

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, 2001

Docket No. R2001-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS NIETO  
TO INTERROGATORIES OF UNITED PARCEL SERVICE  
(UPS/USPS-T26-1(H)-4)

The United States Postal Service hereby provides the response of witness Nieto to the following interrogatories of United Parcel Service: UPS/USPS-T26-1(h) to 4, filed on November 26, 2001. Interrogatory UPS/USPS-T26-1(a-g) has been redirected to the Postal Service.

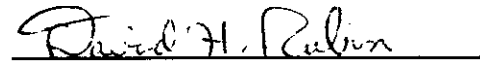
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

  
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December 10, 2001

**Response of Postal Service Witness Nieto to  
Interrogatories of United Parcel Service**

UPS/USPS-T26-1. Refer to "Minutes of the Mailers' Technical Advisory Committee, August 1-2, 2001" in the section labeled "Issue 61 – Service Assessment for DDU [Destination Delivery Unit] Drop Shipments" and the "MTAC/USPS DDU Drop Shipment Service Assessment for Parcels Workgroup, Minutes from April 25, 2001 Meeting," available at <http://www.ribbs.usps.gov/mtac.htm>.

- (a) Confirm that the Service Assessment for DDU Drop Shipments measurement program is currently in place. If not confirmed, explain when the program will be put into place.
- (b) How long will the measurement program be in place?
- (c) Will the measurement program be in place at all DDUs that accept drop shipments?
- (d) Confirm that this program applies only to Parcel Post DDU destination entry parcels. If not confirmed, explain in detail.
- (e) Confirm that under this program "Delivery Confirmation pieces would receive an initial scan upon receipt and another upon delivery." If not confirmed, explain in detail.
- (f) Confirm that all parcels scanned under this program will have had selected electronic delivery confirmation, and not manual delivery confirmation. If not confirmed, explain in detail.
- (g) Explain the process used to perform "an initial scan upon receipt", including the employee type (e.g., city carrier) that performs the operation, the location at which this scan takes place, and the time at which the scan takes place (e.g., at the time the parcels are dropped at the DDU").
- (h) Explain how the cost of this measurement program has been included in your analysis of delivery confirmation costs in USPS-LR-J-135. If it has not been included, explain why not.

**Response to UPS/USPS-T26-1.**

- (a)-(g) Redirected to the United States Postal Service.
- (h) The cost of the Service Assessment for DDU Drop Shipments measurement program is not included in my delivery confirmation costs. It has not been included because any scan at acceptance by the Postal Service would not be done as part of

**Response of Postal Service Witness Nieto to  
Interrogatories of United Parcel Service**

UPS/USPS-T26-1(h), Page 2 of 2

Delivery Confirmation service, but rather to obtain data for service performance reasons. The purpose of the system is to improve service for all package services mail, not just delivery confirmation mail.

Response of Postal Service Witness Nieto to  
Interrogatories of United Parcel Service

UPS/USPS-T26-2. Refer to library reference USPS-LR-J-135, Section A, Worksheet A-1 and A-3.

- (a) Describe any and all scanning performed at the DDU on delivery confirmation parcels received at the DDU prior to the parcels being delivered.
- (b) Confirm that your calculations of the cost of delivery confirmation do not include the cost of a "received at DDU" scan. If not confirmed, explain in detail.
- (c) Describe any and all scanning performed at any postal facility on delivery confirmation parcels prior to the parcels being delivered.
- (d) Confirm that the cost of an additional scan would be 3.5 cents if performed by box section clerks, presuming the scanner did not need to be retrieved or returned to the cradle. If not confirmed, explain in detail.

**RESPONSE:**

- (a) Upon arrival at the DDU, a barcode on the dropship documentation (Form 8125) is scanned by a clerk. This information is transmitted to the tracking database and all of the pieces associated with that 8125 barcode are updated automatically in the system with an arrival record.
- (b) Confirmed. These costs are not included because the acceptance scan is not part of the Delivery Confirmation offering. Rather, it is performed to obtain data for internal service performance measurement.
- (c) For parcels with retail rate delivery confirmation, the Delivery Confirmation label of each parcel is scanned by the clerk accepting the mailpiece. For parcels with electronic option Delivery Confirmation, a barcode representing the Delivery Confirmation Electronic File Number of the entire manifest is scanned from PS Form 3152, *Delivery Confirmation Certification*. For Plant Verified Drop Shipments with

Response of Postal Service Witness Nieto to  
Interrogatories of United Parcel Service

UPS/USPS-T26-2, Page 2 of 2

electronic option Delivery Confirmation, the electronic file number in barcode format is scanned from PS Form 8125 for the entire manifest. As noted in part (b), these scans are performed for internal service performance measurement purposes.

(d) Confirmed that the volume variable cost of an additional scan by a box section clerk would be 3.56 cents.

**Response of Postal Service Witness Nieto to  
Interrogatories of United Parcel Service**

UPS/USPS-T26-3. Refer to library reference USPS-T-30 and USPS-RT-21 in Docket No. R2000-1.

(a) Refer to pages 3-4 of your testimony, USPS-T-26, where you state that "the scanning study has been updated to reflect the absorption of carrier DC [Delivery Confirmation] transaction time by other carrier and clerk activities (as first discussed by witness Davis in Docket No. R2000-1, USPS-RT-21)." Confirm that this means you have adopted the three assumptions Mr. Davis made in his rebuttal testimony in Docket No. R2000-1, USPS-RT-21, in your analysis of delivery confirmation costs, namely:

(i) For pieces delivered by carriers, 50% of carriers' delivery confirmation base transaction time is absorbed by other activities, such as walking to the next delivery point or a deviation delivery caused by a mailpiece that cannot be placed in the mail receptacle.

(ii) For pieces delivered by box office clerks, there are no volume variable costs for retrieving or returning the scanner to the cradle after each scan.

(iii) 50% of Delivery Confirmation pieces delivered by window clerks will have no volume variable costs for retrieving or returning the scanner to the cradle after each scan. If not confirmed, explain in detail.

(b) Have you performed any additional review or evaluation of Mr. Davis' assumptions in his R2000-1 rebuttal testimony? If so, provide the reviews, evaluations or studies.

(c) Confirm that Mr. Davis derived electronic delivery confirmation costs of 17 cents per piece for both Priority Mail and Standard Mail (B) in Table 1 of USPS-T-30 in Docket No. R2000-1 in comparison to the 8.5 to 8.6 cents that you derive.

(d) Confirm that Table 1 in Mr. Davis' rebuttal testimony in Docket No. R2000-1, USPS-RT-21, represents the results of Mr. Davis applying a "less conservative set of costing assumptions" than those used in Mr. Davis' direct testimony, USPS-T-30, in Docket No. R2000-1.

(e) Confirm that Mr. Davis' rebuttal testimony was focused on Standard Mail electronic delivery confirmation costs. If not confirmed, explain in detail.

(f) Confirm that Mr. Davis' rebuttal testimony did not reject his original calculation of 17 cents per piece for the cost of Standard Mail electronic delivery confirmation, but merely derived a less conservative estimate. If not confirmed, explain in detail.

(g) Confirm that, in Docket No. R2000-1, the Postal Service used 17 cents per piece in deriving the base Priority Mail delivery confirmation costs that should be included in Priority Mail base costs. If not confirmed, explain in detail.

(h) Confirm that given the large percentage of letters and flats within Priority Mail, that Priority Mail will have fewer deviation deliveries than Standard Mail (B). If not confirmed, explain in detail.

(i) Explain in detail why you believe that Mr. Davis' assumptions in his rebuttal testimony in Docket No. R2000-1 are the best assumptions to use in this docket.

Response of Postal Service Witness Nieto to  
Interrogatories of United Parcel Service

UPS/USPS-T26-3, Page 2 of 3

**RESPONSE:**

- (a) Confirmed.
- (b) No formal additional reviews or studies have been performed; however an informal review of the assumptions with Delivery Confirmation program managers was performed, which resulted in adoption of the assumptions for use in this proceeding.
- (c) Not confirmed that Mr. Davis' Priority Mail and Standard Mail (B) cost of 17 cents for electronic delivery confirmation in Table 1 of USPS-T-30 in Docket No. R2000-1 is comparable to the 8.5 to 8.6 that I present. In his rebuttal testimony (USPS-RT-21), Mr. Davis presented an alternative methodology, resulting in a cost of 7.8 to 7.9 cents. This cost was adopted by the Commission, as presented in Docket No. R2000-1, Supplement to PRC-LR-18, Special Services Workpapers, WS "DC Costs." This result is comparable to the 8.5 to 8.6 cents derived in my testimony.
- (d) Confirmed. The full description of the revision is "more realistic, less conservative set of costing assumptions".
- (e) Not confirmed. Although Table 1 in Docket No. R2000-1, USPS-RT-21 only provides cost revisions for Standard Mail Electronic, Footnote 2 states that "Revised delivery cost of \$0.073 also applies to Standard Mail retail and Priority Mail DC cost estimates." Additionally, by applying the directions on pages 4 to 6 of the rebuttal testimony to the cost model in USPS-LR-I-108, the model results in new costs for

Response of Postal Service Witness Nieto to  
Interrogatories of United Parcel Service

UPS/USPS-T26-3, Page 3 of 3

Standard Mail and Priority Mail.

- (f) Confirmed.
- (g) Confirmed.
- (h) Not confirmed. I am not aware of any studies quantifying the number of deviation deliveries for Priority Mail with Delivery Confirmation compared to those of Standard Mail (B) with Delivery Confirmation.
- (i) I believe that Mr. Davis' assumptions are appropriate to use in this docket primarily due to the Commission's acceptance of witness Davis' methodology, as presented in the Docket No. R2000-1, Supplement to PRC-LR-18, Special Services Workpapers. In addition, I have no reason to believe that other costing assumptions are more appropriate.



**Response of Postal Service Witness Nieto to  
Interrogatories of United Parcel Service**

UPS/USPS-T26-4. With respect to your adoption of the assumptions about delivery confirmation for mail carriers Mr. Davis made in his rebuttal testimony in Docket No. R2000-1, USPS-RT-21:

(a) Provide the volume variability of the labor costs incurred by city carriers while:

- (i) Walking to the next delivery point.
- (ii) Driving to the next delivery point.
- (iii) Deviating from a regular delivery to delivery a mailpiece that cannot be placed in the mail receptacle.

(b) Provide the volume variability of the labor costs incurred by rural carriers while:

- (i) Walking to the next delivery point.
- (ii) Driving to the next delivery point.
- (iii) Deviating from a regular delivery to delivery a mailpiece that cannot be placed in the mail receptacle.

(c) Explain whether volume variable costs for delivery confirmation (e.g., un-holstering and holstering of scanners) have become non-volume variable costs as a result of these assumptions and whether that is proper.

**RESPONSE:**

(a) (i) and (ii).

It is my understanding that the time walking or driving between delivery points is known as "runtime." The volume variability of runtime is developed by a set of regression equations based upon the CAT/FAT study. This development was explained by the

Response of Postal Service Witness Nieto to  
Interrogatories of United Parcel Service

UPS/USPS-T26-4, Page 2 of 4

Commission in Docket No. R97-1:<sup>1</sup>

The traveling time between delivery points on routes is referred to as runtime, which includes the time a carrier spends walking and driving. PRC Op. R87-1 at 221-24. Since Docket No. R87-1, the results of a Street Time Sampling (STS) survey conducted in 1986 have been used to determine the percentage of total city carrier street time that is spent on runtime. Total city carrier street time payroll costs are multiplied by the STS percentages, presented in LR-H-1 at 7-4, to calculate accrued runtime costs. The variable portion of runtime is considered access time and the residual is considered route time. The variable portion is estimated from regression analyses of CAT/FAT data. Access costs are the product of runtime costs and the CAT/FAT variability factors. See LR-H-1 at 7-8. The CAT/FAT data specifically includes both driving time and walking time, and the regression results reflect both. *Docket No. R87-1, USPS-T-7, Exhibit D at 1.*

The CAT/FAT variabilities in this docket can be found in Library Reference LR-J-182.

(iii) The activity described in the question is most closely matched by the analysis of deviation deliveries presented and accepted by the Postal Rate Commission in Docket No. R97-1. The analysis was described by the Commission as:<sup>2</sup>

In this docket, Postal Service witness Nelson proposes to change the method for calculating accrued and volume variable costs for motorized letter routes. The results of special studies performed on the activities of carriers on

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1 See, PRC Op., Docket No. R97-1 Vol. 1 at 189.

2 See, PRC Op., Docket No. R97-1 Vol. 1 at 189.

Response of Postal Service Witness Nieto to  
Interrogatories of United Parcel Service

UPS/USPS-T26-4, Page 3 of 4

motorized letter routes are presented in USPS-T-19 and are used to develop new variability factors that extend the variability analysis beyond park-and-loop routes to all letter routes. Witness Nelson continues to apply the established assumption that 50 percent of driving time varies with stops, but through the use of econometric techniques obtains the variability of stops as a function of the different activities that occur on motorized routes to generate stops. The different activities accounted for in witness Nelson's analysis are routine looping points/dismounts, "deviation" deliveries for such things as expedited items or large parcels, and collection-related events. USPS-T-19 at 6. The new variabilities are calculated in Exhibit USPS-19C. The variable costs are calculated as a product of the driving time and the assorted variabilities.

The variability for deviation deliveries is 98.5 percent and can be found in USPS-LR-I-160 from Docket No R97-1.

(b) (i-iii) It is my understanding that rural carrier compensation is determined by a physical count of mail items received by the carrier during the National Rural Mail Count time period, and on route specifications recorded during the count. The carrier receives a time allowance for each piece of mail counted (i.e. DPS letter, sector-segment letter, other letter, flat, parcel, boxholder, accountable, letters and flats collected, etc.). Costs associated with the time for delivering and collecting mail items are considered 100 percent volume variable. Time allowances are also given for route characteristics, such as the number of route miles and the number of boxes on the route. Costs associated with these non-volume related route characteristics are not volume variable. Given this

Response of Postal Service Witness Nieto to  
Interrogatories of United Parcel Service

UPS/USPS-T26-4, Page 4 of 4

methodology for rural costing, it is not possible to provide the requested variabilities.

(c.) I do not agree with the implicit assumption in the question that the costs of holstering and unholstering the scanner by a carrier are completely volume variable. Rather, 50 percent of these costs are non-volume variable based on the treatment of these costs developed by witness Davis and adopted by the Commission in Docket No R2000-1, and adopted by me in this docket. Based on the likelihood that some of these costs are absorbed during other carrier delivery activities, I believe this treatment is appropriate for the development of Delivery Confirmation volume variable costs. See Docket No. R2000-1, USPS-RT-21, at 4-5.

**DECLARATION**

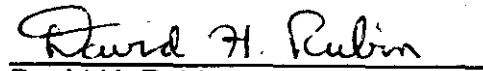
**I, Norma B. Nieto, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.**

*Norma B. Nieto*

**Dated:** DECEMBER 10, 2001

**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.

  
David H. Rubin

475 L'Enfant Plaza West, S.W.  
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December 10, 2001