

**BEFORE THE
POSTAL RATE COMMISSION**

POSTAL RATE AND FEE CHANGES, 2006

DOCKET NO. R2006-1

**RESPONSES OF UNITED PARCEL SERVICE WITNESS LUCIANI
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE
(USPS/UPS-T2-3 through 12)
(October 4, 2006)**

Pursuant to the Commission's Rules of Practice, United Parcel Service hereby files the responses of UPS witness Ralph Luciani to the following interrogatories of the United States Postal Service: USPS/UPS-T2-3 through 12.

Respectfully submitted,

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USPS/UPS-T2-3. In your autobiographical sketch you state, "Over the past eleven years, I have visited and observed operations at Postal Service facilities on a number of occasions, including two visits to the Washington BMC and visits to two different Sectional Center Facilities, three Associate Offices/Delivery Units, and an Air Mail Center." Please estimate the dates that these eight field visits occurred. Also, please provide the names of the Sectional Center Facilities, Delivery Units, and Air Mail Center that you visited.

RESPONSE:

Between 1995 and 1997, I visited the Washington BMC, the Merrifield, Virginia and Richmond, Virginia Sectional Center Facilities, the Air Mail Center at Reagan National Airport, and Associate Offices/Delivery Units in Arlington, Virginia and Richmond, Virginia. In 2000, I visited the Associate Office/Delivery Unit in Laurel, Maryland.

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USPS/UPS-T2-4. In your testimony on page 2, lines 22 to 23, you state, "The Postal Service's mail processing cost model for Parcel Post is based on outdated studies..." Please confirm that the age of a study does not necessarily compel a conclusion that the results from that study are no longer accurate or reliable. If you do not confirm, please explain how age alone is a sufficient reason to reject the results of a study.

RESPONSE:

Confirmed. While age does not necessarily compel such a conclusion, it does raise concerns that should be evaluated and addressed about the study's continued applicability.

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USPS/UPS-T2-5. Please refer to page 7, lines 16 to 20, of your testimony, in which you state at footnote 14, "The possibility that a small number of Parcel Post pieces may be entered at a DDU is not as unrealistic as witness Miller suggests in this interrogatory response." Have you conducted any field observations at mailer facilities or analyzed mailer data concerning the number of pieces of Parcel Post entered per delivery unit? If so, please indicate the number of facilities observed, the dates of observations, and summarize your findings.

RESPONSE:

No. To my knowledge, the Postal Service also has not examined this issue, and I recommend that it do so.

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USPS/UPS-T2-6. Please refer to page 7, lines 16 to 20, of your testimony, in which you state at footnote 14, "The possibility that a small number of Parcel Post pieces may be entered at a DDU is not as unrealistic as witness Miller suggests in this interrogatory response."

(a) Please confirm that the interrogatory response you reference is the response to UPS/USPS-T21-6(c). If you do not confirm, please explain.

(b) Is it your testimony that because DDU-entry mailers are allowed to enter as little as one Parcel Post parcel at a time at a DDU, the pieces-per-container figure for the Move Containers from Dock operation at the DDU for that mail should be revised? If this is not your testimony, please explain.

(c) Please confirm that the container in which a given mailing is entered at a Delivery Unit may not necessarily be the container in which that mailing is housed when it is moved from the dock to the parcel sorting operation. For example, after being entered and accepted, DDU mail pieces could be placed in rolling stock that already contains mail dispatched from the BMC or plant. If you do not confirm, please explain.

RESPONSE:

(a) Confirmed.

(b) My testimony is that the Postal Service should study the acceptance, handling, and container practices at the DDU that may result in cost differences at the DDU between DDU-entry parcels and non-DDU entry parcels. An adjustment to the cost of the Move Containers from Dock operation may result from such a study. In the absence of this study (along with other issues discussed in my testimony), there is a lack of confidence in the worksharing cost avoidance estimates that supports a reduction in the passthrough.

(c) I am unable to confirm until the Postal Service performs the study noted in my response to part (b). In response to UPS/USPS-T25-18(b) in Docket No. R2001-1 regarding the specific container and move process for DDU-entry

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parcels, Postal Service witness Eggleston noted that “Due to time and resource constraints, the difference between DBMC and DDU parcels at the destination DDU were not studied.” Docket No. R2001-1, Tr. 11-A/4000. If the action noted in your question does take place regularly, there may be a need to capture an extra step in the cost model for moving the DDU-entry parcels from one container to another.

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USPS/UPS-T2-7. On page 8, lines 1 to 2, you discuss the delivery unit costs associated with sorting parcels from the 5-digit level to the carrier route level.

- (a) Please describe your understanding as to what occurs in this operation.
- (b) To your knowledge, has this operation changed since 1982? If so, how has it changed?

RESPONSE:

- (a) Based on my visits to DDUs, my understanding is that mailhandlers manually sort the parcels that have been moved in containers to the parcel sortation area by picking up each parcel, looking at the address, and placing or tossing the parcel into the correct carrier-route hamper.
- (b) To my knowledge, the basic operation has not changed. However, it is likely there have been changes since 1982 in a number of factors that have changed the productivity of this operation from that of 24 years ago. Such factors could include the average density and size of the parcels, the extent to which 9-digit zip codes are used, the type of containers that the parcels are in prior to carrier-route sortation, the existence of now-allowed “oversized parcels,” the number of carrier-route hampers, etc. In addition, the 1982 study was for 5-digit presorted Bound Printed Matter, so any differences in sortation costs (e.g., from size, density, and address readability differences) between the Bound Printed Matter and Parcel Post subclasses would not be reflected in it. Also, since several 5-digit zip codes can be combined at a destination associate office (see UPS/USPS-T25-6(a) in Docket No. R2001-1, Tr. 11-A/3977-78), the 5-digit presort proxy could have yielded a 1982 study result more efficient than one in

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which 5-digit zip codes are combined.

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USPS/UPS-T2-8. In your testimony on pages 7 to 9 you criticize various cost model inputs. Have you conducted any studies which indicate that any, or all, of these inputs are invalid? If so, please provide the results of those studies and indicate which cost model input each study affects.

RESPONSE:

No.

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USPS/UPS-T2-9. In your testimony on page 11, lines 16 to 17, you state, "There is simply no relevant available knowledge of where in the postal system the modeled costs are being misestimated." Please confirm that any of the cost model inputs you describe on pages 7 to 9 could underestimate, exactly estimate, or overestimate the actual values. If you do not confirm, please explain.

RESPONSE:

Confirmed. The size of the CRA Proportional Adjustment Factor indicates that it is more likely that the modeled costs, in aggregate, are being underestimated.

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USPS/UPS-T2-10. In your testimony on page 9, lines 10 to 12, you state, "Beginning with Docket No. R2001-1, the Postal Service has applied a 'CRA Proportional Adjustment Factor' to increase its modeled mail processing cost avoidances for DBMC-entry parcels, DSCF-entry parcels, and DDU-entry parcels."

(a) Please confirm that the reason the CRA Proportional Adjustment Factor is applied to the modeled costs is to, as you state on lines 13-14 of page 9 of your testimony, "true up" those costs with the CRA costs. If you do not confirm, please explain.

(b) Please confirm that your statement on page 9, lines 10 to 12, of your testimony does not mean that the reason CRA Proportional Adjustment Factors are used in the cost models is to increase mail processing cost avoidances, but means rather that the specific CRA Proportional Adjustment Factors calculated in the Parcel Post cost models since Docket No. R2001-1 have had the effect of increasing those cost avoidances. If you do not confirm, please provide citations from the parcel cost witnesses' testimonies in Docket Nos. R2001-1, R2005-1, and/or R2006-1 which indicate that the reason CRA Proportional Adjustment Factors are applied in the cost models is to increase mail processing cost avoidances.

(b) Please confirm that CRA adjustment factors have historically been relied upon by both the Postal Service and the Commission when estimating costs for cards/letters, flats, and parcels. If you do not confirm, please explain.

RESPONSE:

(a) Confirmed that the CRA Proportional Adjustment Factor is applied to true-up the aggregate modeled costs with the aggregate cost of the CRA cost pools that have been classified as proportional.

(b) Confirmed.

(c) Confirmed that CRA adjustment factors have been used by the Postal Service and the Commission in a number of subclasses.

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USPS/UPS-T2-11. In your testimony on page 9, lines 13 to 16, you state, "The size of the factor the Postal Service uses to 'true up' the modeled costs with cost numbers contained in its Cost and Revenue Analysis Report ('CRA') costs pools strongly suggests that something is wrong with the Postal Service's Parcel Post mail processing cost model."

(a) Please confirm that any cost model is going to represent a simplified version of reality. If you do not confirm, please explain.

(b) Please confirm that it is possible that some tasks included in the costs pools that have been classified as "proportional" may include tasks that are not included in the cost models. If you do not confirm, please explain.

RESPONSE:

(a) Confirmed, as a general matter. However, I cannot discount the possibility that a cost model could be more complex than the actual operation.

(b) Confirmed. Similarly, it is also correct that some tasks included in the cost pools that have been classified as proportional may include tasks that are fixed.

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USPS/UPS-T2-12. In your testimony on page 11, lines 7 to 9 you state, "While a few percentage points of adjustment up or down to the modeled worksharing cost avoidances may be acceptable, the application of a 19.4 % gross-up factor to inflate all worksharing cost avoidances is problematic." In using the word "few," is it your view that a CRA Proportional Adjustment Factor which falls in the range of 0.97 to 1.03 would be deemed acceptable, and anything outside that range would be deemed unacceptable? If your response is anything other than an unqualified "yes," please define and provide a rationale for what you believe to be an acceptable CRA proportional adjustment factor range.

RESPONSE:

No. The acceptability of the level of the CRA Proportional Adjustment Factor depends on the level of the evaluation performed in the underlying cost study. If the cost studies and supporting data have been updated, and any differences in modeled task costs and the cost of the pools in which these tasks are performed have been examined closely and justified, then a larger range in the factor could be acceptable.