

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSES OF UNITED STATES POSTAL SERVICE
WITNESS MICHAEL W. MILLER TO INTERROGATORIES OF
UNITED PARCEL SERVICE (UPS/USPS-T21-1-8)
(June 27, 2006)

The United States Postal Service hereby provides the responses of Postal Service witness Miller (USPS-T-21) to interrogatories UPS/USPS-T21-1-8, filed on June 13, 2006. Interrogatory UPS/USPS-T21-1(c) has been redirected to witness Talmo (USPS-T-27)

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Keith E. Weidner

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-6252, Fax -3084

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UPS/USPS-T21-1. Refer to library reference USPS-LR-L-46, page 3.

(a) Explain in detail why the MODS pool for "1SACKS_M" is treated as proportional for Parcel Post in this docket when it was not treated as proportional in Docket No. R2001-1 (per Docket No. R2001-1, USPS-LR-J-64, Attachment A, page 2).

(b) Describe in detail the operations on Parcel Post mail performed in each of the pools below, and explain in detail why each pool was selected to be treated as proportional:

- i. MODS "MECPARC" pool;
- ii. MODS "1SACKS_M" pool;
- iii. MODS "MANP" pool;
- iv. MODS "1PLATFRM" pool;
- v. MODS "1SACKS_H" pool
- vi. MODS "LD43" pool;
- vii. Non-MODS "Allied" pool; and
- viii. Non-MODS "MANP" pool.

(c) Provide Parcel Post Base Year and Test Year costs by each MODS, BMC, and non-MODS pool broken out by basic function in a manner similar to that provided in library reference USPS-LR-J-180 in Docket No. R2001-1.

RESPONSE:

(a) The non-BMC MODS operations which are mapped to the "1SACKS_M" cost pool can be found in USPS-LR-L-55, file "R2006 lr-l-55_pt1," tab "Table I-2B, Plants-no ISC," page 5, and represent mechanized parcel sorting equipment. I classified this cost pool as proportional in Docket No. R2005-1 and the instant proceeding as it is my understanding that some non-BMC MODS facilities which still have mechanized sack sorting equipment are using those systems to sort Non Machinable Outsides (NMO) parcels. While mechanized sack sorting at non-BMCs is not explicitly included in the mail flow models, it achieves the same end as the manual sorting operation, which is explicitly included in the model (typically a sortation to the 5-digit level). I am therefore relying on the CRA adjustment factor to compensate for any cost differences related to these processing methods.

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(b) The MODS operations mapped to some of these cost pools can also be found in USPS-LR-L-55, as described above in the response to part (a).

- i. The costs for mechanized parcel sorting operations at non-BMC MODS facilities are mapped to this cost pool. It is my understanding that some facilities which have mechanized parcel sorting systems that rely on operation number 105 are using that equipment to sort NMO parcels. The cost pool is therefore classified as proportional.
- ii. Please see the response to part (a).
- iii. The costs for manual parcel sorting operations at non-BMC MODS facilities are mapped to this cost pool. These operations are typically used to sort NMO / oversized parcels and are included in the NMO and oversized cost models. This cost pool is therefore classified as proportional.
- iv. The costs for platform-related tasks at non-BMC MODS facilities, such as moving, loading and unloading containers, are mapped to this cost pool. These operations are included in the cost models. This cost pool is therefore classified as proportional.
- v. The costs for manual sack sorting operations at non-BMC MODS facilities are mapped to this cost pool. It is my understanding that some facilities process NMO parcels in these operations, similar to the manner in which NMO parcels are processed in mechanized operations as described above. This cost pool is therefore classified as proportional.
- vi. The costs for some customer service manual parcel sorting operations used to be mapped to this cost pool. It therefore has been classified as proportional in

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the past. It is my understanding that these costs are now mapped elsewhere.

Consequently, the value of this cost pool is now 0.000.

vii. The costs for platform-related tasks at non-BMC non-MODS facilities, such as moving, loading and unloading containers, are mapped to this cost pool.

These operations are included in the cost models. This cost pool is therefore classified as proportional.

viii. The costs for manual parcel sorting operations at non-BMC non-MODS facilities are mapped to this cost pool. These operations are typically used to sort NMO / oversized parcels and are included in the NMO and oversized cost models. This cost pool is therefore classified as proportional.

(c) Redirected to witness Talmo.

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UPS/USPS-T21-2. Refer to library reference USPS-LR-L-46, Page 4.

(a) Confirm that the source of the productivity of the "Parcel Sort at DU" is testimony from Docket No. R84-1 dealing with Bound Printed Matter.

- i. If confirmed, explain in detail why this is an acceptable source to use in Docket No. R2006-1 for Parcel Post. If not confirmed, explain in detail.
- ii. Provide a copy of USPS-LR-J-64, Attachment D, from Docket No. R2001-1.

(b) Confirm that the "Parcel Sort at DU" productivity of 509.4 units per workhour is derived by dividing 433 by the Variability Factor of 0.85 for the Non-BMC Non-MODS Manual Parcels Sort. If not confirmed, explain in detail.

(c) Confirm that this productivity assumption of 509.4 units per hour is used in USPS-LR-L-46 to derive a Test Year cost of 10.7 cents per piece for sortation of Parcel Post pieces at the DU to individual carrier routes. If not confirmed, explain in detail.

(d) Refer to library reference USPS-LR-L-46, page 3. Confirm that the cost for Parcel Post in the Test Year in the Non-MODS "MANP" pool is 26.029 cents per piece. If not confirmed, explain in detail.

(e) Explain in detail the reasons for the difference between the 10.7 cents per piece derived using the 509.4 pieces per hour productivity assumption and the 26.029 cents per piece in the Non-MODS "MANP" pool.

RESPONSE:

(a) I can confirm that the specified citation is the source for the base 433 pieces per hour figure relied upon by witness Eggleston in Docket No. R2001-1. The figure was used by witness Eggleston in both the Bound Printed Matter and Parcel Post models. In the instant proceeding, I also rely on the same base figure for both the Parcel Post and Bound Printed Matter cost models. While we relied upon the same base productivity value, our marginal productivity values were not identical due to volume variability factor differences.

- i. Delivery Unit incoming secondary parcel sorting operations are used to manually sort all parcels, regardless of class. I am not aware of any reasons why the productivity in that operation for Parcel Post would differ from the productivity

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in that operation for Bound Printed Matter. I am also not aware of any studies in which an attempt was made to update this figure.

ii. Please see the attached Excel spreadsheet.

(b) Confirmed.

(c) Confirmed.

(d) Confirmed.

(e) I do not know. With the exception of Parcel Return Service (PRS) mail, every parcel in the cost model is processed through a Delivery Unit manual incoming secondary sorting operation and incurs a cost of 10.7 cents. To the extent that the productivity figure that has been relied upon for several cases now is incorrect, or does not cover all the tasks associated with this cost pool, the impact on the rate category cost estimates should be minimized due to the fact that a proportional CRA adjustment factor has been applied.

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UPS/USPS-T21-3. Refer to library reference USPS-LR-L-82, WP-PP-1 and 10.

(a) Confirm that the average cubic feet per piece in the Test Year for Parcel Post pieces is:

- i. 0.54 for Intra-BMC and Inter-BMC parcels:
 $((16,194,935+46,927,911)/(34,446,158+81610,937))$; and
- ii. 0.76 for Parcel Select parcels:
 $(216,062,362/(69,001,873+2,139,320+215,597,295))$.

If not confirmed, explain in detail.

(b) Confirm that in library reference USPS-LR-L-46, the Postal Service made no adjustment for the differing average sizes of Intra-BMC and Inter-BMC parcels versus Parcel Select parcels. If not confirmed, explain in detail.

(c) Do you agree that the smaller the parcel, the more parcels that fit in a container, and hence the smaller the processing cost per parcel? If you do not agree, explain in detail.

RESPONSE:

(a) i. Confirmed that performing the described calculation using the specified volume and cubic feet figures from USPS-LR-L-82 is equivalent to 0.544.

ii. Confirmed that performing the described calculation using the specified volume and cubic feet figures from USPS-LR-L-82 is equivalent to 0.754.

(b) Confirmed. For the past several cases, the cubic feet data have been used to account for the size differences between machinable, nonmachinable, and oversize mail pieces. The cubic volume estimates for these three mail types have been calculated for all of Parcel Post; they have not been calculated by rate category, or groupings of rate categories. Rate category cubic volume differences should not be introduced into the analysis because USPS-LR-L-46 measures the cost savings incurred as a given mail piece moves from a non-worksharing rate category to a worksharing rate category, and any given mail piece obviously has the same cubic volume as itself. Also, please see the response of witness Eggleston to UPS/USPS-T25-3(d) in Docket No. R2001-1 (Tr. 11A/3965-67).

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(c) In general, yes.

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UPS/USPS-T21-4. Refer to library reference USPS-LR-L-46, page 7.

(a) Confirm that 5.3% of Inter-BMC parcels and 3.8% of Intra-BMC parcels are "retail." If not confirmed, explain in detail.

- i. Define "retail" as used here.
- ii. Are parcels picked up by carriers "retail" parcels? Explain in detail.
- iii. Explain in detail how the figures of 5.3% and 3.8% were derived.
- iv. Provide the relevant pages from the GFY 2005 RPW report and any other data sources used in this calculation.

(b) Confirm that the similar calculation in library reference USPS-LR-J-64 in Docket No. R2001-1 found that 36.7% of Inter-BMC Parcel Post and 32.2% of Intra-BMC Parcel Post were "retail." If confirmed, explain why these retail percentages have decreased. If not confirmed, explain in detail.

(c) Identify the categories that comprise the total GFY 2005 RPW Inter-BMC and Intra-BMC Parcel Post volume, of which "non-discount stamp/meter" is one, and provide the volume in each category.

(d) Identify the various ways that Inter-BMC and Intra-BMC parcels can be entered into the Postal Service. Identify and provide any supporting data on the volume entered under each possible entry method.

RESPONSE:

(a) Confirmed that the specified figures are in USPS-LR-L-46. It has been determined that my calculations are incorrect. Please see the revised InterBMC and IntraBMC retail percentages of 72.05 percent and 86.71 percent, respectively, as shown on the attached Excel spreadsheet. The cost models found in USPS-LR-L-46 and USPS-LR-L-103 will be updated to reflect these new values.

i. "Retail" mail pieces are defined to be any non-Parcel Select mail piece with stamp or PVI indicia. These percentages are then used as "number of handlings" values in the Inter-BMC and Intra-BMC models to reflect the percentage of mail that was processing through an outgoing delivery unit.

ii. I would assume that they could be to the extent they have stamp or PVI indicia.

iii. The specified figures have been revised. The revised figures were estimated to be the RPW volume of non-discount stamp/meter mail for each rate category

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divided by the volume for each rate category. Please see the attached Excel spreadsheet for the specific mail category codes that are involved in the calculation.

iv. The data upon which the figures on the attached Excel spreadsheet are based can be found in USPS-LR-L-87.

(b) Confirmed. I do not know why these figures differ from the revised figures.

(c) Please see the attached Excel spreadsheet.

(d) It is my understanding that InterBMC and IntraBMC are entered in the following ways: through normal retail channels, through Business Mail Entry Units (BMEU), through plant loads, or through dropshipments. I am not aware of any studies in which an attempt was made to determine the volume entered for these various methods.

**PARCEL POST RETAIL PERCENTAGE CALCULATIONS FOR INTRABMC AND INTERBMC
FY 2005 RPW DATA (Source: USPS-LR-L-87)**

DESCRIPTION	MAILCAT	PIECES	LABEL
Non Retail	25165	1,578,095	PSVC INTRA-BMC ALASKA BYPASS PARCEL POST
Non Retail	4100	3,690,839	PSVC INTER-BMC MACH PARCEL POST
Non Retail	4105	1,151,457	PSVC INTRA-BMC MACH PARCEL POST
Non Retail	4115	2,486,515	PSVC BCODE INTER-BMC MACH PARCEL POST
Non Retail	4120	260,516	PSVC BCODE INTRA-BMC MACH PARCEL POST
Non Retail	4125	273,670	PSVC ORIGIN BMC PRES INTER-BMC MACH PARCEL POST
Non Retail	4130	13,491	PSVC ORIGIN BMC PRES BCODE INTER-BMC MACH PARCEL POST
Non Retail	4135	2,107	PSVC ORIGIN BMC PRES INTER-BMC NONMACH PARCEL POST
Non Retail	4140	307,669	PSVC BMC PRES INTER-BMC MACH PARCEL POST
Non Retail	4145	552,338	PSVC BMC PRES BCODE INTER-BMC MACH PARCEL POST
Non Retail	4150	370,784	PSVC INTER-BMC NONMACH PARCEL POST
Non Retail	4180	11,590	PSVC BMC PRES INTER-BMC NONMACH PARCEL POST
Non Retail	4190	142,441	PSVC INTRA-BMC NONMACH PARCEL POST
Non Retail	510CCBAAM	1,398,713	PSVC PARCEL POST INTRA-BMC BC MACH L/F//P NON-PERM IMP
Non Retail	510CDBAAM	2,920	PSVC PARCEL POST INTRA-BMC BC MACH BALLOON L/F//P NON-PERM IMP
Non Retail	510ECBAAM	1,755,907	PSVC PARCEL POST INTER-BMC BC MACH L/F//P NON-PERM IMP
Non Retail	510EDBAAM	0	PSVC PARCEL POST INTER-BMC BC MACH BALLOON L/F//P NON-PERM IMP
Non Retail	510FBBAAM	5,415	PSVC PARCEL POST INTER-BMC BMC PRES OVERSIZED L/F//P NON-PERM IMP
Non Retail	510FCBAAM	354,264	PSVC PARCEL POST INTER-BMC BMC PRES MACH L/F//P NON-PERM IMP
Non Retail	510FDBAAM	1,695	PSVC PARCEL POST INTER-BMC BMC PRES MACH BALLOON L/F//P NON-PERM IMP
Non Retail	510FEBAAM	185,832	PSVC PARCEL POST INTER-BMC BMC PRES NONMACH L/F//P NON-PERM IMP
Non Retail	510FFBAAM	3,188	PSVC PARCEL POST INTER-BMC BMC PRES NONMACH BALLOON L/F//P NON-PERM IMP
Non Retail	510GCBAAM	54,983	PSVC PARCEL POST INTER-BMC BMC PRES BC MACH L/F//P NON-PERM IMP
Non Retail	510GDBAAM	615	PSVC PARCEL POST INTER-BMC BMC PRES BC MACH BALLOON L/F//P NON-PERM IMP
Non Retail	510HBBAAM	68,178	PSVC PARCEL POST INTER-BMC OBMC PRES OVERSIZED L/F//P NON-PERM IMP
Non Retail	510HCBAAM	1,347,613	PSVC PARCEL POST INTER-BMC OBMC PRES MACH L/F//P NON-PERM IMP
Non Retail	510HDBAAM	14,149	PSVC PARCEL POST INTER-BMC OBMC PRES MACH BALLOON L/F//P NON-PERM IMP
Non Retail	510HEBAAM	7,482,601	PSVC PARCEL POST INTER-BMC OBMC PRES NONMACH L/F//P NON-PERM IMP
Non Retail	510HFBAAM	266,731	PSVC PARCEL POST INTER-BMC OBMC PRES NONMACH BALLOON L/F//P NON-PERM IMP
Non Retail	510JBAAM	2,269,176	PSVC PARCEL POST INTER-BMC OBMC PRES BC MACH L/F//P NON-PERM IMP
Non Retail	510JDBAAM	24,343	PSVC PARCEL POST INTER-BMC OBMC PRES BC MACH BALLOON L/F//P NON-PERM IMP
Non Retail	Subtotal IntraBMC	4,534,142	
Non Retail	Subtotal InterBMC	21,543,693	
Non Retail	Total Non Retail	26,077,835	
Retail	510BBBAAM	41,443	PSVC PARCEL POST INTRA-BMC OVERSIZED L/F//P NON-PERM IMP
Retail	510BCBAAM	23,516,809	PSVC PARCEL POST INTRA-BMC MACH L/F//P NON-PERM IMP
Retail	510BDBAAM	10,855	PSVC PARCEL POST INTRA-BMC MACH BALLOON L/F//P NON-PERM IMP
Retail	510BEBAAAM	5,921,809	PSVC PARCEL POST INTRA-BMC NONMACH L/F//P NON-PERM IMP
Retail	510BFBAAM	82,726	PSVC PARCEL POST INTRA-BMC NONMACH BALLOON L/F//P NON-PERM IMP
Retail	510DBBAAM	9,994	PSVC PARCEL POST INTER-BMC OVERSIZED L/F//P NON-PERM IMP
Retail	510DCBAAM	53,661,607	PSVC PARCEL POST INTER-BMC MACH L/F//P NON-PERM IMP
Retail	510DDBAAM	5,841	PSVC PARCEL POST INTER-BMC MACH BALLOON L/F//P NON-PERM IMP
Retail	510DEBAAM	1,773,912	PSVC PARCEL POST INTER-BMC NONMACH L/F//P NON-PERM IMP
Retail	510DFBAAM	78,542	PSVC PARCEL POST INTER-BMC NONMACH BALLOON L/F//P NON-PERM IMP
Retail	Subtotal IntraBMC	29,573,642	
Retail	Subtotal InterBMC	55,529,896	
Retail	Subtotal Retail	85,103,538	
	Total IntraBMC	34,107,784	
	Total InterBMC	77,073,589	
IntraBMC Retail Percent		86.71%	
InterBMC Retail Percent		72.05%	

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UPS/USPS-T21-5. Refer to library reference USPS-LR-L-46, pages 4 and 21.

(a) Confirm that the productivity at the DDU of the Move Containers from Dock operation of 31.3 units per hour is based on the productivity of the crossdock container operation of 7.8 units per hour multiplied by 4. If confirmed, explain why the productivity was multiplied by 4. If not confirmed, explain in detail.

(b) Confirm that the basis for the crossdock container productivity is a sample of productivities at BMCs in 1982. If not confirmed, explain in detail.

(c) Provide a copy of LR-H-132, page 329, in Docket No. R97-1.

(d) Provide and describe in detail all studies and analyses conducted by the Postal Service to assess the productivity of the move operation at the DDU.

(e) Confirm that DDU-entry parcel volume represents more than 50% of the total Parcel Post volume in the Test Year. If not confirmed, explain in detail.

RESPONSE:

(a) Confirmed. This same assumption has been used in the Parcel Post cost models for the past few cases. Please see the response of witness Eggleston to UPS/USPS-T25-9(b) in Docket No. R2001-1 (Tr. 11A/3982-83).

(b) Not confirmed. The crossdock productivity used in USPS-LR-L-46 (6.659 pieces per hour) is derived from Docket No. R97-1, USPS-LR-H-132, which calculated productivities based on volume / work hour reports provided by a sample of six BMCs during FY 1996.

(c) Please see the attached.

(d) I am not aware of any studies that have been conducted in order to assess the DDU productivity.

(e) I can confirm this statement based on the data presented in USPS-LR-L-82.

BMC Productivity Study

Productivity Results Using Weighted, Cleaned Data

OBS	CAT	PROD
1	Unload sacked mach parcels	176.917
2	Unload mach parcels to ext conv	589.136
3	Unload NMOs	152.653
4	Unload NMOs to IHCs only	145.779
5	Unload OTRs and other wheeled cont	19.707
6	Unload pallets/postal paks/gaylords	11.606
7	Dump pallets/postal paks/gaylords	6.330
8	Sack shake-out	70.861
9	Tend container loaders	5.313
10	Crossdock pallets/postal paks/gaylords	6.659
11	Sack and tie	122.887
12	Load NMOs from IHCs	167.097
13	Bedload sacked mach parcels	172.682
14	Load OTRs and other wheeled cont	9.849
15	Load pallets/postal paks/gaylords	12.671

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UPS/USPS-T21-6. Refer to library reference USPS-LR-L-46, page 21.

(a) Provide and describe in detail all studies and analyses conducted by the Postal Service to assess the number of pieces per container of DDU-entry Parcel Post and non-DDU-entry Parcel Post mail.

(b) Confirm that for DDU-entry Parcel Post:

- i. At least 50 pieces must be in a single mailing;
- ii. the pieces comprising a single mailing can be entered at more than one DDU;
- iii. the single mailing can be on a mailer's truck that dropships non-Parcel Post mail at the DDU;
- iv. the pieces comprising the single mailing can be on a number of the mailer's trucks each of which can be entering the pieces at multiple DDUs; and
- v. the mailer can obtain the DDU rate for the mailer's Parcel Post pieces comprising the single mailing even though the number of pieces dropped at any particular DDU can be as low as one piece from any given truck of the mailer.

If any part above is not confirmed, explain in detail.

(c) Confirm that the pieces per container for the move operation at the DDU are assumed to be the same for DDU-entry Parcel Post as for all of the other Parcel Post rate categories that arrive at the DDU from within the Postal Service system. If confirmed, explain why this assumption is appropriate. If not confirmed, explain in detail.

RESPONSE:

(a) To the best of my knowledge, no such studies have been conducted.

(b) i. Confirmed.

ii. Confirmed.

iii. Confirmed.

iv. Confirmed.

v. Confirmed.

(c) Confirmed. This assumption is used in USPS-LR-L-46 as no DDU-specific data are available. It should be noted that while mailers can enter a small number of DDU

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pieces at a given facility, they may not necessarily be doing so, since they must incur costs associated with dropping the DDU pieces at a given facility.

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UPS/USPS-T21-7. Refer to library reference USPS-LR-L-46, page 34, in this docket, USPS-LR-J-64, Attachment A, page 27, in Docket No. R2001-1, and USPS-T-26, Attachment F, page 1, in Docket No. R2000-1.

(a) Confirm that the Postal Service's calculated DBMC window service cost savings are/were:

- i. 30.1 cents per piece in this docket;
- ii. 13.5 cents per piece in Docket No. R2001-1; and
- iii. 10.5 cents per piece in Docket No. R2000-1.

If not confirmed, explain in detail.

(b) Explain in detail the reasons why the DBMC window service cost savings since Docket No. R2000-1 have more than doubled.

(c) Confirm that less than 5% of aggregate Intra-BMC and Inter-BMC Parcel Post volume is window-entered. If not confirmed, explain in detail.

(d) Confirm that the window service costs being allocated to this window-entered volume is more than \$6.44 per piece (0.3233 per piece for Non-Parcel Select divided by 0.05). If not confirmed, explain in detail.

RESPONSE:

(a) Confirmed.

(b) I do not know the underlying reasons, other than to say that the window service cost difference between Parcel Select and non-Parcel Select, as presented in USPS-LR-L-86, has increased.

(c) Not confirmed. I assume that this figure is based on the retail percentages for InterBMC and IntraBMC found in USPS-LR-L-46. Please see my response to UPS/USPS-T21-4.

(d) I can confirm that dividing the non-Parcel Select cost per piece figure of \$0.3233 from USPS-LR-L-46 by the specified volume figure equals \$ 6.466.

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UPS/USPS-T21-8. Refer to footnote 8 on page 7 of USPS-T-21. Confirm that correcting the piggyback factors would decrease the DDU cost savings compared to DBMC for machinable parcels from \$1.072 to \$1.037. If not confirmed, explain in detail.

RESPONSE:

Confirmed.