

KET SECTION

BEFORE THE
POSTAL RATE COMMISSION

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POSTAL RATE
OFFICE OF THE COMMISSIONER

POSTAL RATE AND FEE CHANGES, 1997

DOCKET NO. R97-1

REPLY COMMENTS OF UNITED PARCEL SERVICE
ON RECONSIDERATION

(August 11, 1998)

Pursuant to Commission Order No. 1215 (July 8, 1998), United Parcel Service ("UPS") hereby replies to the comments on reconsideration filed by CTC Distribution Services, L.L.C. ("CTC") concerning the recommended Parcel Post Destination Delivery Unit ("DDU") rates.

1. CTC indicates that *if* the rate of \$1.10 for two pound DDU parcels is "justifiable and desirable," then "the Commission need simply provide an explicit reasoning for its recommendation." CTC Distribution Services, L.L.C. Comments Regarding the Modification of Parcel Post Destination Delivery Unit Rates on Reconsideration by the Commission (July 30, 1998) ("CTC Comments") at 2. However, in this instance, simply providing explicit reasoning is insufficient. As we stated in our initial comments, ". . . 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." Comments of United Parcel Service on Reconsideration (July 30, 1998) at 2. In the absence of supporting evidence in the record, explicit reasoning is unavailing.

2. In footnote 1 on page 2 of its comments, CTC states that the \$1.10 rate "is comparable with other subclasses' delivery unit entry rates," specifically citing the single piece local rate for a two pound Bound Printed Matter piece (\$1.16). Of course, the rates may be comparable, but there is no evidence that the costs are comparable.

3. CTC indicates on page 3 that increasing the two pound DDU rate to its proper level under the Commission's methodology "would have a substantial adverse effect on the relatively low volume of mail anticipated in these new rate categories" (footnote omitted). However, the accuracy of the volume projections are far from certain. In fact, there are no solid volume estimates, so that any speculation about whether there would be "a substantial adverse effect" is just that -- speculation.

4. CTC also indicates that in prior cases the Commission has sought "to preserve to the extent feasible the relative contributions reflected in [the] markup indices" when it has increased rates on remand. CTC Comments at 3, quoting the Commission's Opinion and Recommended Decision Upon Further Reconsideration in Docket No. R90-1. Of course, markup indices are applied at the subclass level, not at the rate category level. Moreover, as we pointed out in our initial comments (at page 3), the additional revenue resulting from correcting the anomalous two pound DDU rate would have a negligible effect on Parcel Post's cost coverage and therefore no impact on markup indices.

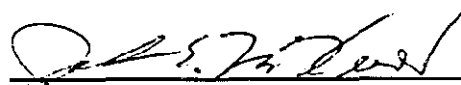
5. CTC suggests that a "proportional adjustment designed to preserve revenue neutrality" would "address more thoroughly UPS' concerns that the rates for DDU parcel post be based on a consistent methodology for every rate cell" CTC's Comments at 4, 4-5. UPS disagrees. On the contrary, CTC's approach would result in divorcing the rates for *sixty-eight* rate cells, rather than just one rate cell, from the results of faithfully applying the Commission's ratemaking methodology. In short,

CTC's proposed rates represent a far more significant departure from the Commission's ratemaking approach.

In light of all of these factors, the most sensible and straightforward approach is to change only the two pound DDU rate to accord with the Commission's methodology, leaving all other rates unchanged.

WHEREFORE, United Parcel Service respectfully submits that the Commission should recommend on reconsideration a rate of \$1.29 for two pound Parcel Post Destination Delivery Unit shipments, leaving unchanged all other Parcel Post rates.

Respectfully submitted,




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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: August 11, 1998