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UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Periodic Reporting
(UPS Proposals One, Two, and Three)

Docket No. RM2016-2

REVISED CHAIRMAN'S INFORMATION REQUEST NO. 3

(Issued November 24, 2015)

To assist in the evaluation of its Petition requesting a change in analytical principles,[1] United Parcel Service, Inc. (UPS) is requested to provide written responses to the following questions. Answers should be provided no later than December 4, 2015. This filing replaces an incorrect version of question 5a that appeared in Chairman's Information Request No. 3, filed on November 24, 2015.[2]

1. Please refer to pages 4-8, Figures 1-3 and Tables 1-3 of the Report of Dr. Kevin Neels.

   a. Please confirm that certain products or volumes may be classified as Market Dominant Mail Products in some fiscal years and Competitive Mail Products in other fiscal years. If not confirmed, please explain.

   b. Please confirm that for the purposes of Dr. Neels' analysis, Standard Mail Commercial machinable and irregular parcels were considered to be Market Dominant Mail Products in all fiscal years prior to the reclassification of these mail pieces as Lightweight Parcel Select mail

[1] Petition of United Parcel Service, Inc. for the Initiation of Proceedings to Make Changes to Postal Service Costing Methodologies, October 8, 2015 (Petition). To support each of its proposals, UPS also submitted the Report of Dr. Kevin Neels Concerning UPS Proposals One, Two, and Three (Report of Dr. Kevin Neels) with the Petition.

[2] Chairman's Information Request No. 3, November 24, 2015.

pieces. If not confirmed, please indicate which category these volumes were in for all fiscal years.

c. Please confirm that for the purposes of Dr. Neels' analysis, the pieces included in First-Class Package Services were considered to be Market Dominant Mail Products in all fiscal years prior to the classification of this product as a Competitive Mail Product for the purposes of Dr. Neels' analysis. If not confirmed, please indicate which category these volumes were in for all fiscal years.

d. For each of the tables and figures referenced in the introduction to this question, please provide the exact listing of which products are included in Market Dominant Mail Products and which products are included in Competitive Mail Products. Unless the listings were unchanged throughout the entire period covered by a figure or table, please provide a separate listing for each year.

2. Please refer to page 5, Figure 2 of the Report of Dr. Kevin Neels.

a. Please confirm the scale for "Market Dominant Pieces" is approximately 15 to 20 times larger than the scale for "Competitive Pieces." If not confirmed, please provide the relative size of the "Market Dominant Pieces" scale relative to the "Competitive Pieces" scale.

b. Please produce a revised table that uses the same vertical scale for both "Market Dominant Products" and "Competitive Products."

3. Please refer to page 19 of the Report of Dr. Kevin Neels where it states:

> The machinery required to calculate and distribute inframarginal costs to mail classes already exists, and is submitted by the Postal Service each year as part of its Annual Compliance Report ("ACR"). The machinery in question is a model developed by the Postal Service to calculate ***incremental*** costs - the sum of volume variable, product-specific fixed, and inframarginal costs that would be avoided if some portion of volume were removed but the remaining volume were maintained.

Please also refer to Order No. 399 and the FY 2014 Annual Compliance Determination Report.[3]

a. Please confirm that in the referenced section of Order No. 399, the Commission approved the Postal Service's hybrid incremental cost methodology for calculating incremental costs for competitive domestic products. If not confirmed, please provide UPS' understanding of the referenced section of Order No. 399.

b. Please confirm that the methodology used in Dr. Neels' analysis, as referenced in the above quotation, relies on the incremental cost methodology approved by the Commission in Order No. 399. If not confirmed, please list all differences between the referenced methodology and the accepted incremental cost methodology, and explain the rationale for each listed difference.

4. Please refer to page 36 of the Report of Dr. Kevin Neels which states, "Table 8 reports the results of a simple linear regression of inflation-adjusted fixed costs on total weighted volume."

a. Please confirm that Dr. Neels uses "simple linear regression" in the classical sense of an equation with just one (non-constant) explanatory variable. If not confirmed, please provide the exact mathematical specification of the estimated equation.

b. Please confirm that the single non-constant explanatory variable is what Dr. Neels calls "total weighted volume." If not confirmed, please provide the specification of the explanatory variable used in the model.

[3] Docket No. RM2010-4, Order Accepting Analytical Principles Used in Periodic Reporting (Proposals Twenty-Two through Twenty-Five), January 27, 2010, at 2-5 (Order No. 399); Docket No. ACR2014, Annual Compliance Determination Report, Fiscal Year 2014, March 27, 2015, at 71-72.

c. Please confirm that Dr. Neels uses the FY 2014 weights for all years for which he calculated the “total weighted volume,” except for FY 2013 weights used for the Parcel Post product. If not confirmed, please explain.

d. Please confirm that if a component is less than 100 percent fixed (*i.e.*, has some reported attributable costs), the weights applied to the product volumes are the component level unit attributable costs for each mail product. If not confirmed, please explain.

e. Please confirm that if a component is 100 percent fixed, the weights applied to the volumes are the overall unit attributable costs for each mail product. If not confirmed, please explain.

5. Please refer to page 45, Table 11 in the row titled “Not Modeled” of the Report of Dr. Kevin Neels.

a. Please confirm that the 86 "Not Modeled" components referenced in that row are the components with ‘NA’ in column AF on the ‘All Components Datasheet’ in the workbook “Component Fixed Cost Regression Results.xlsx” in UPS-RM2016-2-LR-NP1.

b. Please provide a spreadsheet that shows the Cost Segment Number, the Component Number, the Cost Segment Name, and the Component Name for each of the 86 components included within the above referenced row of Table 11. Additionally, please provide FY 2014 attributable costs, FY 2014 inframarginal costs, and FY 2014 fixed costs for each “Not Modeled” component.

By the Acting Chairman.

Robert G. Taub