

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE AND FEE CHANGES, 1997: Docket No. R97-1

INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION
TO UNITED PARCEL SERVICE WITNESS
J. STEPHEN HENDERSON (UPS-T-3)

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: January 28, 1998

WITNESS HENDERSON (UPS-T-3)

PSA/UPS-T-3-1

With reference to your comparison on page 19 of the Postal Service's proposed rates and your recommendations, where you state that the Postal Service has proposed 103.9% cost coverage and your rates would produce 107.1% cost coverage, please confirm the following:

(a) Because the Postal Service's total attributed costs are 56% of total costs and yours are 63.9% of total postal costs, the pool of institutional cost to be recovered through cost coverages is substantially smaller under your proposal.

(b) Average coverage under the Postal Service's proposed attribution of costs equals 178.5%, and average coverage under your proposed attribution of costs is 156.4%.

(c) Since Parcel Post coverage proposed by the Postal Service assumes attributable costs are 56% of total costs, then to have the same equivalent coverage as proposed by USPS under your proposed 63.9% attribution of total costs the coverage for parcel post would have to be 102.87%.

(d) Since, at 63.9% attribution of costs, parcel post coverage equivalent to the USPS' proposed coverage would be 102.76%, then your proposed coverage of 107.1% would require parcel post to contribute in percentage terms almost 2-1/2 times as much toward payment of the nonattributed cost pool as under the Postal Service's proposal.

PSA/UPS-T-3-2

You state that you began marking up parcel post by starting with the most recently pronounced appropriate cost coverage as found by the Postal Rate Commission, and that was 107% for parcel post in Docket No. R94-1 (p. 19). In order to maintain this 107% cost coverage, you found it necessary to propose overall rate increases for parcel post of 28% (p. 22), whereas the overall average increase required to cover the anticipated cost increases projected into the Test Year experienced by the Postal Service since the last rate case is around 4%. Please provide an explanation of what has happened to parcel post costs, as determined by the Rate Commission in the last case, that has caused the Postal Service to experience such a gigantic increase in the cost of handling parcel post, whereas the other cost increases in handling other classes of mail are such that they do not on average require more than a 4% increase.

PSA/UPS-T-3-3

On page 5 of your testimony, where you discuss the Postal Reorganization Act Rate Criterion of "available alternatives," you talk about certain services where "mailers have readily available alternatives." Do you believe that mailers have "readily available alternatives" for the ground transportation of parcels to residences, and, if the answer is in the affirmative, please identify each and every "readily available alternative" for a mailer who has a need to distribute parcels to residences on a national basis.

PSA/UPS-T-3-4

At page 5 of your testimony you discuss the "effect of rate increases" criterion and state that "any rates that would unfairly disadvantage competitors may be set higher." Is it your position that the parcel post rates proposed by the Postal Service in this proceeding would have an injurious impact upon United Parcel Service in its provision of ground parcel transportation? If the answer is in the affirmative, please supply all necessary data to document your response, not limited to, but including,

(a) detailed information on United Parcel Service's ground transportation volumes;

(b) a comparison of damaging parcel rates and actual rates charged to UPS customers for the provision of such services;

(c) a comparison of the actual negotiated contract rates that UPS may have with its major customers with rates proposed by the Postal Service in this proceeding;

(d) a description of the amount of parcel post volume United Parcel Service believes was diverted away from it to the Postal Service because of parcel post rates;

(e) an estimation of the amount of parcels United Parcel Service anticipates it will lose to parcel post if the proposed rates are adopted in this proceeding.

If the witness is unable to respond to all or any part of this question, please refer such parts to the appropriate official at United Parcel Service who would be competent to respond.

PSA/UPS-T-3-5

(a) Is it not the case that UPS' parcel post volume has increased far in excess of the increases in parcel post volume since Docket No. R94-1, despite yearly rate increases by UPS, and that, therefore, the Postal Service has not been able to secure its proper share of the increased parcel post market, the lion's share of which has gone to UPS? If the answer is other than affirmative, please supply data to document your response.

(b) If it is the case that the Postal Service has failed to obtain its share of the increased parcel post market, and therefore has less "value of service," one of the criteria to which you advert on page 4 of your testimony, does this not compel a conclusion that parcel post coverage should be the lowest possible in order to enhance its competitive opportunities in the market?

PSA/UPS-T-3-6

You have recommended, as a model for mark ups, use of the mark ups reflecting the Commission's judgment in the most recent rate case Docket No. R94-1. You state that you have therefore used the Commission's relative mark ups in that case to determine the appropriate contribution in this case to recover institutional costs. Is it not the case that, if the percentage of attributable costs determined in Docket No. R94-1 is less than the percentage of attributable costs that you propose, then a strict application as you propose of the Docket R94-1 cost coverages would produce revenue in excess of that required?

PSA/UPS-T-3-7

On page 22 of your testimony you state that the average rate for parcel post is already substantially below cost, citing USPS-T-37, at page 24, and stating that a 19.4% increase is needed simply to cover the cost shortfall and reach the Docket No. R94-1 cost coverage of 107%. Please confirm that the average rate for parcel post is, as you say, substantially below cost only because the Postal Service testimony that you cite deviates from established Commission policy and attributes 100% of Alaska air costs to parcel post.

PSA/UPS-T-3-8

On page 23 of your testimony you state that the parcel post mark up, under economically efficient pricing, should require that parcel post rates exceed attributable costs each and every year, not just in the Test Year, and that with a low mark up proposed by the Postal Service rates will likely be below attributable costs for much of the time that they are in effect. Please confirm that, utilizing PRC-approved methodology for the handling of Alaska air costs, parcel post has fully recovered its attributable costs each and every year for which there is data since Docket No. R94-1.

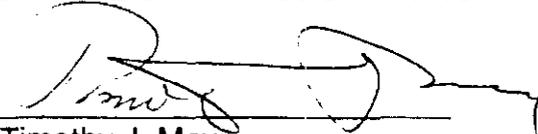
PSA/UPS-T-3-9

You state that your proposed overall rate increase for parcel post of 28% ". . . is not excessive given that it is based on increases in its cost." Would you agree that a 28% increase for parcel post would be excessive if it should be that the Commission determines that a 28% increase is not necessary in order to meet 107% coverage of

the costs that the Rate Commission, utilizing its methodologies, determines to be properly attributed to parcel post?

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.



Timothy J. May

Dated: January 28, 1998