

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

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POSTAL RATE AND FEE CHANGES  
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005-1

RESPONSES OF UNITED STATES POSTAL SERVICE  
WITNESS KIEFER TO INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION  
(PSA/USPS-T36-1-5)

The United States Postal Service hereby files the responses of witness Kiefer to above-listed interrogatories, filed on May 15, 2006.

The interrogatories are stated verbatim and are followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

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Nan K. McKenzie

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May 30, 2006

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KIEFER TO  
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**PSA/USPS-T36-1.** Please refer to USPS-T-13, Attachment 14 and USPS-T-30, Table 1, and Table 1 below.

**Table 1. Test Year Standard Regular Parcel Unit Costs (in Cents)**

<b>Shape</b>	<b>Unit Cost</b>
Mail Processing	59.60
Delivery	32.671
Transportation	
Other	
Total	

- (a) Please confirm that the unit mail processing and delivery costs in Table 1 are accurate. If not confirmed, please provide the correct figures and provide your source.
- (b) Please provide the Test Year unit transportation cost, the unit “other” cost, and total unit cost for Standard Regular parcels. Please also provide your sources and all underlying calculations.

**RESPONSE:**

- (a) Confirmed. While I have not independently verified the accuracy of the assumptions and calculations witnesses Smith and Kelley used to produce these cost estimates, I have no reason to question their accuracy or their suitability for use in pricing.
- (b) It is my understanding that no estimates of the requested quantities have been developed.

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**PSA/USPS-T36-2.** Please provide the average Test Year Before Rates (TYBR) and Test Year After Rates (TYAR) unit revenue for Standard Regular parcels. Please also provide your sources and all underlying calculations.

**RESPONSE:**

The TYBR Average Revenue is 77.1 cents ( $\$416,825,382$  divided by  $540,778,584$  pieces). The TYBR revenue ( $\$416,825,382$ ) is the sum of the parcels revenues (net of barcode discount) from workpaper WP-STDREG-21. The piece counts ( $540,778,584$ ) are the sum of the piece-rated parcel pieces and pound-rated parcel pieces from WP-STDREG-19.

The TYAR Average Revenue is 114.6 cents ( $\$513,986,231$  divided by  $448,594,236$  pieces). The TYAR revenue ( $\$513,986,231$ ) is the sum of the parcels revenues from workpaper WP-STDREG-32. The piece counts ( $448,594,236$ ) are the sum of the piece-rated parcel pieces and pound-rated parcel pieces from WP-STDREG-30.

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**PSA/USPS-T36-3.** Please provide the average Test Year Before Rates (TYBR) and Test Year After Rates (TYAR) unit revenue for Standard Regular hybrids. Please also provide your sources and all underlying calculations.

**RESPONSE :**

The TYBR revenues were not separately calculated for pieces that are expected to pay NFM (or “hybrid” flats) rates if the Postal Service’s proposals are implemented.

The TYAR Average Revenue is 66.8 cents (\$419,795,207 divided by 628,397,096 pieces). The TYAR revenue (\$419,795,207) is the sum of the NFM (or “hybrid” piece) revenues from workpaper WP-STDREG-32. The piece counts (628,397,096) are the sum of the piece-rated hybrid pieces and pound-rated hybrid pieces from WP-STDREG-30.

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**PSA/USPS-T36-4.** Please refer to line 25 on page 18 through line 3 on page 19 of your testimony where you state, "Higher destination entry discounts recognize the fact that parcels generally are more costly to transport and move about due to their larger size, so avoiding these operations would be expected to result in larger postal savings." Has the Postal Service estimated the costs avoided by dropshipping Standard Mail parcels? If so, please provide this information.

**RESPONSE:**

To my knowledge the Postal Service has not developed avoided costs specifically for drop shipping Standard Mail parcels.

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**PSA/USPS-T36-5.** Please refer to note 8 (which applies to Test Year Mail Processing Costs Per Piece) to USPS-T-36, WP-STDECR-1. This note states, "USPS-LR-L-84 (Talmo), Table 1 (Flats data used for all nonletters)." Please also refer to USPS-LR-84, Table 1.

- (a) Please confirm that USPS-LR-L-84, Table 1 shows unit mail processing costs of 3002.666 cents per piece for Standard Mail ECR Basic Parcels and 606.399 cents per piece for Standard Mail High Density/Saturation ECR parcels.
- (b) Please explain why you used the unit costs for ECR flats as proxies for the unit costs for ECR parcels, rather than using the unit costs for ECR parcels from USPS-LR-L-84, in your Standard Mail ECR rate design.
- (c) Do the unit cost figures for Standard Mail parcels in USPS-LR-L-84 appear credible to you? Please explain your response fully.

**RESPONSE:**

- (a) Confirmed.
- (b) The unit cost estimates for ECR parcels in USPS-LR-L-84 were significantly higher than the unit cost estimates developed for Standard Mail Regular parcels. Given the higher average degree of preparation typical of ECR parcels, lower unit costs would normally have been expected. In light of this anomalous relationship and the extraordinarily high estimated values for the unit costs, I determined that the USPS-LR-L-84 unit cost estimates for ECR parcels were not suitable to use in developing ECR parcel pricing. I then determined that the ECR flats unit cost estimates would serve as a more useful reference point for ECR parcel pricing since both ECR flats and ECR parcels have a relatively high degree of preparation by the mailer before they are tendered to the Postal Service, and the flats unit costs would reflect this high degree of mailer preparation.
- (c) As I described in subpart (b), the USPS-LR-L-84 unit cost estimates for ECR parcels are both extraordinarily high and also higher than the comparable Standard Mail Regular parcels unit costs. In my judgment, their extraordinarily

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high values and anomalous relation to Standard Mail Regular parcels unit costs  
make them unsuitable to use for pricing purposes.

## **CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

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Nan K. McKenzie

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May 30, 2006