

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0111**

POSTAL RATE AND FEES CHANGES, 2006

Docket No. R2006-1

**RESPONSE OF PARCEL SHIPPERS ASSOCIATION
WITNESS CHRIS FINLEY TO INTERROGATORIES OF THE UNITED
STATES POSTAL SERVICE (USPS/PSA-T1-2-10)**

The Parcel Shippers Association (PSA) submits the answers of PSA witness Chris Finley to USPS/PSA-T1-2-10. The question is stated verbatim and then answered.

Respectfully submitted,

Timothy J. May
Patton Boggs, LLP
2550 M Street, NW
Washington, DC 20037
Tel: 202 457 6050
Fax: 202 457 6315
tmay@pattonboggs.com
Counsel for Parcel Shippers Association

Dated: October 16, 2006

USPS/PSA-T1-2

- a. Please confirm that neither the record in Docket No. R2006-1, nor the record in Docket No. N2006-1, contain information that the Dallas BMC will be broken into 5 RDCs, and that these RDCs will be located in Dallas, Houston, San Antonio, Austin, and El Paso. If not confirmed, please indicate where in the record this information can be found.
- b. If you confirm Part (a), please describe why Texas was selected as the focus of the study, why you hypothesized that the Dallas BMC would be broken into five RDCs, and why you selected Dallas, Houston, San Antonio, Austin, and El Paso as sites for those RDCs.

RESPONSE

- a. Confirmed. PSA requested this information in PSA/USPS-T42-2, but the Postal Service indicated that “No final determination has yet been made.”
- b. Due to the potential impact of the END initiative on the parcel shipping industry, PSA formed a committee (which has subsequently led to the formation of an MTAC workgroup) to study its impact on shipper costs. Given the importance of this issue and because no information on the location of RDCs was forthcoming from the USPS, the committee decided that it would need to make assumptions regarding the potential locations of RDCs and believed that the state of Texas was a good starting place.

Lacking information from the USPS regarding the exact location of RDCs, the committee members (based upon their knowledge of the current postal network) decided that RDCs may be located in Dallas, Houston, San Antonio, Austin, and El Paso. Further, the purpose of our analysis was to develop a general sense of the impact of END on the industry and we did

not feel that our general findings would be sensitive to the exact locations of RDCs.

USPS/PSA-T1-3. On page 4 you refer to estimation of incremental cost. Please define what you mean by “incremental” in this context.

RESPONSE

In this analysis, “incremental” is defined as additional costs above and beyond our normal operating expenses that result from the assumed network changes.

USPS/PSA-T1-4. Please refer to page 4 of your testimony, lines 5-9. Please show and explain how you calculate your estimate for incremental labor cost per parcel, identify all information sources, and provide citations for all your inputs.

RESPONSE

In our current environment, we manually sort parcels and use conveyors to transport the sorted parcels to trailers. Our sort capability is 12 – 14 trailers simultaneously. To calculate the increase in labor costs per parcel, we analyzed the impact of sorting parcels to approximately three times as many locations in the same time period, so as to maintain our current throughputs, which are required to ensure our service levels to our customers. The cost to sort parcels to the additional locations accounts for \$0.21/parcel.

Additionally, within our environment, we batch pick single unit shipments to customers, whereby based upon our sort capabilities, we pick these units on average twice per shift (since we can't simultaneously ship to all BMCs, we process twice to maximize efficiencies). To accommodate an expanded network within our current operations, we will need to pick our single unit shipments on average 6 times per shift. The incremental cost of this is \$0.10/parcel.

Finally, in our current environment, we floor-load all trailers. If palletized, we will experience incremental costs associated with picking, transporting, setting-up, marking, stretch-wrapping, and loading totes onto trailers. The cost to fill the totes with parcels is estimated to be equivalent to the cost of floor-loading a trailer. The cost to switch from floor-loaded to palletized accounts is \$0.03/parcel.

The impact of these additional labor costs have not been studied in an engineered labor method, but rather using our current productivity rates and the expected impact of these changes. In total, we calculate the cost to be

\$0.34/parcel. We submitted \$0.20 with the assumption that we would identify process improvements that would offset some of the increased costs, but not all of the costs.

USPS/PSA-T1-5. Please refer to page 4 of your testimony, lines 10-13. Please show and explain how you calculate your estimate for incremental equipment cost per parcel, identify all sources, and provide citations for all inputs.

RESPONSE

The largest equipment expense is the acquisition of corrugated totes. In the absence of information on what the mail acceptance rules would be, we have included the cost of totes that we use to transport packages. We prefer these totes as they are more durable and provide for better handling and transportation of our perishable product. Based upon our vendor supplied pricing of these totes, the complete cost of one tote is \$31.38. We estimated to support our volume of parcels to the Texas region we would need 1,100 totes. This calculated to \$0.302/parcel. Additional expenses were included to account for the cost of storing and transporting the totes in outside warehouse facilities, as we do not have adequate storage space in our facilities to inventory these supplies. These associated costs were an additional \$0.08/parcel, for a total estimate of \$0.38/parcel.

USPS/PSA-T1-6. Please refer to page 4 of your testimony, lines 14-16. Please show and explain how you calculate your estimate for “volume utilization of the trailer in a palletized environment,” identify all sources, and provide citations for all inputs.

RESPONSE

We estimated our “volume utilization of the trailer in a palletized environment” based upon some historical data and assumptions. The following is our calculation:

53' Trailer inside dimensions (approximate)

51' long, by 97" wide, by 103" tall.

The following calculates the "theoretical" cube of the inner trailer:

$((51' \times 12") \times 97" \times 103") / (12" \times 12" \times 12")$

which equals 3,538 cubic feet

Tote inner dimensions (approximate)

37.5" x 48" x 36"

which equals 37.5 cubic feet / tote

We anticipate double stacking the totes and thus we would be able to load 44 totes per trailer. In a perfectly cubed scenario where the trailer is cubed out by the totes, we would have a utilization of $(37.5 \text{ cubic-ft per tote} \times 44 \text{ totes}) / 3,538$ cubic feet of trailer. The result would be utilization of 47%.

We also calculated the cube utilization if we stacked in a palletized fashion up to a maximum of 72" high. If the inner dimensions of a trailer are 103" high, then a perfectly cubed palletized area would be 70% utilized. We expect that unused space would be at least 10%, thus estimated that 60% utilization was a reasonable assumption.

USPS/PSA-T1-7. Please refer to page 4 of your testimony, lines 14-20.

- a. Please show and explain how you calculate your estimate for incremental transportation cost per parcel, and provide citations for all inputs.
- b. Please explain the “multiple transportation simulations” you employ in developing your estimate, including the methodology, all assumptions, and data inputs while documenting the simulations per Rule 31(k).
- c. Would all mailers’ transportation costs increase, or would some experience decreases? Please explain your response.
- d. Please provide a complete breakdown of the transportation cost increases you project by the impact of moving from bedload to palletization as compared with mileage increases. In doing so, please distinguish the respective impacts of the number of trips, size of the trailer, count and cube of parcel for an average day to the five hypothetical RDCs.
- e. What simulation software was used to perform your analysis? Please describe the type of analysis performed (*e.g.*, stochastic, discrete event, etc.). Provide a list of the inputs variables and constraints used within the model.

RESPONSE

- a. Simply stated, we calculated how many trailers we would need to support the movement of parcels to one BMC, as is currently the process. We then estimated how many trailers we would need for each of the five assumed RDCs, given that we would see our trailer utilization reduced to 60% efficiency due to palletization. Then, we obtained freight quotes to each destination from our origin facility in Monroe, Wisconsin. This

produced the per-parcel cost differential between the base case (current state) and the proposed case (future state).

- b. The “multiple transportation simulations” we employed were really taking a look at freight rates if we were to deploy multiple stop-offs across more than one RDC on parcels originating from Monroe, Wisconsin. The other assumptions were to determine the impact of splitting BMC-destined parcels into RDC-destined parcels and determining if we would still be able to release trailers within our service delivery timelines as we refine our sorts to more locations. Without detailed modeling, but based upon intuition, we anticipate that we will have difficulty running cost-effective line-haul transportation to many RDC’s.
- c. I am only comfortable commenting on The Swiss Colony’s costs.
- d. I do not have the detailed breakdowns that you request. As discussed in my response to subpart (a) of this interrogatory, we calculated our increased trailer needs by taking the total number of trailers shipped in 2005 to Dallas, calculating the number of packages to each RDC, and then determining the number of trailers we would need to ship to RDCs based upon 60% trailer utilization. Based upon our calculations, we would need to ship nearly twice as many trailers under the RDC scenario.
- e. We did not use simulation software.

USPS/PSA-T1-8. Please refer to page 5 of your testimony, lines 6-9. Please show and explain how you calculate your estimate for postage savings per parcel, and provide citations for all inputs.

RESPONSE

We compiled a list of sectional center facilities whose parcels we currently enter in Dallas by referring to a database we keep containing USPS DBMC information. Then, we estimated which of the sectional centers that we currently enter in Dallas would be covered by the new entry points (Austin, El Paso, Houston, and San Antonio) under the proposed scenario. To determine this, we went to the USPS website and did a search for the ZIP Codes for each of those cities. For instance, most of the ZIP Codes shown under El Paso on the USPS website begin with 799. Therefore, in our study, ZIP Codes that began in 799 were re-zoned from El Paso instead of Dallas.

After determining the new entry point for each parcel, we recalculated zoning based on the zoning charts from the USPS website. Then, we recalculated rates based on the new zoning and compared it to the rates based on the original zoning. Below is a snapshot of our input table.

PkgID	Weight	DBMCZip	DBMCZone	DBMCRate	DRDCZip	DRDCZone	DRDCRate
37193191	2	786	3	2.91	787	2	2.36
37193195	2	773	3	2.91	770	2	2.36
37193390	5	758	2	3.1	770	2	3.1
37193401	3	783	4	4.05	782	2	2.62
37193402	2	775	3	2.91	770	2	2.36
37193412	1	782	3	2.38	782	2	2.12
37193415	10	774	3	6.29	770	2	4.09
37193416	4	754	2	2.87	752	2	2.87
37193418	2	792	3	2.91	752	3	2.91
37193419	1	761	2	2.12	752	2	2.12

USPS/PSA-T1-9. Your analysis apparently involves one set of Texas locations, while the descriptions of the END environment developed by the Postal Service focus on an entire nationwide network.

- a. Is it your testimony that your analysis of Texas can be extrapolated to a nationwide network?
- b. If so, on what basis do you justify that extrapolation?

RESPONSE

- a. I do not believe that the results for the rest of the nation will be exactly the same as for Texas. However, I do believe that the general findings – END will impose additional costs on parcel shippers and that these additional costs will not be fully offset by the postage savings from qualifying for lower zone rates – will apply elsewhere.
- b. Not applicable.

USPS/PSA-T1-10. On page 4, lines 5 – 9, you describe an increased labor cost due to a shift to RDCs.

- a. Provide a detailed flow diagram, as well as written description, that describes the current distribution methods employed by your company, including description of:
 - i. existing sortation equipment (type of equipment, throughput rate, separation capacity);
 - ii. flow from distribution to trailer (*i.e.*, conveyor, manual, fork lift);
 - iii. trailer loading methods including time to load; and
 - iv. complete cycle time for a package within the distribution center.

- b. Provide the same information requested in part (a) as estimated for the future scenario modeled.

RESPONSE

- a. After parcels are “packaged” for distribution, they enter our sortation area. This is a manual sortation process, whereby the shipping label contains a sort code that is visually read by an employee who then removes the parcel from the conveyor line and moves the parcel to a perpendicular conveyor line, based upon the sortation code. The sortation code is assigned to a trailer / door, therefore the parcel is then transported via conveyor to the appropriate trailer. The parcel is then delivered to the trailer by conveyor, whereby employees bedload the trailer.

- b. We have not studied in detail the flow that will be required to minimize our costs in the future scenario. We do know that we do not have adequate space to move from bedloading to palletizing, in a safe and efficient manner. It is likely that we will be faced with a significant decision to revamp our facility design, and/or review the carriers we use for the business.