

DOCKET SECTION

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 HATFIELD TO INTERROGATORIES OF
UNITED PARCEL SERVICE
(UPS/USPS-T16-27-35, 37-40)

The United States Postal Service hereby provides responses of witness Hatfield to the following interrogatories of United Parcel Service: UPS/USPS-T16-27-35, 37-40, filed on September 17, 1997. Interrogatory UPS/USPS-T16-36 was redirected to witness Patelunas.

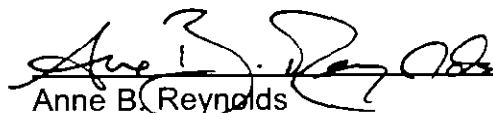
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
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UPS/USPS-T16- 27. Please refer to page 1, lines 11 through 13 of your direct testimony, where you state, "this testimony estimates the potential difference in transportation costs between DBMC parcel post entered at a destination P&DC and a new rate category of parcel post entered at a destination delivery unit (DDU)." Please explain the use of the term "potential" in this statement.

RESPONSE:

The word potential refers to the fact that the DDU rate category for Parcel Post is under consideration but does not yet exist. Thus, the DDU computation is an estimate of the costs that could be avoided by a new rate category of Parcel Post if it is approved.

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UPS/USPS-T16-28. Please refer to Exhibit USPS-16A.

(a) Please confirm that the DSCF costs shown in this Exhibit have as an input assumption that DSCF mail has the same cube/weight relationship as DBMC mail. If not confirmed, please explain.

(b) Please confirm that the DDU cost avoidance (i.e., DSCF costs less DDU costs in \$/cf) of 0.3337 \$/cf has as an input assumption that DDU mail has the same cube/weight relationship as DBMC mail. If not confirmed, please explain.

RESPONSE:

(a) - (b) Not confirmed. The cube/weight relationships presented in my testimony are used to allocate total Parcel Post transportation costs to the three existing rate categories of Parcel Post. Because the results of my testimony are presented in terms of cost per cubic foot, no assumptions have been made about how these estimates should be converted to cost per piece.

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UPS/USPS-T16-29. Please refer to Appendix I, page 13 of 13 of USPS-T-16.

(a) Please confirm that you do not take into account the percentage of inter-BMC mail that is entered at the origin P&DC. If confirmed, explain why you did not do so.

(b) Confirm that you do not take into account the percentage of intra-BMC mail that is entered at the origin P&DC. If confirmed, explain why you did not do so.

(c) Identify and provide all studies or data with respect to the percentage of inter-BMC or intra-BMC mail that is entered at the origin P&DC.

RESPONSE:

(a) Confirmed. It would not be accurate to account for a portion of Parcel Post volume that avoids a leg of transportation from a local office to an origin P&DC without also considering the volume that avoids a similar leg of transportation from the destination P&DC to the destination local office. To the extent that these two volumes are similar, the effect of including them in my analysis would be minimal. Since there is no available data on these volumes of Parcel Post they were not accounted for explicitly in my analysis.

(b) See my response to part (a) of this question.

(c) To my knowledge, no such information exists.

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UPS/USPS-T16-30. Please refer to Appendix III, page 3 of 9 of USPS-T-16.

(a) Please explain how or under what circumstances a held-out local zone intra-BMC parcel will incur intra-city and box route transportation costs.

(b) Will a held-out local zone intra-BMC parcel incur intra-city and box route transportation costs equally on the incoming leg and on the outgoing leg? Please explain your answer and identify and provide all supporting studies and data.

RESPONSE:

(a) Local zone intra-BMC Parcel Post will incur box route transportation costs whenever these pieces are addressed for delivery to an address that is served by a box route contract. Intra-city transportation costs could be incurred by local zone intra-BMC Parcel Post in a variety of circumstances. It is my understanding that intra-city transportation can be used for transportation between AOs and branches and between businesses and AOs. Therefore, any local zone intra-BMC Parcel Post traveling between AOs and branches or between businesses and AOs is a candidate for incurring intra-city transportation costs.

(b) Most likely, local zone intra-BMC Parcel Post will incur box route transportation costs only on the leg outbound from the local office. For intra-city transportation, local zone intra-BMC Parcel Post can incur transportation costs both inbound to and outbound from the local office.

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UPS/USPS-T16-31. Please refer to page 15, lines 3 through 5 of your direct testimony, where you state that the costs of labor associated with postal owned transportation are "closely related to purchased transportation costs."

(a) Discuss, identify and provide all supporting studies and data for this assertion.

(b) Please explain how, when, and why postal owned transportation substitutes for purchased transportation.

(c) Are postal owned transportation costs related to cubic feet, cubic foot miles, or pieces? Please explain your answer.

(d) Please explain what indirect costs are piggybacked off of vehicle service drivers. In your answer identify each cost segment and component in which there are indirect costs and the amount in the Base Year or Test Year that are allocated to Parcel Post in each cost segment and component.

(e) Please explain how each of the indirect costs identified in part (d) above are "closely related to purchased transportation costs." Identify and provide all supporting evidence.

(f) Please explain how each of the indirect costs identified in part (d) above are correlated with cubic feet, or cubic feet miles.

RESPONSE:

(a) This assertion is primarily based upon a number of pieces of information including witness Acheson's development of destination entry cost avoidance estimates in Docket No. R90-1 (see Docket No. R90-1 USPS-T-12G at 1-2) and the treatment of vehicle service driver variability in Docket Nos. R90-1 and R94-1 (see USPS-T-20 at 5).

(b) It is my understanding that postal owned transportation substitutes for purchased transportation where it will enhance the Postal Service's ability to provide quality service to its customers at reasonable rates. For a description of the operational and financial analysis that is required to justify substitution of certain types of

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transportation please see Handbook PO-513, Chapter 2.1.1 and Handbook PO-701, Section 250.

(c) Since postal owned transportation is used primarily for transportation within the service area of a P&DC, the costs associated with transportation are allocated to rate category and zone based on cubic feet.

(d) Please see Library Reference USPS LR-H-77 at 103-119.

(e) The costs associated with the vehicle service driver piggyback factor are piggybacked to vehicle service driver costs because they, in conjunction with vehicle service driver costs, contribute to the provision of postal owned vehicle service. These costs are closely related to intra-SCF purchased highway transportation because this highway transportation is similar to postal owned vehicle service.

(f) See my response to part (c) of this question.

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UPS/USPS-T16-32. Please refer to page 15, lines 20-21 of your direct testimony, where you state that "postal owned vehicle service mirrors intra-SCF purchased transportation costs."

(a) Discuss, identify and provide all supporting studies and data for this assertion, including but not limited to any studies performed or data obtained since R90-1.

(b) Please explain how, when, and why postal owned transportation is substituted for intra-SCF purchased transportation.

(c) Is postal owned vehicle service used for anything other than intra-SCF transportation needs? If yes, describe all other uses.

(d) Does postal owned vehicle service "mirror" intra-SCF purchased transportation with respect to the percentage that is intra-SCF vans, intra-SCF trailers, intra-city and box route? Please explain your answer and identify and provide all supporting evidence for your answer.

(e) Do the indirect costs associated with postal owned vehicle service "mirror" intra-SCF purchased transportation with respect to the percentage that is intra-SCF vans, intra-SCF trailers, intra-city and box route? Please explain your answer and identify and provide all supporting evidence for your answer.

(f) Please confirm that the data cited for intra-SCF highway transportation costs by contract type in Appendix III, page 9 of 9 in USPS-T-16, do not include postal owned vehicle service. If not confirmed, please explain.

RESPONSE:

(a) See my response to part (a) of UPS/USPS-T-16-31.

(b) See my response to part (b) of UPS/USPS-T-16-31.

(c) Yes. Witness Wade's testimony shows that a small portion of vehicle service driver costs are incurred at BMCs (please see USPS-T-20 at 21).

(d) - (e) No data exist that provide information regarding the breakdown postal owned vehicle costs into any component parts.

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(f) Confirmed.

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UPS/USPS-T16-33. Please refer to Appendix I, page 13 of 13 of USPS-T-16.

(a) Please confirm that witnesses Daniel and Crum take into account in their cost analyses that 12.3 percent of Parcel Post travels directly from the destination BMC to the destination AO. (See USPS-T-29, Appendix V and USPS-T-28, page 5 and Exhibit G). If not confirmed, please explain.

(b) Please confirm that the transportation costs for Parcel Post that travels directly from the destination BMC to the destination AO would be categorized as intra-BMC. If not confirmed, please explain.

(c) Please confirm that, according to your answer to UPS/USPS-T16-11a, you implicitly assume, in the absence of better information, that the same percentage of Parcel Post travels directly from the origin AO to the origin BMC as does from the destination BMC to the destination AO, and therefore, the direct travel from AO to BMC or BMC to AO does not need to be taken explicitly into account in Appendix I, page 13. If not confirmed, please explain.

(d) Please confirm that 100 percent of DSCF Parcel Post will incur a transportation leg from the DSCF to the destination AO. If not confirmed, please explain.

(e) Please confirm that only 87.7 percent (100% minus 12.3%) of DBMC Parcel Post will incur a transportation leg from the DSCF to the destination AO. If not confirmed, please explain.

(f) Please confirm that those DBMC parcels that incur a transportation leg from the DSCF to the destination AO will, on average, incur the same transportation cost from the DSCF to the destination AO as will DSCF parcels. If not confirmed, please explain.

(g) Please confirm that a DSCF parcel will, on average, have greater transportation cost from the DSCF to the destination AO than will a DBMC parcel on average, because 12.3 percent of DBMC parcels travel directly from the DBMC to the destination AO. If not confirmed, please explain.

RESPONSE:

(a) Witnesses Daniel and Crum take into account in their analyses that 12.3 percent of Parcel Post either travels directly from the destination BMC to the destination

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local office or travels to a destination P&DC that is co-located with the destination delivery unit.

(b) Confirmed.

(c) *In the absence of better information, the analysis contained in my testimony does not explicitly account for Parcel Post pieces that avoid intra-SCF transportation between the local office and the origin P&DC and between the destination P&DC and the destination delivery unit. If the amount of Parcel Post that avoided each leg were similar, the effect on my analysis would be minimal.*

(d) Not confirmed. There are some instances in which a delivery unit is co-located with a P&DC. In these instances Parcel Post entered at a destination P&DC will not incur a transportation leg from the destination P&DC to the destination local office.

(e) Confirmed.

(f) Confirmed, provided the comparison is between DBMC pieces that incur transportation between destination P&DC and local office and DSCF pieces that incur transportation between destination P&DC and local office.

(g) Not confirmed. I agree that, to the extent that there is direct transportation between a BMC and a local office that bypasses a destination P&DC, then the average cost from the destination P&DC to the destination office will be lower for the average piece of DBMC than for the average piece of DSCF. However, the greater the portion of the 12.3 percent of DBMC that is composed of mail volume that is

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destinating at delivery units that are co-located with P&DCs, the smaller the difference in average costs will be.

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UPS/USPS-T16-34. Please refer to Appendix III, page 7 of your testimony.

- (a) Please confirm that the formula for column [7] should read:

Column [7]: Local zone unit cost = [(local zone costs from column [5] / local zone cubic feet from column [1]) + row 5/total cubic feet]*1000

Non-local zone unit cost = [(Non-local zone costs from column [5] / non-local zone cubic feet from column [1]) + row 5/total cubic feet]*1000

If not confirmed, please provide the correct equation.

- (b) Please confirm that the formula for column [8] should read:

Column [8]: Local zone unit cost = [(Local zone costs from column [6] / local zone cubic feet from column [2])]*1000

Non-local zone unit cost = [(Non-local zone costs from column [6] / non-local zone cubic feet from column [2])]*1000

If not confirmed, please provide the correct equation.

- (c) Confirm that the formula for column [10] should read:

Column 9 * Appendix II, page 9, column 2 (intra-BMC cubic feet by zone).

If not confirmed, please provide the correct equation.

RESPONSE:

(a) Confirmed. Corrections to my testimony were filed on September 29th to correct the footnotes for columns 7, 8, and 10 in Appendix III, page 7 of USPS-T-16.

(b) Not confirmed. Although there is a mistake in the formula currently shown for column 8 on page 7 of USPS-T-16 Appendix III, the formula listed in this question also contains an error. The correct equation should be:

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Column [8]: Local zone unit cost = local zone costs from column 6 / local zone cubic feet from column 1.

Non-local zone unit cost = non-local zone costs from column 6 / non-local zone cubic feet from column 1.

Corrections to my testimony were filed on September 29th to correct the footnotes for columns 7, 8, and 10 in Appendix III, page 7 of USPS-T-16.

(c) Confirmed. Corrections to my testimony were filed on September 29th to correct the footnotes for columns 7, 8, and 10 in Appendix III, page 7 of USPS-T-16.

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UPS/USPS-T16-35. Please refer to your interrogatory response to UPS/USPS-T16-13.

(a) Please confirm that using data from Library Reference LR-H-135, the average GCD for each of the postal zones can be calculated by dividing the total cubic foot miles in each zone by the total cubic feet in each zone. If not confirmed, please provide the correct methodology.

(b) Please confirm that by following the methodology outlined in (a) above, the following table is correct. If not confirmed, please explain.

Intra Zone	Cubic ft. miles	Cubic feet	Avg GCD
1-2	841,369,000	18,541,816	45.37684
3	529,488,250	2,353,286	224.9995
4	206,061,460	457,915	449.9994
5	17,915,540	22,394	800.0152

Inter zone	Cubic ft. miles	Cubic feet	Avg GCD
1-2	276,755,600	3,046,453	90.84519
3	1,543,791,760	6,861,300	224.9999
4	4,924,129,550	10,942,512	449.9999
5	7,849,611,410	9,812,010	800.0003

DBMC zone	Cubic ft. miles	Cubic feet	Avg GCD
1-2	3,243,988,990	58,694,589	55.26896
3	2,268,014,880	10,080,066	225
4	759,160,840	1,687,022	450.0006
5	5,724,540	7,155	800.0755

(c) If (b) is confirmed, please reconcile this with the numbers you list in your response to UPS/USPS-T16-13.

RESPONSE:

(a) Confirmed.

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(b) Not confirmed. An errata was filed for LR-H-135 on August 11, 1997, which changed these figures. The results shown in my response to UPS/USPS-T-16-13 used the more recent figures, and this caused the discrepancy referred to in this question.

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UPS/USPS-T16-36. Please refer to page 12 of Appendix I of your testimony. In general terms, provide all reasons why you believe that highway service costs decrease 3.27% from the Base Year to the Test Year.

RESPONSE:

Redirected to witness Patelunas.

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UPS/USPS-T16-37. Please refer to page 9 of Appendix III of your testimony.

(a) Please provide Intra-SCF costs by contract type for Parcel Post only, as opposed to all mail.

(b) If you are unable to provide the information requested in (a) above, please confirm that the Parcel Post percentage of Intra-SCF highway and POV costs avoided by DDU parcels could be different from the percentage of Intra-SCF highway and POV costs for all classes of mail. If confirmed, provide all reasons why you believe your use of non-Parcel Post figures is acceptable. If not confirmed, please explain.

RESPONSE:

(a) Data are not available on the breakdown of intra-SCF purchased highway transportation costs by class and subclass.

(b) Confirmed. Since data are not available on this breakdown, the data used in the analysis contained in my testimony are the best available estimate for the breakdown of Parcel Post intra-SCF purchased highway transportation costs. The breakdown of intra-SCF highway transportation is used in my testimony to estimate the percentage of local transportation that is not incurred moving mail between P&DCs and local offices. In Docket No. R90-1, witness Acheson used a similar estimate in his testimony (please see USPS-T-12G at 2). Like the one used in my testimony, the estimate used by Mr. Acheson also reflected all intra-SCF transportation costs and not just Parcel Post costs. The new method for calculating this estimate represents an update and an improvement over the existing figure of 67 percent that was developed in 1980 and is incorporated into the current destination entry discounts for Standard Mail (A).

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UPS/USPS-T16-38. In reference to your response to UPS/USPS-T-16-18, confirm that purchased transportation accounts for highway and rail empty equipment are restricted to contracts that move only empty equipment or containers and do not include the costs of moving empty containers between postal facilities in association with trips that also carry mail. Please explain any nonconfirmation.

RESPONSE:

Confirmed.

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UPS/USPS-T16-39. In reference to your response to UPS/USPS-T-16-18 and Appendix I, page 11, of your testimony, confirm that the attributed costs for purchased highway empty equipment service constitute 0.31 percent of attributed Parcel Post highway service costs, and that the attributed costs for purchased railroad empty equipment service constitute 8.28 percent of attributed Parcel Post railroad service costs. Please explain any nonconfirmation.

RESPONSE:

Confirmed.

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UPS/USPS-T16-40. In reference to your response to UPS/USPS-T-16-19, please indicate what portions of Alaska Parcel Post cubic feet or cubic foot/miles other than bypass Parcel Post are reflected in your calculations. In addition, please indicate whether or not Alaska non-pref air costs are exclusively associated with bypass Parcel Post volume, and if not, what other Parcel Post volumes are associated with Alaska non-pref service.

RESPONSE:

Any Parcel Post volume that originates and destines within Alaska that is not part of the Alaska bypass program is included in the analysis contained in my testimony. Alaska non-pref air costs are not exclusively associated with bypass Parcel Post volume. It is my understanding that Alaska non-pref air transportation is used primarily to transport Alaska bypass mail; however, it is possible that certain non-Alaska bypass volume travels on Alaska non-pref air transportation.

DECLARATION

I, Philip A. Hatfield, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Philip A. Hatfield

Dated: 10-1-97

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.


Anne B. Reynolds

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October 1, 1997