

**BEFORE THE  
POSTAL RATE COMMISSION**

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**POSTAL RATE AND FEE CHANGES, 2006**

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**DOCKET NO. R2006-1**

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**RESPONSES OF UNITED PARCEL SERVICE WITNESS LUCIANI  
TO INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION  
(PSA/UPS-T2-1 through 10)  
(October 10, 2006)**

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Pursuant to the Commission's Rules of Practice, United Parcel Service hereby files the responses of UPS witness Ralph Luciani to the following interrogatories of the Parcel Shippers Association: PSA/UPS-T2-1 through 10.

Respectfully submitted,

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**PSA/UPS-T2-1.** Please refer to your discussion of the CRA adjustment factor on pages 9 through 11 of your testimony and USPS-LR-L-46 Addendum Revised 8/2/06, page 1, columns [5] and [6] and page 3.

(a) Please confirm that USPS-LR-L-46 adds the unit cost in fixed CRA cost pools to each category of Parcel Post to estimate the “adjusted unit cost” for each category. If not confirmed, please explain fully.

(b) Please confirm that, in USPS-LR-L-46, the unit cost for MODS cost pools that are classified as fixed total 15.59 cents. If not confirmed, please provide the correct figure.

(c) Do you believe that, on average, DDU parcels will incur 15.59 cents per piece in costs in MODS cost pools in the Test Year? If so, please explain your response fully.

(d) Would you agree that, as a general rule, DDU parcels avoid incurring costs at MODS 1&2 facilities? If not, please explain your response fully.

**RESPONSE:**

(a) Confirmed.

(b) Confirmed.

(c) I do not know. It is my understanding that some of the plants, stations and branches are part of the MODS system. See my response to part (d).

(d) Not as a general rule. Based on the available data, I am not able to conclude that DDU-entry can avoid the costs for miscellaneous and support operations at MODS facilities, such as verification activities, computerized forwarding and the staging of empty equipment for use by associate offices. Moreover, my understanding is that the MODS LD79 cost pool includes verification costs for DDU-entry parcels (see UPS/USPS-T25-21 in Docket No. R2001-1, Tr. 11-A/4007).

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**PSA/UPS-T2-2.** Please refer to page 14 of your testimony where you estimate the cost of a manual parcel sort at the DDU to be 24.0 cents.

(a) Please confirm that 24.0 cents is the unit Parcel Post cost for the non-MODS ManP cost pool for the incoming basic function. If not confirmed, what is it?

(b) Do you agree that, as a general rule, DDU parcels avoid outgoing costs at Non-MODS facilities? If not, please explain your response fully.

(c) Do you agree that, as a general rule, mail processing costs incurred at DDUs are non-MODS costs for basic functions other than the outgoing basic function? If not, please explain your response fully.

**RESPONSE:**

(a) Confirmed.

(b) As a general matter, yes. A cost pool/basic function method (i.e., exclusion of outgoing basic function costs) was used by the Postal Service to estimate DBMC worksharing avoided costs until being replaced by the hybrid methodology approach in Docket No. R2001-1. In Docket No. R2000-1, it was discovered that a significant share of the costs categorized as outgoing was being incurred by DBMC-entry parcels. This discovery and the associated uncertainty regarding the basic function data helped prompt the movement by the Postal Service to a hybrid methodology for estimating DBMC-entry avoidances. To my knowledge, the cost pool/basic function methodology has not been applied by the Postal Service in estimating DDU-entry avoided savings.

(c) Not as a general rule. See my response to PSA/UPS-T2-1(c).

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**PSA/UPS-T2-3.** Please refer to USPS-L-82, WP-PP-28. Please refer further to your discussion of the extent to which USPS-proposed rates deviate from preliminary rates on lines 1 through 4 of page 13 of your testimony.

(a) Please confirm that more than 99% of DDU parcels weigh 46 pounds or less. If not confirmed, please provide the correct figure.

(b) Please confirm that, for every DDU rate cell from 1 pound to 46 pounds, the proposed rate differs from the preliminary rate by less than two percent. If not confirmed, please explain fully.

(c) Taking into account your response to subparts (a) and (b) of this interrogatory, please confirm that, on average, DDU rates are less constrained than the average Parcel Post rate? If not confirmed, please explain fully.

**RESPONSE:**

(a) Confirmed that more than 99% of DDU parcels weigh 46 pounds or less using the DDU-entry volume data in USPS-LR-L-82, WP-PP-28.

(b) Confirmed.

(c) On a volume-weighted basis, the DDU-parcel rates are constrained somewhat less than inter-BMC rates, and significantly less than intra-BMC, DSCF-entry and Intra-BMC rates. As such, confirmed that the DDU rates are less constrained than the average Parcel Post rate comprising these rate categories.

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**PSA/UPS-T2-4.** Please refer to lines 5 through 9 on page 16 of your testimony where you state:

1. Based on better data being available, the no-fee electronic delivery confirmation cost in the Parcel Post rate design model for Parcel Select parcels (applied on USPS-LR- L-82, WP-PP-20, lines [t], [u] and [v]) should be 14.67 cents per piece (rather than 10.73 cents per piece) and should be applied to 85.9% of the Parcel Select volume rather than 80%.

Please refer further to USPS-LR-L-82, WP-PP-28 and to USPS-LR-L-59, Final Adjustments2008- USPS.xls, worksheet "DC Worksheet." Finally, please refer to USPS-LR-L-82, WP-PP-20, lines [w] and [x] where witness Kiefer applies a markup to the electronic delivery confirmation unit cost.

(a) Please refer to USPS-LR-L-82, WP-PP-28 and confirm that the Postal Service estimates that there will be 244.1 million TYAR Parcel Select (excluding PRS) pieces. If not confirmed, please provide the correct figure.

(b) Please confirm that you recommend that the Parcel Post rate design model apply the no-fee electronic delivery confirmation cost to 85.9% of Parcel Select pieces. If not confirmed, please explain fully.

(c) Please confirm that 85.9% of 244.1 million pieces is 209.7 million pieces. If not confirmed, please explain fully.

(d) Are you aware that, in its Final Adjustment, the Postal Service estimated a TYAR Parcel Select no-fee electronic delivery confirmation volume of 267.8 million?

(e) Taking into account your responses to subparts (a)-(c) of this interrogatory, do you believe that the TYAR Parcel Select no-fee electronic delivery confirmation volume will be 267.8 million pieces? Please explain your response fully.

(f) Please provide your best estimate of the TYAR Parcel Select no-fee electronic delivery confirmation volume and all of your underlying calculations.

(g) Do you believe that the Postal Service should apply a markup to the electronic delivery confirmation unit cost when determining the "Additional Parcel Select Piece-Element Revenue Target" on USPS-LR-L-82, WP-PP-20, line [x]? Please explain your response fully.

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**RESPONSE:**

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed.
- (d) I am aware that, based on Base Year proportions, Parcel Select's share of the projected Test Year Delivery Confirmation volume would be 267.8 million. See responses to UPS/USPS-T23-4 (Tr. 15/4530-31) and UPS/USPS-T23-6 (Tr. 15/4741).
- (e) No. Based on the available data, a 209.7 million estimate is reasonable for Parcel Post rate design purposes.
- (f) See my response to parts (a) - (e), and my testimony at page 16.
- (g) Yes. This is consistent with the markup of other assigned costs in the Parcel Post rate design and the use of a markup in setting the rates for Delivery Confirmation.

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**PSA/UPS-T2-5.** Please refer again to lines 5 through 9 on page 16 of your testimony where you state:

1. Based on better data being available, the no-fee electronic delivery confirmation cost in the Parcel Post rate design model for Parcel Select parcels (applied on USPSLR-L-82, WP-PP-20, lines [t], [u] and [v]) should be 14.67 cents per piece (rather than 10.73 cents per piece) and should be applied to 85.9% of the Parcel Select volume rather than 80%.

Please refer further to USPS-LR-L-59, DC-TY2008(AR).xls, worksheets "W-4e" and "I-8e".

(a) Have you developed any independent estimates of the unit cost of Parcel Select no-fee electronic delivery confirmation? If so, please provide them.

(b) Please confirm that the Postal Service's 14.67 cent per piece cost estimate for Parcel Select no-fee electronic delivery confirmation includes 2.85 cents of Window Service costs and that this cost is incurred for "customers that print and adhere an electronic label but submit their item(s) at the window." If not confirmed, please explain fully.

(c) Please confirm that the Postal Service estimates that the unit TYAR Window Service costs for Priority Mail electronic delivery confirmation, First-Class Mail electronic delivery confirmation, Package Service electronic delivery confirmation, and Standard Mail electronic delivery confirmation are 2.85 cents per piece. If not confirmed, please explain your response fully.

(d) In your opinion, are Parcel Select no-fee electronic delivery confirmation pieces more likely or less likely than other pieces with electronic delivery confirmation to be entered at postal "windows"? Please explain your response fully.

**RESPONSE:**

(a) No.

(b) Confirmed that this cost and associated language is contained in the referenced Postal Service worksheet.

(c) Confirmed.

(d) I have not studied this issue with respect to other subclasses, and do not know.

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**PSA/UPS-T2-6.** Please refer to Table 4 on Page 12 of your testimony and the response to UPS/USPS-T37-10 (Tr. 8/2148-51). In particular, please refer to where witness Kiefer stated, "I do not know how close these assigned costs are to the actual costs of Inter-BMC, DBMC, and DSCF parcels."

(a) Please confirm that you produced the "Contribution per Piece" figures in this table by subtracting the Postal Service's estimates of the assigned unit costs by rate category from the Postal Service's estimates of the unit revenues by rate category. If not confirmed, please explain fully and provide the unit cost and revenue figures for each of the Parcel Post rate categories shown in Table 4 and all of your underlying calculations.

(b) Please confirm that the Postal Service's estimate of the assigned costs and revenues for inter-BMC Parcel Post exclude the costs and revenues of pieces referred to on page 4 of UPS/USPS-T37-10 as Dim-Weight Pieces. If not confirmed, please explain fully.

(c) Please provide your understanding of what "Dim-Weight Pieces" are.

(d) Please confirm that including the costs and revenues of these pieces in the calculation of the unit contribution of inter-BMC parcels would reduce the estimated unit contribution of inter-BMC parcels from what is shown in Table 4.

(e) Have you performed any analysis to determine how close assigned costs by rate category are to actual costs by rate category? If so, please provide the results of your analysis and all of your underlying calculations.

(f) In calculating assigned costs by rate category, did the Postal Service take into account the carrier (C/S 7 and 10) collection/acceptance cost difference between rate categories? Please explain your response fully. If not, please provide your best estimate of unit Parcel Post collection costs by rate category and provide all of your underlying calculations.

**RESPONSE:**

(a) Confirmed.

(b) Confirmed.

(c) According to page 13 of USPS-T-33 (Scherer), "[d]im-weighting is a pricing method, applicable to packages, that considers the density ... of the package.

Relatively high-density packages are priced based on weight while relatively low-density

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packages are priced based on cubic volume. ... ” Dim-weighting is being proposed for Zones 5 through 8 of Priority Mail. The implementation of dim-weighting in Priority Mail is expected to result in a migration of some Priority Mail pieces to Parcel Post. See page 20 of USPS-T-37 (Keifer).

(d) Confirmed. I calculate that the Inter-BMC TYAR contribution per piece, including the Dim-Weight volume, would be \$1.09 instead of \$1.20.

(e) No.

(f) No. To my knowledge, no carrier cost differentials were included by the Postal Service in the assignment of costs to Parcel Post rate categories, including any collection cost differences and delivery cost differences that would result from the higher average cubic feet per parcel for Parcel Select parcels. I do not have the requested estimate.

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**PSA/UPS-T2-7.** Please refer to Table 1 on page 5 of your testimony and confirm that the “average transportation-related attributable costs” shown in this table include Vehicle Service Driver (C/S 8) costs (and associated piggybacks) and Purchased Transportation (C/S 14) costs. If not confirmed, please explain fully.

**RESPONSE:**

Confirmed. See USPS-LR-L-89, Attachment B, pp. 7 and 8.

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**PSA/UPS-T2-8.** Please refer to line 15 on page 16 through line 2 on page 17 of your testimony where you state:

The Window Service worksharing cost avoidances should be calculated using PRS pieces counted as non-dropship pieces since PRS pieces are not eligible for dropship rates, and henceforth the window service costs for PRS should be separately identified and analyzed in calculating Window Service savings.

Please refer further to the Postal Service's response to UPS/USPS-T21-14(c), which states:

It is my understanding that PRS mail would likely be treated as "dropship" mail in the IOCS activity codes. It is also my understanding that it is not possible to distinguish between any PRS-Related tallies and non-PRS Parcel Select tallies at this time.

(a) Please confirm that PRS Window Service costs are likely counted as costs for "dropship" mail. If not confirmed, please explain fully.

(b) Is it your testimony that the Postal Rate Commission should count PRS pieces as nondropship pieces in calculating the Window Service worksharing cost avoidance in this case even though the Window Service costs for PRS pieces are likely being counted as costs for dropship pieces? Please explain your response fully.

(c) Do you believe that the percentage of PRS pieces that will incur Window Service costs in the Test Year will be larger, smaller, or the same as the percentage of non-PRS Parcel Select pieces that will incur Window Service costs in the Test Year? Please explain your response fully.

**RESPONSE:**

(a) I cannot confirm based on the information I have available. The Postal Service characterizes this as "likely," but I do not know on what basis a PRS parcel that cannot be dropshipped would be counted as dropshipped, and whether such a mistaken treatment was haphazard or systematic.

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(b) No. It is my testimony that PRS parcels are not dropshipped and thus should not be included with dropshipped Parcel Select parcels in this calculation absent specific evidence that they were mistakenly treated as dropshipped on a systematic basis.

(c) I do not have the data to make this determination, but would expect PRS parcels to incur window service costs given that this is a common source of entry for these parcels. That is why I recommend that the volume for the PRS parcels not be included with Parcel Select in the Window Service calculation.

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**PSA/UPS-T2-9.** Please refer to Table 42 on page 178 of USPS-T-7, which shows a long-run own price elasticity of -0.374 for non-destination entry Parcel Post, and Table 44 on page 185 of USPS-T-7, which shows a long-run own-price elasticity of -1.399 for destination entry Parcel Post.

Please also refer to lines 4 through 5 on page 181 of USPS-T-7, which list “Price of competitor products (in this case, UPS and FedEx Ground) [and] Price of destination entry Parcel Post mail” as the variables that principally affect destination entry Parcel Post volume.

Finally, please refer to lines 4 through 5 on page 173 of USPS-T-7 which lists “Price of UPS Ground delivery [and] Price of non-destination entry Parcel Post” as the variables that principally affect nondestination entry Parcel Post volume.

(a) Please confirm that, according to the elasticity estimates developed by USPS witness Thress (USPS-T-7), Parcel Select volume is much more sensitive to the price of Parcel Select than the volume of non-destination entry Parcel Post is to the price of non-destination entry Parcel Post. If not confirmed, please explain fully.

(b) Have you performed any studies of the variables that affect non-destination entry and destination entry Parcel Post volume and/or the extent to which each variable affects nondestination entry and destination entry Parcel Post volume? If so, please provide them.

**RESPONSE:**

(a) Confirmed that the own-price elasticity estimates indicate that the demand for Parcel Select is more price sensitive, all else equal, than for non-destination entry Parcel Post.

(b) No.

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**PSA/USPS-T2-10.** Please refer to lines 19 through 20 on page 7 of your testimony where you state, "The number of pieces per container affects the productivity used in determining the avoided costs." Please refer further to footnote 14, which runs from page 7 to page 8 of your testimony where you state,

"The possibility that a small number of Parcel Post pieces may be entered at a DDU is not as unrealistic as Postal Service witness Miller suggests in this interrogatory response. Mailers may drop more than one subclass of mail at the DDU, so that Parcel Post parcels may be only a small fraction of the total dropshipment."

Please also refer to USPS-LR-L-46 at 21-23.

(a) Please confirm that the only activity modeled by the USPS for DDU parcels that requires an estimation of the number of pieces per container is "Move Containers From Dock." If not confirmed, please explain your response fully.

(b) Can multiple subclasses of parcels be moved from the dock in the same container? If not, please explain your response fully.

(c) In FY 2005, did Parcel Select DDU parcels comprise "only a small fraction" of the total volume of parcels entered at the DDU? Please explain your response fully and provide all of your underlying calculations.

(d) In FY 2005, what percentage of parcels entered at the DDU were Parcel Select DDU parcels? Please provide all of your underlying calculations.

**RESPONSE:**

(a) Confirmed. The Postal Service has not studied DDU-entry handling practices at the DDU, and, as such, other activities could be taking place that should be modeled. See USPS/UPS-T21-6. For example, DDU-entry parcels entered on pallets are not differentiated in the "Move Containers from Dock" operation from those DDU-entry parcels that are placed into Postal Service containers at the DDU, nor are activities included to model the handling of empty pallets.

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(b) Physically, yes. I do not know if this is a standard practice for DDU-entry Parcel Post parcels. See USPS/UPS-T21-6. It seems unlikely that Standard Mail Enhanced Carrier Route parcels and Carrier-Route Bound Printed Matter parcels would be combined with DDU-entry Parcel Post parcels at the DDU dock. According to the DMM at 705.6.2.1.c. and 705.7.1.1, "Standard Mail parcels may not be combined with Package Services parcels prepared for DDU rates," and Carrier Route Bound Printed Matter may not be combined with other DDU-entry Package Services parcels.

(c) I have not performed this calculation. It is my understanding that any particular dropshipment at a DDU can be comprised of various shapes of mail and various subclasses of mail. In the TYAR, DDU-entry Parcel Post parcels are projected by the Postal Service to be 186 million pieces (See USPS-LR-L-82, WP-PP-28). In the TYAR, the Postal Service projects about 31 million Standard A parcels will take advantage of the new DDU-entry rate for those parcels (See USPS-LR-L-36, WP-STDREG-30 and WP-STDREG-31). BPM entered at the DDU is projected to be 72 million in the TYAR, but this total includes flats and pieces presorted to carrier-route (See USPS-LR-L-41, WP-BPM-1 and WP-BPM-27). In the TYAR, the Postal Service projects about 100 thousand Standard Mail ECR parcels will be entered at the DDU (See USPS-LR-L-36, WP-STDECR-19 and WP-STDECR-20).

(d) See my response to part (c).