

DOCKET SECTION

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

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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-T4-22-53)

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-T4-22-53.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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January 28, 1998

USPS/UPS-T4-22. Please refer to pages 16 and 17 of UPS-T-4.

(a) Please assume that DSCF mailings will contain pieces destinating within the service area of a delivery unit that is co-located with the DSCF. Confirm that under these conditions, witness Hatfield has not overstated DSCF transportation costs by 12.3%, but by some amount less than 12.3%. If not confirmed, please explain.

(b) Please assume that 12.3% of DSCF mail will destinate within the service area of a delivery unit that is co-located with the DSCF. Confirm that under these conditions, witness Hatfield has not overstated DSCF costs at all.

USPS/UPS-T4-23. Please refer to pages 16 and 17 of UPS-T-4.

(a) Please confirm that your proposed \$0.0468 increase in DSCF transportation costs would lead to a corresponding \$330,908 increase in revenues recovered for DSCF transportation costs (based on DSCF cubic feet of 7,066,584). If not confirmed, please explain.

(b) In order to ensure that unit transportation cost estimates recover only test year transportation costs, wouldn't it be necessary to lower the non-DSCF DBMC transportation costs by \$330,908? Please explain any answer other than an unqualified 'yes'.

USPS/UPS-T4-24. Please refer to pages 30 and 31 of UPS-T-4.

(a) Please provide any quantitative evidence to support your statement on lines 16 - 18 that "taking into account these other eight flowpaths would likely lower Inter-BMC and Intra-BMC transportation costs, and increase DBMC transportation costs."

(b) Please confirm that higher degrees of "skipping around" within a particular rate category of Parcel Post would be evidenced by a greater share of inter-SCF transportation costs and a smaller share of intra-BMC and/or inter-BMC transportation costs. If not confirmed, please explain.

(c) Please confirm that witness Hatfield has allocated an equal share of inter-SCF transportation costs to each rate category of Parcel Post based on cubic foot legs. If not confirmed, please explain.

(d) Based on your responses to parts (a) - (c) of this question, please confirm that explicitly accounting for inter-SCF transportation flows in Mr. Hatfield's analysis would have the following effects on his current results: (1) movement of inter-SCF transportation costs from DBMC to non-DBMC rate categories and (2) movement of intra-BMC and/or inter-BMC transportation costs from non-DBMC rate categories to DBMC. If not confirmed, please explain.

(e) Based on the fact that explicitly accounting for inter-SCF flows in Mr. Hatfield's analysis would lead to both the addition and removal of costs from the DBMC rate category, please justify your claim that DBMC costs will increase without having performed any quantitative analysis.

USPS/UPS-T4-25. Refer to lines 6 - 8 on page 33 of UPS-T-4 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."

(a) Please verify that according to witness Hatfield's methodology, the transportation cost associated with exactly 1.0 legs of local transportation for a given rate category would be calculated as follows: $\text{Local Costs} / (\text{Total Test Year Cubic Feet} * \text{Average Number of Local Legs})$. If not confirmed, please explain.

(b) Please verify that the result of the calculation described in part (a) is 0.3997 \$/cubic foot, and that this result is the same for inter-BMC, intra-BMC, and DBMC. For example, for inter-BMC the calculation is: $\$26,934,000 / (34,466,346 * 1.96)$. If not verified, please explain.

(c) Based on your response to part (b), please confirm that according to witness Hatfield's methodology, the average local transportation cost per cubic foot for mail that travels exactly one local leg is the same across all three rate categories. If not confirmed, please explain.

(d) Please confirm that the average density within each category of parcel post is different. If not confirmed, please explain.

(e) Based on your response to parts (c) and (d), please confirm that local transportation costs per cubic foot for parcels that travel exactly one local leg do not depend on density. If not confirmed, please explain.

USPS/UPS-T4-26. Please refer to pages 34 - 38 of UPS-T-4.

(a) Please confirm that witness Hatfield allocates distance related costs to zone based on cubic foot miles.

(b) Please confirm that witness Hatfield allocates non-distance related costs to zone based on cubic feet.

(c) Please confirm that if a particular grouping of costs were to be split into distance and non-distance related components, it would be logical to allocate costs to zone based on both cubic feet and cubic feet miles according to the methodology presented in witness Hatfield's testimony.

(d) In UPS-T-4, you claim that intra-BMC intermediate transportation costs are partially distance related and partially non-distance related. Please explain why you have not allocated the non-distance related portion using cubic feet and the distance related portion using cubic foot miles.

(e) Please provide any analyses or data to support your claim that the difference in transportation costs per cubic foot between intra-BMC and inter-BMC remains constant across zones.

USPS/UPS-T4-27. Please refer to pages 43-44 of your direct testimony, where you state that "the average weight of Priority Mail parcels observed in IOCS was 3.34 pounds" with footnote 41 referring to UPS-Sellick-WP-1-III-A.

(a) Please confirm that the referenced workpaper does not contain average weights of Priority Mail by shape. If not confirmed, please provide a correct, explicit reference.

- (b) Please confirm that the 3.34 pounds was derived by computing an unweighted mean of the weight recorded on any IOCS direct tally of a Priority Mail IPP or parcel. If not confirmed, please explain how it was computed or derived.
- (c) Please list all assumptions needed for an average weight estimate obtained in this manner to be a unbiased estimate of the average weight of a Priority Mail IPP or parcel.

USPS/UPS-T4-28. Please confirm that for Priority Mail, when the IOCS observed average weight per piece by shape is multiplied by the ODIS average daily volume by shape and aggregated across shapes, the resulting weight exceeds BY96 weight by more than 55%, e.g. 1.02 pounds per flat (p.43) * 1,197,156 flats per day (UPS-Sellick-1-III-a, p.2) * 302 days per year + 3.34 pounds per parcel (p.44) * 2,049,308 IPPs and parcels per day (UPS-Sellick-1-III-a, p.2) * 302 days = 2,435,868 thousand pounds, compared to 1,562,801 thousand pounds reported by RPW. If not confirmed, please explain fully.

USPS/UPS-T4-29. Suppose the average revenue of the Priority Mail flats observed in IOCS is \$4.23, and the average revenue of the Priority Mail IPPs and parcels observed in IOCS is \$5.09. Please confirm that this \$0.86 difference in revenue might offset the \$0.13 difference in cost per piece shown in workpapers UPS-Sellick-1-III-A, p.2? If not confirmed, please explain fully.

USPS/UPS-T4-30. Please refer to your testimony on page 45, lines 22-23 where you state: "Fairness requires that the cost of the delivery confirmation activity be borne solely by those who will use it." Do you propose that this is the only definition of fairness that is consistent with the ratemaking criteria established in the Act?

USPS/UPS-T4-31. Did the relative cost coverages of Standard (B) and Priority Mail inform your conclusions regarding the appropriateness of the Delivery Confirmation fees proposed in the testimony of witness Plunkett (USPS-T-40)? Please comment.

USPS/UPS-T4-32. Please explain the basis of your statement "delivery confirmation precipitated the purchase of the scanners." (Page 47, lines 15-16)

USPS/UPS-T4-33. If you are unable to answer the following questions, please redirect them to someone at United Parcel Service who can answer them on behalf of the company.

- (a) Does UPS provide any service which allows customers to retrieve electronically stored information regarding the status of their shipments? If so, please list the types of delivery services with which this service is offered and the fees charged for this service with each of those delivery services.
- (b) For any such charge which is currently zero, has UPS in the past ever charged customers to retrieve electronically stored information regarding the status of their shipments? If so, please specify the types of delivery service for which there was a charge for this service.

USPS/UPS-T4-34. Please confirm that your proposed Priority Mail parcel surcharge will result in increased Priority Mail revenue. Please indicate where a corresponding decrease in revenue occurs in order to meet the breakeven criterion.

USPS/UPS-T4-35. Please indicate which other shipping companies have a shape-based surcharge for two- or three-day delivery of parcel-shaped mail.

USPS/UPS-T4-36. Based on your experience, do parcel- and flat-shaped mail have different price elasticities? If yes, please explain.

USPS/UPS-T4-37. Please refer to page 15, lines 5-6, of your testimony. Is it your understanding that witness Crum testified that the Postal Service currently has dropshipment procedures for DSCF or DDU parcel post? Please explain fully.

USPS/UPS-T4-38. Please refer to page 15, line 14 and page 19, line 4 of your testimony as well as Tr. 5/2283, 2299, and 2301. Please provide the basis for your assumptions regarding "Postal Service policy".

USPS/UPS-T4-39. Please refer to page 5 of your testimony. Please provide the "pre-passthrough" acceptance savings determined by the Commission in Docket No. R90-1.

USPS/UPS-T4-40. Please refer to page 9, lines 10-13 of your testimony.

- (a) Is it your testimony that DBMC parcel post avoids no outgoing costs at BMCs? If your answer is yes, please explain and provide any evidence you might have to support that claim.
- (b) Please confirm that page 2 of your Exhibit UPS-T-4B could be used to show that DBMC avoids 7.9 cents per piece of outgoing costs at BMCs compared to Intra-BMC (line 12 – line 19). Please fully explain any negative or partially negative response.
- (c) Please refer to page 9 of your testimony, and to USPS-T-29, Appendix V, page 16. Is it your understanding that destinating BMCs will feed barcoded destinating mail unfiltered to the secondary parcel sorting machine? Is it your testimony that these pieces receive outgoing costs? If so, please provide any supporting evidence you have.

USPS/UPS-T4-41. Please refer to page 28, lines 3-4. Is it your testimony that no non-DBMC mail is verified by Postal Service clerks at the mailer's plant? Please provide evidence to support any affirmative response.

USPS/UPS-T4-42.

- (a) Please confirm that in Exhibit UPS-T-4B, you are assuming that ASFs are acting as BMCs (i.e. processing the pieces) and not merely passing the volume to the parent BMC for sortation and transport. Please fully explain any negative response.
- (b) If you confirm part (a), please refer to the attachment, which shows current outgoing parcel splits for five ASFs. If you were aware of these plans, would you have made an assumption other than the one you made. Please explain your answer.

USPS/UPS-T4-43. Please refer to page 21 of your testimony. After describing many problems with barcodes, you state that "there is no difference in these respects between Postal Service barcoded pieces and mailer prebarcoded pieces."

- (a) Please confirm that if mailer's barcode is printed directly onto a parcel it cannot fall off.
- (b) Please confirm that if the mailer's barcode shows through a plastic window, it cannot fall off.
- (c) Please confirm that if the Postal Service requires prebarcodes to meet readability and accuracy standards before the mailer can receive the prebarcode discount, this will reduce the chance of the barcode falling off, being incorrect, or being obstructed or otherwise unreadable.
- (d) Please confirm that if the mailer's barcode is examined by the Postal Service before it is accepted, this will reduce the chance of the barcode falling off, being incorrect, or being obstructed or otherwise unreadable.

- (e) Please confirm that mailer's list-generated barcodes are more likely to be accurate than human applied barcodes.

USPS/UPS-T4-44. Refer to Table 14 on page 42 of your testimony.

- (a) Please provide an exact citation to UPS-Luciani-WP-4 where the Prebarcoding Revised Avoided Cost with 100% MP Labor Variability can be found.
- (b) Please confirm that the difference in the model cost of PSM key and scan on page 13 of 63 of UPS-Luciani-WP-4 is \$0.0223.
- (c) Please confirm that adding the \$0.005 cost per ribbon to the difference in the model cost of PSM key and scan on page 13 of 63 of UPS-Luciani-WP-4 is \$0.0273. If confirmed, please reconcile this figure with the 2.66 figure shown in Table 14.

USPS/UPS-T4-45. Please refer to page 43 of 63 of your WP-4.

- (a) Please confirm that the outgoing mail processing cost difference you show between barcoded and nonbarcoded mail is \$0.0295.
- (b) Please confirm this cost difference does not include the \$0.005 ribbon and label costs incurred by nonbarcoded mail.
- (c) Why isn't the Avoided Cost/Discount for Prebarcoding shown in Table 14 on page 42 of your testimony not 3.45 cents?

USPS/UPS-T4-46. Refer to Table 14 on page 42 of your testimony.

- (a) Please provide an exact citation to UPS-Luciani-WP-4 where the BMC Presort Non-Transportation (off of Inter-BMC) Revised Avoided Cost with 100% MP Labor Variability of 21.1 can be found.
- (b) Please confirm that on page 31 of 63 of UPS-Luciani-WP-4 and the Summary Sheet the cost avoidance for OBMC BMC Presort Savings is \$0.155 but BMC Presort Non-Transportation (off of Inter-BMC) Revised

Avoided Cost with 100% MP Labor Variability in Table 14 is 22.1. If confirmed, please reconcile the difference.

USPS/UPS-T4-47. Please refer to Table 14 on page 42 of your testimony.

- (a) Please confirm that on page 31 of 63 of UPS-Luciani-WP-4 and the Summary Sheet the cost avoidance for DSCF Discount is \$0.368 but is 36.7 in Table 14. If confirmed, please reconcile the difference.
- (b) Please confirm that on page 31 of 63 of UPS-Luciani-WP-4 and the Summary Sheet the cost avoidance for DDU Discount is \$0.718 but is 71.7 in Table 14. If confirmed, please reconcile the difference.

USPS/UPS-T4-48. Why are the piggyback factors used on page 29 of 63 of UPS-Luciani-WP-4 derived by multiplying the piggyback factors from LR-H-77 by 0.9302 instead of using the piggyback factors calculated in LR-H-318?

USPS/UPS-T4-49. Please refer to page 10 of your testimony where you state “parcel sorting productivity at ASFs is almost certainly lower.”

- (a) Please confirm that the costs (\$0.208) incurred to support a mechanized environment shown on page 44 of 63 of WP-4 such as dumping into a PSM (\$0.095), sack sorter (\$0.005), sack shakeout (\$0.023) and sweeping runouts (\$0.089) would not be incurred in a simplified manual environment like those found at ASFs.
- (b) Please confirm ASFs would have fewer outgoing separations to make than BMCs if they did not sort to every other BMC.
- (c) Please confirm that manual sorting productivities should be higher if there are fewer separations, all else equal.
- (d) Do you think it is possible that the productivity for manual sorts with 1-5 separations could be faster than a mechanized sort with at least 21 separations?

- (e) Do you think that the cost of an outgoing sort of primarily machinable parcels to only a few BMCs would be cheaper than the \$0.179 cost of the manually sorting incoming 3-Digit nonmachinable parcel to 5-Digits you show on page 25 of 63 of WP-4?

USPS/UPS-T4-50. Please refer to your WP-4 page 6 of 63.

- (a) Why did you assume all DSCF sacks will arrive bedloaded?
- (b) Why did you not assume DSCF sacks may come in rolling stock or some mix of bedloading and rolling stock?
- (c) Would the costs incurred by USPS as a result of assisting with unloading be lower if sacks were also in rolling stock? Please explain.

USPS/UPS-T4-51. Please refer to your WP-4 page 6 of 63.

- (a) If USPS allowed mailers to assist unloading wheeled containers, would the same 50% share of the work made with regard to sacks be a reasonable assumption?
- (b) If your answer to part (a) is no, please explain in detail.
- (c) If your answer to part (a) is yes, please recompute your adjustment assuming the 50% USPS assistance.

USPS/UPS-T4-52. Please provide citations to the figures used on your SP-4 page 40 of 63.

USPS/UPS-T4-53. Why do you consider the destinating NMO sort to 3-Digit incurred by Intra-BMC and DBMC parcels "outgoing" costs on pages 50 and 54 of 63 in your WP-4?

Auxiliary Service Facilities Outgoing Parcel Splits

| Auxiliary Service Facility (ASF) | Parent BMC | Other Outgoing Splits (BMCs and ASFs) |
|---|-------------------|--|
| Buffalo | Pittsburgh | Springfield BMC |
| Fargo | Minneapolis | Billings ASF, Sioux Falls ASF |
| Oklahoma City | Dallas | Denver BMC, Kansas City BMC, Memphis BMC, St Louis BMC |
| Salt Lake City | Denver | Los Angeles BMC, Phoenix ASF, San Francisco BMC, Seattle BMC |
| Sioux Falls | Des Moines | Denver BMC, Fargo ASF, Minneapolis BMC |

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.

A handwritten signature in cursive script, appearing to read "Scott L. Reiter", written over a horizontal line.

Scott L. Reiter

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January 28, 1998