

**BEFORE THE
POSTAL RATE COMMISSION**

POSTAL RATE AND FEE CHANGES, 2006

DOCKET NO. R2006-1

**RESPONSES OF UNITED PARCEL SERVICE WITNESS LUCIANI
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE
(USPS/UPS-T2-1 and 2)
(October 3, 2006)**

Pursuant to the Commission's Rules of Practice, United Parcel Service hereby files and serves the responses of UPS witness Ralph Luciani to the following interrogatories of the United States Postal Service: USPS/UPS-T2-1 and 2.

Respectfully submitted,

John E. McKeever
Phillip E. Wilson, Jr.
Laura A. Biancke
Attorneys for United Parcel Service

DLA Piper US LLP
One Liberty Place
1650 Market Street, Suite 4900
Philadelphia, PA 19103-7300
(215) 656-3310
(215) 656-3301 (FAX)

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USPS/UPS-T2-1. Please refer to page 13, lines 5-8 of your testimony.

(a) Please explain whether it is your view that the principles of efficient component pricing (ECP) should be followed in establishing prices regardless of the impact of the prices so established on the Postal Service's customers?

(b) To your knowledge has the Commission ever recommended pricing that imposes constraints on the move toward more ECP-compatible pricing to achieve one or more non-cost pricing goals established in the Postal Reorganization Act?

RESPONSE:

(a) No, that is not my view.

(b) As noted in paragraph 3064 of the Commission's Opinion and Recommended Decision in Docket No. R2001-1, "[t]he Commission is required to consider all of the factors of section 3622(b) when reviewing appropriate discount rates for workshared mail." In that same paragraph, the Commission cites some examples from Docket No. R2000-1.

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USPS/UPS-T2-2. Please refer to page 19, lines 12-4 of your testimony. Other than the fact that the Commission recommended a 90 percent passthrough in a previous case, please explain why the specific 90 percent passthrough figure is the appropriate figure to use in this case.

RESPONSE:

In its Opinion and Recommended Decision in Docket No. R2000-1 at paragraph 5807, the Commission noted that the 90% passthrough level for DSCF-entry and DDU-entry was set “to achieve a rate design that is more consistent with efficient component pricing.” The Commission also noted in its Opinion and Recommended Decision in Docket No. R2001-1 at paragraph 3064 that “establishing discounts to pass through 100 percent of avoided costs is an appropriate policy, but that other considerations sometimes preclude its application.” In my testimony, I discuss a number of issues that lead to a lack of confidence in the worksharing cost avoidance estimates for Parcel Post, and the resulting conservatism that should be applied in setting the passthrough to help ensure that the worksharing cost avoidances built into the Parcel Post rates do not exceed the costs actually avoided. My recommended 90% passthrough was selected to satisfy this concern as well as the general Commission objective of being as consistent as possible with efficient component pricing.