

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

POSTAL RATE AND FEES CHANGES, 2006

Docket No. R2006-1

**FIRST INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION
TO
UNITED PARCEL SERVICE
WITNESS RALPH L. LUCIANI (PSA/UPS-T2-1-10)**

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: September 26, 2006

PSA/UPS-T2-1. Please refer to your discussion of the CRA adjustment factor on pages 9 through 11 of your testimony and USPS-LR-L-46 Addendum Revised 8/2/06, page 1, columns [5] and [6] and page 3.

- (a) Please confirm that USPS-LR-L-46 adds the unit cost in fixed CRA cost pools to each category of Parcel Post to estimate the “adjusted unit cost” for each category. If not confirmed, please explain fully.
- (b) Please confirm that, in USPS-LR-L-46, the unit cost for MODS cost pools that are classified as fixed total 15.59 cents. If not confirmed, please provide the correct figure.
- (c) Do you believe that, on average, DDU parcels will incur 15.59 cents per piece in costs in MODS cost pools in the Test Year? If so, please explain your response fully.
- (d) Would you agree that, as a general rule, DDU parcels avoid incurring costs at MODS 1&2 facilities? If not, please explain your response fully.

PSA/UPS-T2-2. Please refer to page 14 of your testimony where you estimate the cost of a manual parcel sort at the DDU to be 24.0 cents.

- (a) Please confirm that 24.0 cents is the unit Parcel Post cost for the non-MODS ManP cost pool for the incoming basic function. If not confirmed, what is it?
- (b) Do you agree that, as a general rule, DDU parcels avoid outgoing costs at Non-MODS facilities? If not, please explain your response fully.
- (c) Do you agree that, as a general rule, mail processing costs incurred at DDUs are non-MODS costs for basic functions other than the outgoing basic function? If not, please explain your response fully.

PSA/UPS-T2-3. Please refer to USPS-L-82, WP-PP-28. Please refer further to your discussion of the extent to which USPS-proposed rates deviate from preliminary rates on lines 1 through 4 of page 13 of your testimony.

- (a) Please confirm that more than 99% of DDU parcels weigh 46 pounds or less. If not confirmed, please provide the correct figure.
- (b) Please confirm that, for every DDU rate cell from 1 pound to 46 pounds, the proposed rate differs from the preliminary rate by less than two percent. If not confirmed, please explain fully.
- (c) Taking into account your response to subparts (a) and (b) of this interrogatory, please confirm that, on average, DDU rates are less constrained than the average Parcel Post rate? If not confirmed, please explain fully.

PSA/UPS-T2-4. Please refer to lines 5 through 9 on page 16 of your testimony where you state:

1. Based on better data being available, the no-fee electronic delivery confirmation cost in the Parcel Post rate design model for Parcel Select parcels (applied on USPS-LR-L-82, WP-PP-20, lines [t], [u] and [v]) should be 14.67 cents per piece (rather than 10.73 cents per piece) and should be applied to 85.9% of the Parcel Select volume rather than 80%.

Please refer further to USPS-LR-L-82, WP-PP-28 and to USPS-LR-L-59, Final Adjustments2008-USPS.xls, worksheet "DC Worksheet." Finally, please refer to USPS-LR-L-82, WP-PP-20, lines [w] and [x] where witness Kiefer applies a markup to the electronic delivery confirmation unit cost.

- (a) Please refer to USPS-LR-L-82, WP-PP-28 and confirm that the Postal Service estimates that there will be 244.1 million TYAR Parcel Select (excluding PRS) pieces. If not confirmed, please provide the correct figure.

- (b) Please confirm that you recommend that the Parcel Post rate design model apply the no-fee electronic delivery confirmation cost to 85.9% of Parcel Select pieces. If not confirmed, please explain fully.
- (c) Please confirm that 85.9% of 244.1 million pieces is 209.7 million pieces. If not confirmed, please explain fully.
- (d) Are you aware that, in its Final Adjustment, the Postal Service estimated a TYAR Parcel Select no-fee electronic delivery confirmation volume of 267.8 million?
- (e) Taking into account your responses to subparts (a)-(c) of this interrogatory, do you believe that the TYAR Parcel Select no-fee electronic delivery confirmation volume will be 267.8 million pieces? Please explain your response fully.
- (f) Please provide your best estimate of the TYAR Parcel Select no-fee electronic delivery confirmation volume and all of your underlying calculations.
- (g) Do you believe that the Postal Service should apply a markup to the electronic delivery confirmation unit cost when determining the “Additional Parcel Select Piece-Element Revenue Target” on USPS-LR-L-82, WP-PP-20, line [x]? Please explain your response fully.

PSA/UPS-T2-5. Please refer again to lines 5 through 9 on page 16 of your testimony where you state:

1. Based on better data being available, the no-fee electronic delivery confirmation cost in the Parcel Post rate design model for Parcel Select parcels (applied on USPS-LR-L-82, WP-PP-20, lines [t], [u] and [v]) should be 14.67 cents per piece (rather than 10.73 cents per piece) and should be applied to 85.9% of the Parcel Select volume rather than 80%.

Please refer further to USPS-LR-L-59, DC-TY2008(AR).xls, worksheets “W-4e” and “I-8e”.

- (a) Have you developed any independent estimates of the unit cost of Parcel Select no-fee electronic delivery confirmation? If so, please provide them.
- (b) Please confirm that the Postal Service’s 14.67 cent per piece cost estimate for Parcel Select no-fee electronic delivery confirmation includes 2.85 cents of Window Service costs and that this cost is incurred for “customers that print and adhere an electronic label but submit their item(s) at the window.” If not confirmed, please explain fully.
- (c) Please confirm that the Postal Service estimates that the unit TYAR Window Service costs for Priority Mail electronic delivery confirmation, First-Class Mail electronic delivery confirmation, Package Service electronic delivery confirmation, and Standard Mail electronic delivery confirmation are 2.85 cents per piece. If not confirmed, please explain your response fully.
- (d) In your opinion, are Parcel Select no-fee electronic delivery confirmation pieces more likely or less likely than other pieces with electronic delivery confirmation to be entered at postal “windows”? Please explain your response fully.

PSA/UPS-T2-6. Please refer to Table 4 on Page 12 of your testimony and the response to UPS/USPS-T37-10 (Tr. 8/2148-51). In particular, please refer to where witness Kiefer stated, “I do not know how close these assigned costs are to the actual costs of Inter-BMC, DBMC, and DSCF parcels.”

- (a) Please confirm that you produced the “Contribution per Piece” figures in this table by subtracting the Postal Service’s estimates of the assigned unit costs by rate category from the Postal Service’s estimates of the unit revenues by rate category. If not confirmed, please explain fully and provide the unit cost and revenue figures for each of the Parcel Post rate categories shown in Table 4 and all of your underlying calculations.

- (b) Please confirm that the Postal Service's estimate of the assigned costs and revenues for inter-BMC Parcel Post exclude the costs and revenues of pieces referred to on page 4 of UPS/USPS-T37-10 as Dim-Weight Pieces. If not confirmed, please explain fully.
- (c) Please provide your understanding of what "Dim-Weight Pieces" are.
- (d) Please confirm that including the costs and revenues of these pieces in the calculation of the unit contribution of inter-BMC parcels would reduce the estimated unit contribution of inter-BMC parcels from what is shown in Table 4.
- (e) Have you performed any analysis to determine how close assigned costs by rate category are to actual costs by rate category? If so, please provide the results of your analysis and all of your underlying calculations.
- (f) In calculating assigned costs by rate category, did the Postal Service take into account the carrier (C/S 7 and 10) collection/acceptance cost difference between rate categories? Please explain your response fully. If not, please provide your best estimate of unit Parcel Post collection costs by rate category and provide all of your underlying calculations.

PSA/UPS-T2-7. Please refer to Table 1 on page 5 of your testimony and confirm that the "average transportation-related attributable costs" shown in this table include Vehicle Service Driver (C/S 8) costs (and associated piggybacks) and Purchased Transportation (C/S 14) costs. If not confirmed, please explain fully.

PSA/UPS-T2-8. Please refer to line 15 on page 16 through line 2 on page 17 of your testimony where you state:

The Window Service worksharing cost avoidances should be calculated using PRS pieces counted as non-dropship pieces since PRS pieces are not eligible for dropship rates, and henceforth the window service costs for PRS should be separately identified and analyzed in calculating Window Service savings.

Please refer further to the Postal Service's response to UPS/USPS-T21-14(c), which states:

It is my understanding that PRS mail would likely be treated as "dropship" mail in the IOCS activity codes. It is also my understanding that it is not possible to distinguish between any PRS-Related tallies and non-PRS Parcel Select tallies at this time.

- (a) Please confirm that PRS Window Service costs are likely counted as costs for "dropship" mail. If not confirmed, please explain fully.
- (b) Is it your testimony that the Postal Rate Commission should count PRS pieces as non-dropship pieces in calculating the Window Service worksharing cost avoidance in this case even though the Window Service costs for PRS pieces are likely being counted as costs for dropship pieces? Please explain your response fully.
- (c) Do you believe that the percentage of PRS pieces that will incur Window Service costs in the Test Year will be larger, smaller, or the same as the percentage of non-PRS Parcel Select pieces that will incur Window Service costs in the Test Year? Please explain your response fully.

PSA/UPS-T2-9. Please refer to Table 42 on page 178 of USPS-T-7, which shows a long-run own price elasticity of -0.374 for non-destination entry Parcel Post, and Table 44 on page 185 of USPS-T-7, which shows a long-run own-price elasticity of -1.399 for destination entry Parcel Post.

Please also refer to lines 4 through 5 on page 181 of USPS-T-7, which list "Price of competitor products (in this case, UPS and FedEx Ground) [and] Price of destination entry Parcel Post mail" as the variables that principally affect destination entry Parcel Post volume.

Finally, please refer to lines 4 through 5 on page 173 of USPS-T-7 which lists "Price of UPS Ground delivery [and] Price of non-destination entry Parcel Post" as the variables that principally affect non-destination entry Parcel Post volume.

- (a) Please confirm that, according to the elasticity estimates developed by USPS witness Thress (USPS-T-7), Parcel Select volume is much more sensitive to the price of Parcel Select than the volume of non-destination entry Parcel Post is to the price of non-destination entry Parcel Post. If not confirmed, please explain fully.

- (b) Have you performed any studies of the variables that affect non-destination entry and destination entry Parcel Post volume and/or the extent to which each variable affects non-destination entry and destination entry Parcel Post volume? If so, please provide them.

PSA/USPS-T2-10. Please refer to lines 19 through 20 on page 7 of your testimony where you state, “The number of pieces per container affects the productivity used in determining the avoided costs.” Please refer further to footnote 14, which runs from page 7 to page 8 of your testimony where you state,

“The possibility that a small number of Parcel Post pieces may be entered at a DDU is not as unrealistic as Postal Service witness Miller suggests in this interrogatory response. Mailers may drop more than one subclass of mail at the DDU, so that Parcel Post parcels may be only a small fraction of the total dropshipment.”

Please also refer to USPS-LR-L-46 at 21-23.

- (a) Please confirm that the only activity modeled by the USPS for DDU parcels that requires an estimation of the number of pieces per container is “Move Containers From Dock.” If not confirmed, please explain your response fully.

- (b) Can multiple subclasses of parcels be moved from the dock in the same container? If not, please explain your response fully.

- (c) In FY 2005, did Parcel Select DDU parcels comprise “only a small fraction” of the total volume of parcels entered at the DDU? Please explain your response fully and provide all of your underlying calculations.

- (d) In FY 2005, what percentage of parcels entered at the DDU were Parcel Select DDU parcels? Please provide all of your underlying calculations.