

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION

POSTAL RATE AND FEE CHANGES, 1997

RECEIVED

FEB 11 4 12 PM '98

DOCKET NO. R97-1

OFFICE OF THE CLERK

**ANSWERS OF UNITED PARCEL SERVICE WITNESS
J. STEPHEN HENDERSON TO INTERROGATORIES OF
NASHUA PHOTO INC., DISTRICT PHOTO INC.,
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.
(NDMS/UPS-T3-1 through 9)**

(February 11, 1998)

Pursuant to the Commission's Rules of Practice, United Parcel Service ("UPS") hereby serves and files the responses of UPS witness J. Stephen Henderson to interrogatories NDMS/UPS-T3-1 through 9 of Nashua Photo Inc., District Photo Inc., Mystic Color Lab, and Seattle FilmWorks, Inc.

Respectfully submitted,



John E. McKeever
Attorney for United Parcel Service

PIPER & MARBURY
3400 Two Logan Square
18th & Arch Streets
Philadelphia, PA 19103
215-656-3310

and

1200 Nineteenth Street, N.W.
Washington, D.C. 20036-2430
(202) 861-3900

Of Counsel.

**ANSWER OF UNITED PARCEL SERVICE
WITNESS HENDERSON TO INTERROGATORY OF
NASHUA PHOTO INC., DISTRICT PHOTO INC.,
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.**

NDMS/UPS-T3-1. Please refer to page 25, line 9 of your testimony, where you show your proposed average Priority Mail rate (\$4.66), percent increase over current rates (32 percent), and cost coverage for Priority Mail (193.1 percent). Please confirm that UPS' proposed cost coverage for Priority Mail based on (i) UPS' proposed 32 percent rate increase for Priority Mail, and (ii) the projected test year costs set out in the Postal Service's proposal, would be 227 percent. If you do not confirm, please explain why, what the cost coverage would be, and how you derived it.

Response to NDMS/UPS-T3-1. Not Confirmed. The calculation you suggest results in a cost coverage of 237 percent, not 227 percent. This is calculated by dividing my suggested price by the Postal Service's proposed volume variable cost per piece ($\$4.66 / (2,266 / 1,152) = 237$ percent). However, this calculation is inappropriate because applying the higher price to the Postal Service's proposal would result in lower volume and a different cost per piece.

**ANSWER OF UNITED PARCEL SERVICE
WITNESS HENDERSON TO INTERROGATORY OF
NASHUA PHOTO INC., DISTRICT PHOTO INC.,
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.**

NDMS/UPS-T3-2. Please refer to page 20, line 8 through page 22, line 9 of your testimony discussing the 39 U.S.C. § 3622(b) factors to determine your proposed cost coverage for Priority Mail.

a. Please describe how much weight you have given to criterion § 3622(b)(4), specifically regarding the effect of a 32 percent increase in Priority Mail rates on the general public and business mailers.

b. Is it your position that a 32 percent increase in a subclass' rates would not constitute "rate shock" in this docket?

c. What is the largest single rate increase ever imposed by UPS on its customers?

Response to NDMS/UPS-T3-2. (a)-(b) By employing the Commission's relative markups from the Docket No. R94-1 case, my procedure embodies the weights the Commission itself has given to the 3622(b) criteria, including 3622(b)(4). As I note on page 20, lines 11 through 13, "This increase is driven by a 31 percent increase in attributed cost per piece for Priority Mail since Docket No. R94-1." A rate increase driven by a corresponding cost increase does not ordinarily constitute rate shock, in my view. The Commission has in the past recommended similarly large rate increases.

(c) I do not know.

**ANSWER OF UNITED PARCEL SERVICE
WITNESS HENDERSON TO INTERROGATORY OF
NASHUA PHOTO INC., DISTRICT PHOTO INC.,
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.**

NDMS/UPS-T3-3. On page 22, lines 1 through 3 you state: "The only aspect of Priority Mail that Dr. O'Hara believes is less favorable than First-Class letters is Priority Mail's higher elasticity of demand. However, in light of Priority Mail's growth rate, this difference does not seem significant." Do you believe that, because of Priority Mail's growth rate, it is not relevant to compare Priority Mail's elasticity of demand with that of First-Class Mail? Please explain.

Response to NDMS/UPS-T3-3. No. Both factors are indicators of value. The high demand elasticity of Priority Mail is offset by the high growth rate of the service in the market place.

**ANSWER OF UNITED PARCEL SERVICE
WITNESS HENDERSON TO INTERROGATORY OF
NASHUA PHOTO INC., DISTRICT PHOTO INC.,
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.**

NDMS/UPS-T3-4. For purposes of determining coverage levels for both First-Class Mail and Priority Mail, please explain how, for both products, you would compare the following factors:

- a. delivery standards; and
- b. actual performance.

Response to NDMS/UPS-T3-4. I know of no study that compares door-to-door delivery performance of the two services. In any case, I used the Commission's Docket No. R94-1 relative markups, which implicitly contain the Commission's evaluation of the delivery performance for each service.

**ANSWER OF UNITED PARCEL SERVICE
WITNESS HENDERSON TO INTERROGATORY OF
NASHUA PHOTO INC., DISTRICT PHOTO INC.,
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.**

NDMS/UPS-T3-5. Please compare and contrast (i) Priority Mail with (ii) UPS Second-Day Air, and with (iii) UPS Three-Day Select, with respect to the following factors:

- a. *delivery standards/guaranteed delivery;*
- b. *actual performance;*
- c. *tracking/delivery confirmation;*
- d. *included insurance;*
- e. *billing and payment options; and*
- f. *volume discounts and negotiated prices.*

Response to NDMS/UPS-T3-5. The Postal Service does not guarantee delivery of Priority Mail within its service standard, whereas UPS does in the case of UPS Second Day Air and 3 Day Select. UPS offers tracking, whereas the Postal Service does not. UPS provides proof of delivery at no extra charge, except there is a charge of \$1.00 for a mailed proof of delivery and \$2.00 for a faxed proof of delivery; the Postal Service is proposing in this proceeding to offer delivery confirmation (at no charge for large Priority Mail users and at a fee below cost for other Priority Mail users). I do not have information on the other factors you mention.

**ANSWER OF UNITED PARCEL SERVICE
WITNESS HENDERSON TO INTERROGATORY OF
NASHUA PHOTO INC., DISTRICT PHOTO INC.,
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.**

NDMS/UPS-T3-6. What percentage of (i) UPS Second-Day Air is delivered within two days, and (ii) UPS Three-Day Select is delivered within three days? Please provide data for all available Postal Quarters starting with PQ1, 1995.

Response to NDMS/UPS-T3-6. I do not know.

**ANSWER OF UNITED PARCEL SERVICE
WITNESS HENDERSON TO INTERROGATORY OF
NASHUA PHOTO INC., DISTRICT PHOTO INC.,
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.**

NDMS/UPS-T3-7. How much does UPS charge for (i) manual tracking/delivery confirmation and (ii) electronic tracking/delivery confirmation for its Second-Day Air and Three-Day Select products? Please include the effects of volume discounts and negotiated prices in your answer.

Response to NDMS/UPS-T3-7. UPS provides tracking and proof of delivery at no extra charge, except that there is a charge of \$1.00 for a mailed proof of delivery and \$2.00 for a faxed proof of delivery. I have no information on volume discounts and negotiated prices.

**ANSWER OF UNITED PARCEL SERVICE
WITNESS HENDERSON TO INTERROGATORY OF
NASHUA PHOTO INC., DISTRICT PHOTO INC.,
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.**

NDMS/UPS-T3-8.

- a. Please provide current published rate schedules (not including negotiated discounts) for (i) UPS Second-Day Air and (ii) UPS Three-Day Select.
- b. Please state the percentage of (i) UPS Second-Day Air and (ii) UPS Three-Day Select for which UPS charges prices below published prices.
- c. Please state the range of discounts from published prices offered to customers of (i) UPS Second-Day Air and (ii) UPS Three-Day Select.
- d. For the most recent Fiscal Year available, please provide the average rate actually paid by customers for each rate cell (including negotiated price and volume discounts) in (i) UPS Second-Day Air and (ii) UPS Three-Day Select.

Response to NDMS/UPS-T3-8. (a) See UPS-LR-7.

(b)-(d) I do not have this information.

**ANSWER OF UNITED PARCEL SERVICE
WITNESS HENDERSON TO INTERROGATORY OF
NASHUA PHOTO INC., DISTRICT PHOTO INC.,
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.**

NDMS/UPS-T3-9. Please identify any shape-based discounts or surcharges, either published or negotiated, in the rates for (i) UPS Second-Day Air and (ii) UPS Three-Day Select.

Response to NDMS/UPS-T3-9. I do not have any such information.

DECLARATION

I, J. Stephen Henderson, hereby declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.



J. Stephen Henderson

Dated: February 10, 1998

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with section 12 of the Commission's Rules of Practice.



John E. McKeever

Dated: February 11, 1998
Philadelphia, PA