but you
22 could theoretically do it.

23 [Pause.]

24 MR. COOPER: I have no further questions.

25 CHAIRMAN GLEIMAN: Is there any followup?

1 [No response.]

2 CHAIRMAN GLEIMAN: Mr. Costich, would you like
3 some time with your witness for redirect?

4 MR. COSTICH: Just a couple of minutes, Mr.
5 Chairman.

6 CHAIRMAN GLEIMAN: You've got it.

7 [Recess.]

8 CHAIRMAN GLEIMAN: Mr. Costich?

9 MR. COSTICH: Thank you, Mr. Chairman. We have
10 one question, or I hope it's one question.

11 REDIRECT EXAMINATION

12 BY MR. COSTICH:

13 Q Mr. Ewen, counsel for the Postal Service asked you
14 about the relationship of volume variability to the
15 Commission's attempts over the years to attribute
16 coverage-related load time; do you recall that?

17 A Yes.

18 Q As the Commission attributed coverage-related load
19 time in Docket Number R97-1, was there any volume
20 variability involved?

21 A Not to my knowledge.

22 Q Thank you.

23 MR. COSTICH: That's all I have, Mr. Chairman.

24 CHAIRMAN GLEIMAN: Is there any recross?

25 MR. COOPER: No, sir.

1 CHAIRMAN GLEIMAN: That being the case, Mr. Ewen,
2 that completes your testimony here today. We appreciate
3 your appearance, your contributions to the record, and you
4 are excused.

5 [Witness Ewen excused.]

6 CHAIRMAN GLEIMAN: That concludes today's hearing.
7 We'll reconvene on Wednesday, July the 12th, at 9:30, at
8 which time we will receive testimony from Witnesses MacHarg,
9 Bentley, Harrison, Salls, and Clifton.

10 I want to thank you all, and you have a nice
11 evening.

12 [Whereupon, at 3:39 p.m., the hearing was
13 recessed, to be reconvened on Wednesday, July 12, 2000, at
14 9:30 a.m.]

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