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–T25–30-40) (December 21, 2001)

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

UPS/USPS–T25–30-40, filed on December 7, 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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UPS/USPS-T25-30.

Refer to your response to interrogatory UPS/USPS-T25- 2(g), (h), and (i).

(a) Confirm that the "commingle" operation that takes place at the origin Sectional Center Facility ("SCF") for intra-BMC (Bulk Mail Center) and inter-BMC Parcel Post parcels is the practice of "combining parcels into more full containers when necessary." If confirmed, explain what steps are involved in performing this operation. If not confirmed, describe in further detail the commingling that takes place at the origin SCF.

(b) Provide any information or studies available on the number of parcels per container prior to the commingle operation and after the commingle operation.

(c) Why have you implicitly assumed that the commingling takes place after to the crossdock operation, instead of prior to the crossdock operation?

(d) When does the crossdock operation typically take place (i.e., at the time the mail is entered at the dock or when the truck to the BMC departs)?

(e) Explain the extent to which you considered differences in the costs of crossdock operations at an origin SCF (crossdock from various locations to one location) and a destination SCF (crossdock from one location to various locations) and whether one type of crossdock would be more efficient than another.

RESPONSE:

(a). I can confirm that this is what I was referring to in my response to UPS/USPS-T25-2 (g), (h), and (i). However, I did not mean to imply that all parcels will incur a cost associated with co-mingling. It is my understanding that at some point, *some* parcels will be taken out of one container and placed in another in order to maximize the capacity of containers. Due to time and resource constraints, I have not studied this operation and do not know what specific steps are involved in performing this operation.

(b). The models assume that parcels leave the origin SCF in the same manner they arrive at the origin BMC (this is the same as the destination BMC for intra-BMC

parcels). This study is documented in Docket No. R97-1, LR-H-131. Due to time and resource constraints, there was no study done on how parcels leave the origin associate office. It was assumed they would leave the origin associate office in wheeled containers.

(c). Due to time and resource constraints, operations at the origin SCF were not studied. I assumed that co-mingling would occur at the outgoing dock since that is the place where all the containers going to the BMC would "meet". It is at this point postal employees would be able to determine how to co-mingle parcels into more full containers.

(d). Due to time and resource constraints, the operations at the origin SCF were not studied. Therefore, I do not have the information to answer this question.

(e). I did not consider comparing the two crossdocks because I estimated the cost of each individually.

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UPS/USPS-T25-31.

Refer to your response to interrogatory UPS/USPS-T25- 2(g) and (h). Confirm that tying mail processing modeled costs to Cost and Revenue Analysis ("CRA") costs implicitly assumes that all modeled costs have been underestimated or overestimated by the same percentage amount, regardless of the costs are incurred. If confirmed, explain why this practice provides greater accuracy with respect to the estimate of worksharing savings. If not confirmed, explain why tying modeled costs to CRA costs provides greater accuracy in the estimate of worksharing savings.

RESPONSE:

The mail processing cost model referred to in this interrogatory follows the methodology suggested by the Postal Rate Commission (PRC) in Docket No. MC95-1, Opinion and Recommended Decision, Page IV-99. The PRC referred to this methodology as the hybrid methodology. Confirmed that this methodology compares total modeled costs to total proportional costs, and therefore multiplies all cost pools/operations by the same ratio. The Postal Rate Commission found that using this hybrid methodology (tying modeled costs to cost pools) is "more accurate" than using either cost models or cost pools alone.

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UPS/USPS-T25-32.

Refer to your response to interrogatory UPS/USPS-T25- 3(d) in which you state, "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."

(a) Confirm that Destination Bulk Mail Center ("DBMC") parcels are assumed to avoid 13.5 cents per piece of window costs in your cost models. If not confirmed, explain.

(b) Confirm that in deriving the DBMC Window Service savings you calculate the difference between the average window service costs for Parcel Select parcels and the average window service costs for non-Parcel Select parcels. If not confirmed, explain.

(c) Refer to library reference USPS-LR-J-64, Attachment A, page 6. Confirm that the majority of inter-BMC and intra-BMC parcels are not window-entered and therefore do not incur window costs. If not confirmed, explain.

(d) Explain why you believe that DBMC parcels "avoid" 13.5 cents of window costs.

(e) Explain why you believe that DBMC parcels would incur 13.5 cents of window costs if they were not workshared.

RESPONSE:

(a)-(e). When estimating cost savings, it is customary to estimate the costs avoided by the average parcel, not just the cost of the parcels that incur that specific cost. Therefore if 50 percent of non-workshared parcels incur 40 cents of costs, the workshare cost savings would be 20 cents ($.5 \times 40$ cents). The estimate of DBMC window service cost savings employs this methodology. The non-Parcel Select window service cost, 13.77 cents, represents the average window service costs incurred by non-Parcel Select parcels. In other words, it is the total window service costs incurred by non-Parcel Select parcels divided by the volume of all non-Parcel Select parcels (regardless of if they were or were not entered at the window).

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UPS/USPS-T25-33.

Refer to your response to interrogatory UPS/USPS-T25-3(d).

(a) Confirm that in your testimony in Docket No. R2000-1, USPS-T-26, you derived the mail processing worksharing savings between intra-BMC (Bulk Mail Center) parcels and Destination Bulk Mail Center ("DBMC") entry parcels as equal to the average Cost and Revenue Analysis ("CRA") mail processing costs incurred by inter-BMC and intra-BMC parcels prior to arrival at the BMC. If not confirmed, explain.

(b) Confirm that inter-BMC and intra-BMC parcels do not have the same average cubic feet per piece as DBMC parcels. If not confirmed, explain.

(c) Confirm that the methodology you used in Docket No. R2000-1 derives the DBMC-entry mail processing worksharing cost avoidance using the costs for parcels that do not have the average cubic feet per piece of DBMC-entry mail or the average cubic feet per piece of Parcel Post mail as a whole. If not confirmed, explain.

RESPONSE:

(a). Confirmed this was the general idea, although the cost estimate contained several adjustments.

(b). Confirmed.

(c). Confirmed, that was the only option available using this methodology.

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UPS/USPS-T25-34.

Refer to your response to interrogatory UPS/USPS-T25- 3(d). Confirm that all costs per operation other than for load bedload, unload bedload, and sorts (manual or by Parcel Sorting Machine ("PSM")) are affected by the number of pieces per container. If not confirmed, explain in detail.

RESPONSE:

I do not understand your question as written. I believe you are asking which operations are impacted by the number of pieces per container. The following operations are impacted by number of pieces per container: loading containers, unloading containers, move, and crossdock. The following operations are not impacted by the number of pieces per container: piece distribution (manual sort and machine sort), unloading bedloaded parcels, and loading bedloaded parcels.

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UPS/USPS-T25-35.

Refer to your response to interrogatory UPS/USPS-T25-3.

(a) Confirm that the average cost of Destination Bulk Mail Center ("DBMC") parcels would be greater than your model determines if the higher than average cubic foot per piece for DBMC parcels was taken into account. If not confirmed, explain.

(b) Confirm that the average cost of intra-BMC parcels would be less than your model determines if the lower than average cubic feet per piece for intra-BMC parcels was taken into account. If not confirmed, explain.

(c) Given the differing average cubic feet per piece between intra-BMC and DBMC parcels, confirm that the mail processing cost difference between the average machinable intra-BMC parcel and the average machinable DBMC parcel is less than the 70.3 cents that you have derived in your models. If not confirmed, explain.

RESPONSE:

(a)-(b). The purpose of my models is to provide witness Kiefer with cost difference estimates, not total costs. However, confirmed, that holding all else equal, the total adjusted mail processing cost of any of the Parcel Post mail processing models would be higher if the average cube were higher. In addition, holding all else equal, the total adjusted mail processing cost of any of the Parcel Post mail processing models would be lower if the average cube were lower.

(c). Not Confirmed. Confirmed that the modeled cost difference between an average intra-BMC parcel (with intra-BMC cube) and an average DBMC parcel (with DBMC cube) would be less than the modeled cost difference shown in LR-J-64, Attachment A, between an intra-BMC parcel (with average Parcel Post cube) and a DBMC parcel (with average Parcel Post cube). I do not know the impact of making

such a change on the CRA adjustment factors, and therefore do not know if the estimated cost difference would be below or above 70.3 cents.

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UPS/USPS-T25-36.

Refer to your response to interrogatory UPS/USPS-T25- 3(d). Provide any studies that you have performed or that are available that show that Destination Bulk Mail Center ("DBMC") parcels would be entered as Parcel Post in exactly the same way on average as intra-BMC and inter-BMC parcels if the DBMC parcels were not workshared. If no studies exist, why not?

RESPONSE:

It is customary in estimating workshare cost savings to compare the cost of the workshared mail to the cost of the rate category the mail would revert to if the workshare category did not exist. In the case of DBMC, the intra-BMC category is the benchmark. I have no reason to believe that the parcels that are currently entered as DBMC, would not be entered similarly to how intra-BMC is entered. However, there are no studies to support this assumption. In fact, such a study would be nearly impossible to produce without eliminating the DBMC rate category.

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UPS/USPS-T25-37.

Refer to your response to interrogatory UPS/USPS-T25- 3(e). Assume the Parcel Post transportation model estimated the same cost per cubic foot for intra-BMC (Bulk Mail Center), inter-BMC and Parcel Select parcels in all zones even though each rate category had a different cubic foot per piece in each weight range from 1 to 70 pounds. Confirm that the approach used by Witness Kiefer in his Parcel Post rate design would yield a different transportation cost assigned to each weight range from 1 to 70 pounds for intra-BMC parcels, inter-BMC parcels and Parcel Select parcels. If not confirmed, explain.

RESPONSE:

I cannot answer any question about how changes in my results would impact witness Kiefer's results. However, I believe you are misinterpreting my response to UPS/USPS-T25-3(e). In that response, I stated that the transportation cost model in LR-J-64, Attachment B, did not estimate more costs based on size differentials because it estimates the average cost per cubic foot. It was not meant to imply that costs do not increase with cubic feet, that cost per cubic foot do not vary with zones, or that witness Kiefer does not take size differentials into account.

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UPS/USPS-T25-38.

Refer to your response to interrogatory UPS/USPS-T25-6 and library reference USPS-LR-J-2, "Cost and Revenue Analysis, FY 2000."

(a) Confirm that library reference USPS-LR-J-2 shows that Bound Printed Matter has an average cube of 0.1741 cubic feet per piece (97,514 thousand cubic feet divided by 560,218 thousand pieces). If not confirmed, explain.

(b) Confirm that library reference USPS-LR-J-2 shows that Parcel Post has an average cube of 0.8973 cubic feet per piece (290,888 thousand cubic feet divided by 324,167 thousand pieces). If not confirmed, explain.

(c) Confirm that library reference USPS-LR-J-2 shows that the average cubic feet per piece of Parcel Post is more than 5 times higher than average cubic feet per piece of Bound Printed Matter. If not confirmed, explain.

(d) Confirm that library reference USPS-LR-J-2 shows that the average weight per piece of Parcel Post is more than 2.5 times higher than the average weight per piece of Bound Printed Matter (100.7 ounces in comparison to 39.5 ounces).

(e) Have you considered the much larger average size and weight of Parcel Post pieces when using the productivity for manual sortation to carrier route at the Destination Delivery Unit ("DDU") of Bound Printer Matter as a proxy for the manual sortation cost to carrier route at the DDU of Parcel Post?

RESPONSE:

(a). Confirmed that dividing 97,514 by 560,218 results in .1741 and that these are the correct values for total cubic feet and volume for Bound Printed Matter shown in LR-J-2.

(b). Confirmed that dividing 290,888 by 324,167 results in .8973, and that these are the correct values for total cubic feet and volume for Parcel Post shown in LR-J-2.

(c). Not confirmed. Confirmed that the number .8973 is more than 5 times the number .1741. However, it is my understanding that the cubic feet reported in LR-J-2 take into consideration the amount of space take up in a container, and therefore

include air. Therefore these numbers do not necessarily represent the true cube comparisons of Bound Printed Matter and Parcel Post.

(d). Confirmed those are the values, and the relationship of the values, shown in LR-J-2.

(e). Yes. I considered that due to the weight restrictions on Bound Printed Matter, that Bound Printed Matter would on average be lighter and smaller than Parcel Post. However, I am not aware of any studies on how productivities vary with cube and weight. If this information were available, I would use different productivities for sort at the destination delivery unit for machinable, nonmachinable, and nonmachinable oversized Parcel Post parcels. What I did have available was a productivity for sorting parcels from 5-digits to carrier-route at the destination delivery unit. I considered this to be a better proxy than sorting nonmachinable parcels from 3-digits to 5-digits at an SCF.

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UPS/USPS-T25-39.

Refer to your response to interrogatory UPS/USPS-T25-6 and library reference USPS-LR-J-65, Attachment A (revised 11/27/01). Confirm that decreasing the assumed productivity for the manual sort to carrier route at the Destination Delivery Unit ("DDU") for Parcel Post to be equal to 50% of that of Bound Printed Matter would:

(a) Increase by 9.68 cents per piece the modeled cost of each of the rate categories shown in Table 2 of library reference USPS-LR-J-64, page 1 (i.e., Inter-BMC (Bulk Mail Center) machinable and non-machinable, intra-BMC machinable and nonmachinable, Destination Bulk Mail Center ("DBMC") machinable and non-machinable, Destination Sectional Center Facility ("DSCF") machinable and non-machinable, and Destination Delivery Unit ("DDU") machinable and non-machinable).

(b) Decrease the Parcel Post Cost and Revenue Analysis ("CRA") proportional adjustment factor from 1.231 to 1.131. If not confirmed, explain.

RESPONSE:

I will assume for the purpose of this interrogatory that you meant to refer to LR-J-64, Attachment A (revised 11/27/01)

(a). Confirmed that is the impact of dividing the productivity by 2.

(b). Confirmed that is the impact of dividing the probability by 2.

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UPS/USPS-T25-40.

Refer to your response to interrogatory UPS/USPS-T25-6. Is Parcel Post mail received at Destination Delivery Units ("DDU"s) from the local Bulk Mail Center ("BMC") and/or the Sectional Center Facility ("SCF") typically separated by 5-digit zip code for those DDUs that serve more than one 5-digit zip code?

RESPONSE:

It is my understanding that BMCs/SCFs separate 5-digit ZIP Codes unless specifically directed not to by a delivery unit. It is further my understanding that combining several ZIP Codes does not often occur, except for where a box section or firm unique ZIP Code are combined with a delivery zone.

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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