

**BEFORE THE
POSTAL RATE COMMISSION**

POSTAL RATE AND FEE CHANGES, 2006

DOCKET NO. R2006-1

**REVISED RESPONSE OF UNITED PARCEL SERVICE WITNESS GEDDES
TO INTERROGATORY OF UNITED STATES POSTAL SERVICE
(USPS/UPS-T3-4(c))
(October 24, 2006)**

Pursuant to the Commission's Rules of Practice, United Parcel Service hereby files a revised response of UPS witness R. Richard Geddes to the following interrogatory of the United States Postal Service: USPS/UPS-T3-4(c).

Respectfully submitted,

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USPS/UPS-T3-4. Please refer to Table 1 in your testimony.

a. Please confirm that Priority Mail volume declined by 30.5 percent from FY 2000 to FY 2004.

b. Please confirm that in addition to increasing by approximately 5 percent in FY 2005, Priority Mail volume is on track to increase by about the same amount in FY 2006.

c. Do you believe that two consecutive years of approximately 5 percent volume growth — during a time when real GDP has been growing by 3 to 4 percent — constitutes “recovery” from the 30.5 percent volume decline, from 2000 to 2004? In answering, please refer to your assertion at page 17, lines 8 - 10 that “[t]hese recent volume improvements indicate that whatever Priority Mail’s perceived service performance may be, it has a sufficiently high value that its volume can recover from a series of unfavorable events and rate increases.” When you say “can recover,” do you mean that Priority Mail volume has the potential to recover (which has not yet been manifested)?

d. While Priority Mail volume was declining by 30.5 percent, by how much did UPS volume in the total (ground and air, combined) 2- and 3-day package and document delivery market change from 2000 to 2004? Please provide your response both in absolute and percentage terms.

RESPONSE:

a. Confirmed. I note that the period chosen starts with the year immediately prior to September 11 and the anthrax attacks.

b. Confirmed. If one takes the average of the growth rates for the first three quarters of FY 2006, the result is 5 percent.

c. This question has two parts. The first part asks if I believe that 5 percent volume growth constitutes a recovery from a 30.5 percent decline. Whether or not 5 percent constitutes recovery from a volume decline does not depend on the magnitude of the decline over the previous five years (an arbitrarily chosen period), but instead on the overall historical average growth rate. The average of the annual growth rates in

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Priority Mail volume from 1971 (the year postal reorganization was implemented) through 2000 was about 6.7 percent. USPS-LR-L-74, Priority Mail Volume History, p. 3 of 9. A 5 percent annual growth rate is thus three quarters of the way to the historical average annual growth rate. If one includes the years 2001 through 2005 (since those are valid observations on volume history), the historical average annual growth rate falls to about 4.8 percent. Therefore, a 5 percent increase is greater than the historical annual growth rate, which I believe constitutes recovery. Regarding the second part of the question, I mean that Priority Mail volumes have recovered from the unfavorable events, which also indicates that they can do so in the future.

d. I have not been asked to examine UPS's volume data, and therefore I do not have it.