

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

CTC-RT-1
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U.S. DEPARTMENT OF JUSTICE
OFFICE OF THE ATTORNEY GENERAL

POSTAL RATE AND FEE CHANGES, 1997)

Docket No. R97-1

Rebuttal Testimony of

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on Behalf of

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INTRODUCTION

See CTC-T-1, pp. 1-2, Tr. 20/10162-63.

I. PURPOSE OF TESTIMONY

This testimony is submitted to rebut certain aspects of the testimony of Parcel Shippers Association ("PSA") witness Zwieg (PSA-T-3) and of United Parcel Service ("UPS") witness Luciani (UPS-T-4) and to expose weaknesses in the respective proposals they have made regarding Parcel Post. The Commission should recognize the deficiencies in the criticisms of the Postal Service's proposals offered by these witnesses, and should recommend in full the Postal Service's proposals which relate to the entry of Parcel Post at Origin Bulk Mail Centers ("OBMCs"), Destination Bulk Mail Centers ("DBMCs"), Destination Sectional Center Facilities ("DSCFs"), and Destination Delivery Units ("DDUs").

1 **II. THE COMMISSION SHOULD RECOMMEND THE**
2 **POSTAL SERVICE'S PROPOSED UNIFORM**
3 **DESTINATION ENTRY DISCOUNT STANDARDS**

4 Under the current postal rate setting process, when new postal
5 worksharing discounts (and the appropriate corresponding rate structures)
6 are developed, the Postal Service first estimates costs avoided by the
7 worksharing, as reflected by certain identified qualification standards. The
8 Postal Service next determines what percentage of the avoided costs would be
9 appropriate to pass through to worksharing mailers, based upon a number of
10 factors, including its experience with similar worksharing discounts. This
11 process has been very successful for the Postal Service, as worksharing has
12 become an integral component of rate setting, and the number of
13 worksharing discounts available for various mail classes and subclasses has
14 steadily grown.

15 The Postal Rate Commission has played an instrumental role in the
16 Postal Service's success, by ensuring that proposed worksharing discounts
17 have been in the public interest, as well as by encouraging the development
18 of additional discounts as their benefits to both the Postal Service and the
19 mailing public have become evident. Successes of the Postal Service have
20 exceeded its original expectations with its DBMC Parcel Post worksharing
21 program. In this docket, the Postal Service seeks to extend the range of its
22 Parcel Post discounts to include discounts for BMC presort and prebarcoding,

1 and for OBMC, DSCF and DDU entry, as well as DBMC, which have proven
2 successful for other classes of mail.

3 Witness Zwieg has submitted testimony stating that “[v]olume levels
4 necessary to qualify [for the new Parcel Post rate categories] should be an
5 operational decision made jointly by mailers and postal operations people.
6 The size and operational capabilities of a particular destination entry facility
7 should determine the qualifying level rather than a level arbitrarily imposed
8 by the Commission.” (PSA-T-3, p. 8, Tr. 25/13451.) This statement appears
9 to confuse the type of provisions historically contained in the Domestic Mail
10 Classification Schedule (DMCS) and the type of provisions contained in the
11 Domestic Mail Manual (DMM). The Postal Service proposal and
12 accompanying DMCS revisions appear to follow the traditional distinctions,
13 appear to be proper, and should be adopted. CTC Distribution Services has a
14 proven track record as a user of Parcel Post and its existing rate structure.
15 We would have no difficulty in utilizing the Postal Service’s proposed
16 destination entry discounts, and we believe that the expansion of the Parcel
17 Post worksharing program is in the best interests of the Postal Service.

1 proposed Parcel Post worksharing discounts is no surprise, I believe the
2 testimony is deficient in not recognizing the true state of the parcel delivery
3 industry and how the Postal Service's proposals for Parcel Post would affect
4 beneficially the entire industry and the nation. UPS witness Luciani (UPS-
5 T-4), for example, who criticized the Postal Service's cost avoidance
6 estimates, could not even offer an opinion on these matters. (See Tr.
7 26/14442-46.)

8 Witness Luciani could not say whether Parcel Post was a growing
9 segment of the economy, whether the Postal Service's DBMC program had
10 caused Parcel Post to grow significantly, or even whether the growth of
11 Parcel Post since 1990 has had any adverse effect on UPS itself. Tr.
12 26/14445-46. Witness Luciani also worked on the UPS testimony in PRC
13 Docket No. R90-1, where UPS sponsored testimony in opposition to the very
14 establishment of the DBMC worksharing program. It was UPS, not the
15 Postal Service, which made poor volume forecasts in that docket regarding
16 DBMC. Even if witness Luciani has not studied the significance of the
17 growth of Parcel Post, these subjects formed a part of my direct testimony in
18 this proceeding, which witness Luciani read. (Tr. 26/14440.) By witness
19 Luciani's refusal to comment, UPS seems to be trying to avoid the issue.

20 Witness Luciani did offer an opinion on the Postal Service's cost
21 avoidance estimates, which he said were uncertain. Based on such
22 uncertainty, he suggests that the passthrough of avoided costs should be

1 limited to 77 percent, rather than the 98-100 percent passthroughs
2 recommended by the Postal Service in this docket. (UPS-T-4, pp. 22-31, Tr.
3 26/14308-14317.) I would like to point out some weaknesses in that
4 suggestion.

5 First, witness Luciani himself admits that the passthroughs should be
6 higher, as the Postal Service has proposed, if the Commission does not share
7 his opinion that the Postal Service's cost avoidance estimates are uncertain.
8 (Tr. 26/14441.) Even under the UPS's view of the matter, therefore, the
9 Postal Service's Parcel Post worksharing program should be adopted, and the
10 only question has to do with the amount of the destination entry discounts.
11 After the Commission perfects the Postal Service's cost avoidance estimates
12 to the extent possible in this docket, it should reject the mere 77 percent
13 passthrough recommended by witness Luciani, and pass through the whole
14 amount.

15 Second, although witness Luciani appears to have testified as an
16 economic or financial analyst, a field in which I have not received formal
17 education, much of what he says about the Postal Service's cost estimates is
18 itself subject to question, even by lay people such as myself. For example, he
19 states that the Postal Service's cost avoidance estimates are based on "perfect
20 execution," which is impossible to attain. (UPS-T-4, p. 26, Tr. 26/14312.)
21 Assuming that is so, could not the same be said about every cost estimate?
22 The real mailing world in which CTC and UPS do business strives for

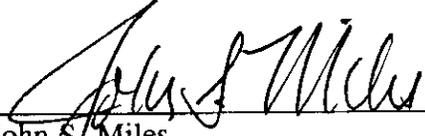
1 perfection, but rarely hits the mark. Perfection cannot be the standard
2 applied by the Commission. Furthermore, witness Luciani does not quantify
3 in any way the “imperfection” in execution that he says is bound to exist.
4 Presumably, it would be extremely small, and I believe that witness Luciani’s
5 notion of imperfect execution should have no impact whatsoever on the
6 Postal Service’s cost avoidance estimates.

7 Furthermore, witness Luciani states that the mail processing DBMC
8 entry savings estimated by the Postal Service are inexplicably high, but
9 offers no contrary proof or explanation. (UPS-T-4, pp. 26-27, Tr. 26/14312-
10 13.) Similarly, his arguments that DBMC parcels are different from other
11 parcels and that costs of plant load clerks should be attributed to specific rate
12 categories (UPS-T-4, pp. 27-28, Tr. 26/14313-14) are simply posited, with no
13 proof or quantification of any kind.

14 These UPS positions should be recognized as simply arguments, with
15 no meaningful proof for support. They are reminiscent of the UPS criticism
16 of the Postal Service’s volume estimates for the new DBMC program in
17 Docket No. R90-1. Ultimately, the Commission rejected that criticism and
18 accepted the Postal Service’s volume forecasts as reasonable and
19 conservative. History has revealed how conservative those estimates were.
20 The Postal Service’s volume predictions were understated, not overstated
21 and, contrary to the UPS position in R90-1, the Postal Service’s DBMC Parcel
22 Post worksharing program has been a resounding success.

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.



John S. Miles

March 9, 1998