

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION

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POSTAL RATE AND FEE CHANGES, 1997

DOCKET NO. R97-1

COMMENTS OF UNITED PARCEL SERVICE
ON RECONSIDERATION

(July 30, 1998)

Pursuant to Commission Order No. 1215 (July 8, 1998), United Parcel Service ("UPS") hereby submits the following comments on reconsideration. These comments are limited to the Parcel Post destination delivery unit ("DDU") rates now before the Commission.

As the Governors have stated, "A question has arisen . . . regarding the 2-pound rate of \$1.10 recommended for the DDU category of Parcel Post." Decision of the Governors of the United States Postal Service on the Recommended Decision of the Postal Rate Commission on Postal Rate and Fee Changes, Docket No. R97-1 (June 29, 1998) ("Governors' Decision") at 10. This question was raised by UPS in a motion requesting the Commission to amend its Recommended Decision. Motion of United Parcel Service for Amendment of Recommended Decision to Correct Rate Recommendation for DDU Parcel Post (June 5, 1998) ("UPS Motion"). As we there pointed out, the methodology used by the Commission in arriving at its recommended Parcel Post DDU rates leads to a two pound DDU rate of \$1.29, rather than the rate of \$1.10 set forth in the Commission's Recommended Decision. All of the other Parcel

Post DDU rates contained in the Recommended Decision conform to the rates produced by the Commission's methodology.

In Order No. 1213 (June 19, 1998) denying the UPS Motion, the Commission stated that "there was no intention to achieve this specific, recommended rate relationship." Order No. 1213 at 3. The Commission there characterized the two pound DDU rate as "anomalous" and stated that the rate "was inconsistent with the development of other rates in [the DDU rate] schedule." Id. Nevertheless, the Commission denied the UPS Motion, apparently because of a concern over its jurisdiction to correct its Recommended Decision while that decision was before the Governors. Id.¹

Now that the Governors have returned this specific matter to the Commission for reconsideration, the Commission has the unquestioned authority to correct this "anomalous" rate, which was inadvertently adopted as the result of "a step that was not in furtherance of any intended Commission outcome." Order No. 1213 at 3. The Commission's original Opinion and Recommended Decision does not contain any discussion which supports a departure from its adopted ratemaking methodology in the case of the two pound DDU rate. Even more important, there is not one scintilla of evidence in support of a two pound DDU rate that is 19¢ lower -- a reduction of approximately 15% -- than the rate of \$1.29 which results from faithful application of the Commission's ratemaking methodology. Indeed, the anomalous rate of \$1.10 is 27¢ lower than that proposed by the Postal Service for the same rate cell. In short, the Commission's decision on reconsideration should change its recommended two pound DDU rate to \$1.29.

1. The Commission did correct a number of other Parcel Post rates. See Order No. 1213 at 2-3.

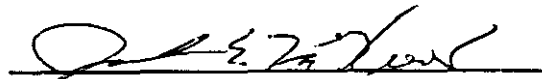
In its response opposing the UPS Motion, intervenor CTC Distribution Services, L.L.C. ("CTC") stated that correcting the two pound DDU rate so that it accords with the Commission's ratemaking methodology "would likely have a significant effect on DDU revenues and volumes" and therefore "would appear to require the reduction of all other DDU Parcel Post rates." CTC Distribution Services, L.L.C. Response to United Parcel Service Motion for Amendment to Recommended Decision (June 18, 1998) at 2, 3. The Governors have taken a more measured approach, stating only that "some of the additional revenue that *might* be generated by a higher 2-pound rate *could* be used to mitigate rates in other DDU rate cells." Governors' Decision at 10 (emphasis added).

In Order No. 1215, the Commission gave participants "an opportunity to present justification for reopening the evidentiary record." Order No. 1215 at 1. CTC did not request that the record be reopened. Thus, there is absolutely nothing in the record to support CTC's assertion that correcting this error "would likely dramatically effect (sic) DDU volumes and revenues." CTC Motion at 3.

On the other hand, the Commission's Workpapers indicate that adopting the correct two pound DDU rate would increase Parcel Post's test year revenues by about \$80,000. See PRC-LR-15, VOLdata, page 8A (two pound DDU rate difference of 19¢ per piece X 419,290 pieces = \$79,665.10). Clearly, the net revenue consequences of correcting this one rate are infinitesimal in the context of the Postal Service's total revenues. Indeed, they are small even in the context of Parcel Post alone, where there are more than 1,200 separate rate cells (not counting surcharges and discounts for presorting, prebarcoding, and OBMC entry) which are expected to yield total Parcel Post revenue of \$740,510,000 in the test year. Adding an additional \$80,000 in revenue would change Parcel Post's cost coverage by one hundredth of one percent -- from 107.96% to 107.97%.

WHEREFORE, United Parcel Service respectfully requests that the Commission adopt on reconsideration a rate of \$1.29 for two pound Parcel Post destination delivery unit shipments in order to conform with the Commission's adopted ratemaking methodology, leaving unchanged all other rates resulting from that methodology.

Respectfully submitted,



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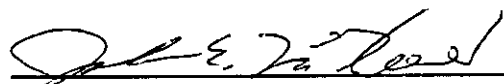
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CERTIFICATE OF SERVICE

I hereby certify that on this date I have caused to be served the foregoing document in accordance with Section 12 of the Rules of Practice.



John E. McKeever

Dated: July 30, 1998