

BEFORE THE
POSTAL RATE COMMISSION

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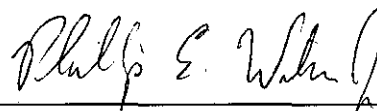
POSTAL RATE AND FEE CHANGES, 2000

DOCKET NO. R2000-1

ANSWERS OF UPS WITNESS DAVID E. M. SAPPINGTON
TO THE FIRST INTERROGATORIES AND REQUESTS FOR
PRODUCTION OF DOCUMENTS OF AMAZON.COM, INC.
(AMZ/UPS-T6-1 through 16)
(July 3, 2000)

Pursuant to the Commission's Rules of Practice, United Parcel Service hereby files and serves the answers of UPS witness David E. M. Sappington to the following interrogatories and requests for production of documents of Amazon.Com, Inc.:
AMZ/UPS-T6-1 through 16.

Respectfully submitted,



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AMZ/UPS-T6-1.

At pages 4-5 of your testimony you state that “[h]igh rates and large rate increases can be onerous for individual and business mailers alike, and so should be avoided whenever possible.”

- a. Please define “large rate increases” as you use the term here.
- b. Please define “onerous” as you use the term here.
- c. Please explain the extent to which the term “large rate increases” refers to some absolute percentage or amount, and the extent to which it is relative to, for example, (i) the average percentage rate increase proposed for all classes and subclasses of mail, and (ii) percentage rate increases proposed for individual classes and subclasses of mail.
- d. To the extent that you define a “large rate increase” as relative in the sense described by (i) or (ii) in preceding part (c), please discuss the point at which a rate increase becomes “large” in relation to (i) the percentage rate increases proposed for other individual classes and subclasses of mail, or (ii) the average percentage rate increase proposed for all classes and subclasses of mail; *e.g.*, 1.5 times, 2.0 times, 2.5 times, etc.

Answer to AMZ/UPS-T6-1.

(a) What constitutes a “large” rate increase from the perspective of a mailer will generally vary according to the mailer’s circumstances. Virtually any rate increases can seem “large” to a household mailer with limited income or to a business mailer with very limited earnings and earnings prospects, for example. Thus, the word “large” is not critical in the sentence you cite. It could well be omitted, so that the sentence would

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read: "High rates and rate increases can be onerous for individual and business mailers alike, and so should be avoided whenever possible."

The difficulty the Commission faces, of course, is that some rates must rise as long as Postal Service costs increase. Thus, in practice, it is highly unlikely that it will ever be possible to avoid rate increases for all mail subclasses.

(b) Please see my response to USPS/UPS-T6-1(a).

(c)-(d) Please see my answer to part (a), above. The term "large" is intended to refer only to the absolute amount of a rate increase for a particular mail subclass. It is conceivable that some mailers might feel particularly burdened if they experience a rate increase that exceeds the rate increases experienced by other mailers. However, I had absolute, not relative, rate increases in mind when I wrote the sentence that you cite.

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AMZ/UPS-T6-2.

At page 6, lines 7-9, of your testimony, you state that “[a]n appropriate portion of the realized cost savings can be passed on in the form of rate discounts or more modest rate increases.”

- a. Please define or explain the term “appropriate portion” as you use it here.
- b. Please explain “appropriate portion” in terms of departures from a discount equal to 100 percent of the avoided cost.

Answer to AMZ/UPS-T6-2.

(a)-(b) Please see my answer to PSA/UPS-T6-12.

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AMZ/UPS-T6-3.

At page 9 of your testimony you state that “even if the demand for a service declines substantially as its price increases, customers may value the service highly. To illustrate this fact, notice that a price increase may force customers with limited wealth to reduce their usage of a service substantially even though they cherish the service dearly.” For your response to this question, assume that the facts are exactly as those described in your testimony. That is, the product has a high own-price elasticity of demand, and thus the demand declines substantially as its price increases, but it is also determined (from some special sociological, psychological or other type survey, or even some other information source) that customers whose wealth is limited and who cannot afford a large rate increase, nevertheless subjectively cherish the service dearly.

- a. Based on this information, should the Commission increase or decrease the rate over the level they would recommend in the absence of such supplementary subjective information?
- b. Please describe the most important factors, other than price responsiveness, that would be important to consider when measuring value.
- c. Please describe the type(s) of information that you would recommend be gathered about these other factors to augment the estimated own-price elasticity of demand.

Answer to AMZ/UPS-T6-3.

(a) There is no simple answer to your question because of the many different considerations in 39 U.S.C. § 3622(b). Because some consumers value the service particularly highly in your example, § 3622(b)(2) would suggest that a higher price would

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be appropriate. In contrast, because a rate increase might be particularly onerous for the customers with limited wealth, § 3622(b)(4) would suggest that some mitigation of the rate increase would be appropriate. The extent to which the wealth-constrained customers have ready access to delivery alternatives (§ 3622(b)(5)) would also warrant consideration, as might fairness and equity concerns (§ 3622(b)(1)). The matter would be further complicated by differences in wealth among customers, since a given rate increase can have very different effects on customers with different levels of wealth.

(b) Please see my answer to USPS/UPS-T6-9(b).

(c) The information required to assess some of the many direct and indirect measures of value of service is apparent. For example, a simple list of the options (e.g., delivery confirmation and pick-up service) associated with a service will allow direct comparisons across services. Such lists could be augmented by statistics regarding the number of customers that purchase each of the available options. Surveys that solicit customer perceptions of service value might also be considered.

For measures such as the speed of a mail service, data regarding actual delivery times for each mail service (as opposed to performance relative to standards that vary across mail services) should be collected and analyzed. The data should be gathered in as much detail as is economically reasonable. For instance, it would be useful to distinguish among different types of mail pieces (e.g., letters, flats, and parcels), and to differentiate among pieces according to their size, weight, origin, destination, and degree of mailer processing. Such detailed information would allow one to determine,

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for example, how rapidly a three-pound package is transported from Washington, D.C.,
to Seattle, Washington, on average.

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AMZ/UPS-T6-4.

At page 10 of your testimony, you state that:

[t]hus, more substantial increases in Postal Service rates are appropriate when mailers have ready alternatives to the Postal Service, ceteris paribus.... If the Postal Service cannot successfully market a service with rates that cover costs and a reasonable share of institutional costs (as determined by the criteria listed in §3622 (b)), then society may be better served when competitors, not the Postal Service, are the primary providers of the service in question.

- a. When the availability of ready alternatives gives Parcel Post a high own-price elasticity of demand, is it your opinion that the Commission should set rates sufficiently high so as to diminish volume to the point where it would reduce the total amount of any contribution which Parcel Post might make to institutional cost? Please explain your position fully.
- b. Is it your recommendation that the Commission should help price Parcel Post out of any of the market segments in which it has established a position because it makes an inadequate contribution to institutional costs, as you view it? Please explain fully.

Answer to AMZ/UPS-T6-4.

(a) Whether the Commission should set rates at levels that diminish Parcel Post's contribution to institutional costs will depend upon the circumstances of the case. For example, if such rates are required to ensure that Parcel Post revenues exceed its attributable costs, then 39 U.S.C. § 3622(b)(3) requires that these rates be implemented. In contrast, suppose Parcel Post's contribution to institutional costs would

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decline if rates were increased above the level at which they generate revenues that cover attributable costs and a reasonable share of institutional costs based on a balanced consideration of all of the criteria in 39 U.S.C. § 3622(b). In this situation, I would not recommend that the Commission raise Parcel Post rates above this level, and thereby diminish Parcel Post's contribution to institutional costs.

(b) I am not certain what you mean by the phrase "help price Parcel Post out of [a] market segment." However, I would recommend that the Commission follow the requirement of 39 U.S.C. § 3622(b)(3) that Parcel Post rates be set so as to generate revenues that exceed its attributable costs plus a reasonable share of institutional costs.

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AMZ/UPS-T6-5.

At page 11 of your testimony, you state that “[a] policy that reduces Postal Service rates as competition increases and permits revenues to fall toward incremental cost can also encourage the Postal Service to choose an inefficient production technology with unnecessarily large institutional costs and relatively low incremental costs for competitive services.”

- a. Please provide one or two specific examples of an inefficient production technology with unnecessarily large institutional costs and relatively low incremental costs for competitive services. The examples should be within the context of the Postal Service, unless you are unable to cite any, in which instance the examples would preferably be from either the delivery services or transportation industry.
- b. For each example provided in response to preceding part (a), please explain fully which costs of the technology would be considered institutional, rather than incremental, and why. Please provide citations to all studies, reports, or published literature on which you rely to support your answer.

Answer to AMZ/UPS-T6-5.

- (a) Please see my response to USPS/UPS-T6-14.
- (b) In the examples I provide, the costs of the general-purpose machinery and the generalized processing facilities and equipment might all be counted as institutional costs because the machinery, facilities, and equipment are employed to deliver multiple mail services rather than a single mail service.

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AMZ/UPS-T6-6.

At page 11 of your testimony, you state that “the Postal Service can drive competitors from the market if it is permitted to reduce rates toward (artificially low) incremental costs whenever effective competition develops.”

- a. Do you contend that the Postal Service’s estimate of incremental costs for Parcel Post is artificially low? Please explain fully any answer that is not an unqualified negative.
- b. Your testimony mentions that in certain years preceding the filing of a new rate case, the revenues from Parcel Post have failed to cover attributable costs. Please indicate the adverse effects which this situation has had on the prices, revenues, volume, and market share of UPS and other competitors.

Answer to AMZ/UPS-T6-6.

(a) I am not an expert on Postal Service costing methodologies. However, I do not believe that Postal Service estimates of incremental cost account for the costs that the Postal Service avoids because of its status as a public enterprise. These avoided costs include the costs of fines, fees, and taxes that competitors must incur but the Postal Service can avoid because of its status as a public enterprise. To the extent that these avoided costs are not reflected in Postal Service estimates of incremental cost, the estimates of incremental cost will be artificially low in the sense that they do not reflect costs that private competitors cannot avoid, no matter how efficiently they operate.

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(b) The losses that competitors incur when Postal Service rates fall below attributable costs are difficult to quantify. A complete quantification would require information regarding: (1) the amount of volume that was served by the Postal Service rather than competitors because Postal Service prices were below attributable cost, and (2) the reduction in earnings that competitors suffered because of this loss of volume. I do not have the data required to perform this quantification.

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AMZ/UPS-T6-7.

At page 16 of your testimony, you state that “[t]herefore, the incremental cost of producing V_o units of the service is the sum of these extra costs (areas A and B) **plus any fixed costs incurred to provide the service.**” (Emphasis added.) Please explain whether the marginal cost of the first unit includes specific fixed costs required to provide the service.

Answer to AMZ/UPS-T6-7.

To avoid double counting, I do not include specific fixed costs as a component of the marginal cost of producing the first unit of a service. Thus, a specific fixed cost is treated as a fixed cost that must be incurred if any production is to occur, and is not counted again when considering the additional cost required to produce the first unit of output.

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AMZ/UPS-T6-8.

At page 17 of your testimony, you state that “[h]istorically, the Commission has employed such approximations of incremental cost when formulating its rate recommendations because incremental cost measures were not available.... To provide stronger safeguards against cross subsidies, reasonable estimates of incremental cost should be employed when they are available.”

- a. Is it your contention that estimates of incremental costs for Parcel Post were not available in Docket No. R97-1?
- b. Is it your contention that the estimates of incremental costs for Parcel Post that were available in Docket No. R97-1 were not reasonable?
- c. Unless your answers to preceding parts a and b are unqualified negatives, please explain fully the shortcomings of the Postal Service’s estimate of incremental costs for Parcel Post in Docket No. R97-1.
- d. In Docket No. R97-1, for each instance where attributable cost of any class or subclass, including but not limited to Parcel Post, was less than incremental cost, explain why you think the Commission erred in not using incremental cost as the basis for its markups. Please explain.
- e. Is it your contention that no reasonable estimate of incremental cost for Parcel Post is available in this docket? Please explain fully any affirmative answer.
- f. In your opinion, what are the major shortcomings of the Postal Service’s estimate of incremental cost for any class or subclass, including but not limited to Parcel Post, in this docket? In your answer, please indicate each estimate of incremental cost that, in your opinion, is unreasonably low and provides an inadequate safeguard against cross subsidies.

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- g. For the Postal Service's submission in this docket, provide each instance of which you are aware where the Commission's methodology for determining attributable cost will result in an amount that is less than the Postal Service's estimate of incremental cost and present a danger of cross-subsidy.

Answer to AMZ/UPS-T6-8.

(a) No.

(b) No. I am neither an econometrician nor an expert on Postal Service costing methodologies. Consequently, I cannot offer a useful assessment of the estimates of incremental cost provided in Docket No. R97-1 or in the present docket.

(c)-(g) Please see my answer to part (b), above.

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AMZ/UPS-T6-9.

Refer to your testimony at page 39, where you state "I recommend a 31.1% increase in the average rate for Parcel Post."

- a. Please state whether your recommendation for a 31.1 percent rate increase is intended to apply equally to every Parcel Post rate schedule, or whether this is an average of various different proposed increases.
- b. If your response is anything other than an equal increase on each rate schedule, please provide the rate increases which you propose for each rate schedule separately, and show how you determine that they result in a 31.1 percent increase in the average rate for Parcel Post.
- c. Please state whether your recommendation for a 31.1 percent rate increase includes the 63 percent markup on DDU-entry pieces as recommended by UPS witness Luciani, UPS-T-5, at page 32, lines 13-14, of his testimony.
- d. If your recommendation is intended to include witness Luciani's 63 percent markup on DDU-entry pieces, please specify the average rate increases which you propose for DBMC and DSCF entry, along with all other rate increases you propose, and show how you determined that combined they represent a 31.1 percent increase in the average rate for Parcel Post.
- e. Did you prepare an explicit rate design for any portion of Parcel Post? If so, please provide.

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Answer to AMZ/UPS-T6-9.

(a) As a result of errata filed on June 22, 2000, the 31.1% figure you cite should be 24.9%. The 24.9% increase that I recommend for Parcel Post is an average rate increase for the entire mail subclass. My testimony does not address rate design issues.

(b)-(e) Please see my answer to part (a), above.

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AMZ/UPS-T6-10.

Refer to your testimony at page 39, where you state "I recommend a 31.1% increase in the average rate for Parcel Post. This rate increase reflects a cost coverage of 111%...."

- a. Is the 111 percent cost coverage computed on an After Rates basis? If not, please explain the basis on which it was computed.
- b. Please provide the numerator and denominator (*i.e.*, total revenue and total cost) which you used to compute the cost coverage of 111 percent.
- c. Explain fully how you derived your After Rates estimate of total revenue and total cost based on a 31.1 percent average rate increase. Please indicate clearly all Before Rates data which you used as input to the derivation of your After Rates estimate.
- d. What is the After Rates volume associated with the total revenue and total cost used to compute the 111 percent coverage?

Answer to AMZ/UPS-T6-10.

- (a) Yes.
- (b) Parcel Post test year after rates revenue is \$1,071.7 million. Parcel Post test year after rates attributable cost is \$965.5 million. These statistics are reported in UPS witness Luciani's workpaper, UPS-Luciani-WP-3-1.1, as corrected in the errata filed on June 22, 2000.
- (c) The derivations of these statistics are explained in witness Luciani's workpaper and on pages 18-21 of witness Luciani's testimony (UPS-T-5).

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(d) Parcel Post test year after rates volume is 265.1 million pieces, as reported in UPS witness Luciani's workpaper, UPS-Luciani-WP-3-1.1, as corrected in the errata filed on June 22, 2000. See also Mr. Luciani's response to USPS/UPS-T5-23.

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AMZ/UPS-T6-11.

Refer to your testimony at page 39, where you state “[t]he 31.1 percent rate increase that I recommend reflects in large part the substantial increase in Parcel Post’s attributable costs since the R97-1 rate case.” Also refer to page 40, lines 10-15 which elaborate on this point.

- a. Would you agree that the total attributable costs of \$685.9 million in the R97-1 test year reflected both the volume in that year as well as the rates charged? Please explain fully any negative response.
- b. Would you agree that the total attributable costs of \$898.7 million in the current test year reflect both the volume in that year as well as the rates charged? Please explain fully any negative response.
- c. Would you agree that the increase in total attributable costs between the R97-1 test year and the current test year reflect changes in both the volume of Parcel Post and changes in the rates charged? Please explain fully any negative response.
- d. Before determining that the increase in total attributable costs was the most relevant cost measure to use to support your recommended average rate increase, did you examine the change in unit attributable cost for Parcel Post, which isolates cost changes from volume changes? If you did not, please explain why you did not consider it pertinent. If you did, please provide all data which you examined, and indicate the change(s) in unit attributable cost shown or derived from those data.
- e. Please explain fully why the magnitude of changes in total attributable costs, which at least in part reflect changes in volume, is more relevant to supporting the magnitude of a proposed change in the rates for Parcel

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Post than the magnitude of change in unit attributable cost. Please provide all studies, reports, or economic literature upon which you rely to support your position that the magnitude of changes in total attributable costs should be used as the basis for the magnitude of changes in rates.

Answer to AMZ/UPS-T6-11.

- (a) Yes.
- (b) Yes, except that the correct number for Parcel Post's attributable cost in the current test year is \$965.5 million, as indicated in the errata filed on June 22, 2000.
- (c) Yes.
- (d) It is not my testimony that the increase in total attributable costs is necessarily the "most relevant cost measure" to employ when formulating rate recommendations. As I explain in my answer to APMU/UPS-T6-19, other measures of cost increases, such as the increase in unit attributable costs, can also provide useful information.

By comparing unit attributable costs from one test year to the next, one can control partially for changes in total cost that are due to changes in volume. The control is not perfect, however, since unit costs typically vary with the level of output. Therefore, even though costs are expressed on a per unit of volume basis, the predicted level of unit cost is typically influenced by predicted volume, which, in turn, is influenced by recommended rates.

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I examined changes in Parcel Post's unit attributable costs when formulating my rate recommendation. Parcel Post's unit attributable cost in the R97-1 test year was \$3.18 (= \$685.9 million/215.8 million). Opinion and Recommended Decision, Docket No. R97-1, Appendix G, Schedule 1. Parcel Post's unit attributable cost in the current test year is \$3.64 (= \$965.5 million/265.1 million). (The sources for these numbers are provided in my response to AMZ/UPS-T6-10.) The increase of \$.46 per piece constitutes a 14.5% increase in Parcel Post's attributable cost per piece since R97-1.

(e) Please see my answer to part (d), above.

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AMZ/UPS-T6-12.

Refer to your testimony at page 39, where you state “[t]he recommended markup also reflects the higher value that its new Delivery Confirmation Service and its new rate categories enable Parcel Post to deliver to its customers.” Also, on page 45, where you state that “[a]s of March 14, 1999, Parcel Post shippers have the option of purchasing Delivery Confirmation Service for their shipments. This new feature further increases the value of service that Parcel Post now delivers to its users.”

- a. Is it your understanding that the attributable costs associated with providing delivery confirmation for Parcel Post are included in the attributable costs of Parcel Post? Please explain any affirmative answer.
- b. For those Parcel Post shippers who elect not to use Delivery Confirmation Service, please explain fully all “further increases in the value of service” which they derive from the optional availability of this service.
- c. Please provide a detailed justification and explanation as to why the value of an optional special service, such as and including Delivery Confirmation, should be used as a reason for increasing the Parcel Post rates paid by all customers, including those who do not use the service, rather than incorporated into the price charged for the separate special service itself. Please provide full citations to all economic teachings upon which you rely to support your recommendation that the value of an optional service should be reflected in the base rate, rather than the price of the option itself.
- d. Before determining that the recommended markup should reflect the higher value provided by the new Delivery Confirmation Service, did you examine the proposed rate, the estimated revenue and the cost of

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providing Delivery Confirmation to Parcel Post shippers? If not, please explain why you did not consider such information pertinent. If so, please indicate what information you examined, and explain why, based upon your analysis, you determined that Parcel Post shippers who do not use the service should nevertheless be required to pay for it as part of the markup on Parcel Post.

Answer to AMZ/UPS-T6-12.

(a) No.

(b) Options typically provide value even if they are not exercised. The classic illustration of this fact involves fire fighting services. Most of us value and pay for the option of being able to call upon our local fire fighters should our house ever catch on fire. Hopefully, though, none of us will ever have to exercise this option. Although Parcel Post mailers may not value the option to purchase Delivery Confirmation as highly as they value the option to call upon their local fire fighters, they seem likely to place a strictly positive value on the Delivery Confirmation option nevertheless.

(c) My testimony does not address rate design issues. It should be noted, however, that including in the base price of a service an allowance to reflect the value of having an option available can serve a useful purpose. In particular, it can provide a means of charging individuals for the value they derive from having the option to purchase the additional service (as opposed to the value they derive from actually consuming the additional service).

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Among the many references on the value of options is Avinash K. Dixit and Robert S. Pindyck, Investment Under Uncertainty, Princeton University Press, 1994.

(d) Since my testimony does not address rate design issues, I did not analyze the individual revenues and costs of providing Delivery Confirmation to Parcel Post shippers. My analysis took as given the various features of each of the services offered by the Postal Service.

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AMZ/UPS-T6-13.

At pages 40-41 of your testimony, you state that “[i]n 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....” [footnote omitted.]

- a. Please define “substantially” as you use it here, and explain whether you consider the term to be an absolute or relative measure.
- b. For the years shown in your Tables 7 and 8 (*i.e.*, 1990-1999), please provide all data at your disposal which show size and growth of the total non-expedited parcel market in terms of (i) pieces and/or (ii) revenue.
- c. If you do not have estimates for size of the total market, please provide such data for UPS and any other firm(s) as you have available. If you do not have data for all years, please provide data for those years which you have available.

Answer to AMZ/UPS-T6-13.

(a) As used in the sentence you cite, the word “substantially” means “considerably,” as in “of ample or considerable amount.” Webster’s Encyclopedic Unabridged Dictionary of the English Language, Portland House, 1989, p. 1418. At least in this context, I consider the term “substantially” or “considerably” to be an absolute measure.

(b)-(c) The only data that I have concerning the size and growth of the total non-expedited parcel market in recent years is the data provided by Postal Service witness Tolley. In his testimony at page 158, witness Tolley reports that between 1992 and 1998, “Total ground parcel package shipments increased from just under 3 billion to

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3.2 billion pieces.” He also reports that UPS’s share of the market declined and that the combined market shares of the Postal Service and RPS increased. USPS-T-6, p. 158. In his response to PSA/USPS-T6-1 (Tr. 9/3651), witness Tolley reports 4.138 billion total ground parcel shipments in 1998, and allocates this total to UPS (2.437 billion), the Postal Service (1.902 billion), FedEx/RPS (349 million), and “others” (121 million).

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AMZ/UPS-T6-14.

Refer to footnote 55, at page 43 of your testimony, which states that “the sum of volume variable cost and specific fixed cost typically understates incremental cost. Therefore, even if measured revenue exceeds measured attributable cost, revenue may still fall below incremental cost.”

- a. For Parcel Post, please identify all costs that should be included in the incremental costs of Parcel Post, but which are not included in either the volume variable or the specific fixed costs of Parcel Post.
- b. Please provide the estimated the [sic.] dollar amount of all costs identified in your response to preceding part (a), and indicate the percentage which these omitted costs represent of measured attributable costs for test year.

Answer to AMZ/UPS-T6-14.

As explained on pages 12-18 of my testimony, volume variable cost is presently approximated by the product of volume and the marginal cost of producing the last unit of output (corresponding to area B in Figures 1 and 2 on pages 15 and 16 of my testimony). Ignoring specific fixed costs, this approximation understates incremental cost if the marginal cost of production declines as output expands. (The extent of the understatement is shown as area A in Figures 1 and 2 in my testimony.)

I am neither an econometrician nor an expert on Postal Service costing methodologies. Therefore, I cannot offer any estimates of the extent to which the sum of Parcel Post’s volume variable and specific fixed costs understates Parcel Post’s incremental cost.

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AMZ/UPS-T6-15.

Refer to your testimony at page 44, where you state that “the average time for delivery of Parcel Post packages has been less than four days on a fairly consistent basis since 1995....” [footnote omitted citing ODIS Quarterly Statistics Reports.]

- a. Are you asserting that the average time for delivery of Parcel Post packages was better in 1997 and 1998 than it was in 1995 and 1996? If so, please provide all studies, reports and data upon which you rely to support your position.
- b. If the Postal Service requires between 3 and 4 days to effect delivery of a parcel from the SCF to the point where it is ready to be delivered by a carrier (*i.e.*, the point where ODIS data are collected), would you consider such delivery to represent a “high value” service. If so, please explain why, and compare it to the service level provided by UPS for its ground products.

Answer to AMZ/UPS-T6-15.

(a) No. The statement that you cite simply describes Parcel Post average time to delivery since 1995. The statement does not compare average time to delivery in 1997 and 1998 with average time to delivery in 1995 and 1996.

(b) My understanding is that ODIS “measures service performance from the origin office to the delivery office” Tr. 21/8875. The Postal Service and its competitors offer services that generally provide faster delivery of parcels than Parcel Post provides. Therefore, I would not judge Parcel Post to offer the highest value of

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service, based on speed of delivery. I do not have data on average time to delivery for
UPS ground products, and therefore I cannot provide the comparison you request.

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AMZ/UPS-T6-16.

At page 44 of your testimony, lines 10-13, you state that “the Destination Delivery Unit (“DDU”) and Destination Sectional Center Facility (“DSCF”) discounts introduced in R97-1 have enabled Parcel Post to become an integral component of even more expedited parcel services.”

- a. Is it your testimony that when parcels are entered at the DSCF or the DDU, the Postal Service handles those parcels more expeditiously and more reliably than other parcels that arrive at DSCFs and DDUs which were entered further upstream? If you answer affirmatively, please provide all data, studies, reports, or other evidence upon which you rely to support your answer.
- b. As distinguished from efforts made (and costs incurred) by others, such as Airborne Express, please explain everything of which you are aware that the Postal Service has done to make its own handling of parcels “more expedited” since Docket No. R97-1.
- c. Please explain why, in your opinion, efforts by other firms such as Airborne Express to expedite their handling of parcels to DSCFs and DDUs should result in a higher markup being applied to the rates paid by Parcel Post shippers who do not use such services. In particular, please explain how Parcel Post shippers who do not use such services receive higher value services from Airborne (or any similar intermediary who utilizes DSCF and DDU entry).

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Answer to AMZ/UPS-T6-16.

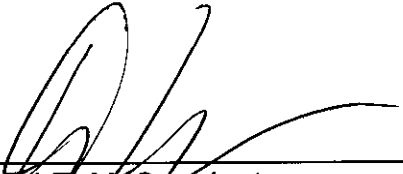
(a) No.

(b) Other than the Postal Service's introduction of dropshipment discounts, which facilitate access to its downstream facilities, I have no information about efforts the Postal Service may have undertaken to expedite its handling of parcels since R97-1. The statement you cite is true even if no such efforts have been undertaken and even if Parcel Post delivery times from the DDU and DSCF have not changed since R97-1. What has changed is the improved ability of other delivery companies to combine their services with Parcel Post delivery services from the DDU and DSCF. These combined operations are what constitute the "more expedited parcel services" mentioned in the sentence that you cite.

(c) The efforts in question are not only by "other firms such as Airborne Express," but also by the Postal Service in the form of providing discounts for dropshipments and facilitating access to its downstream facilities. I note also that the Airborne@Home program appears to be a coordinated service offering between the Postal Service and Airborne. In any event, the issue you raise would seem to be a rate design issue. As suggested by UPS witness Luciani's testimony (see UPS-T-5 at 32-33), the markup that I recommend for Parcel Post as a whole need not be applied uniformly across all Parcel Post rate elements. However, my testimony does not address rate design issues.

DECLARATION

I, David E. M. Sappington, hereby declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.

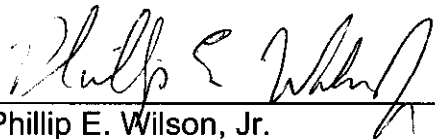


David E. M. Sappington

Dated: 7/3/00

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document by first class mail, postage prepaid, in accordance with Section 12 of the Commission's Rules of Practice.


Phillip E. Wilson, Jr.
Attorney for United Parcel Service

Dated: July 3, 2000
Philadelphia, Pa.

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