USPS-RT-20

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

POSTAL RATE AND FEE CHANGES, 2000	Docket No. R2000-1

REBUTTAL TESTIMONY
OF
JENNIFER L. EGGLESTON
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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AUTOBIOGRAPHICAL SKETCH

My name is Jennifer Eggleston. I joined the Postal Service in July 1997 as an Economist in the Product Cost Studies division of Product Finance, which has since been renamed the Special Studies division in the office of Activity Based Management. Since joining the Postal Service, I have been involved with many issues dealing with Parcel Post and Standard (A) parcels. I have visited several Bulk Mail facilities (BMCs), Processing and Distribution Centers (P&DCs), delivery units, and other postal facilities. My previous work includes the Bulk Parcel Return Service (BPRS) Cost Study provided to the Postal Rate Commission in October 1998 to fulfill the requirements of Docket No. MC97-4 and testimony in Docket No. MC99-4 (BPRS Expedited Minor Classification Case).

Earlier in Docket No. R2000-1, I testified before the Postal Rate Commission concerning Parcel Post, Special Standard B, BPRS and Merchandise Return Service.

Before joining the Postal Service, I worked as an Economist for Research Triangle Institute (RTI), a non-profit research firm in North Carolina. I worked with two separate groups at RTI. In the environmental economics group, I was tasked with estimating the potential costs and benefits of specific government regulations. In the health economics group, my main responsibility was to perform cost and benefit analysis of new drug treatments. I also worked for one year for the Naval Center for Cost Analysis in Crystal City, VA. My main responsibility was estimating the costs of procuring weapons systems.

I earned a Bachelor's Degree in Economics from James Madison University in 1992 and a Master's degree in Economics from North Carolina State University in 1995.

I. Purpose

The purpose of my testimony is to rebut the testimony of United Parcel Service witness Luciani (UPS-T-5) and Florida Gift Fruit Shippers Association witness Ball (FGFSA-T-1). Specifically this testimony will rebut witness Luciani's proposal on the Parcel Post transportation final adjustment. It will also rebut witness Ball's accusation that the TRACS distribution keys are inaccurate.

II. Witness Luciani's belief that the Parcel Post final adjustments double counts cost savings is incorrect.

In his testimony, witness Luciani claims that the Parcel Post transportation final adjustments calculated by witness Daniel are incorrect. His view is that her final adjustments double count the cost savings of parcels being dropped at the destination SCF. His rationale is that Parcel Post transportation cost estimates in USPS-T-26 already reflect the cost savings due to the assumption in the model that 7.11 percent of DBMC parcels are dropped at the destination SCF. Therefore, he believes that the final adjustments, which reduce Parcel Post transportation costs for DSCF and DDU, double count the savings. Tr. 25/11777-80. The logical premise of Witness Luciani's proposal must be that 7.11 percent of DBMC volume is dropped at the destination SCF in the pre-mix volume,[1] but that this does not hold true in the post-mix volume. He also assumes that all DBMC parcels that are dropped at the DSCF in the pre-mix volume are entered as DSCF in the post-mix volume. Tr. 25/11860.

If it were true that 7.11 percent of DBMC is dropped at the destination SCF in the pre-mix volume, and not in the post-mix volume, then witness Luciani might be correct that there is some double counting. But if it is rational to assume that 7.11 percent of DBMC is dropped at the destination SCF in the pre-mix volume, then it is also rational to assume that 7.11 percent of DBMC volume is dropped at the destination SCF in the post-mix volume. Because DSCF has much more stringent requirements than DBMC, whatever DBMC parcels are entered at a destination SCF will not necessarily qualify for the DSCF rate. Even witness Luciani testified that he did not believe that DBMC parcels would be dropped at the destination SCF, because, if they were not sorted to 5-digits, they would need to be sent back to the destination BMC and would not qualify for the DBMC rate. Tr. 25/11927. This would imply that the percentage of DBMC parcels dropped at the destination SCF should be zero for both the pre-mix and post-mix volumes.

[1] This assumption is used in the Parcel Post transportation cost model.

Therefore, if one were to accept witness Luciani's argument, then the appropriate correction would be to change the 7.11 percent assumption to zero percent in the cost model supporting the final adjustments. This cost model is located in LR-I-98 (LR98sec4c.xls). Attachment A is a revised version of that file showing the results of the zero percent adjustment. For convenience, only the pages that contain data that change are shown in Attachment A.[2]

To incorporate the zero percent assumption into the final adjustments, the revised estimated unit costs shown in Attachment A (page 2, column 5) should be entered into LR-I-98, file "LR98sec4d.xls". Attachment B is a revised version of the file "LR98sec4d.xls". Changes to the spreadsheet are highlighted. The spreadsheet was also changed to conform with the errata to USPS-T-26 filed on March 22, 2000, by changing the average cubic feet of oversize parcel post from 10.84 to 8.04.

Next the estimated unit costs from Attachment B (LR98sec4d.xls) are entered into the Parcel Post transportation final adjustment page of LR-I-97 (lr97finad.xls). These changes are shown in Attachment C.

As can be seen on page 2 of Attachment C, the impact of the zero percent assumption is to change Parcel Post transportation before rates final adjustments from -9.960 to -11.906 and the Parcel Post transportation after-rate adjustments from -20.901 to -22.808.[3]

It should be noted that the change in the 7.11 percent assumption would also have to be made to the Parcel Post transportation model originally presented in

[2] An electronic version of the file with all pages has been filed with this testimony.
[3] For purposes of analyzing the impact of the 7.11 percent assumption, holding the average cube of oversize Parcel Post constant has the impact of changing the Parcel Post before rates final adjustments from -9.960 to -9.861 and after rates final adjustments from -20.901 to -20.845.

USPS-T-26. For convenience, that model, with the new adjustment is contained in Attachment D.[4]

III. Witness Ball is clearly wrong in concluding that, because of differences between mail volumes and TRACS distribution keys, TRACS data cannot be relied upon.

In his testimony, witness Ball claims that TRACS is flawed based on his view that the Parcel Post DBMC distribution key is inaccurate. Witness Ball compares two tables of data and claims that they prove the TRACS distribution keys are not consistent with other measurements of Parcel Post. However, there are sound reasons why the two tables should be different, and any attempt to relate one table to the other needs to take these differences into account.

In the first table on page 13 of FGFSA-T-1, the column headings (intra-BMC and inter-BMC) refer to transportation modes. In the second table, those same titles refer not to transportation modes, but to rate categories. Transportation modes and rate categories do not have a one-to-one relationship. For example, matter mailed at Inter-BMC rates will generally incur both inter-BMC and intra-BMC transportation.[5]

To make matters worse, the first table shows TRACS BY 98 distribution keys based on cubic-foot-miles, whereas the second table contains total estimated TY01 cubic feet. Witness Ball's presumption that cubic-foot-miles should relate directly to cubic feet is absurd – it is equivalent to assuming that all mail pieces travel the same distance, or cost the same (per cubic foot) regardless of the distance traveled. Thus, although the comparison between BY 98 and TY 01 may not be erroneous on its own, the combination of it with the mismatch

[4] Attachment D is USPS-T-26, Attachments M and N. The electronic version of these attachments, originally filed in LR-I-171 as "cpp_tran.xls", is filed as "Attach_D.xls".

between units, transportation modes and rate categories renders witness Bail's comparisons meaningless.

Additionally, even if there were a problem with the TRACS distribution between DBMC and Parcel Post, it is irrelevant as long as the aggregate distribution of costs to the Standard (B) Parcel Post subclass by TRACS is correct. Although TRACS data collectors differentiate between DBMC and zone-rated Parcel Post, the TRACS data is only used at the aggregate subclass level. The distribution of Parcel Post TY 01 costs to the inter-BMC, intra-BMC and DBMC rate categories, as explained in USPS-T-26, attachment M, page 3, does not use TRACS data. Therefore, the Commission should rely on the Postal Service's distribution of transportation costs.

[5] In addition, approximately 68% of Standard A intra-BMC mail included in the second table is entered at the DSCF or DDU, and hence would be unlikely to even be transported on intra-BMC movements.