

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

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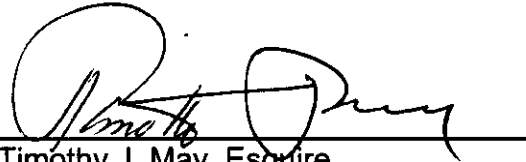
POSTAL RATE AND FEE CHANGES

DOCKET NO. R2000-1

FIRST INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION
TO UNITED PARCEL SERVICE WITNESS SAPPINGTON (UPS-T-6-1-12)

The Parcel Shippers Association (PSA) requests United Parcel Service to respond fully and completely to the following interrogatories and requests for production of documents pursuant to Rules 25 and 26 of the Commission's Rules of Practice and Procedure.

Respectfully submitted,



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Dated: June 13, 2000

**INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION
TO UNITED PARCEL SERVICE WITNESS SAPPINGTON**

PSA/UPS-T-6-1

On page 40 of your testimony you state that Parcel Post's estimated attributable costs in the Test Year are 31% higher than in the Docket No. R97-1 Test Year (1998). If the Postal Rate Commission accepts the Postal Service's revenue and piece estimates for Parcel Post, rather than UPS', please confirm that the increase in Parcel Post costs from the R97-1 Test Year to the current Test Year are substantially less than the 31% you cite.

PSA/UPS-T-6-2

On pages 40 and 41 of your testimony you state: "In contrast to the years immediately prior to the R97-1 rate case, Parcel Post volume and revenue have grown substantially in recent years, as Tables 7 and 8 show."

- (a) Please confirm that by "recent years" you mean FY 1997, 1998, and 1999.
- (b) Please confirm that FY 1997 and FY 1998 do not reflect any Parcel Post rate increases, and that FY 1999 reflects only a partial year effect of the R97-1 rate increase.
- (c) Please confirm that the volumes and revenues in your Tables for 1999 are based upon Postal Service methodology which United Parcel Service maintains is incorrect.
- (d) Please provide the United Parcel Service estimate of volume and revenue for FY 1999.
- (e) Please confirm that your statement on page 42, that ". . . Parcel Post volume and revenue continued to increase in 1999 even in the face of the average rate

**INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION
TO UNITED PARCEL SERVICE WITNESS SAPPINGTON**

increase of more than 12% that was implemented on January 10, 1999," is predicated upon use of the Postal Service's proposed new methodology and not the United Parcel Service proposed methodology.

PSA/UPS-T-6-3

On page 42 of your testimony you refer to "The extremely low cost coverage Parcel Post has had in recent years"

(a) Please provide for the record your statement of these cost coverages for the years in question, and state whether they are predicated upon the Postal Service's new proposed methodology for revenue and pieces, or the United Parcel Service proposed methodology, and, furthermore, state whether the costs are based upon the Postal Service's attributable cost methodology or the PRC's cost methodology, which excludes the share of the Alaska air costs previously attributed by the Postal Service to Parcel Post.

(b) Please confirm that the FY 1998 Parcel Post revenue and attributable costs which you cite on page 43 for the Docket No. R97-1 rate case were based upon the Postal Service's old, and now abandoned, revenue and piece methodology.

(c) Please confirm that the 1998 revenue and attributable costs you cite were also based upon the Postal Service's abandoned measurement methodology.

(d) Please confirm that the measurement of 1998 revenue and pieces for Parcel Post, using the Postal Service's new methodology, shows that revenues exceeded costs.

**INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION
TO UNITED PARCEL SERVICE WITNESS SAPPINGTON**

PSA/UPS-T-6-4

On page 43 of your testimony you point out that the actual costs for Parcel Post, using historical measurement methodology, exceeded predicted costs for the Test Year, FY 1998, by more than 22%, and that costs exceeded revenues.

(a) Please confirm that the Postal Service's R97-1 Test Year projections for costs and revenues for Parcel Post assumed that the Parcel Post rate increases would be implemented during the course of the Test Year, FY 1998.

(b) Please confirm that no increases were implemented at any time during the Test Year.

(c) Please confirm that, while actual costs were 22% more than projected, actual revenues were also 11% more than projected, despite the fact that there were no rate increases implemented, as had been assumed.

PSA/UPS-T-6-5

On page 43 you make the statement that ". . . with only two exceptions, Parcel Post revenues have fallen short of attributable costs in every year between FY 1989 and FY 1997." As the source for your claim that Parcel Post revenues have fallen short of attributable costs in those years, you cite to the Postal Service's CRA for Fiscal Years 1989-1998.

(a) Please confirm that for all of those years the Postal Service included in its attributable costs the share of the cost of air transportation of parcels in Alaska, costs that the Postal Rate Commission has consistently ruled not to be a cost that is attributable to Parcel Post.

**INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION
TO UNITED PARCEL SERVICE WITNESS SAPPINGTON**

(b) If Alaska air costs are subtracted from the Postal Service's Parcel Post attributable costs in the CRA reports for the years cited, in which of those years did Parcel Post revenues fail to exceed attributable costs?

PSA/UPS-T-6-6

On page 44 of your testimony, as support for your argument that Parcel Post now has a higher value of service, you cite the fact that average time for delivery has been less than four days on a fairly consistent basis since 1995. Please compare this asserted delivery performance with the delivery standards achieved by Parcel Post's principal competitor, United Parcel Service.

PSA/UPS-T-6-7

On page 45 of your testimony you say that arrangements such as the Postal Service has made with Airborne Express have made DDU Parcel Post a service that provides high value.

(a) Please explain why it is high value to the sender of the parcel when the sender has to incur the additional work and cost required to meet the DDU qualification requirements?

(b) You also allude to the fact that shippers now have the option of purchasing delivery confirmation as another feature that increases the value of Parcel Post service. Since delivery confirmation is free to customers of United Parcel Service, the principal competitor to Parcel Post, please explain why it is a higher value of service

**INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION
TO UNITED PARCEL SERVICE WITNESS SAPPINGTON**

to Parcel Post users that they can pay for a service that its competitor gives to its customers for free.

PSA/UPS-T-6-8

On page 45 of your testimony you argue for higher coverage on the basis that the Postal Service's new methodology measures a substantial increase in Parcel Post volume.

(a) Is it not inconsistent for United Parcel Service to argue that the Postal Service's new measurement of parcel volume is incorrect and, at the same time, argue that the coverage for Parcel Post should be higher based upon this new methodology? Please explain any negative answer?

(b) You also state that the much higher volume revealed by the new measurement methodology ". . . should allay any concerns the Commission might have had in R97-1 that a sizeable increase in rates would reduce Parcel Post volumes to unacceptably low levels." If the PRC rejects the new USPS methodology and accepts the methodology proposed by UPS would that mean that PRC concerns about low volumes would not be allayed? Explain any negative answer.

(c) Please explain why the Commission should not be concerned that rate increases required to meet your recommended cost coverage, utilizing UPS' proposed attributions and measurement systems, would cause a loss of Parcel Post volume of over 81 million parcels.

**INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION
TO UNITED PARCEL SERVICE WITNESS SAPPINGTON**

PSA/UPS-T-6-9

In your Table 7 you show Parcel Post volumes from 1990 through 1999. You say that Table shows that Parcel Post volumes have grown substantially in recent years which suggests “. . . that Parcel Post can sustain a rate increase designed to ensure that its revenues exceed its attributable costs by a more healthy margin than the margin adopted in R97-1.” (p. 40)

(a) How does the volume growth shown in your Table compare with the increase in the size of the ground parcel market during that decade?

(b) How does this growth in Parcel Post volume during that decade compare to the growth in ground parcel volume for United Parcel Service? Please document your response with data that describe the size of the ground parcel market and United Parcel Service's share of that market.

PSA/UPS-T-6-10

On page 3 of your testimony you discuss rate making Criterion 2, value of service. You cite elements of this criterion, such as the collection, mode of transportation and priority of delivery, and additional factors of speed and reliability and success in avoiding content damage.

(a) Please confirm that these standards are relative, that is, that they must be compared to something else in order to have meaning. Explain any negative answer.

(b) For Parcel Post please compare collection, mode of transportation, speed and reliability, the level of priority afforded in mail processing and transportation, and

**INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION
TO UNITED PARCEL SERVICE WITNESS SAPPINGTON**

success in avoiding content damage with the same performance criteria of its competitor or competitors.

PSA/UPS-T-6-11

(a) On pages 4 and 5 of your testimony you discuss Criterion 4, the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters. You there say that: "High rates and large rate increases can be onerous for individual and business mailers alike, and so should be avoided whenever possible." Please rationalize this criterion with your proposed 31% increase in rates and the consequential loss of more than 81 million parcels because of the impact of your proposed rates on users.

(b) Elsewhere in that discussion of Criterion 4 on page 5 you make reference to the fact that low rates can unfairly disadvantage competitors. Is it your position that rates lower than you propose would unfairly disadvantage United Parcel Service as a competitive supplier of services? If the answer is in the affirmative, please supply the estimated loss of volume or revenue that would result from Parcel Post rates lower than you propose.

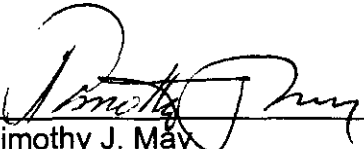
**INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION
TO UNITED PARCEL SERVICE WITNESS SAPPINGTON**

PSA/UPS-T-6-12

On page 6 in your discussion of Criterion 6, the degree of mail preparation, you state: "It is reasonable to pass on to a mailer some or all of the cost savings that accrue to the Postal Service because of mail preparation or transportation activities performed by the mailer." You further state: "An appropriate portion of the realized cost savings can be passed on in the form of rate discounts or more modest rate increases." Please provide your definition of what would be an "appropriate portion of the realized costs savings."

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the Postal Service by hand and by First-Class Mail upon all participants in this proceeding requesting such service.


Timothy J. May

Dated: June 13, 2000