

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

UNITED STATES POSTAL SERVICE
INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS TO
UNITED PARCEL SERVICE WITNESS LUCIANI
(USPS/UPS-T4-1-18)

Pursuant to rules 25 and 26 of the Rules of Practice and Procedure and rule 2 of the Special Rules of Practice, the United States Postal Service directs the following interrogatories and requests for production of documents to United Parcel Service witness Luciani: USPS/UPS-T4-1-18.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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January 21, 1998

INTERROGATORIES OF UNITED STATES POSTAL SERVICE
TO UPS WITNESS LUCIANI

USPS/UPS-T4-1. Please refer your testimony at pages 6-7. Please explain your rationale for excluding mail preparation costs from the pool of outgoing mail processing costs that DBMC avoids.

USPS/UPS-T4-2. Please refer to your testimony at page 7. Please explain exactly how you believe "window and acceptance costs" are overstated or double-counted because of the decision not to exclude platform acceptance from the pool of outgoing mail processing dollars that DBMC avoids. Please state the level of this suggested overstatement in cents.

USPS/UPS-T4-3. Please refer to 8-10. Please confirm that you have excluded ASF costs from the pool that DBMC avoids. Please confirm that you have not excluded ASF volumes in the associated calculation and that this treatment is inconsistent with Commission precedent. (See Docket No. R90-1, Tr. 32/16574.) Please explain the logic behind this apparent inconsistency.

USPS/UPS-T4-4. Please refer to pages 12-14 of your testimony.

- (a) Please confirm that the calculations in witness Crum's testimony for deriving the non-transportation costs avoided by DSCF entry are based on *average* quantities per container.
- (b) Assume that the Postal Service adopts implementing regulations setting *minimums* for DSCF eligibility at 10 machinable pieces per sack and 25 nonmachinable pieces per GPMC. Would you agree that if these minimums are required, the shortfall of 4.8 cents per piece that you calculate in this section of your testimony would be avoided?

USPS/UPS-T4-5. Please confirm your understanding that DSCF parcel post is not currently a functioning rate category.

USPS/UPS-T4-6. Have you conducted any study or analysis to suggest that future DDU mailers will containerize their parcels in sacks? If so, please provide the results of that study.

USPS/UPS-T4-7. Please refer to your testimony at lines 4 and 5 of page 5. There you refer to the Commission's determination in Docket Nos. R90-1 and R94-1 of 11.3 cents and 13.4 cents per piece, respectively, for the estimated mail processing costs avoided by DMBC entry. Please confirm that the avoided costs developed in Docket No. R94-1 represented simply the application of the same percent change to the avoided costs as to the rates, and not the results of an updated cost study. If not confirmed, please explain fully, and provide reference to the Commission's analysis and methodological approach to updating the avoided mail processing costs in Docket No. R94-1.

USPS/UPS-T4-8. Please refer to your testimony at line 6 on page 14 where you refer to "DBMC entry mail – which includes DSCF entry mail – is significantly less dense than Parcel Post as a whole." [footnote omitted]

- (a) Please provide the basis for your statement that DSCF entry mail is subsumed by DBMC entry mail.
- (b) Please provide all evidence available to you to indicate the density of DSCF mail.

USPS/UPS-T4-9. Please refer to your statement at lines 7 and 8 on page 14 that a sack of DSCF parcels will contain fewer pieces than a sack of regular Parcel Post. Please define "regular Parcel Post."

USPS/UPS-T4-10. Please refer to your testimony at line 16 of page 14. Confirm that you intended to refer to DSCF and not DBMC.

USPS/UPS-T4-11. Please refer to your testimony at page 23 lines 6 and 7.

- (a) Please state the basis for your statement that “the uncertainty surrounding this worksharing program [DBMC] has not diminished.”
- (b) Please confirm that DBMC parcels represent more than 45 percent of total Parcel Post volume in the base year 1996. If not confirmed, please explain.
- (c) Please confirm that DBMC discounts have been available to Parcel Post mailers since 1991. If not confirmed, please explain fully.

USPS/UPS-T4-12. Please refer to your testimony at page 23, lines 10 through 19.

- (a) Please confirm that Docket No. R90-1 was the first occasion upon which the Commission was introduced to the idea of DSCF and DDU dropship discounts.
- (b) Please confirm that the Postal Service has accumulated approximately 8 years of experience with DSCF and DDU discounts with Standard Mail (A) (formerly third-class).
- (c) Please confirm that there may be rate design issues aside from uncertainty regarding the basis of a discount for passing through less than 100 percent of the measured savings. If not confirmed, please explain.

USPS/UPS-T4-13. Please refer to your testimony at page 24 at lines 19 and 22. Please provide the basis for your calculation of the TYAR revenue per piece, *including citations to the sources of volume and revenue figures*. Please also provide the basis for your calculation of the overall percentage increases, *including citations to the sources of volumes and revenues*.

USPS/UPS-T4-14. Please refer to your testimony from line 23 of page 24 to line 4 of page 25, where you state: “In fact, the rates for many large mailers would decrease significantly. The large increases for single piece and small volume

mailers result from the fact that all of the proposed new discounts yield revenue losses significantly in excess of the additional cost savings that would be realized because many shippers are already performing these same worksharing activities in the absence of a discount.”

- (a) Please confirm that any cost savings accruing as a result of shippers’ already performing worksharing in the absence of a discount will help maintain lower rates for all of the mailers in the subclass or rate category, regardless of whether they have performed those worksharing activities. If not confirmed, please explain.
- (b) If you have confirmed part a, please comment on the fairness of permitting the worksharing activities of one group of mailers to result in lower rates for a group of mailers who did not perform such activities.
- (c) Please confirm that establishing lower rates for the activities performed by the mailer to create a lower-cost mailpiece will result in rates that more closely tie to the costs to the Postal Service of handling that mail. If not confirmed, please explain.
- (d) Please confirm that, under the circumstances described in part c above, one result of rate de-averaging may be that some mailers of higher-cost mail will pay higher rates more closely aligned with the cost to the Postal Service of handling that mail. If not confirmed, please explain.

USPS/UPS-T4-15. Please refer to your testimony at page 29, lines 10 through 13. Please provide any and all information available to you, including field studies, indicating that the DDU entry mail “could very well arrive in containers that are more costly to handle in the manual parcel sortation area than Parcel Post arriving from the DSCF or the DBMC.”

USPS/UPS-T4-16. Please refer to your testimony at page 33, lines 6 through 9 where you state, “Mr. Hatfield, in deriving the cost of DDU transportation, implicitly assumes that DDU has the same density profile as DSCF and DBMC,

since he uses the local transportation costs for the DSCF and DBMC categories to derive the DDU transportation cost avoidance." [footnote omitted]

- (a) Please identify the portion(s) of Mr. Hatfield's testimony from which you have derived the conclusion.
- (b) Please provide a citation to the portion of Mr. Hatfield's testimony or workpapers in which he uses the density profile of DSCF or DBMC to develop DDU cost avoidances.
- (c) Have you performed an analysis, using something other than the DBMC or DSCF density profile, to develop alternative estimates of the DDU cost avoidance? If so, please provide both the methodology used and the results.

USPS/UPS-T4-17. Please refer to your testimony at page 38, lines 5 through 8.

- (a) Please confirm that you have examined the workpapers of Postal Service witness Mayes in this docket. If not confirmed, please provide the basis upon which you have reached your conclusions.
- (b) If you confirmed part a, please confirm that in workpaper WP I.K., pages 7 and 8 of USPS-T-37, some cells in Zones 1 and 2 of intra-BMC are shown to have required increases exceeding 62 percent before being constrained to a lower increase. If not confirmed, please explain.
- (c) If you confirmed part a, please confirm that in workpaper WP I.K., pages 9 and 10 of USPS-T-37, the unconstrained rate for a two-pound piece of inter-BMC Parcel Post with a Zone 8 destination would have increased more than 77 percent, had the rate increase not been constrained. If not confirmed, please explain.
- (d) If you confirmed part a, please confirm that in workpaper WP I.K., pages 9 and 10 of USPS-T-37, some cells in Zones 1 and 2 of inter-BMC would have increased more than 75 percent, had the rate increases not been constrained. If not confirmed, please explain.

- (e) If you confirmed part b, please confirm that in WP I.L and WP I.M. of USPS-T-37, the revenue losses associated with the constraint of rate increases in Zones 1 & 2 of intra-BMC were recovered in the form of an additional markup on all unconstrained cells, including DBMC rate cells. If not confirmed, please explain.
- (f) If you confirmed part c or part d, please confirm that in WP I.L and WP I.M. of USPS-T-37, the revenue losses associated with the constraint of rate increases in inter-BMC were recovered in the form of an additional markup on all unconstrained cells, including DBMC rate cells. If not confirmed, please explain.
- (g) Please confirm that at pages 24, 30 and 36 of workpaper WP I.L., USPS-T-37, the revenue loss associated with constraining DBMC is significantly less than the revenue loss associated with constraining the rate cells in either intra-BMC or inter-BMC. If not confirmed, please explain.
- (h) Please confirm that at pages 22, 28 and 34 of workpaper WP I.M., USPS-T-37, the revenue loss associated with constraining DBMC is significantly less than the revenue loss associated with constraining the rate cells in either intra-BMC or inter-BMC. If not confirmed, please explain.
- (i) Please identify the revenue loss you have identified at page 38 associated with capping the DBMC rates.

USPS/UPS-T4-18. Please refer to your testimony at pages 39 and 40. Please explain why the 2 cents per pound charge should be the same for inter-BMC and intra-BMC when intra-BMC receives fewer handlings in the postal system.

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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