

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

ERRATA TO REBUTTAL TESTIMONY OF WITNESS MCGRANE (USPS-RT-12)

The United States Postal Service hereby files errata to the rebuttal testimony of witness McGrane (USPS-T-12). Each change shown is in the attached table. Revised pages incorporating these changes are also provided. To the extent these changes are other than typographical, they resulted from long-distance confusion over different draft versions used in the editing process. The Postal Service regrets any inconvenience this may have caused the Commission and participants. In order to mitigate such inconvenience, the Postal Service is filing this document at mid-day and is faxing a copy of it to counsel for UPS, which is the party whose testimony is the subject of the revised pages of the rebuttal testimony.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Scott L. Reiter

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2999; Fax -5402
March 10, 1998

Page	Line	Change
2	8	insert "not" between "will" and "incur"
2	15-16	delete commas
2	13	delete first "the"
3	8	delete second "be"
3	9	insert "in part" before "because"
3	10-11	change "SCF costs" to "mail processing costs at non-BMC facilities"
3	12	change "SCF" to "non-BMC"
3	13	delete first sentence
3	14	change "other SCFs" to "non-ASFs"
3	16	change "other SCFs" to "non-ASFs"
3	18	change "Services" to "Service's"
3	19	change "SCF" to "non-BMC mail processing"
3	19	change "just under \$2 million" to "\$1,981,000"
3	20	change "multilpies" to "multiplies"
3	21	change "almost \$3.4 million" to "\$3,371,728"
4	2	change "SCF" to "non-BMC"
4	3-8	delete last two sentences of paragraph and replace with "It does not make sense to subtract more ASF costs (as witness Luciani attempted to do) than are included in the base total. Clearly, witness Luciani's estimate of \$3,371,728 is overstated. As I show in the next section, only a fraction of the \$1,981,000 should be subtracted from the costs avoided by DBMC Parcel Post, because much of the time ASFs function more like an SCF than a BMC."
4	19	change "a SCF than an ASF" To "an SCF than a BMC"
5	10	change "BMCs" to "BMC"

1 BMC facilities as avoided costs for DBMC Parcel Post. Mail preparation activities
2 include opening and dumping sacks and rolling containers, culling mail, canceling,
3 separating and breaking down mail, and transporting mail within a facility. These
4 activities are required prior to distribution at each processing facility through which a
5 piece of Parcel Post mail travels. Parcels entered at BMC facilities, such as DBMC
6 Parcel Post, do not pass through these facilities and do not incur these costs. In
7 particular, DBMC Parcel Post will not travel through outgoing SCFs and will not origi-
8 nate in AOs, so it will not incur any outgoing mail preparation costs at AOs and SCFs.

9 In support of his desire to exclude these costs, Mr. Luciani speculates that, "...it
10 is likely that outgoing mail preparation costs at non-BMCs are associated with local
11 intra-BMC parcels that do not travel to the BMC" (Tr. 26/14368). To the contrary, any
12 Parcel Post mail that is entered at AOs and SCFs, local or not, will incur outgoing mail
13 preparation, since much of the costs for Parcel Post in these facilities falls under the
14 description of mail preparation.

15 At the SCF parcels that are deposited at the window and put in hampers or
16 sacks will be combined into a BMC container for transportation to the SCF's parent
17 BMC. If local parcels are separated, the address of every parcel that is consolidated for
18 transportation to the BMC must be examined. As witness Hatfield explained,
19 separation of local parcels is often not performed even at the local office (Tr. 8/3973).
20 Regardless of whether or not outgoing mail preparation costs at AOs and SCFs are for
21 local parcels, DBMC parcels will not incur these costs.

1 **III. Mr. Luciani Overstates Outgoing ASF Parcel Costs**

2

3 *Witness Luciani argues that outgoing mail processing costs at ASF facilities are*
4 *incorrectly included as costs avoided by DBMC Parcel Post. He asks the Commission*
5 *to reduce the Postal Services estimate of DBMC avoided outgoing costs by over \$3.3*
6 *million, which he estimates to be the outgoing ASF costs included in the Postal*
7 *Service's total of almost \$24 million. In the next section I will discuss why outgoing ASF*
8 *costs include costs that will be avoided by DBMC Parcel Post. In this section I will*
9 *explain why witness Luciani's estimate of outgoing ASF costs is too high, in part*
10 *because he uses a method inconsistent with the way the Postal Service estimates*
11 *outgoing mail processing costs at non-BMC facilities.*

12 *Witness Crum estimates outgoing non-BMC costs using IOCS data in his Exhibit*
13 *C. His total of approximately \$24 million in outgoing mail processing costs can be*
14 *decomposed between ASFs and non-ASFs using IOCS data. I identify the ASFs by*
15 *finance number and develop separate keys for the distribution of volume variable costs*
16 *for ASFs and non-ASFs within each cost pool. The results of my analysis appear as*
17 *Exhibit USPS-RT-12A.*

18 *The estimate of outgoing ASF costs included in the Postal Service's outgoing*
19 *non-BMC mail processing total is \$1,981,000. Witness Luciani develops an outgoing*
20 *unit cost using flow models presented by witness Daniel, which he multiplies by*
21 *volumes originating in ASF service areas to obtain an estimate of \$3,371,728.*

1 Whatever the merits of witness Luciani's modeling effort may be, he cannot
2 subtract his estimate from the Postal Service's estimate of outgoing non-BMC costs.
3 The two methods are clearly inconsistent as evidenced by the results of my analysis. It
4 does not make sense to subtract more ASF costs (as witness Luciani attempted to do)
5 than are included in the base total. Clearly, witness Luciani's estimate of \$3,371,728 is
6 overstated. As I show in the next section, only a fraction of the \$1,981,000 should be
7 subtracted from the costs avoided by DBMC Parcel Post, because much of the time
8 ASFs function more like an SCF than a BMC.

9

10 **IV. Mr. Luciani Misunderstood the Meaning of ASF Parcel Post Volumes, and**
11 **Therefore Overstates the ASF Cost Excluded from the Avoidance Calculation**

12

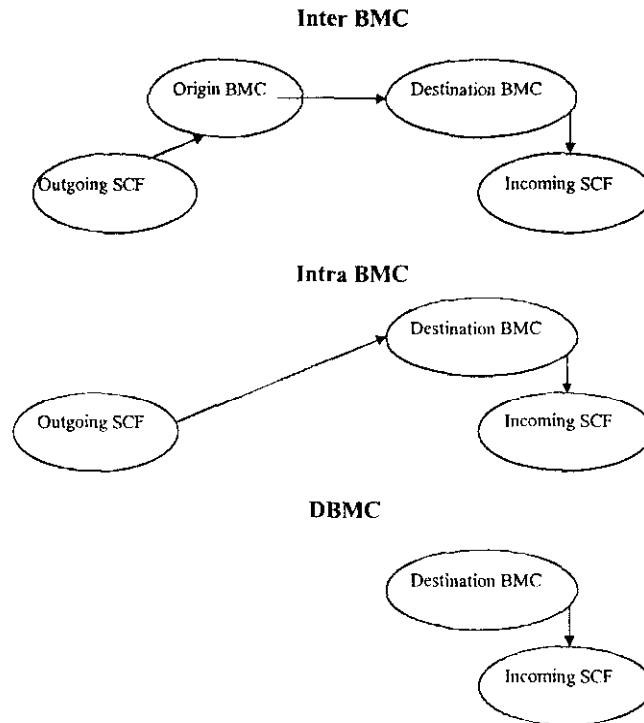
13 Mr. Luciani estimates outgoing mail processing costs for Parcel Post at ASFs
14 and then argues that these costs should be excluded from the cost avoidance
15 calculation. Because of his improper use of mail volumes, in making this argument he
16 is effectively assuming that for all Parcel Post mail encountered in an outgoing
17 operation at an ASF, that the ASF is acting as a BMC. This is an erroneous
18 assumption. For much of the mail originating in ASF service areas, the function of the
19 ASF facility is more like an SCF than a BMC. I will demonstrate that at a minimum,
20 \$918,000 of the \$1,981,000 in outgoing ASF costs should be included in the costs that
21 DBMC Parcel Post avoids.

22 Let us review why all BMC mail processing costs are excluded from the cost
23 avoidance calculation for DBMC Parcel Post. The cost avoidance for DBMC Parcel

- 1 Post is calculated relative to intra-BMC Parcel Post costs. Postal Service witness
- 2 Daniel develops the cost difference between inter-BMC and intra-BMC Parcel Post

Figure 1

PARCEL POST MAIL FLOWS



- 3
- 4 (Exhibit USPS-T-29E). As shown in Figure 1 above, inter-BMC Parcel Post travels
- 5 through an origin BMC and a destination BMC, while intra-BMC will only travel through
- 6 a destination BMC. DBMC Parcel Post is similar to intra-BMC Parcel Post in that it only
- 7 travels through one BMC. Since the Postal Service assumes that the difference in BMC
- 8 costs between DBMC Parcel Post and inter-BMC Parcel Post is the same as the
- 9 difference in BMC costs between inter and intra-BMC Parcel Post, no further
- 10 accounting of BMC costs are necessary.¹

¹ The Postal Service is actually being conservative when asserting that the BMC costs of intra-BMC and DBMC parcels are the same, because witness Luciani has shown in his Exhibit UPS-T-4B that the unit

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.



Scott L. Reiter

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Washington, D.C. 20260-1137
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