

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS CRUM TO INTERROGATORIES OF
UNITED PARCEL SERVICE
(UPS/USPS-T28-1-11)

The United States Postal Service hereby provides responses of witness Crum to the following interrogatories of United Parcel Service: UPS/USPS-T28-1-11, filed on July 29, 1997.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
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**U.S. POSTAL SERVICE WITNESS CHARLES L. CRUM
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UPS/USPS-T28-1. (a) Please confirm that "all DBMC mail is bulk accepted and avoids the single piece acceptance portion of window costs." (USPS-T-28 at 1, line 25) If not confirmed, please explain.

(b) Please confirm that your Exhibit A notes DBMC window service cost of \$52,047. If not confirmed, please explain.

(c) If all DMBC mail volume avoids window service costs, please explain why any window service costs (CS 3.2) are attributed to DBMC volume.

RESPONSE

a. Confirmed.

b. Confirmed.

c. All DBMC mail volume does not avoid window service costs; it avoids the single piece acceptance portion of window service costs only. A small portion of window service costs are for pick-up of parcels at the delivery unit as opposed to acceptance at the originating post office. For example, a carrier might leave a Form 3849, popularly known as a "yellow slip", in the customer's mail receptacle and the customer then might come to the post office window to pick up the piece. I expect this happens equally in proportion to volume for DBMC parcels as for non-DBMC parcels.

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UPS/USPS-T28-2. (a) Please confirm that your calculation of the volume of parcel post deposited upstream from the BMC/ASF assumes that the proportion of Inter-BMC volume deposited by mailers at BMCs has remained constant since FY 1989. If not confirmed, please explain.

(b) Have any studies or other estimates using more recent data been performed to estimate the proportion of Inter-BMC volume deposited by mailers at BMCs? If so, produce all such studies.

(c) Are there any qualitative estimates which might indicate whether mailers are depositing more or less Inter-BMC volume (as a percentage of total) at BMCs in years after FY 1989 than during FY 1989?

RESPONSE

a. Not confirmed. In my Docket No. R97-1 testimony I use the results of 1996 market research to estimate the proportion of inter-BMC volume deposited by mailers at BMCs. Adding the 'Currently OBMC entered' volumes from USPS-T-37, Workpaper I.F., page 1 and dividing by the combination of OMAS and non-OMAS inter-BMC volumes on page 2 of the same workpaper yields the .043546 number in Appendix B of my testimony.

b. Please see my response to (a) above.

c. Please see my response to (a) above.

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UPS/USPS-T28-3. Please explain exactly how OBMC pieces will be accepted at BMCs and how their processing will differ from the processing and handling of other inter-BMC parcels.

RESPONSE

Other than the containerization requirements, OBMC pieces will be accepted at BMCs in the same way as DBMC parcels are today. The containers will be crossdocked to the outbound dock for the particular destination BMC that they are going to. They will then be loaded onto a truck with the other outgoing inter-BMC parcels destinating at that particular BMC and transported. At the destination BMC, they will be treated the same as any other incoming inter-BMC parcel. Inter-BMC parcel processing is more fully described in the testimony of witness Daniel (USPS-T-29).

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UPS/USPS-T28-4. Please describe the criteria for the minimum number of pieces in a mailing to qualify for the OBMC discount. Include in your explanation whether the criteria apply to the OBMC mailing as a whole (i.e., need there be only 50 parcels total?), or whether the criteria apply to each of the destination BMCs in an OBMC mailing (i.e., must there be 50 parcels for each destination BMC?). Also include what criteria, if any, will be established with respect to the "fullness" of the container required for mail in an OBMC mailing.

RESPONSE

To be consistent with the regulations for DBMC bulk acceptance, the 50 piece minimum applies to the mailing as a whole. As stated in my testimony, my analysis assumes "that machinable pieces will be deposited in sufficiently (at least 75 percent) full large cardboard boxes often referred to as "gaylords" and that nonmachinable pieces will be deposited on sufficiently full pallets (at least 4 feet high)." Based on the conversion factors listed in Exhibit J of my testimony, this relates to an average of 104.5 machinable pieces or 26.3 nonmachinable pieces per containerized BMC separation. It does not appear that the 50 pieces per mailing will be the limiting factor.

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UPS/USPS-T28-5. On page 5, lines 4-6, of your direct testimony you state that there is a presort requirement of 10 pieces per 5-digit area for machinable parcels and 25 pieces per 5-digit area for non-machinables for DSCF parcel post. On page five, lines 15-16, of your testimony you state that “[t]o be consistent with the DMBC requirements, DSCF parcels must be limited to mailings with at least 50 pieces.” Please reconcile these statements.

RESPONSE

My comments in lines 15-16 refer to the mailing as a whole, while my comments on lines 4-6 refer to the volume deposited per 5-digit area.

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UPS/USPS-T28-6. Please explain why and on what basis you assume 50 pieces per pallet on average for calculating the DSCF discount.

RESPONSE

I do not assume 50 pieces per pallet on average for calculating the DSCF discount.

Please see USPS-T-28, page 5, lines 4-7.

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UPS/USPS-T28-7. Your analysis assumes that OBMC machinable pieces will be delivered on gaylords. Please provide a picture of gaylord containers.

RESPONSE

"Gaylord" is a brand name of a single-ply corrugated cardboard sleeve which usually has a length and width of 40" x 48" but can range in height. In my testimony, I have assumed the height to be 69" and use that figure in the fullness calculations. Please see USPS-T-29, Appendix V, page 17.

I do not have a picture available.

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UPS/USPS-T28-8. (a) Please confirm that parcels eligible for the DDU discount will still need to be unloaded at the delivery unit. If not confirmed, please explain. If confirmed, please explain why you include the cost of unloading parcels at the DDU in your calculation of the DDU discount.

(b) Will the parcels eligible for DDU discounts be on pallets? If not, what container will they be in?

RESPONSE

a. Confirmed. Mailers will be required to unload their parcels at the destination delivery unit to receive the DDU discount.

b. I make no assumptions regarding what container (if any) the parcels will be in.

Since the mailers are responsible for unloading their vehicles, the containerization of the pieces in general should not have cost implications.

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UPS/USPS-T28-9. (a) Please confirm that in Docket No. R90-1, witness Acheson (USPS-T-12, pages 24-26) calculated the mail processing costs avoided by DBMC at non-BMC facilities by first calculating machinable and non-machinable costs avoided and then weighting those avoided costs by the proportion of intra-BMC mail that is machinable and non-machinable. If not confirmed, please explain.

(b) Please explain why you did not employ witness Acheson's methodology referred to in (a) above and explain how your results would differ if you were to follow the methodology adopted by witness Acheson in Docket No. R90-1.

RESPONSE

a. Confirmed.

b. Since my purpose was to produce a single mail processing savings number for DBMC, I did not believe it was necessary to calculate separate numbers for machinable and nonmachinable costs and then combine them proportionally. I would expect that the results of this very minor change alone would be extremely small. Because of the changes in my analysis necessitated by the MODS based cost pool approach the Postal Service is proposing in this case, I am unable to do the calculation to determine how the results would differ.

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UPS/USPS-T28-10. (a) Please confirm that a higher percentage of DBMC mail is machinable than is non-DBMC mail. If not confirmed, please explain.

(b) Please confirm that your calculation implicitly assumes that DBMC mail is machinable in the same proportion as non-DBMC mail. If not confirmed, please explain.

(c) Please confirm that your calculation overstates the upstream savings of the average DBMC piece relative to a non-DBMC piece. If not confirmed, please explain.

RESPONSE

a. Confirmed.

b. Not confirmed. My calculation implicitly assumes that DBMC mail has the same average cost characteristics as Non-DBMC mail based on handlings at outgoing mail processing operations at non-BMC facilities. Machinability per se is only one determinant of costs. Also, whether a piece is defined as machinable or nonmachinable is based on whether it can be satisfactorily processed on BMC parcel sorting machines. For the types of 'mail processing' operations in my analysis, costs are less related to parcel sorting machine machinability than to other factors such as cubic volume. For a discussion of the cost impacts of cubic volume, please see USPS-T-37, pages 14 and 15.

c. Not confirmed. Please see my response to (b) above. Library Reference H-135 shows that the average cubic volume of a DBMC parcel is .73 cubic feet while the average cubic volume of a non-DBMC parcel is .58 cubic feet. Therefore, I believe that

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my analysis fairly and conservatively describes the upstream savings of the average DBMC piece relative to a non-DBMC piece.

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UPS/USPS-T28-11. Refer to your response to DMA/USPS-T7-22 in Docket No. MC97-2.

- (a) Explain why the Access and Other Load cost components for city carrier street costs are not differentiated by shape.
- (b) Confirm that when a parcel is sorted to a letter or flat case, it is recorded in the Carrier Cost System as a letter or a flat, not a parcel.
- (c) Confirm that this treatment of parcels in the Carrier Cost System will tend to understate parcel delivery costs. If not confirmed, explain.

RESPONSE

a. Although I am not an expert in carrier costing, my understanding is as follows and refers only to the analysis in LR-H-108. "Access time is the time spent deviating from the course of the route to go to and from customer sites to make deliveries, but excluding the time spent in making the delivery itself. The significant characteristic of access time is that, because not all sites are usually visited on a tour, the aggregate time varies with the number of stops that receive mail." (Summary Description of USPS *Development of Costs By Segments and Components* (LR-H-1)). To the extent that all Standard Mail (A) parcels are delivered as part of a carrier's normal walking path and no special access trip is made to a given delivery point because the carrier is delivering a parcel, there are no additional access costs related to parcels. Given the typical size and weight of Standard Mail (A) parcels, I believe this is a reasonable, but admittedly conservative assumption.

By 'other load', I was referring to coverage-related load. "Coverage-related load time is that part of time at a delivery stop that does not vary directly with the number of

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pieces of mail delivered to a delivery point, but varies directly with the number of delivery points actually receiving mail" (LR-H-1). Using the same logic as above, I believe that not differentiating Standard Mail (A) coverage-related load time cost components by shape is reasonable and appropriately conservative.

b. Confirmed with respect to the City Carrier Cost System and Cost Segment 07 which my DMA response refers to.

c. I can not answer your question in general as stated. I have only examined this issue as it relates to the analysis in LR-H-108. To the extent parcels are cased as letters or flats, it represents a potential shifting of costs from parcels to letters and flats within a given subclass for my purposes. However, those parcels that can be cased with letters or flats are likely to be those that can be handled most easily in delivery. I believe the numbers in my analysis are properly conservative

DECLARATION

I, Charles L. Crum, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Charles L. Crum

Dated: 12 AUGUST 1997

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

A handwritten signature in cursive script, appearing to read "Scott L. Reiter", is written over a horizontal line.

Scott L. Reiter

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August 12, 1997