

**BEFORE THE  
POSTAL RATE COMMISSION**

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**POSTAL RATE AND FEE CHANGES, 2001**

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**DOCKET NO. R2001-1**

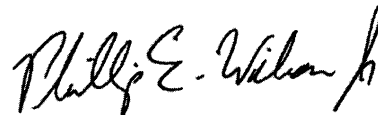
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**INTERROGATORIES OF UNITED PARCEL SERVICE TO  
UNITED STATES POSTAL SERVICE WITNESS KIEFER  
(UPS/USPS-T33-1 through 19)  
(November 19, 2001)**

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Pursuant to the Commission's Rules of Practice, United Parcel Service hereby files and serves the following interrogatories directed to United States Postal Service witness Kiefer: UPS/USPS-T33-1 through 19.

Respectfully submitted,



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UPS/USPS-T33-1. Refer to library reference USPS-LR-J-106, workpaper WP-PP-26.

(a) Confirm that the preliminary rate for a 3-pound DDU destination-entry Parcel Post parcel is 85.0 cents. If not confirmed, explain in detail.

(b) Refer to library reference USPS-LR-J-64, Attachment I, page 3 and USPS-T-15, Attachment 10.

(i) Confirm that City Carrier (C/S 6 & 7) costs for Parcel Post in the TYBR (Test Year Before Rates) are \$80,127,000 (excluding contingency), and that a piggyback factor of 1.423 applies to these costs. If not confirmed, explain in detail.

(ii) Confirm that Rural Carrier (C/S 10) costs for Parcel Post in the TYBR are \$31,120,000 (excluding contingency), and that a piggyback factor of 1.243 applies to these costs. If not confirmed, explain in detail.

(iii) Confirm that, after application of piggyback factors, the total City Carrier and Rural Carrier costs for Parcel Post in the TYBR are \$152,815,000 (\$80,127,000 times 1.423, plus \$31,120,000 times 1.243).

(iv) Confirm that dividing \$152,815,000 by 405,633,782 Parcel Post pieces in the TYBR (from library reference USPS-LR-J-106, workpaper WP-PP-1) yields piggybacked city and rural carrier costs of 37.7 cents per piece (excluding contingency) for Parcel Post, including DDU destination-entry parcels.

(c) Refer to library reference USPS-LR-J-64, Attachment A, page 1 and Attachment I, page 17. Confirm that the average mail processing cost, including

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piggyback, for DDU destination-entry parcels is 34.6 cents per piece (excluding contingency). If not confirmed, explain in detail.

(d) Refer to library reference USPS-LR-J-106, workpaper WP-PP-15.

Confirm that the transportation cost for a 3-pound DDU destination-entry parcel is 6.2 cents per piece (excluding contingency). If not confirmed, explain in detail.

(e) Refer to library reference USPS-LR-J-106, workpaper WP-PP-20.

Confirm that the delivery confirmation cost for each Parcel Select piece, including DDU destination-entry parcels, is 3.8 cents per piece (excluding contingency). If not confirmed, explain in detail.

(f) Confirm that the total of city and rural carrier, mail processing, transportation and delivery confirmation costs above for a 3-pound DDU destination entry piece is 82.3 cents ( $37.7 + 34.6 + 6.2 + 3.8$ ) per piece (excluding contingency), and 84.7 cents per piece with a 3.0% contingency. If not confirmed, explain in detail.

(g) Refer to library reference USPS-LR-J-106, workpaper WP-PP-20 and workpaper WP-PP-1. Confirm that the mark-up included in the per-piece component of Parcel Post, including that applicable to DDU destination-entry parcels, is  $\$564,137,378 \times (1.03) \times (15.26\%) / 405,633,782$  pieces, or 21.9 cents per piece. If not confirmed, explain in detail.

(h) Refer to library reference USPS-LR-J-106, workpaper WP-PP-21.

(i) Confirm that the total pound charge for a 3-pound DDU destination entry parcel is 16.51 cents per piece, including markup. If not confirmed, explain in detail.

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(ii) Confirm that the total pound charge for a 3-pound DDU destination entry parcel includes a markup of 15.26%. If not confirmed, explain in detail.

(iii) Confirm that with the markup factor of 15.26%, that a markup of 2.2 cents per piece has been included in the pound charge for a 3-pound DDU destination entry parcel. If not confirmed, explain in detail.

(i) Confirm that the cost of a 3-pound DDU destination entry piece plus the markup is \$1.09 (84.7 cents plus 21.9 cents plus 2.2 cents). If confirmed, explain in detail why the preliminary rate for a 3-pound DDU-destination entry of 85.0 cents is so much lower than the cost plus markup of this same piece. If not confirmed, explain in detail.

UPS/USPS-T33-2. Provide the workpapers containing the underlying calculations used to derive the figures contained in USPS-T-33, Attachment B, "Parcel Post Financial Summary".

UPS/USPS-T33-3. Refer to USPS-T-28, Exhibit USPS-28B, and the Response of Witness Moeller to POIR No. 2, Question 6, Attachment, page 3 of 8.

(a) Confirm that the average TYAR revenue per piece for Priority Mail under the Postal Service's proposed rates is \$5.26 per piece. If not confirmed, explain in detail.

(b) Confirm that the average TYAR volume variable cost per piece for Priority Mail under the Postal Service's proposed rates is \$3.03 per piece ( $\$3,567,994,000 / 1,178,757,000$  pieces). If not confirmed, explain in detail.

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(c) Confirm that the average TYAR contribution per piece to institutional costs for Priority Mail under the Postal Service's proposed rates is \$2.23 per piece.

(d) Refer to Attachment B of your testimony, USPS-T-33. Confirm that the average TYAR contribution per piece to institutional costs for Parcel Post under the Postal Service's proposed rates is 44 cents per piece (\$3.24 minus \$2.80). If not confirmed, explain in detail.

(e) Confirm that the average contribution per piece to institutional costs for Priority Mail is significantly higher than that for Parcel Post. If not confirmed, explain in detail.

UPS/USPS-T33-4. Confirm that a worksharing discount is not offered for Priority Mail pieces that are entered at the Destination Delivery Unit ("DDU"). If not confirmed, explain in detail.

(a) Confirm that any piece that is migrated from Priority Mail to Parcel Post DDU destination entry will yield significantly less contribution per piece to institutional costs. If not confirmed, explain in detail.

(b) Assume there was a DDU destination entry discount for Priority Mail pieces. Confirm that a workshared Priority Mail DDU destination entry piece with 100% passthrough of worksharing savings would have a contribution to institutional costs of \$2.23 per piece. If not confirmed, explain in detail.

UPS/USPS-T33-5. Refer to library reference USPS-LR-J-64, Attachment A, page 6.

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(a) Confirm that there were approximately 38 million Parcel Post DDU-entry pieces in Base Year 2000. If not confirmed, explain in detail.

(b) Refer to library reference USPS-LR-J-106, workpaper WP-PP-1. Confirm that there are expected to be approximately 104 million Parcel Post DDU destination-entry pieces in the TYAR under the Postal Service's proposed rates. If not confirmed, explain in detail.

(c) Confirm that Parcel Post DDU destination entry pieces are forecast to be 28.1% of total Parcel Post volume in the TYAR. If not confirmed, explain in detail.

UPS/USPS-T33-6. Describe in detail all differences in the processing and delivery of Priority Mail pieces and Parcel Post pieces upon reaching the DDU.

UPS/USPS-T33-7. What percentage of Parcel Post pieces are delivered by the next business day upon reaching the DDU?

UPS/USPS-T33-8. What percentage of Priority Mail pieces are delivered by the next business day upon reaching the DDU?

UPS/USPS-T33-9. Confirm that both Priority Mail and Parcel Post pieces will be offered free electronic delivery confirmation service under the Postal Service's proposal in this docket. If not confirmed, explain in detail.

UPS/USPS-T33-10. Confirm that pieces below 1 pound could not be sent by Parcel Post prior to January, 2001. If not confirmed, explain in detail.

(a) Confirm that Priority Mail pieces below 1 pound could migrate to Parcel Post DDU destination entry beginning in January 2001. If not confirmed, explain in detail.

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(b) Refer to library reference USPS-LR-J-106, workpaper WP-PP-7. Provide the share of 1 pound Parcel Post parcels separately for DDU destination entry and DSCF destination entry. If not available, explain why not.

UPS/USPS-T33-11. Confirm that there are no content restrictions that differ between non-letter Priority Mail and Parcel Post. If not confirmed, explain in detail.

(a) Identify and explain any Postal Service regulations that that would not permit a non-letter Priority Mail piece to be entered instead as a Parcel Post piece.

(b) Explain whether you have taken into account in your Parcel Post DDU destination entry rate design the lost contribution that results from a Priority Mail piece being migrated to Parcel Post DDU-entry. If such lost contribution has not been taken into account, explain why not.

UPS/USPS-T33-12. Refer to the Mailer's Technical Advisory Committee Meeting Minutes for August 1-2, 2001 for "Issue 61 -- Service Assessment for DU Drop Shipments" under the category "Parcels" available at [www.ribbs.usps.gov/mtac.htm](http://www.ribbs.usps.gov/mtac.htm).

(a) Confirm that there is an ongoing measurement program to assess delivery performance for Parcel Post DDU destination entry parcels. If not confirmed, explain.

(b) Provide any available results from this program.

(c) Explain why "Priority Mail customers are invited to participate in the assessment."

(d) Is a Priority Mail DDU destination entry rate being considered by the Postal Service? If not, why not.

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UPS/USPS-T33-13. Provide any analysis in support of the pricing of Parcel Post DDU destination entry, in particular focusing on maximizing total subclass contribution to institutional costs. If such an analysis has not been performed, explain why not.

(a) Explain in detail why the contribution per piece for Parcel Post DDU destination entry pieces should not be equal to or close to that of Priority Mail pieces.

UPS/USPS-T33-14. Describe in detail any differences in the handling and delivery of Standard Mail ECR DDU destination entry letters and First Class letters arriving at the DDU with respect to, but not limited to, priority in processing and delivery. Include in your explanation the effect of relevant statutes and Postal Service regulations on the ability of a mailer to migrate a First Class letter to a Standard Mail ECR DDU destination entry piece as well as the additional mail preparation (e.g., sequencing) that would be required of the mailer.

(a) Describe in detail the mail that could be sent as First Class mail but not as Standard Mail ECR DDU destination entry (due to statutes or Postal Service regulations concerning content restrictions).

UPS/USPS-T33-15. Refer to library reference USPS-LR-J-106 and library reference USPS-LR-J-64, Attachment A, page 1.

(a) Confirm that in your Parcel Post rate design you have applied a 100% passthrough for DBMC (Destination Bulk Mail Center) destination entry, DSCF (Destination Sectional Center Facility) destination entry, DDU (Destination Delivery Unit) destination entry, OBMC (Origin Bulk Mail Center) presort and BMC (Bulk Mail Center)



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presort worksharing cost avoidances in deriving preliminary rates. If confirmed, explain why a 100% passthrough was selected. If not confirmed, explain in detail.

(b) Confirm that the Postal Service proposes for the first time in this docket to apply a CRA multiplier to the derivation of the Parcel Post DBMC destination entry, DSCF destination entry, DDU destination entry, OBMC presort and BMC presort worksharing mail processing cost avoidances. If not confirmed, explain in detail.

(c) Confirm that application of a CRA multiplier increases the amount of these worksharing cost avoidances by 28.6%. If not confirmed, explain in detail.

(d) Confirm that the DDU destination entry mail processing cost avoidance in comparison to DBMC destination entry would decline from \$1.133 to \$0.881, or 25 cents per piece if the CRA multiplier were not applied. If not confirmed, explain in detail.

(e) Confirm that the DBMC destination entry mail processing cost avoidance in comparison to intra-BMC would decline by from 73.4 cents to 57.1 cents, or 16 cents per piece if the CRA multiplier were not applied. If not confirmed, explain in detail.

(f) Confirm that, in total, the mail processing cost avoided by a DDU destination entry parcel in comparison to an intra-BMC parcel would decline by 41 cents if the CRA multiplier were not applied.

(g) How confident are you that use of the new CRA multiplier provides a conservative estimate of the Parcel Post DBMC destination entry, DSCF destination entry, DDU destination entry, OBMC presort, and BMC presort worksharing cost avoidances? Explain the basis for your answer.

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(h) Explain in detail how you took into account the first-time use of a CRA multiplier in selecting the passthroughs to use for the DBMC destination entry, DSCF destination entry, DDU destination entry, OBMC presort, and BMC presort worksharing cost avoidances.

UPS/USPS-T33-16. Refer to your testimony, USPS-T-33, Attachment B.

(a) Confirm that the Test Year After Rates ("TYAR") contribution per piece for Parcel Post under the Postal Service's proposed rates is 44 cents per piece (\$3.24 minus \$2.80). If not confirmed, explain in detail.

(b) Confirm that, assuming a 100% passthrough of worksharing savings, the contribution per piece for workshared categories of Parcel Post should be the same as that of the non-workshared categories from which the workshared categories' rates are derived. If not confirmed, explain in detail.

(c) Refer to library reference USPS-LR-J-106, and your workpapers WP-PP-22, WP-PP-24, and WP-PP-26, which contain the calculation of preliminary rates for Inter-BMC ("Bulk Mail Center"), intra-BMC, DBMC ("Destination Bulk Mail Center") destination-entry, DSCF ("Destination Sectional Center Facility") destination-entry, and DDU ("Destination Delivery Unit") destination entry Parcel Post. What is the contribution per piece on average for the:

- i. Inter-BMC rate category using the preliminary Inter-BMC rates?
- ii. Intra-BMC rate category using the preliminary Intra-BMC rates?
- iii. DBMC destination-entry rate category using the preliminary DBMC destination-entry rates?

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- iv. DSCF destination-entry rate category using the preliminary DSCF destination-entry rates?

UPS/USPS-T33-17. Refer to library reference USPS-LR-J-106 and your workpaper WP-PP-21.

(a) Confirm that the “pound charges” by rate category derived in workpaper WP-PP-21 include the transportation charges by rate category derived in workpaper WP-PP-15. If not confirmed, explain in detail.

(b) Confirm that the pound charges derived in workpaper WP-PP-21 include a markup, through application of a markup factor of 115.26% to the underlying costs. If not confirmed, explain in detail.

(c) Confirm that Destination Bulk Mail Center (“DBMC”) destination-entry parcels, Destination Sectional Center Facility (“DSCF”) destination-entry parcels, and Destination Delivery Unit (“DDU”) destination-entry parcels represent workshared rate categories of Parcel Post. If not confirmed, explain in detail.

(d) Confirm that it is standard Commission practice in deriving worksharing category rates to deduct the passed-through worksharing cost savings from the rate assigned to the non-workshared rate category. If not confirmed, explain in detail.

(e) Assume the Postal Service’s cost of transporting an intra-BMC (“Bulk Mail Center”) parcel is \$1.00 and the Postal Service’s cost of transporting the same parcel when workshared and dropshipped to the DSCF is 20 cents, reflecting 80 cents of worksharing transportation cost savings. Assume a markup up of 20% is applied in deriving rates and a 100% passthrough is applied to worksharing cost savings.

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- i. Confirm that the standard Commission practice in building up rates would be to assign \$1.20 for the intra-BMC parcel and \$1.20 minus 80 cents, or 40 cents, for the workshared DSCF parcel. If not confirmed, explain in detail.
- ii. Confirm that under your approach in workpaper WP-PP-21, in building up rates you would assign \$1.20 for the intra-BMC parcel and 24 cents for the workshared DSCF parcel. If not confirmed, explain in detail.

(f) Confirm that deriving rates by marking-up the underlying transportation costs for each individual non-workshared and workshared rate category is mathematically equivalent to marking up transportation worksharing cost avoidances. If not confirmed, explain in detail.

(g) Confirm that the Commission explicitly stated in its Opinion and Recommended Decision in Docket No. R97-1, at 489, that Parcel Post transportation worksharing cost avoidances should not be marked up in deriving Parcel Post rates. If not confirmed, explain in detail.

(h) Explain in detail why you have chosen to mark-up transportation worksharing cost avoidances in your derivation of Parcel Post rates. Include in your explanation why you believe the Commission's traditional practices and its stated position in its Opinion and Recommended Decision in Docket No. R97-1 are wrong.

UPS/USPS-T33-18. Refer to library reference USPS-LR-J-106 and your workpaper WP-PP-19 (apparently mislabeled WP-BPM-19).

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(a) Confirm that the \$1.461 per piece discount for Destination Sectional Center Facility ("DSCF") destination-entry parcels has been decreased by a factor of 6.04% multiplied by \$1.914. If not confirmed, explain in detail.

(b) Confirm that the \$1.884 per piece discount for Destination Delivery Unit ("DDU") destination-entry parcels has been decreased by a factor of 6.04% multiplied by \$1.914. If not confirmed, explain in detail.

(c) Explain the reasoning behind these adjustments and why you recommend that they be incorporated in the Commission's derivation of Parcel Post rates.

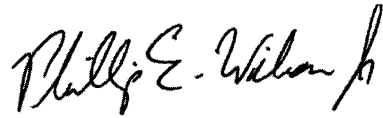
UPS/USPS-T33-19. Refer to your answer to PSA/USPS-T33-1(b).

(a) Identify each of the "different cost allocation algorithms used in the Priority Mail and Parcel Post rate design process" to which you refer.

(b) Describe each algorithm and compare and contrast its impact on Priority Mail and Parcel Post rates.

CERTIFICATE OF SERVICE

I hereby certify that on this date I have caused to be served the foregoing document by first class mail, postage prepaid, in accordance with Section 12 of the Rules of Practice.

A handwritten signature in black ink, reading "Phillip E. Wilson Jr." with a stylized flourish at the end.

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Phillip E. Wilson, Jr.

Dated: November 19, 2001  
Philadelphia, PA