

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

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

Docket No. R2005-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MAYES TO
INTERROGATORIES OF THE AMERICAN POSTAL WORKERS UNION, AFL-CIO
(APWU/USPS-T25-1, 4-6)

The United States Postal Service hereby files the responses of witness Mayes to the above-listed interrogatories of the American Postal Workers Union, AFL-CIO, filed on June 10, 2005. Interrogatories APWU/USPS-T25-2 and 3 have been redirected to the Postal Service.

Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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June 24, 2005

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYES TO THE
INTERROGATORIES OF THE AMERICAN POSTAL WORKERS UNION, AFL-CIO

APWU/USPS-T25-1 In making its calculations of costs the Postal Service avoids by providing dropshipping discounts, what assumptions are made about the costs the Postal Service would have incurred in the absence of dropship discounts? Are Postal Service costs estimated for what it would cost the Postal Service to transport the mail that is currently being dropshipped by mailers? If so, what is the estimate of those costs?

Response:

No assumptions are made regarding the costs that would have been incurred in the absence of the dropship discounts. Actual transportation costs from the base year are projected forward in the rollforward cost forecasting model. The transportation costs from the rollforward are used in the development of the dropship cost avoidances. There have been no estimates made of the cost that the Postal Service would have incurred had mail dropshipped by mailers or their representatives been given to the Postal Service to transport instead.

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APWU/USPS-T25-4 If the effect of dropship discounts is to cause some mail to be dropshipped at destinating locations that otherwise would have been shipped at the originating location, isn't one effect of this change in shipping patterns to decrease the volume of mail in the transportation system and thereby to cause an increase in the unit cost of transportation of mail not being dropshipped?

Response:

No. The intention of dropship discounts is to encourage mailers who are able to transport mail more cheaply than the Postal Service to do so, and to provide a deaveraged rate structure that acknowledges that mail from mailers whose production facilities are located closer to the delivery destinations or who are willing, for cost or service reasons, to dropship their mail closer to those destinations is cheaper for the Postal Service to transport and handle. This question seems to assume that transportation networks are static and would not be adjusted to reflect changes in mail volumes between given origins and destinations. In fact, contracts with transportation service providers are constantly under review to ensure that the transportation used is appropriately sized for the mail traveling between the origins and destinations. While there could be a change in marginal cost in theory, in practice there is no material change. Dropshipping primarily substitutes for transportation between facilities, not transportation within the local area. As is shown in CS14.xls of library reference USPS-LR-K-5 in tab "Inputs – Variabilities", the variabilities of long-haul highway transportation are relatively high, suggesting that changes in volumes do result in changes in costs. For example, the variability of Inter-BMC highway costs is shown as 97.9%. The variability of Intra-BMC highway costs is 98.3%, and the variability of Inter-Area highway costs is 91.3%. When the variabilities are this high, the marginal cost curve is quite flat and a modest reduction in volume will have only a very small impact on unit costs.

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APWU/USPS-T25-5 Is the cost avoided by dropshipping determined using actual current unit transportation cost data? If the answer to this question is yes, isn't one effect of each new larger dropship discount to increase the unit costs used to determine the amount of the dropship discounts in the succeeding rate case?

Response:

As described in the response to APWU/USPS-T25-1, actual base year transportation marginal cost data is used in the rollforward model to project transportation costs. The dropship cost avoidance model uses the forecasted transportation marginal costs from the rollforward model. There is no reason to assume that a larger dropship discount would necessarily increase the unit costs used to determine the amount of the dropship discounts in the succeeding rate case. Please see the response to APWU/USPS-T25-4. The costs used to determine the amount of dropship discounts in the succeeding rate case would be developed in the same manner as were those of the current rate case.

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APWU/USPS-T25-6 If only the costs that the Postal Service actually incurs are used in the estimates of costs avoided by dropshipping, wouldn't it be reasonable to assume that those overestimate the Postal Service's unit costs for transporting the mail that has already been removed from the system?

Response:

No. The costs of transporting mail that has already been removed from the system would not be included in the costs used to develop the estimates of costs avoided due to dropshipping. Please refer to the responses to APWU/USPS-T25-1, 4 and 5. The dropship model for Standard Mail assumes that the cost of transporting all Standard Mail to the destination delivery unit is a weighted average of the costs of transporting the various volumes of mail entered at the possible entry points. This weighted average includes only that mail that was actually in the postal system and using the portion(s) of the postal-provided transportation network that it actually used during the base year, projected to the test year.

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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