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

POSTAL RATE AND FEE CHANGES, 2001	Docket No. R2001–1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS JENNIFER L. EGGLESTON TO INTERROGATORIES OF UNITED PARCEL SERVICE (UPS/USPS–T25–1-6)

The United States Postal Service hereby files the response of witness Jennifer L. Eggleston to the following interrogatories of United Parcel Service:

UPS/USPS–T25–1-6, filed on November 13, 2001.

The interrogatories are stated verbatim, and are followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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November 27, 2001

RESPONSE OF UNITED STATES POSTAL SERVICE
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UPS/USPS-T25-1.

Refer to library reference USPS-LR-J-64, Attachment A, page 1 (file "1ppmp.xls", sheet "Sum"), where Table 1, the "Weighted Avg Model Cost," lists a value of $1.057 as the total of "Wtd Modeled Cost" figures in Attachment A, pages 8 to 22.

(a) Confirm that, when added individually, the total of the "Wtd Model Cost" figures in Attachment A, pages 8 to 22 is $1.105.

(b) Confirm that the incorrect total appears to result from an incorrect cell reference for the range name "intramach." If confirmed, review and provide a corrected hard-copy and electronic version of [USPS-LR-J-64], as well as the corresponding PRC Version contained in USPS-LR-J-86. If not confirmed, explain in detail.

RESPONSE:

(a). Confirmed.

(b). Confirmed. Errata will be filed November 27, 2001.

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UPS/USPS-T25-2.

Refer to library reference USPS-LR-J-64, Attachment A, page 8.

(a) Confirm that all Inter-BMC (Bulk Mail Center) machinable pieces at the Origin Associate Offices ("AO") are assumed to be in other wheeled containers ("OWC"). If not confirmed, explain in detail.

(b) Confirm that 63.29% of inter-BMC machinable pieces are assumed to be entered by the mailer at the Origin SCF (Sectional Center Facility), and 36.71% at the Origin AO. If not confirmed, explain in detail.

(c) Confirm that all inter-BMC pieces arriving at the Origin SCF are assumed to incur a "Crossdock Containers" charge of 25.33 cents per piece. If not confirmed, explain in detail.

(d) Confirm that a "Crossdock Containers" charge for Inter-BMC and Intra-BMC parcels is a new entry into the Parcel Post mail processing cost model and was not included in Docket No. R2000-1 or prior dockets. If not confirmed, explain in detail.

(e) Confirm that 51.08% of Inter-BMC machinable pieces at the Origin SCF are assumed to be "Loose in OTRs" (Over the Roads). If not confirmed, explain in detail.

(f) Confirm that the "Crossdock" charge at the Destination SCF for inter-BMC machinable pieces "Loose in OTRs" is 10.76 cents per piece.

(g) Explain why a "Crossdock" charge of 25.33 cents per piece rather than 10.76 cents per piece was applied at the Origin SCF for pieces "Loose in OTRs."

(h) Explain why a crossdock charge of 25.33 cents per piece was applied for pieces at the Origin SCF contained in "Sacks in OTRs," Pallets," "Pallet Boxes," "Bedload Sacks," and "Bedload Loose."

(i) Describe in general the mail processing operations taking place at the Origin SCF for inter-BMC parcels.

(j) Describe in general the mail processing operations taking place at the Origin AO for inter-BMC parcels.

RESPONSE:

(a). Confirmed that the origin AO section of the inter-BMC mail processing mailflow model uses both conversion factors and productivities that implicitly assume that parcels are in wheeled containers.

(b). Confirmed that the inter-BMC mail processing models in Attachment A assume that only 36.71 percent of inter-BMC Parcel Post incurs costs at the origin AO.

(c). Confirmed that cost per operation of the "crossdock containers" row in the origin SCF section of Inter-BMC machinable mail processing model is 25.33 cents.

(d). Confirmed.

(e). Not confirmed. Only the load operation in the origin SCF section of the inter-BMC machinable mailflow model assumes that 51.08% of inter-BMC parcels are loose in OTRs.

(f). Confirmed that the cost per operation of the "crossdock loose in OTRs" row in the destination SCF section of the inter-BMC machinable mail processing model is 10.76 cents.

(g&h). The cost per crossdock was not explicitly applied in either case. Instead, the estimated cost per operation is derived from the following equation:

$$\text{Cost per operation} = \frac{(\text{Wage rate} \times \text{piggyback} \times \text{premium pay factor})}{(\text{productivity} \times \text{conversion factor})}$$

The cost per operation for crossdocking at the destination SCF resulted in a higher cost than at the destination SCF because it was assumed that, during the crossdock operation, there are more parcels per container at the destination SCF than at the origin SCF. The mail processing model implicitly assumes that inter-BMC and intra-BMC parcels are comingled at some point at the origin SCF, and that this comingling occurs after the crossdock.

Due to time and resource constraints, it was not possible to study the operations associated with comingling and it was therefore not included in the model. Therefore, any overstating of cost due to the assumption that parcels will be comingled after the crossdock, should be at least partially offset by the exclusion of a "comingle" operation. For this reason this assumption was deemed reasonable.

In addition, it should be kept in mind that mail processing cost models are simplifications of reality. While we make the best faith effort to make the models are accurate as possible, they will always rely on some simplifying assumptions. It is for this reason that the mailprocessing models are tied back to the CRA unit costs shown on LR-J-64, Attachment A, page 2.

(i). It is my understanding that the general operations at the origin SCF for inter-BMC parcels include unloading containers, crossdocking containers, combining parcels into more full containers when necessary, and loading containers. Culling out local parcels may also occur.

(j). It is my understanding that the general operations at an origin AO include putting the parcels into some sort of container (after it is received over the window or from the carriers), moving those containers to the dock, and loading the containers on the truck. Culling out local parcels may also occur.

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UPS/USPS-T25-3.

Refer to library reference USPS-LR-J-106, WP-PP-1, 8, 9, and 10.

(a) Do you continue to agree, as you testified in Docket No. R2000-1 (Tr. 13/5108), that "The smaller the parcel, the more parcels that fit in a container, and hence, the smaller the cost per parcel"?

(b) Confirm that the average cubic foot per piece in the Test Year for Parcel Post pieces is:
   i. 0.51 for intra-BMC (Bulk Mail Center) parcels (12,881,937 / 25,332,087),
   ii. 0.64 for inter-BMC parcels (26,132,684 / 40,677,615),
   iii. 0.74 for Destination Bulk Mail Center ("DBMC") parcels (164,144,783 / 220,681,929),
   iv. 0.81 for Destination Sectional Center Facility ("DSCF") parcels (7,718,459 / 9,524,655), and
   v. 0.79 for Destination Delivery Unit ("DDU") parcels (83,894,504 / 105,929,135). If not confirmed, explain in detail.
   vi. If any of these are not confirmed, explain in detail.

(c) Confirm that, on average, a container will hold 45 percent more intra-BMC parcels than DBMC parcels. If not confirmed, explain in detail.

(d) Confirm that in library reference USPS-LR-J-64, Attachment A, you made no adjustment for the differing average sizes of intra-BMC, inter-BMC, DBMC, DSCF, and DDU parcels in deriving the worksharing savings for DBMC, DSCF, and DDU parcels. If confirmed, explain why you did not make such an adjustment. If not confirmed, explain in detail.

(e) Confirm that in library reference USPS-LR-J-64, Attachment B, size differentials between intra-BMC, inter-BMC, and DBMC, DDU, and DSCF parcels are taken into account in determining the specific transportation costs for intra-BMC, inter-BMC, DBMC, DDU, and DSCF parcels. If not confirmed, explain in detail.

RESPONSE:

(a). Yes. I continue to agree with my previous statement.

(bi-bvi). Confirmed that these are the values derived by dividing TYBR volumes by

TYBR cubic feet as estimated in LR-J-106.

(c). Confirmed that the value calculated for DBMC in part b is 45 percent larger than the value calculated for inter-BMC.

(d). Confirmed. Historically, the Parcel Post mail processing cost models only have taken into account cube differences between machinable, nonmachinable and oversize nonmachinable parcels. The reason for this decision is that the cube differentials are related to the rate category differentials. Cube is one of the reasons that parcels are either nonmachinable or oversize.

The problem with using rate-specific cube is that it is difficult to do so in a manner that would give the appropriate cost savings estimates. The purpose of the mail processing cost models is to measure the costs that the parcels avoid. In other words, the costs the parcel would avoid if that parcel were not workshared. Therefore, to use rate-specific cube estimates, the cost savings of a DBMC machinable parcel would be estimated by comparing the modeled costs of a parcel with the average *DBMC* cube in the intra-BMC machinable mailstream to the modeled costs of a parcel with the average *DBMC* cube in the DBMC machinable mailstream. The problem with this methodology is that it would overstate the DBMC cost savings for those parcels whose cube is lower than the average DBMC cube.

The other theoretical way to use rate-specific cube is to use a different cube for each rate category. In other words, estimate the DBMC machinable cost savings by

comparing the average cost of a parcel with the average *intra-BMC* cube in the intra-BMC machinable mailflow model with the cost of a parcel with the average *DBMC* cube in the DBMC machinable mailflow model. The problem with this methodology is that it would understate the true cost savings of a parcel with an average DBMC cube.

In order to avoid these complications, the Parcel Post mail processing model uses the average cube of machinable, nonmachinable, and oversize Parcel Post in the mail processing model.

(e). Not confirmed. Since the costs are estimated on a per cubic foot basis, holding all else equal, the Parcel Post transportation model would estimate the same cost per cubic foot for all rate categories. Cubic feet is used, in combination with number of legs traveled, to allocate total Parcel Post transportation costs to inter-BMC, intra-BMC, DBMC, DSCF and DDU. However, the estimated cost per zone is eventually divided by cubic feet. Therefore, while a rate category may have more costs allocated to it due to having more cubic feet, it will also have that cost divided by a larger number.

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UPS/USPS-T25-4.

Refer to library reference USPS-LR-J-64, Attachment A, page 27 of 27.

(a) Confirm that the words "and Platform Costs" have been deleted from the title of this sheet in comparison to the similar sheet filed with your testimony in Docket No. R2000-1 as USPS-T-26, Attachment F, page 1. If confirmed, explain the reason for this deletion. If not confirmed, explain in detail.

(b) Confirm that non-window entered Parcel Post pieces are verified by a U.S. Postal Service employee to check that the Form 8125 is correct at both the mailer's plant and again at the platform of the Postal Service location at which the parcels are entered. If not confirmed, explain in detail.

(c) Confirm that window-entered Parcel Post pieces do not incur these verification activities. If not confirmed, explain in detail.

(d) Explain how the costs associated with these verification activities are included in the calculation of Parcel Post worksharing cost avoidances in Attachment A. If the costs have not been incorporated in the analysis, explain why not.

(e) Confirm that the costs of these verification activities are included in Management Operating Data System ("MODS") LD 79 pool, the Bulk Mail Center ("BMC") platform cost pool, and the non-MODS allied labor pool. If confirmed, explain in detail how the cost of these verification activities is divided among these cost pools. If not confirmed, explain in detail.

(f) Describe all operations for Parcel Post included in the following cost pools:
   (i) MODS pool LD79;
   (ii) the BMC platform cost pool; and
   (iii) the non-MODS allied labor pool.

(g) Confirm that the non-MODS allied labor pool operations for Parcel Post take place only at Origin Associate Offices ("AOs") and destination delivery units ("DDU"s). If not confirmed, explain in detail.

(h) Refer to USPS-LR-J-64, Attachment A, page 2. Explain why the BMC platform cost pool and the non-MODS allied labor pool are treated as proportional if the costs of these verification activities have not been modeled.

RESPONSE:

(a). Confirmed. I do not remember changing the title. However, my guess is that in preparation of this case I realized that the title was not an accurate description of the cost savings estimate. It should be noted that, between R2000-1 and R2001-1, only the title of this analysis changed, and not the methodology.

(b). Confirmed.

(c). Confirmed.

(d). The cost models do not calculate a difference between drop-ship verification costs and non-dropship verification costs. The methodology used to estimate DBMC mail processing cost savings was updated in this case, and the estimation of verification costs was not considered.

(e). Not Confirmed. It is my understanding that MODS LD43 pool could also contain verification costs. It is my understanding that verification at the mailer's plant and at Postal Service plants would generally be done by clerks working in the MODS LD 79 pool. Likewise, verifications at BMCs, MODS stations and branches, and non-MODS facilities would be done by clerks or mailhandlers working in the cost pools of Bulk Mail Center ("BMC") platform, MODS "LD43" and non-MODS allied labor, respectively.

(f). All of the cost pools mentioned in (i) through (iii) have platform acceptance costs which are described in part (e).

(i) USPS LR-J-55, page 2 defines the functions of this cost pool as all nonsupervisory hours of employees involved in mailer acceptance, presort verification, and other revenue protection activities.

(ii) It is my understanding that the BMC platform cost pool includes all the loading and unloading of Parcel Post into and out of the vehicles at the BMC docks. This could include the operation of forklifts to move Postal Pak or other containers or alternatively it could include manually moving containers, sacks or parcels to or from staging areas or conveyors.

(iii) It is my understanding that Non-MODS allied labor cost pool includes platform work (usually manual) and also could include allied operations involving some distributions.

(g). Not confirmed, it is my understanding that costs at some smaller mail processing plants are also included in the nonMODs cost pools.

(h). The BMC Platform and non-MODS allied labor cost pool are treated as proportional since the Parcel Post mail processing models contain costs that are included in these cost pools. Specifically, the models include both loading and unloading at BMCs, SCFs and AOs.

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UPS/USPS-T25-5.

Refer to library reference USPS-LR-J-64, Attachment A, pages 1 and 2, and your testimony in Docket No. R2000-1, USPS-T-26, Attachment A, pages 1 and 2.

(a) Confirm that a Cost and Revenue Analysis ("CRA") proportional adjustment was not applied in deriving the mail processing cost avoidances for Bulk Mail Center ("BMC") Presort, Origin Bulk Mail Center ("OBMC") entry, Destination Bulk Mail Center ("DBMC") entry, Destination Sectional Center Facility ("DSCF") entry, and Destination Delivery Unit ("DDU") entry in any prior docket. If confirmed, explain why the CRA proportional adjustment is used in this docket to derive these avoidances. If not confirmed, explain in detail.

(b) Confirm that the CRA proportional adjustment for Parcel Post was 1.154 in Docket No. R2000-1, and is 1.286 in Docket No. R2001-1. If not confirmed, explain in detail.

(c) Explain in detail why Management Operating Data System ("MODS") pools for "1POUCHNG," "1SACKS_H," "LD43," and the non-MODS "ALLIED" pool are treated as proportional in this docket and were not in Docket No. R2000-1. Include in your explanation a description of all Parcel Post operations that are included in each of these cost pools.

(d) Confirm that the cost of the manual sortation of parcels to individual carrier routes at the destination delivery unit is captured only in the non-MODS "MANP" pool and the MODS "MANP" pool, and not in any other pool. If not confirmed, explain in detail.

(e) Describe in detail the operations on outgoing Parcel Post mail performed in the:
(i) MODS "MANP" pool;
(ii) MODS "MECPARC" pool;
(iii) MODS "1PLATFRM" pool;
(iv) MODS "1POUCHNG" pool;
(v) MODS "1SACKS_H" pool;
(vi) MODS "LD43" pool;
(vii) Non-MODS "ALLIED" pool; and
(viii) Non-MODS "MANP" pool

(f) Describe in detail the operations on incoming Parcel Post mail performed in the:
(i) MODS "MANP" pool;
(ii) MODS "MECPARC" pool;
(iii) MODS "1PLATFRM" pool;
(iv) MODS "1POUCHNG" pool;
(v) MODS "1SACKS_H" pool;

(vi) MODS "LD43" pool;
(vii) Non-MODS "ALLIED" pool; and
(viii) Non-MODS "MANP" pool.

(g) Provide Parcel Post Base Year and Test Year costs by each MODS, BMC, and non-MODS pool broken out by basic function in a manner similar to that provided in library reference USPS-LR-I-103 in Docket No. R2000-1 for Parcel Post and in library reference USPS-LR-J-65 in this docket for Bound Printed Matter.

RESPONSE:

(a). The entire statement cannot be confirmed. I can confirm that the CRA adjustment factor was not used in Docket R2000-1, USPS-T-26 in the calculation of BMC Presort, DSCF, and DDU cost savings. The reason for not using it for these rate categories in that Docket, was that these rate categories were relatively new at the time that rate case as filed. In fact, they were not even implemented in the base year. Since there was such a short time span between the implementation of the rate categories and the filing of the case, there was little time to study the new rate categories. For these reasons, it was deemed appropriate to not use the CRA adjustment factor, so that if anything we would understate the true cost differences. The current case, Docket R2001-1 was filed over two years after the implementation of these rate categories. In preparation of this case, I did not find anything to make me believe that the cost models resulted in inaccurate estimations of these cost savings. Therefore, it was deemed reasonable to apply the CRA adjustment factors to the cost savings.

I cannot confirm that the CRA adjustment factor was not used in the development of DBMC Docket R2001-1. Although it was not explicitly used, it was implicitly used in the calculation of DBMC cost savings. The purposes of both the fixed and proportional

CRA adjustment factor are to tie modeled costs to costs as they are reported in the CRA. Since the DBMC cost savings were estimated using costs taken directly from the development of the CRA, they included all CRA costs.

In addition, since OBMC is the sum of the BMC presort and DBMC cost savings, part of the cost estimate used true CRA costs (like DBMC) and part did not contain the CRA adjustment factors.

(b). Confirmed that the Parcel Post proportional CRA adjustment factor was 1.154 in Docket No. R2000-1, USPS-T-26. Due to errata being filed in response to UPS/USPS-T25-1, the Parcel Post proportional CRA adjustment factor in this case is 1.231.

(c). For a description of all Parcel Post operations included in these 4 cost pools see the responses to parts (e) and (f). In preparation of this case, I examined the models to see where changes or improvements should be made.

One of the changes to the model was to update the Parcel Post mailprocessing model in order for it to be used to estimate DBMC cost savings. Updating the model resulted in new operations being modeled, which led to more cost pools being made proportional. In addition, during work on another project, I had the opportunity to learn more detail about what operations are included in each cost pool. This also led me to change a few cost pools to proportional.

The justification for making the cost pools listed in this interrogatory is the following:

Non-MODS ALLIED: This cost includes platform costs at non-MODS facilities and may also include the sortation of parcels to the carrier and these costs are now included in the Parcel Post mailprocessing cost model.

1POUCHING: This cost pool includes the sort of irregular parcels. This sort is included in the nonmachinable Parcel Post mail processing cost models.

1SACKS H: This cost pool includes costs associated with sorting sacks and nonmachinable outsides and both the nonmachinable and oversize Parcel Post mailprocessing cost models include this manual sort.

LD43: This cost pool also includes the manual distribution of parcels. Again, the sortation of parcels at both MODS and nonMODS facilities have been included in the Parcel Post mail processing cost models.

(d). Not confirmed. MODS LD43 and non-MODS Allied are other cost pools that may capture this work. Please see responses to (e) and (f) for further detail.

(e). For a listing of MODS operations and operation names by cost pool see USPS LR-J-55, pages 15 to 31. For i, ii, iv, and v the outgoing operations should be minimal,

unless the plant is also an ASF. ASFs would perform distribution of parcels and NMOs to the other BMCs or ASFs or to the facilities in their service areas. MODS "1PLATFORM" could involve unloading mail from stations and branches and customers, culling Parcel Post from collection mail and separating it for dispatch to the BMC or other facilities, and obtaining containers of Parcel Post from operations or by cross docking for loading onto transportation to BMCs. For vi-viii, outgoing work involves unloading Parcel Post from postal or customer vehicles, in some cases culling and consolidating Parcel Post (helping out the plants), and loading this mail onto trucks to plants or in some cases BMCs.

(f). See response to "e" for general information on these cost pools. Incoming work on Parcel Post involves the following as listed by cost pool:

(i) MODS "MANP" pool -- manual distribution of parcels or sacks to 5-digit or in some cases to carrier route;

(ii) MODS "MECPARC" pool -- mechanized distribution of parcels to 5-digit;

(iii) MODS "1PLATFRM" pool -- unloading trucks from BMCs, doing cross dock or moving Parcel Post to necessary incoming operations, getting mail back to dock and dispatching onto transportation to stations and branches, AOs;

(iv) MODS "1POUCHNG" pool – manual distribution of sacks, parcels, NMOs to rolling stock by 5-digit or zone, possibly using conveyor belts;

(v) MODS "1SACKS_H" pool -- manual sort of sacks (of parcels) and NMOs to 5-digit or zone, possibly using conveyor belts;

(vi) MODS “LD43” pool -- manual distribution of parcels or NMOs to carrier route or in some cases to 5-digit zone, platform work involving unloading truck from BMC or plant and getting mail to incoming secondary operations;

(vii) Non-MODS “ALLIED” pool -- possibly some manual distribution of parcels or NMOs to carrier route or in some cases to 5-digit zone, platform work involving unloading truck from BMC or plant and getting mail to incoming secondary operations;;

(viii) Non-MODS “MANP” pool -- manual distribution of parcels or NMOs to carrier route or in some cases to 5-digit zone;

(g). Library reference USPS LR-J-180 will be filed on November 27, 2001.

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UPS/USPS-T25-6.

Refer to library reference LR-J-64, Attachment A, page 3.

(a) Confirm that the source of the productivity of the Parcel Post parcel sort at the Associate Office ("AO") is testimony from Docket No. R84-1 dealing with Bound Printed Matter. If confirmed, explain why this is an acceptable source to use in Docket No. R2001-1 for Parcel Post. If not confirmed, explain in detail.

(b) Discuss any differences there might be between sortation costs for Bound Printed Matter and Parcel Post.

(c) Confirm that this productivity assumption from Docket No. R84-1 is used to derive a Test Year cost of 9.68 cents per piece for sortation of Parcel Post pieces at the destination delivery unit to individual carrier routes. If not confirmed, explain in detail,

(d) Refer to library reference USPS-LR-J-64, Attachment A, page 2. Confirm that the cost in the Test Year in the Non-Management Operating Data System ("Non-MODS") "MANP" pool is 11.9230 cents per piece and in the MODS "MANP" pool is 2.446 cents per piece, for a total of 14.37 cents per piece. If not confirmed, explain in detail.

(e) Explain the reasons for the difference between the 9.68 cents per piece derived using the Docket No. R84-1 productivity assumption and the 14.37 cents per piece in the MODS and Non-MODS "MANP" pools. Include in your explanation any reasons why the worksharing model does not fully capture the costs of sorting parcels to the carrier route at the Destination Delivery Unit ("DDU").

RESPONSE:

(a). Confirmed. It is my understanding that the sortation productivity measured in Docket No. R84-1 was the productivity of sorting 5-digit presorted BPM to the carrier. Parcel Post arrives at the destination associate office (AO) in a similar manner (although several 5-digits may be combined). Parcel Post must also be sorted to the carrier and therefore will incur a similar sort operation. The other option for a proxy was the MODS manual parcel productivity. However, it is my understanding that this

productivity is for sorting nonmachinable parcels (NMOs, Ipps, and oversize) parcels. The sort at the destination delivery unit includes all parcels. In addition, it is my understanding that the MODS manual parcel productivity mainly reflects sorting parcels from 3-digits to 5-digits. Since the BPM productivity reflect the same type of sort, 5-digits to carrier, I concluded that the BPM productivity was a better proxy.

(b). It is my understanding that both BPM and Parcel Post are sorted to the carrier in a similar manner and will incur similar costs.

(c). Confirmed that the cost per operation for the "sort parcels" row of the destination delivery unit portion of the Parcel Post mail processing is 9.68 cents.

(d). Confirmed that the test year before rates (TYBR) value of the non-MODS "MANP" cost pool is 11.920 and the TYBR value of the MODS "MANP" cost pool is 2.446. Confirmed that the total of those two cost pools is 14.37.

(e). There is no reason for the two numbers to be the same. The sum of the two cost pools, non-MODS MANP and MODS MANP represents the cost of at least two different operations: manually sorting a parcel at a SCF and manually sorting a parcel at an AO. The cost pulled from my model represents the cost of one sort, manually sorting the parcel at the AO.

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.

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November 27, 2001