

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0111**

PSA-RT-1

POSTAL RATE AND FEES CHANGES, 2006

Docket No. R2006-1

**REBUTTAL TESTIMONY
OF
PSA WITNESS GLICK
TO
UNITED PARCEL SERVICE
WITNESS LUCIANI (UPS-T-2)**

Respectfully submitted,

Timothy J. May
Patton Boggs, LLP
2550 M Street, NW
Washington, DC 20037
Tel: 202 457 6050
Fax: 202 457 6315
tmay@pattonboggs.com

Counsel for Parcel Shippers Association

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1 **Autobiographical Sketch**
2

3 My name is Sander A. Glick. I am a Vice-President and co-founder of SLS
4 Consulting, Inc., a Washington, D.C. consulting firm specializing in postal economics. I
5 have testified before the Postal Rate Commission in two previous cases. I also submitted
6 three pieces of direct testimony in this docket.

7
8 In Docket No. R97-1, I testified on behalf of the Magazine Publishers of
9 America. In Docket No. R2000-1, I submitted direct testimony on behalf of the Association
10 of Postal Commerce, the Recording Industry Association of America, and the Magazine
11 Publishers of America. I also submitted rebuttal testimony in that case on behalf of the
12 Parcel Shippers Association.

13
14 I have also participated on multiple Mailers' Technical Advisory Committee (MTAC)
15 work groups, including the Package Integrity Work Group and the Presort Optimization
16 Work Group.

17
18 I attended the Maxwell School of Citizenship and Public Affairs at Syracuse
19 University, where I received a Masters of Public Administration in 1994, and Carleton
20 College, where I received a Bachelors Degree, magna cum laude,
21 in Physics in 1993.

22
23

1 **I. Purpose and Scope of My Testimony**

2 United Parcel Service (UPS) witness Luciani (UPS-T-2) criticizes many aspects of the
3 Postal Service’s rate design and cost avoidance modeling approach for Parcel Post. He also
4 argues that the Final Adjustment to Parcel Post costs should be larger than that estimated by
5 the Postal Service. In my testimony, I show that many of his arguments are incorrect.
6 Specifically, I make five points:

7
8 Given the different demand characteristics of non-destination entry Parcel Post and
9 Parcel Select, marking up transportation cost differences in setting Parcel Post rates
10 is reasonable. Looking forward, the Postal Service should consider breaking Parcel
11 Post into two subclasses.

12
13 Witness Luciani’s “interim improvement” to the Postal Service’s Parcel Post mail
14 processing cost avoidance model is no improvement at all. Rather, it appears to
15 significantly overstate mail processing costs of DDU-entered parcels. Thus, his
16 proposed change should be rejected.

17
18 The Postal Service’s final adjustment does not understate Parcel Post costs as
19 suggested by witness Luciani. It actually overstates Parcel Post costs because it
20 assumes that there will be more Parcel Select no-fee delivery confirmation pieces
21 than total Parcel Select pieces.

22
23 The best estimate of the Test Year unit cost of Parcel Select no-fee electronic
24 delivery confirmation is 11.82 cents per piece, not the 14.67 cents per piece
25 recommended by witness Luciani. As discussed by PSA witness Zwiieg (PSA-RT-2),

1 Parcel Select no-fee electronic delivery confirmation pieces will not incur window
2 service acceptance costs because Parcel Select is not entered at postal windows.

3
4 Witness Luciani's recommendation that Parcel Return Service (PRS) pieces be
5 treated as non-destination entry Parcel Post volumes for calculating the Parcel Select
6 window service cost avoidance would inappropriately understate the Parcel Select
7 window service cost avoidance.

8 **II. Given the different demand characteristics of non-destination entry Parcel**
9 **Post and Parcel Select, marking up transportation cost differences in setting**
10 **Parcel Post rates is reasonable. Looking forward, the Postal Service should**
11 **consider breaking Parcel Post into two subclasses.**

12 Witness Luciani argues that the Postal Service approach of marking up
13 transportation cost differences when setting Parcel Post rates inappropriately passes through
14 more than 100 percent of transportation cost differences. Specifically, he states:

15
16 Under its longstanding mail classification policies, the Commission applies a
17 single cost coverage to a subclass as a whole. Furthermore, the Commission
18 has generally adhered to the principle that within a subclass, worksharing rate
19 differences should, to the extent possible, reflect only the costs that the
20 Postal Service would avoid (or incur) if a mail piece were to move from a
21 non-workshared rate category to a workshared rate category, or from one
22 workshared rate category to another. This practice sends price signals that
23 encourage worksharing by mailers when a mailer's cost of worksharing is less
24 than or equal to the resulting reduction in the Postal Service's costs. UPS-T-
25 2 at 3 (Luciani).
26

27 I generally agree with witness Luciani that discounts within a subclass should (when
28 appropriate)¹ be set according to the efficient component pricing rule (ECPR), i.e., discounts
29 should be set equal to unit costs avoided. However, Parcel Post presents a unique case.
30 According to the Postal Service, the own-price elasticity of non-destination entry Parcel

1 Post, -.374, is approximately one-fourth the size of the own-price elasticity, -1.399, of
2 destination entry Parcel Post (commonly referred to as “Parcel Select”). USPS-T-7 at 178,
3 185 (Thress). Further, the cross-price elasticity between these two products, if any, is
4 minimal.²

5
6 While non-destination entry Parcel Post and Parcel Select are currently in the same
7 subclass, the vastly different demand and cost characteristics³ of these two products suggest
8 that they are in the same subclass in name only. This was illustrated during the oral cross
9 examination of Dr. Panzar (PB-T-1), who is a strong proponent of the use of ECPR within a
10 subclass to promote efficiency.

11
12 When presented with the elasticity information discussed above, Dr. Panzar’s
13 reaction was quite telling – “Looking at this example, my reaction would be, why are these
14 two services in the same subclass?” Tr. 26/9259 (Panzar).⁴ During cross examination, Dr.
15 Panzar goes on to explain that:

¹ It would not be appropriate, for example, if setting a particular discount equal to unit avoided cost would result in rate shock.

² In his testimony, USPS witness Thress (USPS-T-7) identifies the price of UPS Ground delivery and the price of non-destination entry Parcel Post mail as the factors that principally affect non-destination entry Parcel Post volume and the price of competitor products and the price of Parcel Select as the factors that principally affect Parcel Select volume. USPS-T-7 at 173, 181 (Thress). Further, witness Thress does not even include cross-price terms between non-destination entry Parcel Post and Parcel Select in his econometric demand equations. USPS-T-7 at 176-178, 184-185 (Thress).

³ The vastly different costs between non-destination entry Parcel Post and Parcel Select are illustrated in Table 2 below.

⁴ Similarly, the Commission’s Docket No. MC95-1 analysis of what is now Standard Mail also suggests that non-destination entry Parcel Post and Parcel Select should be in different subclasses.

The distinguishing property of a market is the ability to maintain a single common price among participants that is at least somewhat independent of the prices charged for similar products or services in other markets. The absence of high cross-price elasticities of demand with other subclasses is the most relevant evidence of the existence of a distinct market for a proposed subclass. Two subclasses with high cross-price elasticities occupy the same market and cannot sustain different prices without virtually eliminating the demand for some categories of the higher-priced subclass.

However, establishment of subclasses wherever market studies reveal a possibility for price discrimination is not useful unless it can also be demonstrated that corresponding opportunities exist

1 But taking that [non-destination entry Parcel Post and Parcel Select are in the
2 same subclass] as a given, the difference in elasticities that you pointed out
3 suggest that, in weighing the advantages of productive efficiency, as reflected
4 through ECPR-based discount policy versus the Ramsey-type elasticity-based
5 price differences, that the argument in this particular example shifts more to
6 the use of price-elasticity-based differences in setting the market....Based on
7 these elasticities with no cross-elasticities, the inverse elasticity rule would
8 apply fairly directly, and we would say that the markup on the workshared
9 product would be less. Tr. 26/9259, 9261 (Panzar).⁵
10

11 Looking towards the future, the Postal Service should consider separating non-
12 destination entry Parcel Post and Parcel Select into two subclasses and pricing them based
13 upon a full consideration of all of the non-cost factors of the Postal Reorganization Act. In
14 the meantime, however, marking up transportation cost differences is reasonable based upon
15 the very different elasticities of non-destination entry Parcel Post and Parcel Select.
16

17 Further, as Table 1 below (which is essentially based upon the same data sources that
18 witness Luciani used to create Table 4 in UPS-T-2⁶) shows, despite marking up

to make postal pricing more efficient or more equitable to mailers. Approximate uniformity of own-price elasticities is desirable among worksharing categories grouped as a subclass even though such uniformity is not required by the economic concept of a market. Such uniformity is broadly desirable because equity and efficiency considerations are foundations of Commission rate recommendations. If the own-price elasticities of two proposed subclasses are substantially dissimilar, then there is a potential benefit from setting separate rates provided that distinct markets are being served.

Equity and economic efficiency considerations can have the same force and effect among the mailers within a subclass only when these mailers' own-price elasticities are similar. The most appropriate demonstration that opportunities exist to make postal pricing more efficient and more equitable for mailers is the presentation of reliable estimates showing that a proposal separates mailers with distinctly different own-price elasticities of demand into more homogeneous subclasses. MC95-1 Op., Para. 5446-5448.

⁵ While the Commission does not use Ramsey pricing to establish markups, price elasticities are measures of the value of service, a non-cost factor that is considered when establishing markups. As the Commission noted in Docket No. R2000-1, "While the Commission recognizes the potential perils of undue reliance on the use of own-price elasticity to guide pricing recommendations, it remains the pre-eminent empirical measure available across all classes of postal services to gauge the economic value of each." R2000-1 Op., Para 5302.

⁶ The one difference in the data sources is that I include dim-weight pieces in my calculations. These are pieces that are assumed to migrate from Priority Mail to inter-BMC Parcel Post to avoid the implementation of dim-weight pricing in Priority Mail. Also, for the purpose of discussing the implicit markups of non-destination entry Parcel Post and Parcel Select and the average passthrough between these categories, I have accepted the accuracy of the data underlying witness Luciani's Table 4. I, however, would note that no witness (including USPS witness Kiefer who provided the data) has vouched for that data's accuracy. Tr. 8/2148 (Kiefer).

1 transportation cost differences, the implicit markup on Parcel Select is still substantially
2 higher than the implicit markup on non-destination entry Parcel Post.⁷

3

4 **Table 1. Implicit TYAR Markup (USPS-Proposed Rates) on Non-Destination Entry**
5 **Parcel Post and Parcel Select**

6

Product	Markup
Non-Destination Entry	12%
Parcel Select	27%

7

Source: Exhibit PSA-RT-1a

8 Finally, as discussed above, the argument for efficient component pricing is
9 weaker between non-destination entry Parcel Post and Parcel Select than in most subclasses.
10 Nonetheless, the average passthrough between non-destination entry Parcel Post and Parcel
11 Select resulting from the Postal Service’s proposal deviates less from ECP-based 100 percent
12 passthroughs than do the 90 percent passthroughs of mail processing cost avoidances
13 advocated by witness Luciani. UPS-T-2 at 18-19 (Luciani).

14 Given the thousands of rate cells within Parcel Post and the Postal Service’s
15 approach of applying constraints on rate increases to mitigate impact, the passthroughs of
16 cost avoidances vary from rate cell to rate cell. However, as Table 2 (which again is based
17 upon essentially the same data as witness Luciani used to create Table 4 in his testimony)
18 below shows, the average passthrough (106 percent) between non-destination entry Parcel
19 Post and Parcel Select barely exceeds 100 percent.⁸

20

21

⁷ As mentioned by Dr. Panzar (Tr. 26/9259-9261), under Ramsey-type pricing, the markup on Parcel Select would be less than that on non-destination entry Parcel Post. Thus, the Postal Service’s proposal in this case stops well short of Ramsey-type pricing.

⁸ One of witness Luciani’s justifications for his proposal to pass through only 90 percent of the mail processing cost avoidance is that, given uncertainties in the Postal Service’s cost model, a less-than-full passthrough will “help ensure that the worksharing cost avoidances built into the Parcel Post rates do not exceed the costs actually avoided.” UPS-T-2 at 18 (Luciani). In the face of uncertain cost estimates and the much higher own-price elasticity of Parcel Select, a bigger concern should be guarding against volume losses resulting from discounts that are too small. Passing through slightly more than 100 percent of avoided costs protects against this more important concern.

1 **Table 2. Differences in Assigned Costs and Revenues Between Non-**
2 **Destination Entry Parcel Post and Parcel Select**

3

Unit Revenue Difference	\$5.23
Unit Assigned Cost Difference	\$4.92
Passthrough	106%

4 Source: Exhibit PSA-RT-1b

5

6 **III. Witness Luciani’s “interim improvement” to the Postal Service’s Parcel Post**
7 **mail processing cost avoidance model is no improvement at all. Rather, it**
8 **appears to significantly overstate mail processing costs of DDU-entered**
9 **parcels. Thus, his proposed change should be rejected.**

10 Witness Luciani proposes what he describes as an “interim improvement” to the
11 Postal Service’s mail processing cost avoidance model for Parcel Post. Specifically, he
12 proposes one change – increasing the unit cost of a manual parcel sort at the destination
13 delivery unit (DDU) from 10.7 cents per piece to 24.0 cents per piece.⁹ UPS-T-2 at 13-14
14 (Luciani). This is not an improvement because it appears to significantly overstate the cost
15 of DDU parcels, a significant problem given that DDU parcels will comprise a majority of
16 parcels in the Test Year. UPS-T-2 at 19 (Luciani).

17 To test the appropriateness of his adjustment to the Parcel Post mail processing cost
18 avoidance model, I increased the cost per piece of a manual parcel sort to 24.0 cents per
19 piece as recommended by witness Luciani.¹⁰ Making just this one change to the model
20 produces a unit CRA-adjusted mail processing cost for DDU-entered parcels of 53.1 cents
21 per piece, approximately 11 cents higher than the Postal Service’s 41.9-cent cost estimate per
22 DDU-entered piece.¹¹

⁹ 24.0 cents per piece is the unit incoming cost in the non-MODS manual parcel sorting cost pool. UPS-T-2 at 14 (Luciani).

¹⁰ To do this, I used the method described by witness Luciani in footnote 34 on page 15 of his testimony. Specifically, I changed the value in cell C27 in USPS-LR-L-46, Parcel Post Rev 8-2-06.xls, page 4 to 228.

¹¹ The CRA-adjusted cost figure is the relevant cost figure because CRA-adjusted unit costs are used to estimate mail processing cost avoidances. Also, note that the 53.1-cent figure can be seen in USPS-LR-L-46, Parcel Post Rev 8-2-

1 Then, as a reality check, I compared the 53.1-cent cost estimate for DDU parcels to
2 costs from the In-Office Cost System (IOCS). In general, DDU-entered parcels avoid costs
3 at mail processing plants¹² (because these parcels are deposited at the destination delivery
4 unit and thus bypass processing at plants) and also avoid outgoing costs¹³ at the delivery
5 unit (because DDU-entered parcels are not “outgoing” from DDUs to other facilities).¹⁴

6 Thus, the costs that DDU-entered parcels would generally incur are non-outgoing
7 costs at post offices, stations, and branches.¹⁵ According to IOCS, the Test Year unit non-
8 outgoing costs for Parcel Post parcels at post offices, stations, and branches is 37.5 cents per
9 piece, almost thirty percent less than the cost for DDU-entered parcels according to witness
10 Luciani’s “improved” model.¹⁶ While this unit cost figure from IOCS is not a perfect
11 representation of the cost of DDU-entered parcels,¹⁷ the large deviation raises significant
12 concern with the accuracy of witness Luciani’s model.

06.xls, page 1, cell I38 once the adjustment described in footnote 8 is made. The 41.9-cent cost figure can be seen in the same cell in the Postal Service’s version of the model.

¹² While he is “not familiar enough with the activities embodied within each MODS cost pool [which contain the costs for postal plants] to provide a definitive list” of MODS pools that DDU-entered parcels avoid, even witness Luciani agrees that “[i]t is likely that the activities in certain MODS cost pools treated as fixed by Postal Service witness Miller would not be generally incurred by DDU-entry parcels.” Tr. 27/9423, 9444 (Luciani). Despite his lack of familiarity, witness Luciani does list several examples of activities in MODS cost pools that he is unable to “conclude that DDU-entry parcels can avoid” – verification, computerized forwarding, and empty equipment (Tr. 27/9409 (Luciani)). However, the Test Year unit costs in MODS pools dedicated to these activities – LD49, LD79, and 1EEQMT – are small, totaling only 1.4 cents per piece. USPS-T-11 at 49 (Van-Ty-Smith); USPS-LR-L-46, Parcel Post Rev 8-2-06.xls, page 3. Witness Luciani also indicates that he is “not able to conclude that DDU-entry can avoid the costs for miscellaneous and support operations at MODS facilities.” Tr. 27/9409 (Luciani). While the unit cost in the general MODS miscellaneous and support cost pool (1SUPPF1) is 1.6 cents, the Postal Service distributes these costs to subclasses in proportion to costs in the pools they support. USPS-T-11 at 18-19 (Van-Ty-Smith). Because DDU parcels generally avoid direct costs in the supported cost pools, the Postal Service’s distribution approach indicates they will also generally avoid costs in this general support cost pool.

¹³ Witness Luciani agrees that “as a general matter” DDU parcels avoid outgoing costs at Non-MODS facilities. Tr. 27/9410 (Luciani).

¹⁴ Of course, these general rules are not absolute. For example, in Docket No. R2000-1, UPS witness Luciani found that DBMC parcels do incur some costs (outgoing, non-BMC costs) that would not have been expected. Tr. 27/9459-60 (Luciani). However, it is important to note that while DBMC parcels were found to incur some outgoing, non-BMC costs in Docket No. R2000-1, they nonetheless avoided the vast majority of these costs. In that case, the Commission found that while DBMC parcels do incur some outgoing, non-BMC costs, DBMC parcels would nonetheless avoid 56.2 cents per piece in outgoing costs in the Docket No. R2000-1 Test Year. Docket No. R2000-1, PRC-LR-17, LR17pp.xls, worksheet “DropSavings.”

¹⁵ Under USPS costing methods, the mail processing costs for post offices, stations, and branches are now classified as non-MODS costs. USPS-T-11 at 27 (Van-Ty-Smith).

¹⁶ This can be calculated by multiplying the unit non-MODS cost (41.97 cents per piece) from USPS-LR-L-46, Parcel Post Rev 8-2-06.xls, page 3 by the percentage of non-MODS Parcel Post costs that are non-outgoing (89.5 percent) from USPS-LR-L-144. The latter percentage can be calculated by dividing the Test Year non-outgoing non-MODS costs by the total Test Year non-MODS costs in USPS-LR-L-144, LR144PPBF.xls.

¹⁷ For example, according to the Postal Service’s parcel cost model, machinable DDU-entered parcels avoid about ten cents per piece in unloading and sack dumping costs at the delivery unit that other parcels incur. USPS-LR-L-46, Parcel Post Rev 8-2-06.xls, pages 9, 12, 15, and 18. The savings are even larger for nonmachinable and oversized parcels. All else

1 A reason why witness Luciani’s “improved” model results in a much higher cost
2 estimate (53.1 cents versus the 37.5 cents I estimated using IOCS data) is that his cost model
3 (like the Postal Service’s) implicitly distributes 15.59 cents (the same amount that is
4 distributed to all other rate categories) of mail processing costs at postal plants to DDU
5 parcels. This results from witness Luciani’s (as well as the Postal Service’s) treatment of
6 these costs as “fixed” with respect to rate category. Tr. 27/9466 (Luciani). Distributing
7 such a large amount of costs for processing at postal plants to DDU parcels is clearly
8 inappropriate because, as discussed above, DDU parcels bypass postal plants.

9 If the Commission accepts witness Luciani’s interim “improvement” to the Postal
10 Service’s cost model, I recommend that it also distribute the vast majority of “fixed” costs at
11 postal plants only to non-DDU-entered parcels.¹⁸

12 **IV. The Postal Service’s final adjustment does not (as suggested by witness**
13 **Luciani) understate Parcel Post costs. It actually overstates Parcel Post costs**
14 **because it assumes that there will be more Parcel Select no-fee delivery**
15 **confirmation pieces than total Parcel Select pieces.**

16 In his testimony, witness Luciani argues that the PRS Final Adjustment should be
17 larger than estimated by the Postal Service. UPS-T-2 at 16 (Luciani). He is silent, however,
18 on a larger problem in the Parcel Post Final Adjustment. Specifically, the Final Adjustment
19 charges Parcel Post for 267.8 million TYAR Parcel Select no-fee electronic delivery
20 confirmation pieces when there will only be 244.1 million total Parcel Select pieces, not all of
21 which will use no-fee electronic delivery confirmation. Tr. 27/9474-9475 (Luciani).

22 The Final Adjustment should be modified to only charge Parcel Post for 209.7
23 million Parcel Select no-fee delivery confirmation pieces, the best estimate on the record of
24 Parcel Select no-fee delivery confirmation volume. The 209.7 million piece figure is derived
25 by multiplying the total number of TYAR Parcel Select pieces by the FY 2005 percentage

being equal, avoiding these costs would cause the unit cost of DDU-entered parcels to be less than 37.5 cents per piece. On the other hand, DDU-entered parcels may incur some costs in MODS cost pools as well as higher non-MODS acceptance costs. Non-MODS acceptance costs represent 14 percent of costs in the non-MODS MISC cost pool. Tr. 10/2456 (Van-Ty-Smith)

¹⁸ In practice, this could be accomplished by establishing a new cost pool classification in USPS-LR-L-46, Parcel Post Rev 8-2-06.xls, page 3 entitled “Non-DDU Fixed,” re-classifying cost pools into this new classification, and then distributing the Non-DDU Fixed costs only to Non-DDU parcels.

1 (85.9 percent) of Parcel Select pieces that use no-fee electronic delivery confirmation. Tr.
2 8/2152 (Kiefer); Tr. 27/9412-9413 (Luciani). Further, even witness Luciani agrees that
3 209.7 million is a reasonable estimate of TYAR Parcel Select no-fee delivery confirmation
4 volume. Tr. 27/9474 (Luciani).

5 Apparently, the significant overstatement in the Parcel Select no-fee delivery
6 confirmation volume used in the Final Adjustment process is the result of the Postal
7 Service’s process for estimating Delivery Confirmation volume, which forecasts total TYAR
8 Delivery Confirmation volume and then assumes that the TYAR distribution across
9 products would be similar to the Base Year distribution. Tr. 15/4530-31 (Berkeley), 4741
10 (Page).¹⁹

11 In the future, the Postal Service could avoid anomalous estimates of Parcel Select
12 no-fee delivery confirmation by estimating these volumes as a function of Parcel Select
13 volume. In this case, the significant overstatement of Parcel Select no-fee delivery
14 confirmation volume can be easily corrected by substituting a much more reasonable TYAR
15 estimate of Parcel Select no-fee delivery confirmation volume – 209.7 million pieces – for
16 the clearly incorrect 267.8 million piece forecast.

17 **V. The best estimate of the Test Year unit cost of Parcel Select no-fee electronic**
18 **delivery confirmation is 11.82 cents per piece, not the 14.67 cents per piece**
19 **recommended by witness Luciani. As discussed by PSA witness Zwiieg (PSA-**
20 **RT-2), Parcel Select no-fee electronic delivery confirmation pieces will not**
21 **incur window service acceptance costs because Parcel Select is not entered at**
22 **postal windows.**

23
24 In his testimony, witness Luciani recommends that “[b]ased on better data being
25 available, the no-fee electronic delivery confirmation cost in the Parcel Post rate design
26 model for Parcel Select parcels (applied on USPS-LR-L-82, WP-PP-20, lines [t], [u] and [v])
27 should be 14.67 cents per piece.” UPS-T-2 at 16 (Luciani).

¹⁹ According to witness Thress (USPS-T-7 at 298-299), the equation used to estimate delivery and signature confirmation volume does not include the price or volume of Parcel Select. This may explain why Parcel Select no-fee electronic delivery confirmation volume is implicitly estimated to increase from FY 2005 to TYAR while Parcel Select volume is estimated to decrease over the same time period. USPS-LR-L-82, WP-PP-6 and 28; USPS-LR-L-59, Attachment 14A.

1 As discussed by PSA witness Zwieg, this would be inappropriate because this 14.67-
2 cent per piece unit cost estimate for Parcel Select no-fee electronic delivery confirmation
3 cost includes 2.85 cents of window service costs for window clerks to accept pieces with
4 eDC and scan barcodes on the pieces for “customers that print and adhere an electronic
5 label but submit their item(s) at the window.” This cost is not applicable to Parcel Select
6 because Parcel Select is not entered at postal windows.

7
8 A more reasonable cost estimate for Parcel Select no-fee electronic delivery
9 confirmation to be used in the Parcel Post rate design model is 11.82 cents, which is the
10 14.67-cent cost recommended by witness Luciani minus the 2.85-cent window service cost
11 that is included in witness Luciani’s cost figure.

12 Similarly, the Final Adjustment (discussed in Section IV above) that transfers Parcel
13 Select no-fee electronic delivery confirmation costs to Parcel Post should exclude any
14 transfer of window service costs to Parcel Post.²⁰

15 **VI. Witness Luciani’s recommendation that PRS pieces be treated as non-**
16 **destination entry Parcel Post volumes for calculating the Parcel Select window**
17 **service cost avoidance would inappropriately understate the Parcel Select**
18 **window service cost avoidance.**

19
20 To calculate the window service cost difference between non-destination entry
21 Parcel Post and Parcel Select parcels, USPS witness Miller (USPS-T-21) must estimate the
22 unit cost of non-destination entry Parcel Post and Parcel Select parcels. See USPS-LR-L-46,
23 page 34.

²⁰ USPS witness Page (USPS-T-23) explains in response to a UPS interrogatory that he uses the 14.67-cent cost figure (which includes window service costs) in the final adjustment. Tr. 15/4741 (Page).

1 In developing these unit cost estimates, witness Miller treats PRS parcel volume as
2 Parcel Select volume. He does this because “it is [his] understanding that PRS mail would
3 likely be treated as ‘dropship’ mail in the IOCS activity codes [which is the source of the
4 window service cost data]. It is also [his] understanding that it is not possible to distinguish
5 between any PRS-related tallies and non-PRS Parcel Select tallies at this time.” Tr. 3/333
6 (Miller). USPS has since clarified that the treatment of PRS parcels as dropship mail is more
7 than just likely; rather, “PRS mailpieces will be systematically assigned to dropship.”
8 Institutional Response to PSA/USPS-2.

9 Given that PRS costs are being treated as Parcel Select costs and the inability to
10 separately identify these costs, witness Miller’s inclusion of PRS volumes with other Parcel
11 Select volumes in calculating the unit cost difference seems like the only appropriate
12 approach.²¹

13 On the other hand, witness Luciani’s recommendation that “[t]he Window Service
14 worksharing cost avoidances should be calculated using PRS pieces counted as non-dropship
15 pieces” (UPS-T-2 at 16 (Luciani)) is inappropriate in this docket because it would result in an
16 inconsistent treatment of PRS costs and volume – PRS costs would be treated as Parcel
17 Select costs while PRS volumes would be treated as non-destination entry Parcel Post
18 volumes.

19

²¹ Of course, it would be better in the future (as suggested by witness Luciani) to separately identify and analyze PRS costs and volumes. Unfortunately, this is not an option in this case.

Exhibit PSA-RT-1a. Calculation of Non-Destination Entry Parcel Post and Parcel Select Implicit Markups

Rate Category		Volume	Assigned Cost	Revenue	Markup
		[a]	[b]	[c]	[d]=([c]/[b])-1
Non-Destination Entry	[1]=[2]+[3]+[4]	111,979,432	\$749,764,190	\$837,550,249	12%
Inter-BMC (Excl. dim-wt migrants)	[2]	78,463,162	\$557,560,267	\$651,758,285	
Dim-wt migrants	[3]	877,033	\$17,328,262	\$9,976,403	
Intra-BMC	[4]	32,639,237	\$174,875,661	\$175,815,561	
Parcel Select	[5]=[6]+[7]+[8]	244,114,085	\$432,290,287	\$548,080,857	27%
DBMC	[6]	56,301,458	\$206,751,500	\$227,135,750	
DSCF	[7]	1,731,718	\$3,748,164	\$4,693,508	
DDU	[8]	186,080,909	\$221,790,623	\$316,251,599	

[2], [4], [6], [7],[8] Tr. 8/2148-51 (Kiefer).

[3] USPS-LR-L-82, WP-PP-33, 34, 40.

Exhibit PSA-RT-1b. Calculation of Passthrough Between Non-Destination Entry Parcel Post and Parcel Select

Rate Category		Unit Cost	Unit Revenue	Passthrough
		[a]	[b]	[c]=[b]/[a]
Non-Destination Entry	[9]	\$6.70	\$7.48	
Parcel Select	[10]	\$1.77	\$2.25	
Difference	[11]=[9]-[10]	\$4.92	\$5.23	106%

[9a]=[b]/[1a]

[9b]=[1c]/[1a]

[10a]=[5b]/[5a]

[10b]=[5c]/[5a]