

BEFORE THE
POSTAL RATE COMMISSION

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

DOCKET NO. R97-1

**FIFTH SET OF INTERROGATORIES AND REQUESTS FOR
PRODUCTION OF DOCUMENTS FROM UNITED PARCEL SERVICE
TO UNITED STATES POSTAL SERVICE WITNESS MAYES
(UPS/USPS-T37-24 through 38)**

(August 6, 1997)

Pursuant to the Commission's Rules of Practice, United Parcel Service hereby serves the following interrogatories and requests for production of documents directed to United States Postal Service witness Mayes (UPS/USPS-T37-24 through 38).

Respectfully submitted,



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Of Counsel.

**INTERROGATORIES OF UNITED PARCEL SERVICE
TO UNITED STATES POSTAL SERVICE WITNESS MAYES**

UPS/USPS-T37-24. (a) Confirm that the Postal Service is proposing to pass through 100% or very close to 100% (see USPS-T-37, WP I.I, page 1 of 3) of the Postal Service's estimated cost savings for the rate categories for which a new discount is proposed (OBMC, DSCF, DDU, BMC presort, and prebarcoding). If not confirmed, explain in detail.

(b) Confirm that providing a worksharing rate discount to mailers who already perform worksharing in the absence of a discount leads to a decline in the net contribution to institutional costs for the volume tendered by those mailers. If not confirmed, explain in detail.

(c) Confirm that new parcel post volume (i.e., volume not now being handled by the Postal Service) generated by the proposed new rate discounts (OBMC, DSCF, DDU, BMC presort, and prebarcoding) will not yield any additional contribution to institutional costs. If not confirmed, explain in detail.

(d) Confirm that current Priority Mail volume that will be sent via Parcel Post because of the proposed worksharing discounts for Parcel Post will yield less contribution to institutional costs than that same mail now yields when sent by Priority Mail. If not confirmed, explain in detail.

(e) Confirm that, despite the adjustments to prevent revenue leakage, any new volume not currently handled by the Postal Service that is attracted to Parcel Post by the proposed new discounts for OBMC, DSCF, DDU, and prebarcoding will yield a negative contribution to institutional costs (i.e., will be carried below cost) if the

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estimated cost savings have been overstated by even a small amount (e.g., by 2% or more). If not confirmed, explain in detail.

(f) Do you agree that the possibility that estimated worksharing cost savings may be overstated creates a greater danger of yielding rates below attributable cost in the case of subclasses or rate categories with very low cost coverages (e.g., cost coverages of 102% or less) than for subclasses or rate categories with relatively higher cost coverages? Explain your answer.

(g) Do you agree that passing through a smaller percentage of estimated cost savings is one way to compensate for the risk of overstating estimated cost savings? Explain your answer.

UPS/USPS-T37-25. Witness Hatfield states (USPS-T-16, Appendix I, page 11 of 13, footnote 3) that the costs associated with Intra-Alaska non-preferential air was accounted for in your testimony. Confirm that your handling of these costs was to adjust the "Markup Factor" (e.g., on WP I.I, page 2 of 3) that is applied to the per piece cost and to the transportation cost in each rate cell in each rate category of Parcel Post (including Inter-BMC, Intra-BMC, DBMC, DSCF, and DDU). If not confirmed, explain.

UPS/USPS-T37-26. Refer to spreadsheet H197-1.xls, underlying the Intra-BMC Zone 5 rate cells in your testimony.

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(a) Confirm that there is a hard-coded value for the fourth iteration of the rates for Intra-BMC, Zone 5, pound 2. If not confirmed, explain.

(b) Confirm that the hard-coded value is not the same as the value that would result if the equations used for the other rate cells were applied to these cells. If not confirmed, explain.

(c) Explain why this value is hard-coded and not developed from the equations used for the other rate cells.

UPS/USPS-T37-27. Are 100% cost passthroughs consistent with the Postal Service's past policy with respect to the passthrough of worksharing cost savings? Explain.

UPS/USPS-T37-28. Refer to USPS-T-37, WP II.C. and WP I.H. Why is the amount of "Over 108 Inches" volume unaffected by the change in volume from before rates to after rates? Please explain.

UPS/USPS-T37-29. Refer to lines 1-3 on page 5 of your testimony.

(a) Confirm that the equations used to generate the proposed Parcel Post rates were constructed so that the maximum allowed rate increase for any particular weight and zone combination of inter-BMC machinable Parcel Post would not exceed 30%. If not confirmed, provide the correct figure.

(b) Why was any limitation chosen? Why was the specific limitation of 30% chosen? Cite all supporting Commission decisions.

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(c) Confirm that the equations used to generate the proposed Parcel Post rates were constructed so that the maximum allowed rate decrease for any particular weight and zone combination of inter-BMC machinable Parcel Post would not be greater than 15%. If not confirmed, provide the correct figure.

(d) Why was any limitation chosen? Why was the specific limitation of 15% chosen, and why is this figure different from the limitation on rate increases? Cite all supporting Commission decisions.

(e) Confirm that the proposed rates for some weight and zone combinations of BMC Presort, OBMC, DSCF, and DDU Parcel Post would, if adopted, result in rate decreases of more than 15% from current rates. If confirmed, why weren't these decreases constrained, as in the case of inter-BMC machinable Parcel Post? If not confirmed, explain.

UPS/USPS-T37-30. (a) Confirm that the revenue gained in the Test Year After Rates from the "Over 108 Inches" Parcel Post volume is \$12,822,340 minus \$180,180, or \$12,642,160. See your Workpaper II.C., page 1, lines 13 and 15. If not confirmed, please provide the correct figure.

(b) Confirm that the costs incurred in the Test Year After Rates from the "Over 108 Inches" Parcel Post volume is \$19,080,130 minus \$145,578, or \$18,934,552. See your Workpaper II.C., page 3, lines 2 and 4. If not confirmed, please provide the correct figure.

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(c) Confirm that in the Test Year After Rates, the "Over 108 Inches" Parcel Post volume does not cover its attributable costs. If not confirmed, please explain.

(d) Confirm that any underestimate of the "Over 108 Inches" Parcel Post volume would yield a lower cost coverage for Parcel Post in the Test Year After Rates.

UPS/USPS-T37-31. In calculating the TYAR volumes, the 1996 distribution of volume among zone and weight cells is used to divide the TYAR total volume among rate cells. Please provide an explanation and any evidence you have to confirm that the volume distribution is static. If you cannot confirm or provide any evidence or analysis to support a static volume distribution, please discuss and explain how your calculation of total revenue and cost coverage would be affected by shifts in volume distribution.

UPS/USPS-T37-32. Confirm separately that WP II.C., p. 3, footnote 12, should read, "WP II C page 1 line 24 over (1)," for TYBR cost coverage but that the coverage for TYBR is as the footnote reads. If you cannot confirm, please explain the TYBR cost coverage of 96.88% resulting from the calculation described in the footnote as stated and provide any relevant sources.

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UPS/USPS-T37-33. (a) Please confirm that in the 3rd iteration, any 2nd iteration rate that is unaffected by the 30 percent rate increase constraint is marked up by 4% (WP I.L., p. 39, line 8).

(b) Confirm that the rates resulting from this additional markup become the 3rd iteration rates as long as they do not crossover with Priority Mail rates.

(c) Similarly confirm that in the 4th iteration, any 3rd iteration rate that is still unaffected by the 30 percent rate increase constraint is marked up an additional 0.36% (WP I.M., p. 37, line 8).

If you are unable to provide unqualified confirmation of any of the above, please explain why you cannot confirm.

UPS/USPS-T37-34. (a) Please explain the process by which the 3rd iteration markup of 4% and 4th iteration markup of 0.36% were derived. Is there an algorithm that resulted in these markups? If so, please provide the algorithm in hard copy and electronic form with an accompanying explanation.

(b) Please discuss any and all other markup factors that were considered.

UPS/USPS-T37-35. Please confirm that markup factors that differ across rate cells (i.e., from one rate cell to another) were not considered, and explain why varying markups were not used or considered.

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UPS/USPS-T37-36. Please refer to USPS-T-37, WP I.K.

- (a) Confirm that the same markup factor has been separately applied to the inter-BMC, intra-BMC, and DBMC transportation costs in deriving the preliminary rate schedules.
- (b) Confirm that the approach referred to in (a) above yields a different markup in cents per piece for a parcel of the same weight and zone regardless of whether the parcel is sent as an inter-BMC, an intra-BMC, or a DBMC parcel. If not confirmed, explain.
- (c) Confirm that the Parcel Post rate designs in Docket Nos. R90-1 and R94-1 resulted in the same markup in cents per piece for a parcel of the same weight and zone regardless of whether the parcel was sent as an inter-BMC, an intra-BMC, or a DBMC parcel. If not confirmed, explain.
- (d) Confirm that even when transportation costs are estimated separately for inter-BMC, intra-BMC and DBMC, a Parcel Post rate design with an equal markup in cents per piece for a parcel of the same weight and zone regardless of whether the parcel was sent as an inter-BMC, an intra-BMC, or a DBMC parcel can be derived for each of the three rate categories. If not confirmed, explain.
- (e) Explain why you did not use an equal markup in cents per piece for a parcel of the same weight and zone regardless of whether the parcel is sent as an inter-BMC, an intra-BMC, or a DBMC parcel.

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UPS/USPS-T37-37. Please refer to your second iteration for all weights in zones Local, 1 and 2, for the Intra-BMC, Inter-BMC and DBMC categories.

- (a) Confirm that this is the only place in your analysis that constrains rates from decreasing by more than 15%. If not confirmed, please explain.
- (b) Explain why you use the constraint referred to in (a) above in these areas only and not anywhere else in the analysis.
- (c) Explain your reasons for using 15% as a constraint and not some other percentage.
- (d) Confirm that your analysis has no other constraint on the amount by which a rate cell can decrease. If not confirmed, please explain.
- (e) Confirm that no rates are decreased by more than 15%. If not confirmed, please explain.

UPS/USPS-T37-38. Confirm that the Springfield, MA BMC and SCF are located in the same building.

- (a) What SCFs are served by the Springfield, MA BMC?
- (b) Will all Springfield, MA DBMC Parcel Post destinating to the Springfield, MA SCF receive the DSCF discount?
- (c) If in a DBMC shipment to the Springfield, MA BMC there are some parcels destinating to the Springfield, MA SCF and some parcels that destinate to other SCFs, how will the DSCF discount be applied? Explain, particularly with respect to minimum volume requirements.

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(d) Did you take into account in your rate design the loss in revenue from Springfield, MA DBMC Parcel Post becoming automatically eligible for the DSCF discount? Explain.

(e) Will all inter-BMC presort parcels brought to the Springfield, MA BMC/SCF building receive the OBMC discount? Explain.

(f) Did you take into account in your rate design the loss in revenue from presorted Springfield, MA Inter-BMC Parcel Post receiving the OBMC discount, rather than the inter-BMC presort discount? Explain.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with section 12 of the Commission's Rules of Practice.


Stephanie Richman

Dated: August 6, 1997
Philadelphia, Pa.