

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

**PSA-RT-2**

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**POSTAL RATE AND FEES CHANGES, 2006**

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**Docket No. R2006-1**

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**REBUTTAL TESTIMONY  
OF  
PSA WITNESS ZWIEG  
TO  
UNITED PARCEL SERVICE  
WITNESS LUCIANI (UPS-T-2)**

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Respectfully submitted,

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1 **Autobiographical Sketch**  
2

3 My name is Steve Zwiég. I am the Managing Director of Account Services for FedEx  
4 SmartPost. I have worked in the mail distribution business and directly with the USPS for the past  
5 25 years. I was the Manager of Mail Distribution for Quad/Graphics from 1981 to 1997, the Vice  
6 President of Customer Service for Parcel Direct from 1997 to 2004 prior to my current position. In  
7 each of these roles I also served as the lead liaison between my company and the USPS.

8

9 I am the current President of the Parcel Shippers Association (PSA) and a board member of  
10 the Association of Postal Commerce (PostCom). I have participated on multiple Mailer Technical  
11 Advisory Committee (MTAC) work groups and was the Co-Chair of the Product Redesign  
12 Committee for parcels.

13

14 FedEx SmartPost specializes in the destination entry of Parcel Select parcels with an  
15 emphasis on destination delivery unit (DDU) delivery. We tender parcels to the USPS at over 9,000  
16 destination delivery units comprising a majority of the DDU parcels delivered by the USPS. We  
17 partner with the USPS to provide residential delivery for hundreds of e-retailers and catalogers.

18

1 **I. Purpose and Scope of Testimony**  
2

3 In his testimony, UPS witness Luciani speculates that the number of Parcel Select pieces that  
4 are entered at each Postal Service delivery unit may be small, which could result in the cost for  
5 DDU-entered parcels being higher than estimated by the Postal Service. UPS-T-2 (Luciani) at 7-8.  
6 Witness Luciani also suggests that the proportions of DDU parcels that are nonmachinable and  
7 oversized may be different than estimated by the Postal Service. UPS-T-2 at 19 (Luciani). Using  
8 actual FedEx SmartPost data, I show that the number of parcels entered per DDU is large and that  
9 the Postal Service’s estimate of the percentage of DDU parcels that are nonmachinable and  
10 oversized is reasonable.  
11

12 Witness Luciani also recommends using a unit cost for Parcel Select no-fee electronic  
13 delivery confirmation of 14.67 cents per piece. UPS-T-2 at 16 (Luciani). This unit cost estimate  
14 includes 2.85 cents of costs for instances when a “window clerk accepts mail item with eDC and  
15 scans barcode” for “customers that print and adhere an electronic label but submit their item(s) at  
16 the window.” USPS-LR-L-59, DC-TY2008(AR).xls. My testimony explains that the 2.85-cent  
17 window service cost is not applicable to Parcel Select because Parcel Select is not accepted by  
18 window clerks at postal windows.

19 **II. Characteristics of DDU Parcels**  
20

21 In his direct testimony, witness Luciani states, “[t]he possibility that a small number of Parcel  
22 Post pieces may be entered at a DDU is not as unrealistic as Postal Service witness Miller  
23 suggests....Mailables may drop more than one subclass of mail at the DDU, so that Parcel Post parcels  
24 may be only a small fraction of the total dropshipment.” UPS-T-2 at 7-8, footnote 14 (Luciani).

1           While the Domestic Mail Manual (DMM) allows parcel shippers to drop a small number of  
2 Parcel Select pieces at a DDU as long as there were at least fifty pieces in the entire mailing, FedEx  
3 SmartPost data show that this is not what actually happens. This is, of course, because dropping  
4 only a small number of parcels at a DDU simply wouldn't make economic sense for the shipper.

5  
6           In the company's most recent fiscal year (which ran from June 1, 2005 to May 31, 2006),  
7 FedEx SmartPost entered an average of 67 parcels per DDU delivery. In the first quarter of FY  
8 2007, FedEx SmartPost entered an average of more than seventy Parcel Select pieces per DDU  
9 delivery.<sup>1</sup>

10  
11           Further, in support of lower passthroughs, witness Luciani states, "despite the fact that  
12 DDU parcels represent more than 50% of total Parcel Post volume, the Postal Service does not  
13 know the percentage of DDU parcels that would be classified as nonmachinable if entered upstream  
14 of the DDU. Instead, it uses a DBMC-entry/DSCF-entry data proxy for the DDU parcels in the  
15 mail processing cost model." UPS-T-2 at 19 (Luciani).

16  
17           While witness Luciani is correct that the Postal Service uses the percentage of DBMC-  
18 entry/DSCF-entry parcels that are nonmachinable as a proxy for the percentage of DDU parcels  
19 that would be nonmachinable if entered at an upstream facility, Table 1 below shows that the  
20 DBMC-entry/DSCF-entry proxy appears to be reasonable.

21  
22

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<sup>1</sup> FedEx SmartPost's DDU-entry procedures are similar to the entry procedures described by PSA witness Wittnebel (PSA-RT-2) in Docket No. R2000-1. Tr. 41/18044-5 (Wittnebel). I understand that other mailers of DDU parcels follow similar procedures. Also, I would note that FedEx SmartPost enters all of its DDU parcels on pallets.

1 **Table 1. Percentage of DDU-Entered Parcels**  
2 **(USPS Estimate vs. FedEx SmartPost Actuals)**  
3

Category	USPS	FedEx SmartPost
Nonmachinable	6.1%	5.7%
Oversized	0.07%	0.05%

4  
5 **III. Parcel Select Is Not Entered At Postal Windows**

6  
7 Witness Luciani recommends using a 14.67-cent unit cost for Parcel Select no-fee electronic  
8 delivery confirmation, which includes 2.85 cents of costs for instances when a “window clerk  
9 accepts mail item with eDC and scans barcode” for “customers that print and adhere an electronic  
10 label but submit their item(s) at the window.” UPS-T-2 at 16 (Luciani); USPS-LR-L-59, DC-  
11 TY2008(AR).xls.

12  
13 While the inclusion of window service costs in the costs for electronic delivery confirmation  
14 that is purchased by retail customers may be appropriate, it is clearly inappropriate for Parcel Select  
15 no-fee electronic delivery confirmation because Parcel Select is not entered at postal windows.

16  
17 Parcel Select is a destination entry product requiring shippers to enter bulk shipments of  
18 parcels at DBMCs, DSCFs, and DDUs for delivery by the USPS. This product is not entered at the  
19 postal window of the local Post Office. FedEx SmartPost collects parcels from several hundred  
20 customers and sorts, containerizes and delivers to destination entry points through out the Postal  
21 Network. Parcels are prepared in accordance with DMM 455.4.6.1, 455.4.4, and 456.2.0.