

**BEFORE THE
POSTAL RATE COMMISSION**

POSTAL RATE AND FEE CHANGES, 2006

DOCKET NO. R2006-1

**RESPONSE OF UNITED PARCEL SERVICE WITNESS LUCIANI
TO FOLLOW-UP INTERROGATORY OF UNITED STATES POSTAL SERVICE
(USPS/UPS-T2-17)
(October 27, 2006)**

Pursuant to the Commission's Rules of Practice, United Parcel Service hereby files the response of UPS witness Ralph Luciani to the following follow-up interrogatory of the United States Postal Service: USPS/UPS-T2-17.

Respectfully submitted,

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USPS/UPS-T2-17 Please refer to your response to PSA/UPS-T2-1(d), where you state that you can not conclude that DDU-entered mail would avoid incurring costs at MODS facilities. Specifically, you mention miscellaneous and support operations, such as verification activities, computerized forwarding, and the staging of empty equipment.

(a) Please refer to USPS-LR-L-46, page 3, and indicate which of the following fixed MODS cost pools on that page represent costs that would be incurred by DDU Parcel Post, and which represent costs that would not be incurred by DDU Parcel Post: 1-6, 8-9, 11-13, 15-23, 26, 28-40, and 42-49. For each cost pool that represents costs that you specify would be incurred by DDU Parcel Post, please explain in detail why DDU Parcel Post would incur those costs.

(b) Please provide the sum (in cents) of those cost pools in part (a) for which you indicate that DDU Parcel Post would not incur any costs.

(c) Please confirm that the summed value provided in response to part (b) was included in the rate category cost estimates for both DDU Parcel Post and the corresponding DBMC benchmarks. If you do not confirm, please explain.

(d) Please confirm that the savings estimates for DDU would have increased had the value you provided in response to part (b) been eliminated from the DDU rate category cost estimate in that analysis. If you do not confirm, please explain.

RESPONSE:

(a) I am not familiar enough with the activities embodied within each MODS cost pool to provide a definitive list. It is likely that the activities in certain MODS cost pools treated as fixed by Postal Service witness Miller would not be generally incurred by DDU-entry parcels. Similarly, there also may be fixed non-MODS pool activities that may generally apply to DDU-entry parcels. For example, the MISC Non-MODS pool is categorized as fixed and includes Bulk Mail Acceptance activities (see USPS-T-11, page 6). Inferences that certain cost pools are necessarily avoided by certain types of parcels must be tempered by the knowledge that the technique used to estimate DBMC-entry worksharing avoidances by accumulating outgoing CRA cost pool costs was found to be incorrect in Docket No. R2000-1 (see my response to PSA/UPS-T2-

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2(b) in this docket). This estimation technique was subsequently replaced by the hybrid methodology in Docket No. R2001-1.

(b) See response to part (a).

(c) Confirmed that costs pools that were categorized as fixed by witness Miller were included in the adjusted costs for all rate categories.

(d) While I am unable to provide an estimate, I note that if, after appropriate study and review, witness Miller modeled the operations in the cost pool that he categorizes as fixed, the pool would then be recategorized as proportional. There would be corresponding changes to both the modeled costs and the CRA Proportional Adjustment Factor. The resulting calculations would yield the impact on worksharing estimates.