

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS KIEFER  
TO INTERROGATORIES OF THE ASSOCIATION FOR POSTAL COMMERCE  
(POSTCOM/USPS-T36-4-10))

The United States Postal Service hereby files the responses of witness Kiefer to  
above-listed interrogatories, filed on July 14, 2008

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
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July 28, 2006

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KIEFER TO  
INTERROGATORY OF THE ASSOCIATION FOR POSTAL COMMERCE AND  
THE MAILING AND FULFILLMENT SERVICE ASSOCIATION

**POSTCOM/USPS-T36-4.** At page 4 of your testimony, you state that the “rate design and classification” changes you are proposing for the Standard Mail subclasses are designed to “better align with mail processing categories.” In footnote 1 on that page, you state that the “hybrids” or “not flat-machinable pieces” are “not commonly processed” on flat sorting machines.

- a. Please provide the data upon which you relied in reaching the conclusion that NFM’s “are not commonly processed” on flat sorting machines.
- b. If there are no such data, please list and explain all assumptions that you made with respect to the manner in which NFMs will be processed TYBR and TYAR.

**RESPONSE:**

- a. The conclusion was not based on an analysis of data, rather it was based on information from persons in the Postal Service who are familiar with the way these pieces are processed. Witness McCrery (USPS-T-42) is one such individual. Please see his testimony at page 20 where he states:

Rigid flats do not process well on the AFSM 100. Even at plants that still have UFSM 1000s that could process such pieces, rigid flats are commonly processed manually or on mechanized or automated bundle/parcel sorting equipment. These items are then sorted manually in an incoming secondary sorting operation at the delivery unit. (Lines 6-10).

And:

Also, extremely small and large flats are problematic in processing even though they may fall within the physical limitations of the UFSM 1000s. These would be pieces less than 5” x 6” or larger than 12” x 15” x  $\frac{3}{4}$ ”. Such pieces can cause jams or feeder problems when mixed with flats of varying sizes, particularly on the AFSM 100, and they do not stack well in the output tubs.... Therefore, small, large, thick, and rigid flat-shaped mail pieces are unlikely to be processed in an automated flat mail stream. (Lines 15-22).

- b. I assumed that NFMs would be processed as they are processed today. That is, “...commonly processed manually or on mechanized or automated bundle/parcel sorting equipment. These items are then sorted manually in an incoming secondary sorting operation at the delivery unit.”(USPS-T-42, at 20).

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**POSTCOM/USPS-T36-5.** Please:

- a. Provide the data (TYAR) upon which you relied to determine the percentage of NFM's that are pound-rated and the average weight of pound-rated hybrid pieces.
- b. If there are no such data, please list and explain all assumptions that you made to estimate the percentage of hybrid pieces that will be pound-rated and the average weight of such pound-rated pieces.

**RESPONSE:**

- a. See my worksheet WP-STDREG-29, in particular the section with the heading "Distribution Shares." This section shows the assumed Piece Rate Shares and Pound Rate Shares for NFM's (listed on the worksheet as "Hybrid" pieces). The shares in WP-STDREG-29 are based on the base year piece-rated and pound-rated shares for Automation Flats (for "hybrid flats") and Presorted Parcels (for "hybrid parcels"), as shown in WP-STDREG-15. My rate design did not use any average weight data, but average weights for pound-rated pieces could be calculated from my worksheet WP-STDREG-30 by adding up the figures for Hybrid Pieces under the heading Pound-Rated Pounds and dividing by the sum of the figures under the corresponding Pound-Rated Pieces heading.
- b. Not applicable.

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**POSTCOM/USPS-T36-6.** Please:

- a. Provide the data upon which you relied to estimate the average density of NFMs.
- b. If there are no such data, please list and explain all assumptions you made with respect to the density of such pieces in your development of the rates and rate design for this new category.

**RESPONSE:**

- a. I did not estimate the average density of NFMs in developing my testimony.
- b. I made no explicit assumptions regarding the density of NFM pieces in developing my rates.

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**POSTCOM/USPS-T36-7.** Please refer to page 11, footnote 3, of your testimony, at which you state that “some pieces are expected to migrate” and that “many mailers will reconfigure their non-eligible pieces to meet the new flats definition and to thereby avoid being pushed into the hybrids flat or parcel categories.

- a. Please confirm that the expected migration is from “hybrid flats” to flats. If you do not confirm, please explain in detail your answer.
- b. What is the empirical basis for these statements? If there are no empirical data, what assumptions did you make with respect to migration and reconfiguration in development of your rates for the flats and hybrid category?
- c. In that same footnote, you state that the “rate differentials are designed, in part, to encourage such reconfiguration.” Please confirm that the differentials you are referring to relate to the differentials between the NFM category and the flat category. If you do not confirm, please explain in detail your answer.

**RESPONSE:**

- a. Not confirmed. The migration I was referring to in my testimony was the eventual migration of some parcel-shaped pieces from the NFM rate category to Standard Mail Regular parcels rate categories.
- b. Please see my workpaper WP-STDREG-9 for the data used to estimate the number of pieces that fall into the “hybrid parcels” category. My statement about “migration” referred to these pieces and did not pertain to the period covered by the rates proposed in the current rate case. Rather, it said that after a transition period, these “hybrid parcel” pieces would no longer be eligible for NFM rates, but would pay Standard Mail Regular parcels rates. The statement about reconfiguration referred to my assumption, that the rate differentials between NFM and parcels rates on the one hand and flats rates on the other would induce some mailers to change their mail pieces to conform to the eligibility requirements for Standard Mail Regular flats. The assumption was based on a perceived desire of mailers to avoid paying higher postage, and not based on any empirical studies. Although some mailers may choose to reconfigure their mail pieces to avoid paying NFM rates during the period covered by the rates I am proposing in this case, I did

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not assume any reconfiguration during the test year for the purposes of  
developing my rate proposals or estimating revenue in this case.

c. Confirmed.

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**POSTCOM/USPS-T36-8.** Please refer to page 22 of your testimony in which you state that “many [NFM] pieces are counted as parcels for cost allocation purposes, but are counted as flats for volume purposes.”

- a. Please confirm that there is no Cost and Revenue Analysis (“CRA”) specific to Standard Mail hybrid pieces available. If not confirmed, please explain the basis for your answer.
- b. At page 22 of your testimony, you also state that the “mismatch” leads to “difficulties” in getting an accurate estimate of the unit cost of Standard Mail parcels. Do you agree that the “mismatch” also leads to “difficulties” in getting an accurate estimate of the unit revenues of Standard Mail parcels? If you do not agree, please explain your answer in detail.

**RESPONSE:**

- a. Confirmed.
- b. If Standard Mail parcels is understood as “parcel-shaped pieces paying various Standard Mail rates” I agree. Some of these pieces (the number is not precisely known) pay Standard Mail Regular Automation flats rates and are counted by our RPW system as flats. For this reason, it is difficult to get an accurate estimate of unit revenue for Standard Mail parcel shaped pieces.

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**POSTCOM/USPS-T36-9.** Please refer to WP-STDREG-26 where it shows the proposed passthroughs by presort level for Standard Mail parcels and hybrids.

- a. Please explain why you consider passthroughs at these levels to be “appropriate de-averaging by presort level” for hybrid flats and Standard parcels as set forth in page 12 of your testimony.
- b. Please identify any studies or research data upon which you relied in reaching the conclusion that the presort levels you have proposed for NFM parcels and parcels are sufficient to enable mailers to “offset some of the rate increasing impacts of the realignment” as you state at page 12.

**RESPONSE:**

- a. The quoted statement was intended to refer to the appropriateness of the de-averaged structure of the rate design, rather than to focus on the specific passthrough levels in this rate case. Nevertheless, the passthroughs I have proposed are appropriate within the context of my overall rate proposals. As I discussed on page 19 of my testimony, I significantly mitigated the base rate (i.e. the top rate) for parcels; this mitigation made it practically impossible to give high passthroughs for the estimated cost savings from presorting parcels as well. The overall result was to compress the rate structure across presort levels, as evidenced by the low passthrough figures. The same procedure was followed for nonmachinable parcels rates and for NFM rates: because the top rate was significantly mitigated, I could not then propose full passthroughs for further worksharing.
- b. The quoted statement referred not only to changes in presort levels, but also to enhanced entry options available to parcels and NFMs, such as the proposed addition of a DDU entry discount for these pieces. No specific empirical studies were relied upon to come to my conclusion. One need only consult my worksheet WP-STDREG-27 to see that, for example, a minimum per piece-rated parcel that can be drop-shipped to the DDU will see a rate

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increase of only 7.5 percent. This rate is significantly below the average  
increase for the Standard Mail Regular subclass.

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**POSTCOM/USPS-T36-10.** At page 17 of your testimony, you state that the disaggregated rate design for Standard Mail parcels, among other things, permits “expanded drop ship discounts.”

- a. Please provide any estimates (TYAR) that you have made as to the volume of Standard Mail parcels that can, under current mail preparation rules, qualify for a DSCF or a DDU discount.
- b. If you do not have such estimates, please set forth the basis for your conclusion that the drop ship structure and the level of avoided costs passthroughs you have proposed results in “expanded” worksharing options available to Standard mailers.

**RESPONSE:**

- a. Please refer to my worksheet WP-STDREG-30 for my estimates of TYAR volumes that will qualify for DSCF and DDU discounts. The figures in WP-STDREG-30 were based on total projections of TYAR volumes and entry shares from worksheet WP-STDREG-10, which I obtained from USPS-LR-L-33, sponsored by witness Loetscher (USPS-T-28). It is my understanding that witness Loetscher did not assume any changes to current mail preparation rules to develop his library reference.
- b. Not applicable.

## **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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