

# OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL RATE COMMISSION

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In the Matter of: )  
POSTAL RATE AND FEE CHANGES ) Docket No.: R2006-1

VOLUME #8

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U.S. DEPARTMENT OF JUSTICE  
FEDERAL BUREAU OF INVESTIGATION  
WASHINGTON, D.C. 20535

Date: August 11, 2006  
Place: Washington, D.C.  
Pages: 1892 through 2184

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POSTAL RATE COMMISSION

In the Matter of: )  
 )  
POSTAL RATE AND ) Docket No.: R2006-1  
FEE CHANGES )

Suite 200  
Postal Rate Commission  
901 New York Avenue, N.W.  
Washington, D.C.

Volume 8  
Friday, August 11, 2006

The above-entitled matter came on for hearing  
pursuant to notice, at 9:34 a.m.

BEFORE:

HON. GEORGE A. OMAS, CHAIRMAN  
HON. DAWN A. TISDALE, VICE-CHAIRMAN  
HON. TONY HAMMOND, COMMISSIONER  
HON. RUTH Y. GOLDWAY, COMMISSIONER

APPEARANCES:

On behalf of United States Postal Service:

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(202) 268-2900

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(215) 656-3310

C O N T E N T S

## WITNESSES APPEARING:

NINA YEH  
 JAMES M. KIEFER

<u>WITNESSES:</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>	<u>VOIR DIRE</u>
Nina Yeh	1897				
by Mr. Olson	--	1990	--	--	--
by Mr. Volner	--	2034	--	--	--
by Ms. Dreifuss	--	2069	--	--	--
		2081			
James M. Kiefer	2084				
by Mr. McKeever	--	2160	--	--	--
		2176			
		2181			
by Mr. Dreifuss	--	2171	--	--	--

<u>DOCUMENTS TRANSCRIBED INTO THE RECORD</u>	<u>PAGE</u>
Corrected designated written cross-examination of Nina Yeh, USPS-T-38	1900
Response of Witness Yeh to Presiding Officer Information Requests, POIR 9, Question 3, and POIR 10, Question 5	1987
Amazon.com, Inc. Cross-Examination Exhibit, Amazon-XE-1	2008
Amazon.com, Inc. Cross-Examination Exhibit, Amazon-XE-2	2009
Corrected designated written cross-examination of James M. Kiefer, USPS-T-37	2088

E X H I B I T S

<u>EXHIBITS AND/OR TESTIMONY</u>	<u>IDENTIFIED</u>	<u>RECEIVED</u>
Corrected direct testimony of Nina Yeh behalf of the United States Postal Service, USPS-T-38	1897	1898
Corrected designated written cross-examination of Nina Yeh, USPS-T-38	1899	1899
Response of Witness Yeh to Presiding Officer Information Requests, POIR No. 9, Question 3, and POIR No. 10, Question 5	1986	1986
Amazon.com, Inc. Cross-Examination Exhibit, Amazon-XE-1	2002	2007
Amazon.com, Inc. Cross-Examination Exhibit, Amazon-XE-2	2002	2007
Corrected direct testimony of James M. Kiefer on behalf of the United States Postal Service, USPS-T-37	2084	2086
Corrected designated written cross-examination James M. Kiefer, USPS-T-37	2087	2087



1 (The document referred to was  
2 marked for identification as  
3 Exhibit No. USPS-T-38.)

4 DIRECT EXAMINATION

5 BY MR. REITER:

6 Q Ms. Yeh, I've handed you two copies of a  
7 document entitled Direct Testimony of Nina Yeh on  
8 Behalf of United States Postal Service designated  
9 USPS-T-38. This contains the revisions that were  
10 filed yesterday, August 10.

11 Was this testimony prepared by you or under  
12 your direction?

13 A Yes, it was.

14 Q And if you were to testify orally here today  
15 would your testimony be the same?

16 A Yes.

17 MR. REITER: Mr. Chairman, with that I will  
18 hand the two copies of the testimony to the reporter  
19 and ask that they be entered into evidence.

20 CHAIRMAN OMAS: Is there any objection?

21 (No response.)

22 MR. REITER: I'm sorry, Mr. Chairman.

23 BY MR. REITER:

24 Q Ms. Yeh, were there any library references  
25 associated with your testimony?

1 A Yes.

2 Q Which one was that?

3 A Library Reference 41.

4 MR. REITER: Mr. Chairman, I ask that that  
5 also be entered into the record with her testimony.

6 CHAIRMAN OMAS: Without objection.

7 Hearing none, I will direct counsel to  
8 provide the reporter with two copies of the corrected  
9 direct testimony of Nina Yeh.

10 That testimony is received into evidence.  
11 However, as is our practice, it will not be  
12 transcribed.

13 (The document referred to,  
14 previously identified as  
15 Exhibit No. USPS-T-38, was  
16 received in evidence.)

17 CHAIRMAN OMAS: Ms. Yeh?

18 THE WITNESS: Yes?

19 CHAIRMAN OMAS: Have you had an opportunity  
20 to examine the packet of designated written cross-  
21 examination provided to you in the hearing room this  
22 morning?

23 THE WITNESS: Yes, I have.

24 CHAIRMAN OMAS: If the questions contained  
25 in that packet were posed to you orally today would

1 your answers be the same as those you previously  
2 provided to us in writing?

3 THE WITNESS: Yes.

4 CHAIRMAN OMAS: The Commission has just  
5 received your responses to two Presiding Officer  
6 Information Requests. I want the answers to that POIR  
7 9, Question 3, and POIR 10, Question 5, made part of  
8 the record.

9 I am handing the reporter two copies, and I  
10 direct that they be admitted into evidence.

11 Are there any corrections or additions that  
12 you would like to make to those answers?

13 THE WITNESS: No.

14 MR. REITER: Excuse me. There are  
15 corrections.

16 CHAIRMAN OMAS: Counsel, would you please  
17 provide two copies of the corrected designated written  
18 cross-examination of Witness Yeh to the reporter?

19 That material is received into evidence and  
20 is to be transcribed into the record.

21 THE WITNESS: Yes.

22 (The document referred to was  
23 marked for identification as  
24 Exhibit No. USPS-T-38 and was  
25 received in evidence.)

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2006

Docket No. R2006-1

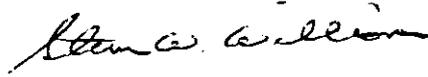
DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS NINA YEH  
(USPS-T-38)

<u>Party</u>	<u>Interrogatories</u>
Amazon.com, Inc.	AMZ/USPS-T38-1-24, 25a-b, 26-30
American Bankers Association and National Association of Presort Mailers	PRC/USPS-POIR No.5 - Q2b redirected to T38
Association for Postal Commerce	AMZ/USPS-T38-3-4, 13-18, 23, 26 PostCom/USPS-T38-1-4 PRC/USPS-POIR No.4 - Q24, POIR No.5 - Q2b, 9b redirected to T38
Office of the Consumer Advocate	DBP/USPS-T38-1-21 DFC/USPS-T38-1, 3-8, 12-13
Pitney Bowes Inc.	PB/USPS-T38-1
Postal Rate Commission	AMZ/USPS-T38-3-4, 6, 8, 12-16, 20-23, 27 DBP/USPS-T38-2-3, 9-10 DFC/USPS-T38-3-4, 6, 12 PostCom/USPS-T38-1, 3-4 PRC/USPS-POIR No.3 - Q18b, 18c, POIR No.4 - Q19-20, 23, 24, POIR No.5 - Q2b, 9b redirected to T38

Party

Interrogatories

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Steven W. Williams".

Steven W. Williams  
Secretary

INTERROGATORY RESPONSES OF  
UNITED STATES POSTAL SERVICE  
WITNESS NINA YEH (T-38)  
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

AMZ/USPS-T38-1  
AMZ/USPS-T38-2  
AMZ/USPS-T38-3  
AMZ/USPS-T38-4  
AMZ/USPS-T38-5  
AMZ/USPS-T38-6  
AMZ/USPS-T38-7  
AMZ/USPS-T38-8  
AMZ/USPS-T38-9  
AMZ/USPS-T38-10  
AMZ/USPS-T38-11  
AMZ/USPS-T38-12  
AMZ/USPS-T38-13  
AMZ/USPS-T38-14  
AMZ/USPS-T38-15  
AMZ/USPS-T38-16  
AMZ/USPS-T38-17  
AMZ/USPS-T38-18  
AMZ/USPS-T38-19  
AMZ/USPS-T38-20  
AMZ/USPS-T38-21  
AMZ/USPS-T38-22  
AMZ/USPS-T38-23  
AMZ/USPS-T38-24  
AMZ/USPS-T38-25a  
AMZ/USPS-T38-25b  
AMZ/USPS-T38-26  
AMZ/USPS-T38-27  
AMZ/USPS-T38-28  
AMZ/USPS-T38-29  
AMZ/USPS-T38-30  
DBP/USPS-T38-1

Designating Parties

Amazon  
Amazon  
Amazon, PostCom, PRC  
Amazon, PostCom, PRC  
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Amazon, PRC  
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OCA

Interrogatory

DBP/USPS-T38-2  
 DBP/USPS-T38-3  
 DBP/USPS-T38-4  
 DBP/USPS-T38-5  
 DBP/USPS-T38-6  
 DBP/USPS-T38-7  
 DBP/USPS-T38-8  
 DBP/USPS-T38-9  
 DBP/USPS-T38-10  
 DBP/USPS-T38-11  
 DBP/USPS-T38-12  
 DBP/USPS-T38-13  
 DBP/USPS-T38-14  
 DBP/USPS-T38-15  
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 DBP/USPS-T38-17  
 DBP/USPS-T38-18  
 DBP/USPS-T38-19  
 DBP/USPS-T38-20  
 DBP/USPS-T38-21  
 DFC/USPS-T38-1  
 DFC/USPS-T38-3  
 DFC/USPS-T38-4  
 DFC/USPS-T38-5  
 DFC/USPS-T38-6  
 DFC/USPS-T38-7  
 DFC/USPS-T38-8  
 DFC/USPS-T38-12  
 DFC/USPS-T38-13  
 PB/USPS-T38-1  
 PostCom/USPS-T38-1  
 PostCom/USPS-T38-2  
 PostCom/USPS-T38-3  
 PostCom/USPS-T38-4  
 PRC/USPS-POIR No.3 - Q18b redirected to T38  
 PRC/USPS-POIR No.3 - Q18c redirected to T38

Designating Parties

OCA, PRC  
 OCA, PRC  
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 OCA, PRC  
 OCA, PRC  
 OCA  
 OCA, PRC  
 OCA, PRC  
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 OCA, PRC  
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 OCA  
 OCA, PRC  
 OCA  
 Pitney Bowes  
 PostCom, PRC  
 PostCom  
 PostCom, PRC  
 PostCom, PRC  
 PRC  
 PRC

Interrogatory

PRC/USPS-POIR No.4 - Q19 redirected to T38  
PRC/USPS-POIR No.4 - Q20 redirected to T38  
PRC/USPS-POIR No.4 - Q23 redirected to T38  
PRC/USPS-POIR No.4 - Q24 redirected to T38  
PRC/USPS-POIR No.5 - Q2b redirected to T38  
PRC/USPS-POIR No.5 - Q9b redirected to T38

Designating Parties

PRC  
PRC  
PRC  
PostCom, PRC  
ABA-NAPM, PostCom, PRC  
PostCom, PRC

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF AMAZON.COM, INC.

**AMZ/USPS-T38-1.**

Please refer to USPS-LR-L-41, BPM Spreadsheets, tab FY2005 Presort Billing Det. (WP-BPM-3), and tab FY2005 SP Billing Det. (WP-BPM-4).

- a. Were the data shown in these two spreadsheets prepared by you, or under your supervision? If so, please provide the source or sources used to compile or prepare these data.
- b. Are you sponsoring the data in the tables in these two spreadsheets? If not, please identify the witness or witnesses who can sponsor and verify the billing determinants data in these two spreadsheets.

RESPONSE:

- a. Yes. The source used to compile these data is the FY2005 Bound Printed Matter Billing Determinants.
- b. Yes.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF AMAZON.COM, INC.

**AMZ/USPS-T38-2.**

Please refer to USPS-LR-L-41, Media Mail and Library Spreadsheets, tab FY 2005 Billing Determinants (WP-MM-2).

- a. Were the data that appear in this spreadsheet prepared by you, or under your supervision? If so, please provide the source or sources used to compile or prepare these data.
- b. Are you sponsoring the data in this spreadsheet? If not, please identify the witness or witnesses who can sponsor and verify the billing determinants data in this table.

RESPONSE:

- a. Yes. The source used to prepare these data is the FY 2005 Media Mail and Library Mail Billing Determinants.
- b. Yes.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF AMAZON.COM, INC.

**AMZ/USPS-T38-3.**

Please refer to your testimony at page 12, lines 17-19, and your statement that “[m]ost Media Mail and Library Mail pieces consist of small parcels: half weigh less than one pound ....”

- a. Please indicate where this datum for parcels under one pound can be found in, or computed from, your workbook, USPS-LR-L-41, Media Mail and Library Spreadsheets.
- b. If this datum is not contained in your workbook, USPS-LR-L-41, Media Mail and Library Spreadsheets, but is derived from this workbook, please show the derivation.
- c. If this datum is neither contained in nor derived from your workbook for Media Mail and Library Mail Spreadsheets in USPS-LR-L-41, please provide the source.

RESPONSE:

- a. This datum is not contained in USPS-LR-L-41, Media and Library Mail Spreadsheets.
- b. This datum was not derived from USPS-LR-L-41, Media and Library Mail Spreadsheets.
- c. This datum was derived from the FY2005 Media Mail Billing Determinants.

Please note that the percentage stated in my testimony should be 39 percent of Media Mail and Library Mail weighs less than one pound, and 97 percent weigh less than six pounds. Corrections to my testimony will be filed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF AMAZON.COM, INC.

**AMZ/USPS-T38-4.**

Please refer to your testimony at page 13, lines 9-12.

- a. Please confirm that your proposed rates for Media Mail and Library Mail do not have a three-part rate structure, such as that which exists today, and which has been in existence since 1975 for Media Mail, and since 1978 for Library Mail. If you do not confirm, please provide the different rates you used for: (i) pounds two through seven, and (ii) each additional pound.
- b. If you confirm preceding part a, then please provide all reasons why you rejected the existing three-part rate structure.

RESPONSE:

- a. Not confirmed. Please see USPS-LR-L-41 Media and Library Mail

Spreadsheets, WP-MM-11, Column [J]. My proposed rates were derived from a per-piece and per-pound rate construction manifested in a three-part structure that resulted in one rate for the first pound, a separate lower rate for additional weight up to 7 pounds and the same lower rate for additional weight over 7 pounds.

In previous dockets, large rate increases potentially affecting the first pound rate were mitigated by increasing the heavier pound rates. For example, in Docket R2001-1, Witness Kiefer "mitigated large first pound rate increases by shifting some of the increase from the first pound to the second through seventh pounds and, to a lesser extent, to heavier rate cells."

In this case, I found that if I had allowed the preliminary rate elements to flow through without adjustment, they would have resulted in unacceptably large increases in the first pound rate cells of Basic Presort and 5-Digit Presort. To mitigate this rate impact, I increased passthroughs of Basic Presort and 5-Digit Presort cost savings to over 100 percent and applied a lower mark-up to non-

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF AMAZON.COM, INC.

weight related non-transportation costs. I then offset the potential revenue loss by applying a slightly higher markup for the weight-related costs. These adjustments resulted in a rate structure of \$2.09 for the first pound and \$0.38 for additional pounds.

b. Not applicable.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF AMAZON.COM, INC.

**AMZ/USPS-T38-5.**

Please refer to your testimony at page 16, lines 7-9.

- a. Please define the term "standard ... rate-development approach to rate development" as used here in your testimony.
- b. Would you agree that the per-piece and single per-pound rated approach which you use for Media Mail and Library Mail has not been a "standard" approach for these two subclasses at any time since 1978? If you do not agree, please explain when the per-piece and single per-pound approach which you use was the "standard" approach for Media Mail and Library Mail.

RESPONSE:

- a&b. I described my rate-development approach as "standard" to signify that I used the same rate-development methodology as in Docket Nos. R2001-1 and R2000-1. The only difference was in the way I mitigated the rate impact, as described in my response to AMZ/USPS-T38-4(a).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF AMAZON.COM, INC.

**AMZ/USPS-T38-6.**

Please refer to USPS-LR-L-41, Media Mail and Library Spreadsheets, tab Adjusted Rate (WP-MM-12), and in particular refer to columns E to G and columns M to O.

- a. Please explain all changes in rate design you made that resulted in a reduction in rates in some individual rate cells of up to **6.1** percent (e.g., the 7-lb., 5-digit Presort Library rate in column N), while other rate cells experienced increases as high as **44.4** percent (e.g., the 1-lb., 5-digit Presort Media Mail rate in column F).
- b. Please confirm that the proposed rate changes for Media Mail range from **-5.3** percent to **+44.4** percent, and from lowest to highest, your proposed changes in rates for Media Mail span a total range of **49.7** percent. If you do not confirm, please provide the correct range.
- c. Please confirm that the rate changes for Library Mail range from **-6.1** percent to **+44.2** percent, and from lowest to highest your proposed changes in rates for Library Mail span a total range of **50.3** percent. If you do not confirm, please provide the correct range.
- d. Please explain your rationale for proposing such wide-ranging changes,

RESPONSE:

- a. The rate changes result primarily from changes in costs. My rate design attempts to mitigate rate impact, as I explain in my answer to AMZ/USPS-T38-4(a), to the extent practicable.
- b. Confirmed.
- c. Confirmed.
- d. Please see my response to part (a).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF AMAZON.COM, INC.

**AMZ/USPS-T38-7.**

Please refer to your testimony at page 15, lines 21-22, where you state that “the Postal Service proposes no fundamental changes to the Media Mail or Library Mail rate designs.” ]

- a. Please explain why you believe that proposed changes in rates that range from a reduction of 5-6 percent to an increase of 44 percent do not represent “fundamental changes to the Media Mail or Library Mail rate designs.”
- b. Within the limits of the law requiring rates for Media Mail and Library Mail to be unzoned, please describe what you would consider to constitute a fundamental change in rate design for Media Mail, and provide at least one example that, in your opinion, would represent a fundamental change to Media Mail rate design.

RESPONSE:

- a. The range of rate changes is not an indicator of whether “fundamental changes to the Media Mail or Library Mail rate designs” were made. My approach mitigates what would have been even greater increases based purely on cost changes.
- b. Hypothetically speaking within the limits of the law requiring rates for Media Mail and Library Mail to be un-zoned, eliminating presort discounts would be an example of a fundamental change in Media Mail rate design.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF AMAZON.COM, INC.

**AMZ/USPS-T38-8.**

Please refer to USPS-LR-L-41, Media Mail and Library Spreadsheets, tab Adjusted Rates (WP-MM-12).

- a. Please explain which data in your Media Mail workbooks you reviewed to study the impact on mailers of lighter weight pieces (e.g., under 1 pound, and between 1 and 2 pounds), whose rates would increase by 19 to 44 percent under your proposed rates.
- b. Before finalizing your proposed rate changes for Media Mail and Library Mail, did you review the criteria in Section 3622(b) of the Postal Reorganization Act? If so, please explain the rationale which enabled you to determine that your proposed rates comply with subsection (b)(1), fairness and equity for users of Media Mail.
- c. Is it your opinion that rate changes of 31.4 to 44.4 percent for 1-pound Media Mail pieces comply with criterion (b)(4) regarding the effect of rate increases on mailers? If so, please explain the rationale which enabled you to determine that your proposed rate increases will not have an undue effect on those users of Media Mail who send light-weight (i.e., under 1 pound) pieces.

RESPONSE:

- a. I reviewed all the data in my Media Mail workbooks before finalizing the Media Mail proposed rates. The size of a rate change must be considered in context. Given my evaluation of cost changes, the cost coverage proposed by witness O'Hara, and the rate changes, I determined that the proposal as a whole was appropriate.
- b. Yes. I have reviewed the pricing criteria in section 3622(b). It is my understanding that the pricing criteria are applied in witness O'Hara's determination of the appropriate cost coverage for each subclass. In lines 4 to 7 <sup>on</sup> ~~4~~ page 34 of his testimony, witness O'Hara stated, "The 18 percent increases will clearly have some adverse effect on current users of Media and Library Mail rate (criterion 4), but the rate increases reflect cost increases and the revenue they generate provides only a small margin above costs."
- c. Please see my response to AMZ/USPS-T38-8(b).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF AMAZON.COM, INC.

**AMZ/USPS-T38-9.**

In order to isolate and help understand the impact of your methodological change in rate design, please provide rates for Media Mail using the three-part rate structure which exists today, and which has been in existence since 1975 for Media Mail. Such rates should achieve the same coverage and revenues as your proposed rates.

RESPONSE:

Please see my response to AMZ/USPS-T38-4(a).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF AMAZON.COM, INC.

**AMZ/USPS-T38-10.**

Please refer to your testimony at page 7, lines 17-19, and explain the procedure that you used to allocate total volume variable costs of BPM between Nonpresort costs and Presorted mail costs.

RESPONSE:

Please refer to Library Reference USPS-LR-L-<sup>41</sup>~~42~~, Bound Printed Matter Spreadsheets, WP-BPM-9.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF AMAZON.COM, INC.

**AMZ/USPS-T38-11.**

When a mailer sends a book or catalog at BPM rates, can a CD or DVD be included as part of the mailing (i) if the jacket holding the CD or DVD is bound permanently into the book or catalog, or (ii) if the CD or DVD is not attached in any way to the book or catalog, but relates to the book or catalog? Please explain under what circumstances, if any, a CD or DVD can be included as part of a BPM mailpiece.

RESPONSE:

I am unaware of any proposed changes to current eligibility requirements for Bound Printed Matter. Please refer to DMM sections 163.4.0(b), 363.2.4.3(b), or 463.2.4.3(b) as applicable.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF AMAZON.COM, INC.

**AMZ/USPS-T38-12.**

Please refer to USPS-LR-L-41, BRM Spreadsheets, tab Rate Comparisons, WP-BPM-21, which shows percentage increases ranging from **4.4** to **18.2** percent. What is the average rate increase for all Single Piece (Nonpresort) BPM? Please show how you compute the average rate increase, including the volume to which the average rate increase is applicable.

RESPONSE:

Please note that I have not performed this calculation in USPS-LR-L-41, BPM Spreadsheets. One way of calculating the average rate increase for all Single Piece (Nonpresort) BPM would be to divide the Single Piece TYAR Revenue (see line [aa] in WP-BPM-27) by total Single Piece Volume (see item [Ba] in WP-BPM-26).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF AMAZON.COM, INC.

**AMZ/USPS-T38-13.**

Please refer to USPS-LR-L-41, BRM Spreadsheets, tab Rate Comparisons, WP-BPM-22, which shows percentage increases ranging from **11.9** to **26.8** percent. What is the average rate increase for all Basic Presort BPM? Please show how you compute the average rate increase, including the volume to which the average rate increase is applicable.

RESPONSE:

Please note that I have not performed this calculation in USPS-LR-L-41, BPM Spreadsheets. One way of calculating the average rate increase for all Basic Presort BPM would be to divide the Basic Presort TYAR Revenue by total Basic Presort Volume (see item [Fa] in WP-BPM-26). However, I am unable to perform this calculation because TYAR revenue was not separately calculated by presort level. Please refer to WP-BPM-27.

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**AMZ/USPS-T38-14.**

Please refer to USPS-LR-L-41, BRM Spreadsheets, tab Rate Comparisons, WP-BPM-23, which shows percentage increases ranging from **8.3** to **23.0** percent. What is the average rate increase for all Basic Presort BPM entered at a Destination Bulk Mail Center/Auxiliary Service Facility ("DBMC/ASF")? Please show how you compute the average rate increase, including the volume to which the average rate increase is applicable.

RESPONSE:

Please note that I have not performed this calculation in USPS-LR-L-41, BPM Spreadsheets. One way of calculating the average rate increase for Basic Presort BPM entered at DBMC/ASF would be to divide the Basic Presort TYAR Revenue by Basic Presort Volume entered at DBMC/ASF. However, I am unable to perform this calculation because TYAR revenue was not separately calculated by presort level. Please refer to WP-BPM-26 and WP-BPM-27.

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**AMZ/USPS-T38-15.**

Please refer to USPS-LR-L-41, BRM Spreadsheets, tab Rate Comparisons, WP-BPM-24, which shows percentage increases ranging from **12.2** to **28.3** percent. What is the average rate increase for all Carrier Route Presort BPM? Please show how you compute the average rate increase, including the volume to which the average rate increase is applicable.

RESPONSE:

Please note that I have not performed this calculation in USPS-LR-L-41, BPM Spreadsheets. One way of calculating the average rate increase for all Carrier Route Presort BPM would be to divide the Carrier Route Presort TYAR Revenue by total Carrier Route Presort Volume (see item [Ja] in WP-BPM-26). However, I am unable to perform this calculation because TYAR revenue was not calculated separately by presort level. Please refer to WP-BPM-27.

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**AMZ/USPS-T38-16.**

Please refer to USPS-LR-L-41, BRM Spreadsheets, tab Rate Comparisons, WP-BPM-25, which shows percentage increases ranging from **11.3** to **25.2** percent. What is the average rate increase for all Carrier Route Presort BPM entered at DBMC/ASF? Please show how you compute the average rate increase, including the volume over which the average is applicable.

RESPONSE:

Please note that I have not performed this calculation in USPS-LR-L-41, BPM Spreadsheets. One way of calculating the average rate increase for Carrier Route Presort BPM entered at DBMC/ASF would be to divide the Carrier Route Presort TYAR Revenue by Carrier Route Presort Volume entered at DBMC/ASF. However, I am unable to perform this calculation because TYAR revenue and Volume were not calculated separately by presort level. Please refer to WP-BPM-26 and WP-BPM-27.

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**AMZ/USPS-T38-17.**

Please provide any available data showing (i) the percentage of Bound Printed Matter ("BPM") that consisted of non-catalogs (e.g., books) and (ii) the percentage of BPM that consisted of catalogs in Base Year 2005.

RESPONSE:

These data are not available.

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**AMZ/USPS-T38-18.**

Please provide FY 2005 data for BPM that show the relationship between (i) weight (by pound increments, up to 15 lbs.), and (ii) cube, or density. If FY 2005 data are not available, then please provide data for the most recent year available.

RESPONSE:

These data are not available .

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**AMZ/USPS-T38-19.**

Please refer to Docket No. R2001-1, USPS-T-33, page 42, lines 15-26, where witness Kiefer describes adjustments to his preliminary rate elements for Media Mail and Library mail. At lines 19-22, he states that:

In the past, both the Postal Service and the Commission have mitigated these large first pound rate increases by shifting some of the increase from the first pound to the second through seventh pounds and, to a lesser extent, to heavier rate cells.

- a. Did you review witness Kiefer's testimony prior to finalizing your testimony in this case?
- b. Did you consider following what witness Kiefer described as the Postal Service and Commission practice of mitigating large first pound increases for Media and Library Mail?
- c. Please explain why you did not mitigate the large first pound increases in line with prior Postal Service and Commission practice.

RESPONSE:

- a. Yes.
- b. Yes.
- c. Please see my response to AMZ/USPS-T38-4a.

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**AMZ/USPS-T38-20.**

In Docket No. R2005-1, witness Bradley, USPS-T-14, modeled separately the delivery cost for "large" and "small" parcels. In developing your proposed rates for BPM and Media Mail, please explain what consideration you gave to the different delivery costs for small and large parcels, as recommended by witness Bradley in Docket No. R2005-1 and implemented in this docket by witness Kelley (USPS-T-30).

RESPONSE:

Please note that I am not familiar with the details of those cost studies. My rate design did not attempt to incorporate any separate information regarding unit costs of small versus large parcels, as I am not proposing separate rates for large and small parcels. It is my understanding that total BPM and Media Mail volumes and delivery costs are not calculated separately by size. In Witness Kelley's response to AMZ/USPS-T30-1, he provided base year 2005 volumes and base year volume variable regular delivery time cost for "small" and "large" parcels delivered on city letter routes. Witness Kelley also stated, "The corresponding test year unit cost is unavailable."

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**AMZ/USPS-T38-21.**

Please refer to your testimony at page 11, lines 4-7, where you state that “[t]he lower cost savings passthrough[s] for DSCF and DDU help mitigate unacceptable rate increases for non-dropshipped mail....”

- a. Had you used 100 percent passthroughs for DSCF and DDU, what would have been the percentage increase for non-dropshipped mail?
- b. Please explain what criteria you used to conclude that the percentage increase for non-dropshipped mail was unacceptable if passthroughs for DSCF and DDU entry were set at 100 percent.
- c. Under the circumstances of this docket, what do you consider to be the maximum acceptable rate increase for rate cells within BPM, including but not limited to non-dropshipped BPM.
- d. Under the circumstances of this docket, what do you consider to be the maximum acceptable rate increase for rate cells within (i) Media Mail, and (ii) Library Mail?
- e. If your maximum acceptable rate increase for BPM differs from your maximum rate increase for Media Mail, please explain why similar figures for acceptability do not apply to each subclass.

RESPONSE:

- a. I have not performed hypothetical calculations.
- b. See my response to part a. The rate design must balance numerous factors, and it is not clear that a 100 percent passthrough of the cited discounts would have resulted in a set of prices that would have met those objectives, and would have actually been proposed.
- c. I had no explicit maximum acceptable increase for rate cells within Bound Printed Matter. The rate design was an iterative process that led to the proposed rates. Given my evaluation of cost changes, the cost coverage proposed by witness O'Hara, and the rate changes, the proposed rates were deemed consistent with all the rate design objectives.

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d. I had no explicit maximum acceptable increase for rate cells within Media Mail and Library Mail. The rate design was an iterative process that led to the proposed rates. Given my evaluation of cost changes, the cost coverage proposed by witness O'Hara, and the rate changes, the proposed rates were deemed consistent with all the rate design objectives.

e. Not applicable.

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**AMZ/USPS-T38-22.**

Your testimony at page 4 discusses how BPM evolved to include books. Your testimony at page 12 (II. 5-6) states that books also can be entered as Media Mail. At page 6, footnote 2, you explain the Postal Service's intention that BPM will effectively cease to exist as a retail offering. And at page 7 (II. 7-9), you note that in FY 2005 the Nonpresort volume of BPM was less than 5 percent of total volume, which implies that BPM has effectively become a low-cost bulk subclass (as it was intended to be when originally established). When items like (i) sound and video recordings, and (ii) computer readable media such as computer programs weigh less than 15 pounds and could be part of a bulk mailing, what is the rationale for excluding such items from BPM? Please explain fully, on the assumption that a 1.5 to 3 pound box containing either a video recording or computer readable media is indistinguishable in size or shape from a 1.5 to 3 pound box containing a book.

**RESPONSE:**

The Postal Service has not proposed changes to content eligibility for Bound Printed Matter or Media Mail in this case. Therefore I have not looked into the rate design repercussions of such a proposal and note that there would be issues raised that go beyond the scope of my testimony. Also, while I have not examined the issue, it is not evident that a box containing a book weighing 1.5 pounds would be the same size as a box of CDs weighing 1.5 pounds.

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**AMZ/USPS-T38-23.**

Please refer to USPS-LR-L-41, file R2006\_USPS-LR-L-41\_Media and Library Spreadsheets.xls, tab FY 2005 Billing Determinants, WP-MM-2. The volume data shown there for both Media and Library Mail are broken down by (i) first pound, (ii) second through seventh pound, and (iii) eighth pound and over.

- a. Do you have base year volume and weight data for Media Mail and Library Mail broken down by finer weight increments, such as one pound increments?
- b. If so, please provide such data.

RESPONSE:

- a. Yes.
- b. Please see the following table:

Estimated Number of Pieces  
FY 2005 Billing Determinants

Pounds	Media Mail Single Piece	Media Mail Presort	Library Mail Single Piece	Library Mail Presort
0-1	60,131,676	10,314,021	5,872,152	289,355
1-2	46,996,753	16,400,825	4,487,621	272,273
2-3	16,936,882	6,101,051	1,545,532	87,647
3-4	7,764,969	1,731,479	680,717	23,126
4-5	4,219,123	565,460	380,588	22,005
5-6	2,316,824	296,803	194,261	1,528
6-7	1,414,239	186,452	112,207	5,717
7-70	3,660,429	563,589	366,691	13,476

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**MZ/USPS-T38-24.**

Please refer to USPS-LR-L-41, file R2006\_USPS-LR-L-41\_BPM Spreadsheets.xls, tab 'FY 2005 SP Billing Det.', "FY 2005 Billing Determinants – Single Piece Bound Printed Matter, " WP-BPM-4 and tab 'FY 2005 Presort Billing Det.', "FY 2005 Billing Determinants- Presort Bound Printed Matter, " WP-BPM-3.

- a. For the 405,929,811 Basic Presort pieces of BPM shown by zone under tab WP-BPM-3, please provide a breakdown by weight and zone similar to the data for the 27,880,869 pieces of single piece BPM shown under tab WP-BPM-4. If the data for Basic Presort cannot be broken down by weight and zone, please provide a breakdown of aggregate volume by weight, using the same increments as those shown in the single piece tabulation.
- b. For the 149,962,520 Carrier Route pieces of BPM shown by zone under tab WP-BPM-3, please provide a breakdown by weight and zone similar to the data for 27,880,869 pieces of single piece BPM shown under tab WP-BPM-4. If the data for Carrier Route cannot be broken down by both weight and zone, please provide a breakdown of aggregate volume by weight, using the same increments as those shown in the single piece tabulation.

RESPONSE:

a & b. Please see the following tables for FY2005 Presorted BPM volume estimates by weight and zone.

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FY2005 Basic Presort BPM volume by pound and zone.

Non-destination entered

Zones	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	Total
1&2	471,642	10,587,954	2,569,865	880,789	564,599	449,239	393,205	285,934	194,279	55,216	29,118	11,718	8,292	9,234	2,717	16,513,800
3	219,647	6,673,320	2,090,652	748,024	525,368	264,726	103,423	44,980	23,003	23,979	8,152	7,579	17,182	5,307	4,490	10,759,842
4	334,147	10,481,348	3,466,714	1,236,433	667,588	381,002	151,518	130,328	41,980	35,246	13,803	15,840	25,784	10,769	4,540	16,997,042
5	471,443	11,561,536	3,073,239	996,432	412,493	373,783	113,913	63,586	34,634	32,648	11,981	9,313	24,552	10,808	6,314	17,196,675
6	254,671	6,574,162	1,670,428	548,418	251,467	203,533	52,858	34,898	18,119	12,679	3,845	8,958	7,462	5,743	1,891	9,649,130
7	135,775	3,936,146	1,221,577	357,167	129,936	77,347	68,163	26,370	10,006	11,712	2,937	4,923	7,618	3,731	1,506	5,993,915
8	295,815	8,677,823	2,114,665	480,066	160,076	89,347	39,212	35,382	28,318	16,305	9,353	5,618	12,209	6,083	2,587	11,972,561

FY2005 Basic Presort BPM volume by pound and zone.

DBMC

Zones	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	Total
1&2	555,744	45,837,555	50,777,015	32,745,745	10,333,082	7,629,863	3,997,729	2,554,051	1,109,551	520,608	577,339	354,029	148,057	137,960	99,518	157,377,847
3	140,597	12,166,813	10,364,098	6,128,047	1,931,957	1,488,185	707,080	584,359	205,153	90,625	128,553	64,790	29,465	24,560	13,203	34,067,484
4	27,472	2,786,229	2,138,189	1,424,182	349,302	285,687	152,718	146,044	65,625	24,214	28,465	22,933	10,815	6,638	5,583	7,474,098
5	1,010	96,477	12,693	5,693	6,048	6,689	5,260	1,922	472	440	30	1,937	65	53	3	138,695

FY2005 Basic Presort BPM volume by pound and zone.

DSCF & DDU

Zones	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	Total
DSCF	984,226	71,096,115	16,447,600	5,293,872	1,376,330	1,727,322	1,607,337	952,591	224,629	175,009	157,356	95,091	32,063	66,186	22,730	100,258,459
DDU	32,729	1,216,970	10,341,870	4,543,191	670,761	338,237	231,584	128,340	23,656	523	1,148	545	508	1,219	275	17,531,558

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**FY2005 Carrier Route Presort BPM volume by pound and zone.**

**Non-destination entered**

Zones	Pounds															Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
1&2	16,435	957,122	132,029	8,922	3,417	2,393	706	2,141	2	128	41	89	0	132	126	1,123,683
3	15,737	179,999	51,450	12,987	801	2,001	254	286	0	142	77	78	0	99	180	264,092
4	15,776	213,235	42,227	17,466	3,897	2,846	1,264	102	0	157	12	366	0	485	434	298,268
5	14,145	387,820	62,548	10,327	3,899	3,299	19	66	0	376	0	72	0	276	408	483,256
6	2,372	88,136	50,438	12,298	419	469	0	59	0	56	21	31	0	107	112	154,516
7	2,837	409,072	65,250	8,483	2,649	4,793	56	56	37	136	0	32	0	106	139	493,647
8	13,896	415,224	53,731	10,267	5,492	22,123	220	106	6	17	0	49	0	132	201	521,465

**FY2005 Carrier Route Presort BPM volume by pound and zone.**

**DBMC**

Zones	Pounds															Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
1&2	25,197	7,984,456	1,806,890	368,717	70,147	26,327	3,179	77,221	0	1,894	0	0	0	0	0	10,364,030
3	7,341	4,058,740	880,263	148,174	23,967	11,527	1,001	9,851	0	414	0	0	0	0	0	5,141,279
4	8,491	937,104	182,849	38,149	5,137	4,910	3,088	0	0	63	0	0	0	0	0	1,179,793
5	0	100,224	65	2,968	0	0	0	0	0	0	0	0	0	0	0	103,257

**FY2005 Basic Presort BPM volume by pound and zone.**

**DSCF & DDU**

	Pounds															Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
DSCF	955,202	58,083,909	14,011,935	9,070,976	376,140	506,750	94,955	65,111	0	20,881	1,242	0	8	0	4,875	83,191,983
DDU	386,710	21,194,414	7,174,744	15,828,908	1,664,298	254,475	97,178	40,265	0	403	0	564	0	0	0	46,641,958

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**AMZ/USPS-T38-25.**

Please refer to your testimony at page 4, lines 6-7.

- a. Please explain what the purpose was of allowing the weight of BPM mail pieces to increase to 15 pounds.
- b. Please discuss the extent to which that purpose has been achieved.
- c. To what extent has increasing the weight limit to 15 pounds resulted in an increase in the average unit cost of BPM?
- d. Would you characterize such increase in unit cost as has occurred a disproportionate increase in unit cost? Please explain.

RESPONSE:

- a. Please see pages 4 – 6 of Witness Adra's testimony in Docket No. R97-1.
- b. To the extent there is volume between 10 and 15 pounds, the purpose has been achieved. Please see the data to be provided in response to AMZ/USPS-T38-24.
- c.-d. Redirected to the Postal Service

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**AMZ/USPS-T38-26.**

- a. Please confirm that your work paper WP-BPM-8 ("Calculation of TYBR Pieces and Pounds") in file R2006\_USPS-LR-L-41\_BPM Spreadsheets.xls of USPS-LR-L-41 shows that parcels/IPPs account for (i) 61 percent of Basic Presort BPM, (ii) 35 percent of Carrier Route BPM, and (iii) 54 percent of Basic and Carrier Route BPM combined. If you do not confirm, please provide the correct percentages.
- b. Over the past 10 years, has the share of parcels in Basic and Carrier Route BPM increased? If so by approximately how much?

RESPONSE:

- a. Confirmed.
- b. BPM by shape data are only available for test years used in Docket R2001-1 and the current docket. Please refer to Witness Kiefer's workpaper WP-BPM-26 ("Calculation of TYBR Pieces and Pounds") in file BMPWP.xls of USPS-LR-J-106.

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**AMZ/USPS-T38-27.**

Please refer to your testimony at page 4, lines 18-21, where you state that:

The rates for BPM and for Media Mail (formerly Special Rate Fourth-Class Mail and then Special Standard Mail) evolved in such a way that, in some instances, BPM rates became cheaper than the corresponding rates for Media Mail (which was a preferred subclass).

- a. Please confirm that, at your proposed Single-Piece (zoned) rates for BPM and (unzoned) rates for Media Mail, for parcels that weigh more than 1 pound, the BPM rates to zone 5 are always less than the Media Mail rates for the corresponding weight. If you do not confirm, please indicate those zones, in zones 1-5, where the Media Mail rate is lower than the BPM rate for the corresponding weight.
- b. Please confirm that, at your proposed Basic Presort (zoned) rates for BPM and your (unzoned) rates for Media Mail for parcels that weigh more than 1 pound, the BPM rate to zone 6 is always less than the Media Mail rates for the corresponding weight. If you do not confirm, please indicate those zones, in zones 1-5, where the Media Mail rate is lower than the BPM rate for the corresponding weight.
- c. Please confirm that, at your proposed rates for Basic Presort Destination Entry BPM, the rate for parcels (and flats) is always less than the Media Mail rate for the corresponding weight. If you do not confirm, please list all exceptions.
- d. Please confirm that, at your proposed rates for Media Mail, the BPM rate for parcels to zone 7 is always less than the Media Mail rate for the corresponding weight. If you do not confirm, please indicate those zones, in zones 1-7, where the Media Mail rate for parcels is lower than the corresponding BPM rate.
- e. Please confirm that your proposed Destination Entry rates for carrier route presorted BPM parcels (and flats) are always less than the Media Mail rate for the corresponding weight. Please explain any non-confirmation.
- f. For those items that can be mailed as BPM or Media Mail (e.g. books), would you agree that BPM generally offers lower rates to mailers who presort and enter their mail at destination facilities?
- g. Would you agree that the rate structure for BPM, which (i) is zoned, (ii) has both presort and destination entry rates, (iii) has automation (barcode) discounts for mail that can take advantage of automated processing, and (iv) has a flat/parcel shape differential, is more economically efficient than the rate structure for Media Mail, which by law is unzoned and has no destination entry rates? Please explain any disagreement.

RESPONSE:

- a. Confirmed.

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b. Confirmed

c. Not Confirmed. The exceptions are:

Media Mail	less than	BPM Basic Presort
5-Digit 1lb.		DBMC Zone 5 1lb.

d. Not confirmed. The exceptions are:

Media Mail 1lb.	less than	BPM Single Piece 1lb.
Single Piece		Zones 1 - 7
5-Digit Presort		
Basic Presort		

Media Mail Single Piece	less than	BPM Single Piece
Pounds 1 - 15		Zone 7
Pounds 1 - 12		Zone 6

Media Mail Basic Presort	less than	BPM Single Piece
Pounds 1 - 15		Zones 6 and 7
Pounds 1 - 7		Zone 5
Pounds 1 - 4		Zone 4
Pounds 1 - 3		Zone 3
Pounds 1 - 2		Zones 1& 2

Media Mail 5-Digit	less than	BPM Single Piece
Pounds 1 - 15		Zones 6 and 7
Pounds 1 - 13		Zone 5
Pounds 1 - 7		Zone 4
Pounds 1 - 5		Zone 3
Pounds 1 - 4		Zones 1& 2

e. Confirmed.

f. Based on the proposed rates, yes.

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g. No. Please see the exceptions I provided in my response to parts [c] and [d].

The rate structure should be considered in context. The proposed rates satisfy a balance of all the rate design objectives.

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**AMZ/USPS-T38-28.**

For the proposed **Media Mail** rates shown in USPS-T-38, Attachment C, please provide a table showing TYAR allocated costs, including contingency by rate cell, in a format similar to that provided for Priority Mail in USPS-T-33, Attachment F, Table 18.

**RESPONSE:**

These data are not available because costs are allocated by rate element, not by rate cell.

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**AMZ/USPS-T38-29.**

For the proposed **BPM Basic Presort** rates in USPS-T-38, Attachment A, page 2, please provide a table showing TYAR allocated costs, including contingency by rate cell, in a format similar to that provided for Priority Mail in USPS-T-33, Attachment F, Table 18.

**RESPONSE:**

These data are not available because costs are allocated by rate element, not by rate cell.

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**AMZ/USPS-T38-30.**

For the proposed **BPM Basic Presort Destination Entry** rates in USPS-T-38, Attachment A, page 3, please provide a table showing TYAR allocated costs, including contingency by rate cell, in a format similar to that provided for Priority Mail in USPS-T-33, Attachment F, Table 18.

**RESPONSE:**

These data are not available because costs are allocated by rate element, not by rate cell

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**DBP/USPS-T38-1.** Please refer to your testimony at page 6, fn. 2. If the Postal Service proceeds with its plan to issue the regulation described in your testimony, please advise the changes that will be necessary to the DMCS for this proposed curtailment of service.

**Response:** I am not proposing any changes to the DMCS language for Bound Printed Matter in this regard other than the name change referred to on the page you cited.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DAVID B. POPKIN

**DBP/USPS-T38-2.** Please refer to your testimony at page 6, fn. 2. If the Postal Service proceeds with its plan to issue the regulation described in your testimony, please advise the changes that will be necessary to the DMM for this proposed curtailment of service.

**Response:** Please note that revision of specific DMM provisions is not within the scope of my testimony or the rate case generally. It is my understanding that revising the DMM is an ongoing process and will be finalized by the Postal Service based on the outcome of the case.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DAVID B. POPKIN

**DBP/USPS-T38-3.** Please refer to your testimony at page 6, fn. 2. If the Postal Service proceeds with its plan to issue the regulation described in your testimony, will a customer seeking to send a single piece of Bound Printed Matter be able to either pay part, all, or an excess amount of postage by means of a postage meter stamp or stamps and the rest, if any, by any other means, including, but not limited to regular postage stamps. If not, please explain the rationale behind your response.

**Response:** The postage for the piece would be required to be paid using customer-generated postage meter, including PC postage, or by permit imprint. My understanding is that it is the Postal Service's view that Bound Printed Matter is essentially a commercial product. Limiting payment options to those typically used by commercial mailers will help clarify our product offering.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DAVID B. POPKIN

**DBP/USPS-T38-4.** Please refer to your testimony at page 6, fn. 2. If the Postal Service proceeds with its plan to issue the regulation described in your testimony, will a customer seeking to send a single piece of Bound Printed Matter be able to either pay part, all, or an excess amount of postage by means of an Automated Postal Center [APC] stamp or stamps and the rest, if any, by any other means, including, but not limited to regular postage stamps. If not, please explain the rationale behind your response.

**Response:** Please see my response to DBP/USPS-T38-3 and DFC/USPS-T38-3.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DAVID B. POPKIN

**DBP/USPS-T38-5.** Please refer to your testimony at page 6, fn. 2. If the Postal Service proceeds with its plan to issue the regulation described in your testimony, will a customer seeking to send a single piece of Bound Printed Matter be able to either pay part, all, or an excess amount of postage by means of a computer generated stamp or stamps such as those provided by stamps.com and the rest, if any, by any other means, including but not limited to regular postage stamps. If not, please explain the rationale behind your response.

**Response:** Please see my response to DBP/USPS-T38-3.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DAVID B. POPKIN

**DBP/USPS-T38-6.** Please refer to your testimony at page 6, fn. 2. If the Postal Service proceeds with its plan to issue the regulation described in your testimony, will a customer seeking to send a single piece of Bound Printed Matter be able to mail the article with a rural delivery letter carrier? If not, please explain the rationale behind your response.

**Response:** I am not an expert on mail entry issues but it is my understanding that a customer will be able to mail a Nonpresort BPM piece with a rural delivery letter carrier, given that the customer-generated postage is appropriate.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DAVID B. POPKIN

**DBP/USPS-T38-7.** Please refer to your testimony at page 6, fn. 2. If the Postal Service proceeds with its plan to issue the regulation described in your testimony, will a customer seeking to send a single piece of Bound Printed Matter be able to mail the article with a city delivery letter carrier? If not, please explain the rationale behind your response.

**Response:** I am not an expert on mail entry issues but it is my understanding that a customer will be able to mail a Nonpresort BPM piece with a city delivery letter carrier, given that the customer-generated postage is appropriate.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DAVID B. POPKIN

**DBP/USPS-T38-8.** Please refer to your testimony at page 6, fn. 2. If the Postal Service proceeds with its plan to issue the regulation described in your testimony, will a customer seeking to send a single piece of Bound Printed Matter be able to mail the article with a highway contract delivery letter carrier? If not, please explain the rationale behind your response.

**Response:** I am not an expert on mail entry issues but it is my understanding that a customer will be able to mail a Nonpresort BPM piece with a highway contract delivery letter carrier, given that the customer-generated postage is appropriate.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DAVID B. POPKIN

**DBP/USPS-T38-9.** Please refer to your testimony at page 6, fn. 2. If the Postal Service proceeds with its plan to issue the regulation described in your testimony, will a customer seeking to send a single piece of Bound Printed Matter be able to mail the article with any of the ancillary services such as, but not limited to, Certificate of Mailing, Delivery Confirmation, Signature Confirmation, Insurance, COD? If so, please describe the method that would be utilized. If not, please explain the rationale behind your response.

**Response:** No, because this situation would involve a retail transaction.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DAVID B. POPKIN

**DBP/USPS-T38-10.** Please refer to your testimony at page 6, fn. 2. [a] Please advise why the Postal Service believes that it is necessary to simplify window service operations. [b] Please describe how you believe this proposed regulation will achieve that objective.

**Response:** Although the subject is outside the scope of my testimony, it is my understanding that simplifying operations could potentially reduce waiting time and reduce window costs. My understanding is that under the planned change, window clerks would offer only those services most likely to be used by retail customers.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DAVID B. POPKIN

**DBP/USPS-T38-11.** Please refer to your testimony at page 6, fn. 2. [a] Please advise why the Postal Service believes that it is necessary to reduce the complexity of retail transactions for customers. [b] Please describe how you believe this proposed regulation will achieve that objective.

**Response:** Please see my response to DBP/USPS-T38-10.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DAVID B. POPKIN

**DBP/USPS-T38-12.** Please refer to your testimony at page 6, fn. 2. Please enumerate and fully discuss any other reasons that exist for introducing this regulation other than those specified in interrogatories 10 and 11. If there are no other reasons, so state.

**Response:** The footnote and my answers to interrogatories concerning it provide all the reasons of which I am aware.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DAVID B. POPKIN

**DBP/USPS-T38-13.** Please refer to your testimony at page 6, fn. 2. Please describe the characteristics of a mailpiece that would be eligible for mailing as Media Mail but would not be eligible to mail as Bound Printed Matter.

**Response:** Please refer to sections 163 and 173 of the Domestic Mail Manual.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DAVID B. POPKIN

**DBP/USPS-T38-14.** Please refer to your testimony at page 6, fn. 2. Please describe the characteristics of a mailpiece that would be eligible for mailing as Bound Printed Matter but would not be eligible to mail as Media Mail.

**Response:** Please see my response to DBP/USPS-T38-13.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DAVID B. POPKIN

**DBP/USPS-T38-15.** Please refer to your testimony at page 6, fn. 2. Please describe the characteristics of a mailpiece that would be eligible for mailing as Bound Printed Matter but would not be eligible to mail as either Express Mail, Priority Mail, First-Class Mail, or Parcel Post.

**Response:** Please refer to sections 113, 123, 133, 153, and 163 of the Domestic Mail Manual.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DAVID B. POPKIN

**DBP/USPS-T38-16.** Please refer to your testimony at page 6, fn. 2. Please describe why you believe a retail customer can not make an easily distinguishable choice to use Bound Printed Matter [if the contents of the mailpiece are authorized] over Media Mail or Parcel Post.

**Response:** *It is not my testimony that a retail customer cannot “make an easily distinguishable choice to use Bound Printed Matter over Media Mail or Parcel Post.”* My understanding is that having clerks offer only those services most likely to be used by customers will help streamline the retail transaction for both customers and clerks. The change discussed affects only the postage payment options for those customers who choose to use Bound Printed Matter.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DAVID B. POPKIN

**DBP/USPS-T38-17.** Please refer to your testimony at page 6, fn. 2. Please confirm that the *delivery service standards for Bound Printed Matter* are the same as for Parcel Post and/or Media Mail. If not, please explain.

**Response:** Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DAVID B. POPKIN

**DBP/USPS-T38-18.** Please refer to your testimony at page 6, fn. 2. Please discuss why you believe that this reduction in service will not be a change in the nature of postal services which will generally affect service on a nationwide or substantially nationwide basis.

**Response:** I am not a lawyer and cannot provide the legal opinion sought.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DAVID B. POPKIN

**DBP/USPS-T38-19.** Please refer to your testimony at page 6, fn. 2. Please confirm, or explain if you are unable to confirm, that the postage rates for single piece Bound Printed Matter will in all cases be less than that for Parcel Post.

**Response:** Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DAVID B. POPKIN

**DBP/USPS-T38-20.** Please refer to your testimony at page 6, fn. 2. Please confirm, or explain if you are unable to confirm, that the postage rates for single piece Bound Printed Matter will either be more or less than that for Media Mail depending on the zone.

**Response:** Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DAVID B. POPKIN

**DBP/USPS-T38-21.** Please advise the Rate Schedule and Page Number of Attachment A of the R2006-1 Request showing the current and proposed rates for Bound Printed Matter, Media Mail, and Library Mail.

**Response:** Please refer to pages 58 to 64 of Attachment A filed on May 4, 2006 under the title, "Att A - Rate Fee Scheds REV.pdf."

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DOUGLAS F. CARLSON

**DFC/USPS-T38-1.** Please refer to your testimony at page 6, fn. 2. Please provide all documents and other information suggesting that the option to send single-piece Bound Printed Matter at a retail window is too complex for customers.

**Response:** It is not my testimony that the option to send Single-Piece Bound Printed Matter at a retail window is too complex for customers. The footnote you cite merely relates my understanding of a management decision to have window clerks offer only those services most likely to be used by customers in order to streamline the retail transaction for both customers and clerks.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DOUGLAS F. CARLSON

**DFC/USPS-T38-3.** Please refer to your testimony at page 6, fn. 2. If the Postal Service proceeds with its plan to issue the regulation described in your testimony, will the Postal Service accept postage generated by an Automated Postal Center? (Please note that a knowledgeable customer could generate a label for the necessary postage for single-piece Bound Printed Matter from an APC even though the APC does not offer the option for Bound Printed Matter.)

**Response:** As stated in the footnote you cite, the Postal Service's intention is to require that Bound Printed Matter "be paid either by customer-generated postage meter or by permit imprint." My understanding is that Postal Service-generated postage, such as from an APC, is not considered either "customer-generated postage meter" or "permit imprint."

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DOUGLAS F. CARLSON

**DFC/USPS-T38-4.** Please refer to your testimony at page 6, fn. 2.

- a. If the Postal Service proceeds with its plan to issue the regulation described in your testimony, will a customer seeking to send single-piece Bound Printer Matter with insurance for \$300 be required to pay all the postage, or only the Bound Printed Matter postage, using a postage meter or permit imprint?
- b. If the Postal Service proceeds with its plan to issue the regulation described in your testimony, will a customer seeking to send single-piece Bound Printer Matter with insurance for \$300 be permitted to conduct this transaction at a retail window?

**Response:**

- (a) It is my understanding that the planned requirement that "Bound Printed Matter" be paid only by these two methods refers to the Bound Printed Matter piece, which would include any extra services on that piece, and not just the BPM postage as your question posits.
- (b) My understanding is no, based on the reasons I mention above.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DOUGLAS F. CARLSON

**DFC/USPS-T38-5.** Please refer to your testimony at page 6, fn. 2. Please provide all other examples of a single-piece postal service that is available to business and individual customers who pay postage using a postage meter or permit imprint but not to customers who use postage stamps.

**Response:** I am not aware of any.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DOUGLAS F. CARLSON

**DFC/USPS-T38-6.** Please refer to your testimony at page 6, fn. 2. Suppose a customer uses a postage meter to pay the postage for a single-piece Bound Printed Matter parcel, but the customer is unable to use a collection box, either because the collection time has passed or the item will not fit in the collection box, and the customer's post office does not have a collection drop for parcels. Under the Postal Service's planned regulation, may the customer bring the parcel to a retail window? Please explain.

**Response:** I am not an expert on mail entry issues but it is my understanding that a customer may drop off properly paid BPM (or any other class of mail) at a retail window even when no other transaction is involved.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DOUGLAS F. CARLSON

**DFC/USPS-T38-7.** Please refer to your testimony at page 6, fn. 2. Please confirm that the rate to mail a particular item as single-piece Bound Printed Matter may be lower than the rate for any other postal service for which that item would qualify. If you do not confirm, please explain.

**Response:** Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DOUGLAS F. CARLSON

**DFC/USPS-T38-8.** Please refer to your testimony at page 6, fn. 2. Please confirm that some items that qualify as Bound Printed Matter do not qualify for Media Mail rates. If you do not confirm, please explain.

**Response:** Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DOUGLAS F. CARLSON

**DFC/USPS-T38-12.** Please refer to your testimony at page 6, fn. 2. Does the Postal Service take the position that preventing customers from mailing single-piece Bound Printed Matter at retail windows would be fair or equitable?

**Response:** I am not proposing to make any classification changes. My understanding is that it is the Postal Service's view that Bound Printed Matter is a commercial product. Limiting payment options to those typically used by commercial mailers will help clarify our product offering.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF DOUGLAS F. CARLSON

**DFC/USPS-T38-13.** Please refer to your testimony at page 6, fn. 2. At present, does the Postal Service routinely suggest Media Mail to customers who bring large flats or parcels to the retail window?

**Response:** I am not testifying on retail operations, but my understanding is that Media Mail is, and will remain, an option for customers sending eligible parcels at retail windows.

RESPONSE OF POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF PITNEY BOWES

**PB/USPS-T38-1.** Please confirm that the Postal Service's current and proposed rate design for Bound Printed Matter provides dropship discounts. If you cannot confirm fully, please explain fully.

**RESPONSE**

Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF POSTAL COMMERCE

**POSTCOM/USPS-T38-1.**

Please refer to page 9 of your testimony where you state that you propose to "pass along" approximately 123% of the difference in estimated costs between BPM flats and BPM parcels and irregular pieces, and states that this passthrough "will help distinguish flats and parcel rates and aid in providing reasonable contributions from both shapes."

- a. Please confirm that there are three shapes in the Bound Printed Matter category: flats, parcels, and irregular parcels which may otherwise, in fact, meet the dimensions of a flat. If you do not confirm, please explain your answer in detail.
- b. Please explain why it is important to your rate design to "distinguish" flats and parcels by an amount that is greater than the cost differential between the types of mail that comprise this category.
- c. Please provide any data you relied upon showing the number of pieces that meet the definition of a Bound Printed Matter flat, but are treated as "irregular parcels" and therefore subject to the rate differential described in your testimony. If you do not have such data, please set forth in detail the assumptions you made with respect to the volume of irregular parcels.
- d. Please provide any worksheets or other calculations you have made in reaching the conclusion that a 123% passthrough of the flat-parcel differential is appropriate to achieve a "reasonable contribution" from each of the shapes of mail matter referred to at page 9 of your testimony. If you have no such calculation, please explain the basis for your statement concerning "reasonable contributions."

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RESPONSE:

- a. Not confirmed. It is my understanding that flats and parcels are the only two shapes in the BPM category and that irregular parcels are a subset of the parcel category. A mail piece may be approximately flat-shaped but if it does not satisfy the DMM definition of a BPM flat, it is treated as an irregular parcel.
- b. Please see my response to P.O.I.R. No. 5, 2b.
- c. These data are not available. I did not make any separate assumption with respect to the volume of irregular parcels.
- d. As stated in my response to P.O.I.R. No. 5, question 2.b, estimates of mail processing cost differences between BPM flats and parcels were not available to

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF POSTAL COMMERCE

me at the time I developed BPM rates. However, after inspecting witness Smith's estimates of the mail processing costs for BPM flats (23.71 cents) and parcels (62.28 cents), I believe my proposed flat-parcel differential is modest and reasonably acknowledges that the cost differences between parcels and flats are not limited to delivery cost differences. Please refer to witness Smith's worksheet titled "Summary of All Volume-Variable Mail Processing Unit Costs – Letters, Flats, Parcels, All Shapes" in file "shp08usps.xls." in library reference, USPS-LR-L-53. In my testimony, I stated, "My proposal will help distinguish flats and parcels rates and aid in providing reasonable contribution from both shapes." By "reasonable" I meant the proposed rates as a whole satisfied all the rate design objectives: cover costs, maintain reasonable rate relationships, and result in acceptable rate changes.

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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF POSTAL COMMERCE

**POSTCOM/USPS-T38-2.**

Please refer to your response to P.O.I.R. No. 5, question 2.b in which you state that "in the spirit of recognizing that mail processing cost differences may be an additional cost difference between BPM flats and parcels," you propose to pass through in excess of 100% of the delivery cost differences for the BPM flat-parcel differential.

- a. Please set forth in detail any data upon which you have relied in estimating that the difference in mail processing costs as between BPM flats and BPM parcels may be as much as 23-24% of delivery cost differences.
- b. Please confirm that the 124% passthrough of the BPM flat parcel differential you have proposed is based on an average cost difference that does not reflect differences between parcels, irregular parcels and flats by level of sortation or extent of drop entry. If you do not confirm, please explain your answer in detail.

RESPONSE:

- a. Please see my response to POSTCOM/USPS-T38-1.
  - b. ~~Confirmed if the passthrough stated was meant to be 123%.~~
-

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF POSTAL COMMERCE

**POSTCOM/USPS-T38-3.**

Please refer to page 10 of your testimony where you describe manner in which you have computed the destination entry rates for BPM.

- a. Please confirm your understanding that the unit cost saving estimates for drop shipped BPM reflects the combined avoided costs of drop entered flats and drop entered parcels at all of the entry levels specified. If you do not confirm, please state your understanding of the data from witness Miller that you relied upon in the development of the drop entry rates.
- b. Please provide any data you relied upon showing separately the average weight of BPM parcels and flats and the average density of BPM parcels and flats. If you have no such data, please explain any assumptions you made concerning differences in weight and density in developing the BPM drop entry discounts you have proposed.
- c. Please provide any worksheets, or other data, showing the manner in which you calculated the passthroughs of cost savings for drop entry rates as set forth at page 11 of your testimony.

RESPONSE:

- a. Not confirmed. It is my understanding that witness Miller's unit cost saving estimates for drop shipped BPM reflect the avoided costs of drop entered parcels.
- b. These data are not available. I did not make any assumption concerning differences in weight and density between flats and parcels in developing the proposed BPM drop entry discounts.
- c. The passthroughs of cost savings for drop ship rates were exogenously chosen to produce rates that are consistent with all the rate design objectives There are no workpapers for the passthrough selection process.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF POSTAL COMMERCE

**POSTCOM/USPS-T38-4.**

Please refer to the attached DMM Advisory and accompanying DMM language concerning a new drop ship "option" applicable to Bound Printed matter machinable parcels to certain 5-digit zip codes prepared on 3-digit pallets or in 3-digit boxes when entered at a sectional center facility.

- a. Is it your understanding that BPM mailers preparing shipments as described in DMM Section 466.3.0 and entering such pallet or pallet boxes at a DSCF will qualify for the DSCF rates you have proposed? If that is not your understanding, please explain your understanding of this "option" and what effect, if any, it will have on the revenues and avoided costs of drop entered Bound Printed Matter parcels under your rate schedule.
- b. Were you aware of the drop entry "option" referenced in the DMM Advisory at the time you prepared your testimony concerning BPM rates?

RESPONSE:

- a. It is my understanding that DBMC rates apply, not DSCF rates. Since it is my understanding that these pieces formerly would have received the DBMC rates, no revenue impact is anticipated. I have not estimated any changes in costs.
  - b. No.
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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO PRESIDING OFFICER'S INFORMATION REQUEST No. 3

18. Please refer to USPS-LR-L-46. The addendum on page 75 states, "After results of the initial models were incorporated into the analysis of the downstream witnesses, errors were discovered in the calculations of the Parcel Post, Bound Printed Matter, and Media/Library Mail cost estimates."
- b. Please refer to USPS-LR-L-41, workbook "R2006\_USPS-LR-L-41\_BPM.xls," sheet "Inputs." Items 12d, 12e, 13b, and 13c on this sheet use cost figures from USPS-LR-L-46. Please update these figures with data from USPS-LR-L-46, workbooks "Bound Printed Matter REV.xls," and "Parcel Post REV.xls."
  - c. Please refer to USPS-LR-L-41, workbook "R2006\_USPS-LR-L-46\_Media and Library Spreadsheets.xls," sheet "Inputs." Items 9-11 use cost figures from USPS-LR-L-46. Please update these figures with data from USPS-LR-L-46, workbooks "Media – Library Mail REV.xls," and "Parcel Post REV.xls."

**RESPONSE:**

- b. Please see attached spreadsheets, R2006\_USPS-LR-L-41\_BPM\_POIR3\_18b.xls for updated "Inputs" sheet. The following table depicts the passthroughs as proposed and the implied passthroughs that result from comparing the revised costs to the proposed rates. The implicit passthroughs are in most instances, within a few percentage points of those filed<sup>1</sup>. Using the implicit passthroughs, and thereby maintaining the rates as proposed, is consistent with the objectives of the rate design.

	<u>As Filed</u>	<u>Implicit</u>
<b>Dropship passthroughs:</b>		
DSCF	85.0%	94.0%
DDU	80.0%	85.5%
<b>Barcode passthroughs:</b>		
Single-Piece Parcels	100.0%	109.2%
Presort Parcels	100.0%	109.2%
Single-Piece Flats	100.0%	109.2%
Presort Flats	100.0%	109.2%

<sup>1</sup> Implicit passthroughs are the passthroughs that, if entered in the rate design spreadsheets, along with Witness Miller's revised cost data, would generate the rates as proposed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO PRESIDING OFFICER'S INFORMATION REQUEST No. 3

- c. Please see attached spreadsheets, R2006\_USPS-LR-L-41\_Media and Library\_POIR3\_18c.xls for updated "Inputs" sheet. The following table depicts the passthroughs as proposed and the implied passthroughs that result from comparing the revised costs to the proposed rates. The implicit passthroughs are in most instances, within a few percentage points of those filed<sup>2</sup>. Using the implicit passthroughs, and thereby maintaining the rates as proposed, is consistent with the objectives of the rate design.

<b>Presort passthroughs:</b>	<b><u>As Filed</u></b>	<b><u>Implicit</u></b>
5-Digit	170.0%	180.0%
Basic	140.0%	134.8%

<sup>2</sup> The implicit passthroughs are the passthroughs that, if entered in the rate design spreadsheets, along with Witness Miller's revised cost data, would generate the rates as proposed.

RESPONSE OF POSTAL SERVICE WITNESS YEH TO  
POIR NO. 4, QUESTION 19

19. Please refer to USPS-LR-L-41, workbook "R2006\_USPS-LR-L-41\_BPM Spreadsheets," sheet "Inputs." Items 15 and 16 show TYBR Fees as \$1,154,329 and TYAR Fees as \$1,383,000, respectively. In contrast, USPS-T-39 workpapers (USPS-LR-L-123) show TYBR fees of \$1,256,179 (WP-29, cell E64) and TYAR fees of \$1,495,483 (WP-30, cell E65). Please reconcile the foregoing amounts.

**RESPONSE:**

Please see POIR.4.Q.19.attach.xls, attached. It is my understanding that Witness Berkeley is revising Bound Printed Matter fees. The "Inputs" sheet has been updated with revised fees from Witness Berkeley.

RESPONSE OF POSTAL SERVICE WITNESS YEH TO  
POIR NO. 4, QUESTION 20

20. Please refer to USPS-LR-L-41, workbook "R2006\_USPS-LR-L-41\_Media and Library Spreadsheets," sheet "Inputs." Item 13 shows TYBR fees of \$434,103 for Media Mail and \$47,473 for Library Mail. Item 14 shows TYAR fees of \$467,000 for Media Mail and \$53,000 for Library Mail. In contrast, USPS-T-39 workpapers (USPS-LR-L-123) show TYBR fees of \$460,184 for Media Mail and \$49,559 for Library Mail (WP-29, cells G64 and H64), and TYAR fees to be \$493,710 for Media Mail and \$54,663 for Library Mail (WP-30, cells G65 and H65). Please reconcile the foregoing amounts.

**RESPONSE:**

Please see POIR.4.Q.20.attach.xls, attached. It is my understanding that Witness Berkeley is revising Media Mail and Library Mail fees. The "Inputs" sheet has been updated with revised fees from Witness Berkeley.

RESPONSE OF POSTAL SERVICE WITNESS YEH TO  
POIR NO. 4, QUESTION 23

23. Please refer to USPS-LR-L-41, workbook "R2006\_USPS-LR-L-41\_BPM Spreadsheets.xls," sheet "Revenue Leakages." Column [D] shows the rate difference per piece. Please confirm that in past rate cases, the rate differences per piece were rounded to the nearest hundredth or thousandth to reflect the actual rate difference used. Please make the necessary corrections or explain why the rate differences per piece should not be rounded to reflect the actual rate difference used.

**RESPONSE:**

Inspection of the Postal Service's workpapers from Docket No. R2001-1 confirms that the rate differences per piece were rounded to the nearest thousandth to reflect the actual rate differences used. The rate differences per piece, shown in the "Revenue Leakages" sheet, column [D], are preliminary rate elements. Rates are finalized by making necessary mathematical adjustments to preliminary rate elements. In order to avoid introducing potential rounding anomalies, preliminary rate elements are rounded to more than two decimal places before the final rates stage.

RESPONSE OF POSTAL SERVICE WITNESS YEH TO  
POIR NO. 4, QUESTION 24

24. Please refer to USPS-LR-L-41, workbook "R2006\_USPS-LR-L-41\_BPM Spreadsheets.xls," sheet "Pound and Piece Charges." For the per pound component each cost markup in column [F] is derived by adjusting the cost coverage markup factor including contingency (125%) by some positive or negative set amount. Please explain how the adjustments to the markup factor were derived for each per pound charge, and the reasoning behind using each.

**RESPONSE:**

The adjustments to the markup factor for each per pound charge were derived iteratively to satisfy three rate design objectives: generate sufficient contribution, produce acceptable rate increases and maintain reasonable rate relationships. In most cases, had no adjustments been made, lower zone rates (zones 1, 2, and 3) would have seen unacceptably high rate increases. For Single-Piece and Non-Drop-shipped Presort rates, I applied below average markups to lower zone rates. I then applied above average markups to higher zone rates (zones 4 – 8) in order to recover revenue lost from the lower zones. For Drop-shipped Presort rates, I applied below average markups to DBMC rates to offset unacceptably high DBMC rate increases and above average markups to DSCF and DDU rates to recover revenue lost from DBMC.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO PRESIDING OFFICER'S INFORMATION REQUEST (POIR) No. 5

**2b** The rate design for Bound Printed Matter (BPM) proposed by the Postal Service is also inconsistent with the precedent established in Docket No. MC95-1. The proposed presort differentials are based on unit mail processing attributable cost only, which is consistent with past rate cases, but the flat-parcel differential is based on only differences in unit attributable delivery cost. Similarly, Media Mail presort discounts are based on differences only in unit attributable mail processing costs, ignoring unit attributable delivery costs. In Docket No. R2001-1, the Postal Service acknowledged that BPM shape-related cost differences could include mail processing cost differences, adding that it would explore this possibility in future rate cases. (See Docket No. R2001-1, USPS-T-33 at 30.) The Postal Service is requested to have its rate design witness for BPM and Media Mail provide a rationale for departing from the MC-95-1 approach, or alternatively, to provide revised rate design spreadsheets that incorporate unit attributable costs for both mail processing and delivery.

**RESPONSE**

My rate design approach for BPM and Media Mail is consistent with the Postal Service's methodology in R2001-1. Estimates of mail processing cost differences between BPM flats and parcels were not available to me at the time I developed BPM rates. In the spirit of recognizing that mail processing cost differences may be an additional cost difference between BPM flats and parcels, I proposed to passthrough over 100 percent of delivery cost differences for the BPM flat-parcel differential. Inspection of witness Marc Smith's estimates of the mail processing cost differences between BPM flats and parcels reveals that a more than 100 percent passthrough for delivery-only BPM flat-parcel differential was justified. The Postal Service intends to examine the combined delivery and mail processing cost differences more in depth and propose an appropriate passthrough for use in future rate cases.

Media Mail presort discounts are based on differences only in unit attributable mail processing costs, not unit attributable delivery costs because it is my understanding that data reflecting differences in unit attributable delivery costs among Media Mail are not

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO PRESIDING OFFICER'S INFORMATION REQUEST (POIR) No. 5

available, and there is little reason to expect delivery costs to vary by presort tier for these pieces.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 5

**9b** USPS-LR-L-41, workbook "R2006\_USPS-LR-L-41\_Media and Library Spreadsheets.xls," sheet "TYBR Per Unit Costs," WP-MM-8, calculates the value of leakage from 5-Digit Presort and Basic Presort in column [C] using cost savings from the "inputs" sheet rather than the actual proposed discounts. Please provide the rationale for using unit savings rather than the actual proposed discounts in the calculation of their value for Media/Library Mail. Alternatively, please provide revised workpapers showing the calculation based on actual discounts.

**RESPONSE**

My approach to Media and Library Mail calculation of the value of leakages is consistent with the Media and Library Mail rate design in R2001-1. Calculating the value of leakages from 5-Digit Presort and Basic Presort using the cost savings from the "input" sheet rather than the actual proposed discounts is equivalent to using a 100 percent passthrough of the cost savings. This method helps reveal how much the passthrough had to be adjusted in order to obtain the appropriate rate relationships.

1                   CHAIRMAN OMAS: I have provided two copies  
2 of the answers to the reporter and direct that it be  
3 admitted into evidence and transcribed.

4   (The documents referred to  
5 were marked for  
6 identification as Exhibit No.  
7 POIR 9, Question 3, and POIR  
8 10, Question 5, and were  
9 received in evidence.)

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RESPONSE OF POSTAL SERVICE WITNESS YEH  
TO POIR NO. 9, QUESTION 3

3. The Postal Service proposes to change the eligibility for Single-Piece Bound *Printed Matter (BPM)* by, among other things, restricting postage payment options to either customer-generated postage meter or permit imprint. USPS-T-38 at 6, n.2. Apart from any consideration of its merits, this proposal represents a classification change. The Postal Service is requested to address the statutory criteria set forth in section 3623 of the Postal Reorganization Act in support of this proposal.

**RESPONSE:**

The Postal Service no longer intends to impose such restrictions. Please see the revision to USPS-T-38, at 6, n.2.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH TO PRESIDING  
OFFICER'S INFORMATION REQUEST NO. 10

5 To develop a rate differential between flats and parcels for Bound Printed Matter (BPM), witness Yeh (USPS-T-38) uses unit delivery costs from witness Miller (USPS-T-21) that represent only cost segment 7. However, witness Kelley (USPS-T-30) develops a unit delivery cost for BPM flats and parcels that reflects cost segments 6, 7, and 10. Similarly, witness Kelley develops unit delivery costs for other subclasses of mail which have been used by other rate design witnesses, e.g., witness Kiefer's rate design for ECR subclass. Please provide the rationale for using witness Miller's unit delivery cost rather than witness Kelley's.

**RESPONSE**

My approach in developing the proposed flat-parcel rate differential for BPM is consistent with the Postal Service's methodology in Docket No. R2001-1. In that docket, witness Eggleston explained that her flat-parcel cost differential estimates only the difference in elemental load cost, which is a portion of cost segment 7. (Please see page 24 of her testimony, USPS-T-25). To develop the proposed flat-parcel rate differential for BPM, I relied on the cost differential estimated by witness Miller, which also reflects a portion of cost segment 7 only. It is my understanding that witness Kelley's estimate of unit delivery cost for BPM flats and parcels have not been used in the development of the flat-parcel differential in previous rate cases. The Postal Service intends to examine witness Kelley's delivery costs to develop a passthrough for use in future rate cases. Witness Kelley's unit delivery costs suggest a 28.8 cents flat-parcel delivery cost difference. Given my rate design objectives, had I relied on witness Kelley's costs, it is unlikely that I would have proposed a 123% passthrough of the flat-parcel cost differential.

1 CHAIRMAN OMAS: Is there any additional  
2 written cross-examination for Witness Yeh?

3 (No response.)

4 MR. REITER: Mr. Chairman, I think the  
5 witness would like to tell you the changes she has  
6 made.

7 CHAIRMAN OMAS: Okay.

8 THE WITNESS: For the record, the changes I  
9 made to interrogatory Amazon Question No. 10, there is  
10 a typo there. The typographical error should read  
11 Library Reference 31, not 42.

12 For interrogatory also for Amazon, Question  
13 No. 8, the response to Part (b) should read on the  
14 third line "in lines 4 to 7 on page 34 of his  
15 testimony, Witness O'Hara stated."

16 Those are the only corrections.

17 CHAIRMAN OMAS: Are there any objections?

18 (No response.)

19 CHAIRMAN OMAS: Hearing none, they will be  
20 included in the record. Thank you.

21 This brings us to oral cross-examination.  
22 Three parties have requested oral cross-examination:  
23 Amazon.com, Inc., Mr. Olson; Association of Postal  
24 Commerce and Mailing Fulfillment Services Association;  
25 and the Office of the Consumer Advocate.

1           Mr. Olson, for once you're at the top of the  
2 list. You may begin.

3           MR. OLSON: It's nice to be on the A list.

4           CHAIRMAN OMAS: Excuse me. Before we  
5 proceed, are there any additional -- I'm shocked to  
6 see you at the top.

7           Is there any other participant who would  
8 like to cross-examine Witness Yeh?

9           (No response.)

10          CHAIRMAN OMAS: Mr. Olson?

11          MR. OLSON: Thank you, Mr. Chairman.

12          William Olson representing Amazon.com.

13                                    CROSS-EXAMINATION

14          BY MR. OLSON:

15           Q    Ms. Yeh, I understand this is your first  
16 time testifying, so welcome to the Commission.

17           A    Thank you.

18           Q    From the standpoint of the lawyers anyway.  
19 We want to begin with your response to our Amazon 17,  
20 Question 17.

21           A    Yes?

22           Q    Do you have that? We asked you there to  
23 please provide any available data showing the  
24 percentage of bound printed matter that consisted of  
25 non-catalogs, e.g. books, and the percentage of BPM

1 that consisted of catalogs in base year 2005.

2 You said that these data are not available,  
3 correct?

4 A Correct.

5 Q Are there any available data from which an  
6 estimate can be made of the percentage of books or  
7 catalogs in base year 2005?

8 A Not to my knowledge.

9 Q Okay. Prior to the fourth quarter of 1976,  
10 going back into history, it's my understanding books  
11 were not allowed to be sent in BPM, and that's  
12 detailed in a nice piece of history by Mr. Thress at  
13 page 186 of his testimony, which is USPS-T-7. Is that  
14 consistent with your understanding?

15 A I'm sorry. I don't have that document.

16 Q Well, I could show it to you, but the key  
17 point is that at a certain point there were no books  
18 allowed in BPM. That's consistent with your  
19 understanding, correct?

20 A Right.

21 Q And then starting in 1977, from our  
22 research, books with advertising were allowed to be  
23 sent at BPM rates, correct?

24 A I believe so.

25 Q And then in Docket R90-1, books without

1 advertising were allowed to be sent at BPM, correct?

2 A Yes, I believe so.

3 Q Are you aware of any data on the percentage  
4 of books or catalogs in BPM for any years prior to  
5 2005?

6 A No, I'm not.

7 Q Are you aware of the testimony of Witness  
8 Lyons in Docket R90-1? I happen to have it, but I can  
9 just read you the operative part.

10 He testified that 37 percent of BPM  
11 consisted of books. Is that something you've read  
12 before?

13 A No.

14 Q Do you have any idea where that estimate  
15 might have come from?

16 A No, I don't.

17 Q In Docket R2000-1 there was a witness,  
18 Steven Siwek of the Association of American  
19 Publishers, who argued that 63.7 percent of BPM volume  
20 consisted of books. That's AAP-T-2, just for the  
21 record.

22 A Mr. Olson, could you repeat the witness  
23 name?

24 Q Yes. It's S-I-W-E-K. It's at page 5 of his  
25 testimony.

1           He said according to the latest available  
2 USPS Household Diaries study, 63.7 percent of BPM  
3 consists of books. Is that something you've seen  
4 before?

5           A     I'm not familiar with that testimony.

6           Q     Okay. In the Postal Service's reply brief  
7 in that case they took issue with that estimate, and  
8 they said in the reply brief in R2000-1 at page V-33  
9 that the 63.7 percent figure was for 1998 only.

10           They said that the same data show that from  
11 1994 to 1998 as a whole the percentage of books and  
12 BPM received by households is just under 51 percent.  
13 Then they talk about Witness Mayes referring to RPW  
14 data saying that books were 52 percent.

15           Have you read that reply brief and this  
16 discussion of the percentage of books that Witness  
17 Mayes testified to?

18           A     No. I'm unaware of that.

19           MR. OLSON: If counsel would like, I have  
20 copies of all these.

21           BY MR. OLSON:

22           Q     Let me see if I can find this. In his  
23 testimony in this case, Witness O'Hara at page 33  
24 states, "Over a period of years, an increasing number  
25 of books have been mailed as BPM."

1           When Dr. O'Hara comes to the stand I'll ask  
2 him about that, but for now let me just ask you if you  
3 know if Witness O'Hara has access to any information  
4 you don't have about the percentage of books in BPM?

5           A     Could you repeat that question?

6           Q     Yes. Witness O'Hara said over a period of  
7 years an increasing number of books have been mailed  
8 as BPM. I will ask him what he was referring to, but  
9 I wanted to know if you knew if there was any data to  
10 support his statement.

11           MR. REITER: Mr. Chairman, I don't see how  
12 this witness can answer that question. She can  
13 certainly answer what she has available to herself. I  
14 don't see how she can answer what counsel is asking.

15           MR. OLSON: I'll rephrase.

16           MR. REITER: He can ask Witness O'Hara.

17           MR. OLSON: I'll rephrase.

18           CHAIRMAN OMAS: Thank you.

19           BY MR. OLSON:

20           Q     Do you have any personal knowledge of any  
21 information that anyone could use to make the  
22 statement that over a period of years an increasing  
23 number of books have been mailed as BPM?

24           A     No.

25           Q     Since the Postal Service wrote their reply

1 brief in R2000-1 saying that the number was about 51  
2 or 52 percent of books in BPM, do you believe the  
3 trend could have increased it to a level of perhaps 80  
4 percent or 90 percent?

5 A I have not looked into this further.

6 Q Do you know whether the Commission has given  
7 weight to the percentage of books within BPM in  
8 setting the coverage for the subclass?

9 MR. REITER: Mr. Chairman, I think setting  
10 the cost coverage is also within the scope of Witness  
11 O'Hara's testimony, not this witness'.

12 MR. OLSON: I think that's true in the first  
13 instance, but this is the pricing witness who uses  
14 that number. If she doesn't know, that's fine.

15 CHAIRMAN OMAS: If the witness knows. Would  
16 you answer, please?

17 THE WITNESS: Would Mr. Olson please repeat  
18 the question?

19 MR. OLSON: Sure.

20 BY MR. OLSON:

21 Q I just want to know if you know if the  
22 Commission has given weight to the percentage of books  
23 within BPM as a factor in deciding the coverage for  
24 BPM rates?

25 A If I'm understanding, you're asking if I

1 know the Commission has given weight to --

2 Q Yes. Whether it's given weight to the --

3 A I can't comment on what the Commission has  
4 given weight to. What do you mean? Historically?

5 Q Yes. In their opinions and recommended  
6 decisions where they discuss coverage of bound printed  
7 matter, I'm asking you if you know whether they've  
8 given weight to the percentage of books within BPM as  
9 a factor that affects coverage.

10 A I do not know.

11 MR. OLSON: Okay. Ms. Yeh, insofar as there  
12 is apparently some information at the Postal Service  
13 about the percentage of books within BPM over time  
14 that might be relevant.

15 Is that something that your counsel would  
16 agree to allowing us to ask you to provide if it  
17 happens to be available, something that we can make an  
18 estimate of the percentage of books for this  
19 particular docket?

20 I'm talking about base year 2005, but  
21 whatever the most recent data is that you might have.

22 MR. REITER: The only thing that we're aware  
23 of, Mr. Chairman, and I believe this was referenced in  
24 one of the earlier citations that Mr. Olson read, is  
25 the Household Diaries study which looks at mail that

1 is received only by households. That information is  
2 already on the record in this case as well.

3 MR. OLSON: Well, Mr. Chairman, the other  
4 reference that the Postal Service made in their reply  
5 brief in Docket R2000-1 was to testimony apparently of  
6 Witness Mayes or cross-examination of her. I'm sorry.

7 It says, "Review of the above-referenced  
8 cross-examination of Witness Mayes revealed she was  
9 referring to RPW data which indicated that books  
10 comprised approximately 52 percent of the bound  
11 printed matter subclass."

12 That's the Postal Service's reply brief.  
13 That must have been based on something, Witness Mayes'  
14 testimony.

15 MR. REITER: I hope it was based on  
16 something. We can look into that, Mr. Chairman, and  
17 let you know.

18 CHAIRMAN OMAS: Mr. Reiter, I would  
19 appreciate it, and I'm sure Mr. Olson would. If you  
20 could provide that to us we'd be most appreciative.

21 MR. REITER: I will do so.

22 CHAIRMAN OMAS: Thank you.

23 MR. OLSON: Thank you.

24 BY MR. OLSON:

25 Q Let's turn to a discussion of BPM unit

1 costs. I'd like to begin with a discussion of a  
2 response we got, an institutional response we got from  
3 the Postal Service.

4 We originally directed the question to you.  
5 It was Amazon/USPS-T-38-25(c) and (d). Do you happen  
6 to have that with you?

7 A Could you give me one second?

8 Q Sure.

9 (Pause.)

10 A Yes.

11 Q Okay. In that question, which the Postal  
12 Service answered, it provided unit costs for bound  
13 printed matter from the CRA from 1989 to 2005. Does  
14 that look correct to you?

15 A Correct.

16 MR. OLSON: Now, we made a cross-examination  
17 exhibit which is very simple. It just took those unit  
18 costs and it plotted them.

19 If I can hand this out, Mr. Chairman?

20 THE WITNESS: Thank you.

21 CHAIRMAN OMAS: Mr. Olson?

22 MR. OLSON: Yes?

23 CHAIRMAN OMAS: Before you continue may I  
24 ask the witness a question, please?

25 MR. OLSON: Certainly, sir.

1 CHAIRMAN OMAS: Ms. Yeh, you just answered a  
2 question in a negative, which really, really surprised  
3 me.

4 Before designing rates, did you read any  
5 previous PRC decisions?

6 THE WITNESS: Yes, I did.

7 CHAIRMAN OMAS: Well, you just stated a  
8 while ago you were not aware of something that was in  
9 a previous decision.

10 THE WITNESS: What I meant to say is I  
11 wasn't aware of that particular issue Mr. Olson was  
12 referring to.

13 CHAIRMAN OMAS: All right. Thank you, Mr.  
14 Olson. I apologize.

15 MR. OLSON: Yes, sir.

16 BY MR. OLSON:

17 Q Ms. Yeh, I'd like you to take a look at the  
18 graphs that we plotted. Can you just take a brief  
19 look at the data provided by the Postal Service in  
20 their response institutionally to our interrogatory?

21 Can you see that we've plotted the unit  
22 costs of bound printed matter from 1989 through 2005?

23 A I see the chart you've handed to me, yes.

24 Q And you can see, for example, the unit cost  
25 in 1989 was .466 dollars, and it appears on here at

1 about 46 cents?

2 A There's no specific number on the chart, but  
3 I assume you're right.

4 Q It's a little bit more than half of the way  
5 between 40 and 50, so I'm just asking you to confirm  
6 that you see where the point is there. It looks like  
7 it's about the right spot?

8 A Yes, I see the dot there. Yes.

9 Q For example, in year 2002 the unit cost of  
10 BPM was 91.7 cents. Do you see that plotted there  
11 just over the 90 cent line?

12 A Yes, I see the point there.

13 Q Okay. So all we did was make a graph out of  
14 the table provided from 1989 to 2005. While we were  
15 at it, we made another chart which had to do with  
16 year-to-year percentage changes in unit costs.

17 In other words, if the cost went up 20  
18 percent one year it would show positive 20 percent.  
19 If they went down 20 percent, it would show negative.

20 Do you see how this chart was designed to  
21 show the annual percentage change in unit cost of BPM?

22 A Yes, I follow your explanation.

23 Q Okay. Now, the response we got from the  
24 Postal Service, the institutional response we got from  
25 the Postal Service says that, "It is worth noting that

1 observed changes in unit cost between FY 2004 and FY  
2 2005 reflect not only actual changes in cost, but also  
3 the impact of changes resulting from IOCS redesign as  
4 well." Do you see that part of the response?

5 A Yes, I do.

6 Q Okay. Do you know if there are any other  
7 changes in costing methodology that occurred during  
8 this period which could affect the unit cost of BPM in  
9 a significant way?

10 MR. REITER: Mr. Chairman, Ms. Yeh is the  
11 pricing witness and is not an expert on costing.

12 If Mr. Olson wants to ask a question about  
13 pricing in light of these costs that would be fine,  
14 but I don't believe that's what he's asked.

15 MR. OLSON: Okay. I think that's fair.  
16 I'll withdraw that.

17 CHAIRMAN OMAS: Thank you.

18 MR. OLSON: Yes. Let me ask you to take a  
19 look at the first document we gave you, the one that's  
20 labeled BPM Unit Costs.

21 Just for clarity, I'm going to ask we  
22 designate that as Amazon-XE-1 and the other one  
23 Amazon-XE-2 as cross-examination exhibits.

24 XE-1 is the one that says BPM Unit Costs,  
25 the line graph, and XE-2 is BPM Unit Cost Percentage

1 Change, the bar graph, okay?

2 (The documents referred to  
3 were marked for  
4 identification as Exhibit  
5 Nos. Amazon-XE-1 and Amazon  
6 XE-2.)

7 BY MR. OLSON:

8 Q If you take a look at XE-1, the unit cost  
9 line graph, would you say that the year-to-year  
10 percentage changes are fairly uniform?

11 A You want me to describe the unit costs,  
12 whether it's fairly uniform, based on your graph?

13 Q Yes.

14 A I would have to compare it to something  
15 else. I can't say for sure whether this is uniform  
16 compared to --

17 CHAIRMAN OMAS: Ms. Yeh, excuse me. Your  
18 answers, we hear you over the mic, but they're a  
19 little soft. Could you just speak with a little more  
20 force, please?

21 THE WITNESS: Yes.

22 CHAIRMAN OMAS: Thank you.

23 BY MR. OLSON:

24 Q It is fair to say that the lowest unit cost  
25 on here I believe is 46.6 cents and the highest is

1 91.7 cents. Would that be correct according to the  
2 chart that's appended?

3 A Are you referring to the points  
4 corresponding to 1989 and 2002?

5 Q Yes.

6 A And your question was?

7 Q My question was that unit costs for BPM  
8 varied from a low of 46.6 to a high of 91.7 cents,  
9 correct, over that period?

10 A Yes, it seems so.

11 Q Okay. In some years there are sharp  
12 percentage increases in unit costs, and other years  
13 there are substantial declines in unit costs. Isn't  
14 that true?

15 A And by substantial meaning? I can't comment  
16 on the costs.

17 Q Well, a percentage. Let's take the bar  
18 graph, XE-2. In 1993, the unit cost for BPM went down  
19 20 percent. I'd call that substantial. Let's  
20 stipulate that 20 percent is substantial.

21 Do you see that at least in one year it was  
22 a 20 percent decrease?

23 A Yes, I see it in the graph. Yes.

24 Q Okay. And in 1996 the increase was over 30  
25 percent. Do you see that?

1           A     Yes, I do.

2           Q     Okay.  Wouldn't you call those sharp  
3 percentage increases and decreases?

4                   MR. REITER:  Mr. Chairman, I think we can  
5 all observe the chart.  I was hoping that Mr. Olson  
6 was moving on to actual pricing questions, but he  
7 continues to ask the witness to comment on the changes  
8 in cost.

9                   MR. OLSON:  Mr. Chairman, the witness has  
10 testified in her responses to at least three  
11 interrogatories, and I'll lay this as a predicate to  
12 the question, that you have done an evaluation of cost  
13 changes of BPM in doing your pricing.

14                   BY MR. OLSON:

15           Q     Do you recall using those words, or would  
16 you like me to direct you to those interrogatories?

17           A     Could you direct me to those  
18 interrogatories, please?

19           Q     Sure.  One would be 21(c).  Let me ask you  
20 this first.  Did you make an evaluation of cost  
21 changes for BPM in setting prices?

22           A     Yes, I did.

23           Q     Okay.  That's all I'm trying to establish.  
24 You looked at trends in BPM costs over years before  
25 you set your prices?

1 A I have looked at them.

2 Q And considered that as a factor?

3 A I am not an expert on costing.

4 Q No. I understand. I'm not asking you to be  
5 an expert on costing. I'm just trying to look at it  
6 from the standpoint of what you called your evaluation  
7 of cost changes and ask you to draw some conclusions  
8 from the costs that you had in front of you as you  
9 were making pricing decisions.

10 Let me just ask this. Are you saying that  
11 when you made your evaluation of cost changes you were  
12 looking at just say the change from the last case and  
13 not historic costs?

14 A I looked at the cost changes.

15 Q Including changes like the ones we're  
16 looking at here today?

17 A Yes. I've seen the costs provided in the  
18 response to 25.

19 Q And when you looked at those did you  
20 question the accuracy of costs that had such sharp  
21 increases and decreases in a given year?

22 A Do you mean did I wonder why? The cost data  
23 was supplied to me by the costing experts.

24 Q And therefore whatever they give you you  
25 work with and that's the end of it?

1           A     My opinion as to whether they are  
2     substantial or not does not play into my decision in  
3     choosing rates necessarily.

4           Q     If you had examined these cost data as you  
5     say you had and drawn a conclusion that there was a  
6     problem with the costing data, would that affect you  
7     in pricing decisions?

8           A     Can you repeat that, please?

9           Q     Yes. You say you examined these very data  
10    about unit cost changes over time, and I'm asking you  
11    if you were to examine them and conclude that there  
12    was a problem with BPM costing would that affect you  
13    at all in how you set prices?

14          A     I think that's kind of general when you say  
15    there's a problem with the costing. As I said, I'm  
16    not a costing expert and I'm provided with cost data  
17    so I can't comment as to whether there's a problem  
18    with the costing.

19          Q     Let me just ask this last question. Did the  
20    wide swings that we've been discussing in unit costs  
21    over this period of time instill confidence in you in  
22    the validity of the costs that you were given  
23    admittedly?

24          A     Yes, I am confident in the cost data I was  
25    given based on the fact that they are the only ones

1 available to me.

2 MR. OLSON: Okay. Mr. Chairman, while we're  
3 here could I ask that the two cross-examination  
4 exhibits be transcribed in the record at this time?

5 CHAIRMAN OMAS: Without objection. So  
6 ordered.

7 (The documents referred to,  
8 previously identified as  
9 Exhibit Nos. Amazon-XE-1 and  
10 Amazon-XE-2, were received in  
11 evidence.)

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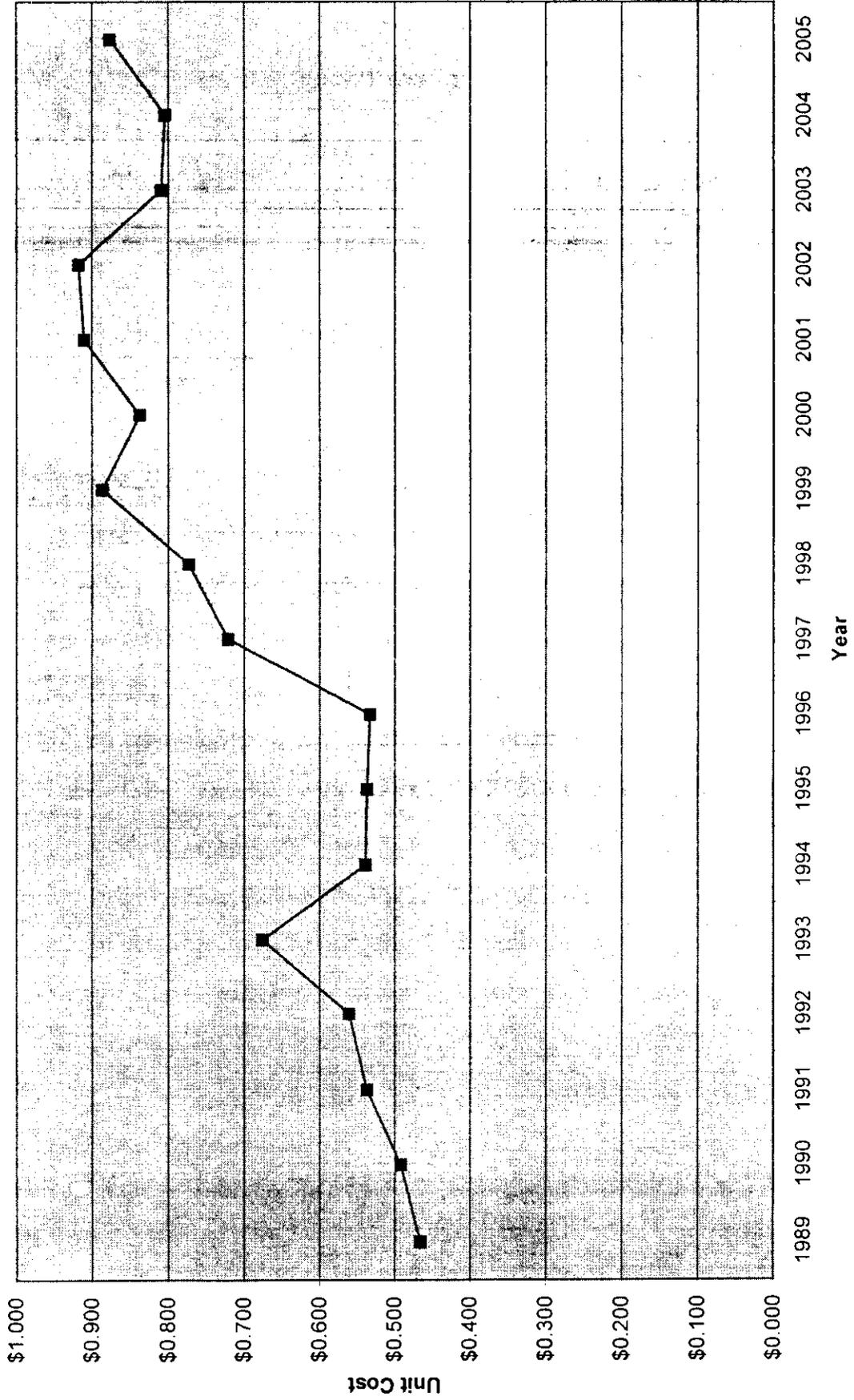
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AMZ--VE-1

AMZ-VE-1 2008

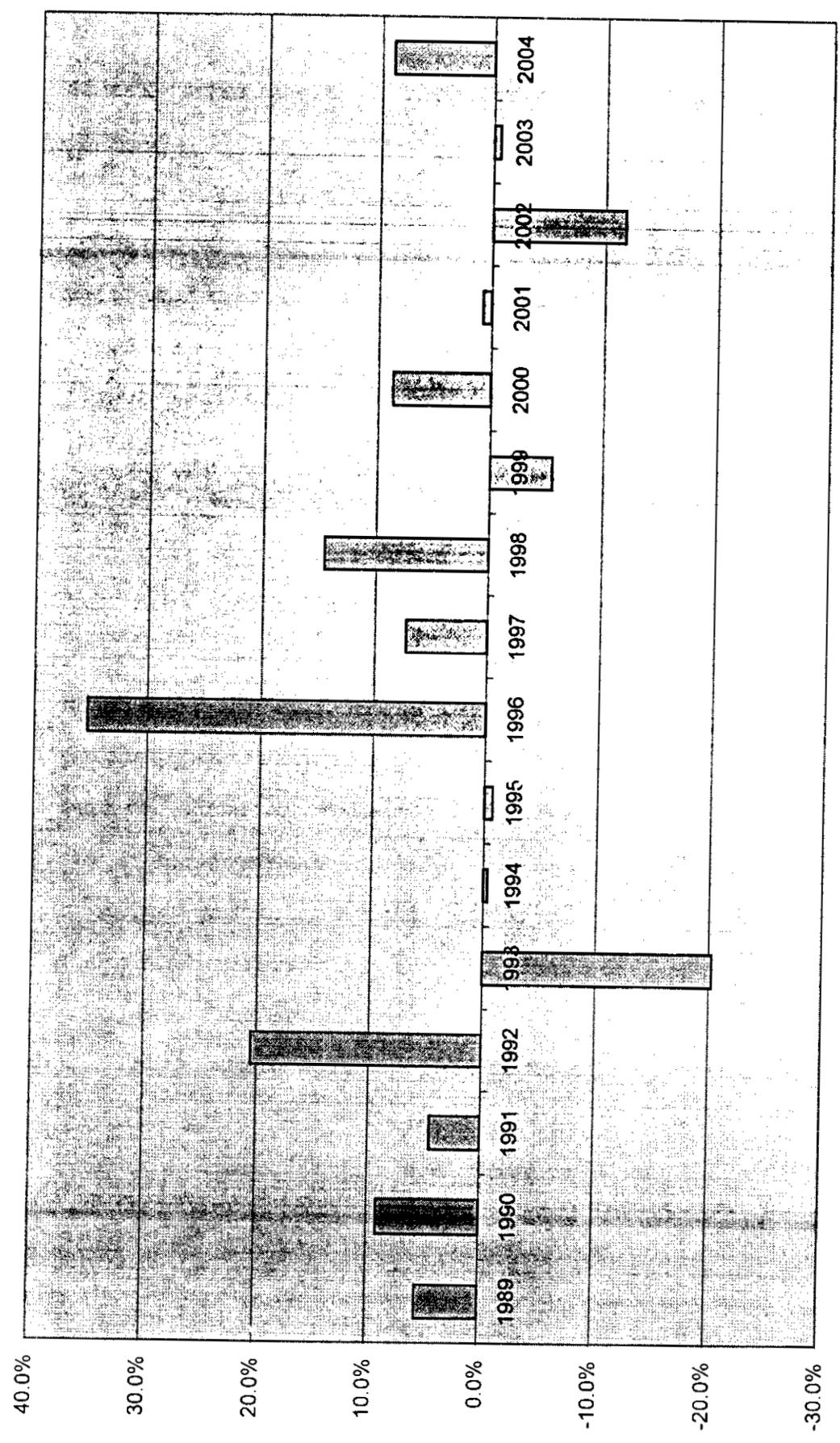
BPM Unit Cost



AM2 XE-2

AM2-XE2<sup>2009</sup>

BPM Unit Cost Percentage Change



Year

1 BY MR. OLSON:

2 Q Could I ask you to go to Interrogatory 14,  
3 Amazon 14?

4 A Yes.

5 Q Okay. And there the question asks you for  
6 the average rate increase for all basic presort BPM  
7 entered at a DBMC, and you said that you were unable  
8 to calculate it because test year after rates revenue  
9 was not separately calculated by presort level,  
10 correct?

11 A Correct.

12 Q Let me ask you this. Do you have volume by  
13 presort level?

14 A Yes.

15 Q Do you have the volume broken down by weight  
16 and zone?

17 A Could you specify which volume? Volume of  
18 what by weight and zone?

19 Q Basic presort bound printed matter entered  
20 at DBMCs.

21 A Not in my workpaper, no.

22 Q Do you know if that information is collected  
23 and if it exists?

24 A If I may have a second to check on  
25 something?

1 Q Sure.

2 (Pause.)

3 A It may exist, but I don't have it in my  
4 workpaper.

5 Q So when we asked you to calculate an average  
6 rate increase you said you could take test year after  
7 rates revenues and divide by volumes, correct?

8 A Correct.

9 Q And you then say you can't do that because  
10 you don't have test year after rates revenues,  
11 correct, but you said you do have the volume that you  
12 could use?

13 A Correct.

14 Q Okay. Do you know if you are given costs at  
15 that level of detail for BPM?

16 A I'm not sure. I don't know.

17 Q You don't know if they gave you that cost  
18 data?

19 A If they gave me cost at that detail? No,  
20 they haven't.

21 Q So I guess you've not able to take, for  
22 example, basic presort BPM entered at DBMCs and  
23 calculate the unit contribution under your rates?

24 A I have not done so, no.

25 Q Well, if you don't have the costs you can't

1 calculate unit contribution, correct?

2 A That's right.

3 Q Do you have an opinion as to whether the  
4 coverage of basic presort BPM entered at DBMCs is  
5 about the subclass average target coverage of 125?  
6 For BPM I think 125 is the coverage, correct?

7 A Correct.

8 Q Do you think that the coverage for this  
9 subset of BPM is about 125, if you know?

10 A I don't know. I haven't looked into it.

11 Q Could you look at your response to our  
12 Interrogatory 15?

13 A Yes.

14 Q There we asked about carrier route presort  
15 BPM, correct?

16 A Correct.

17 Q And you gave us basically the same response.  
18 Would the series of questions I've just asked you get  
19 the same answers? In other words, you don't have the  
20 total revenues for carrier route BPM, correct?

21 A Correct.

22 Q But you do have volumes, correct?

23 A Correct.

24 Q And you don't have the costs?

25 A Correct.

1 Q Okay. So you can't calculate the coverage  
2 of that component of BPM, carrier route presort?

3 A Correct. The cost coverage is calculated on  
4 the total BPM.

5 Q Do you think it's important to know the  
6 implicit coverage on different components of BPM, or  
7 are you satisfied that on average 125 is the coverage  
8 for all BPM?

9 A Am I personally satisfied?

10 Q Well, as the pricing witness for the Postal  
11 Service in the case making recommendations to the  
12 Commission about rates, does it matter if say some BPM  
13 had a coverage of 250 and some had a coverage of a  
14 negative contribution, of 80 percent let's say of  
15 their costs? Would that matter?

16 A The cost coverage is provided to me by  
17 Witness Don O'Hara. That applies to the entire BPM.  
18 I evaluated the rate changes based on the cost data  
19 given to me and Witness O'Hara's cost coverage.

20 Q Well, what you've already said I think is  
21 that you didn't have cost data detailed sufficiently  
22 to be able to calculate contribution from even this  
23 big component of BPM known as carrier route presort  
24 BPM, correct?

25 A Correct.

1 Q So you don't really know, I think you have  
2 said, what the implicit coverage is of that component  
3 of BPM or any other specific component of BPM,  
4 correct?

5 A Correct.

6 Q You just know on average it's 125 percent  
7 for all BPM?

8 A Right, and this is consistent with previous  
9 dockets.

10 Q What I'm trying to get at is as a pricing  
11 witness does it concern you that you have no way to  
12 know whether some of the product lines within BPM such  
13 as carrier routes presort BPM could be under your  
14 pricing priced under cost or substantially over cost?

15 A And you're asking if it mattered to me?

16 Q Yes.

17 A It concerns me, but for the purpose of the  
18 rate design I did not have those cost data in detail.  
19 Hence, I'm not able to calculate the implicit cost  
20 coverage.

21 Q Did you ask for that information from the  
22 costing witnesses?

23 A It was my understanding it's not available.

24 Q If you could look at the next interrogatory,  
25 16, just to have the record, but to do this quickly?

1 We ask there about carrier route presort BPM entered  
2 at DBMCs.

3 We would have the same exchange of  
4 information, would we not, if I asked you all the  
5 questions about carrier route presort BPM entered at  
6 DBMCs as we just did for the other couple of  
7 subcategories?

8 A Yes.

9 Q Okay. Could you look at your testimony on  
10 page 7?

11 A Yes. I'm on page 7.

12 Q There you say in lines 7 and 8,  
13 "Consequently, non-presort BPM's volume share has  
14 gradually shrunk, and in 2005 it was less than five  
15 percent of total volume," correct?

16 A Correct. That's what it says.

17 Q Non-presort is what's now called single  
18 piece BPM, correct?

19 A Correct.

20 Q And you're proposing to change the name?

21 A Yes.

22 Q Okay. There are three big components of  
23 BPM, are there not? There's single piece, which you  
24 now call non-presort, there's basic presort and  
25 carrier route presort, correct?

1 A Correct.

2 Q Okay. So carrier route presort or basic  
3 presort and carrier route presort are 95 percent of  
4 the volume of BPM, correct?

5 A Correct.

6 Q And for those two presort categories that  
7 have 95 percent of the volume, we don't know the  
8 revenues, the costs or the coverage, correct?

9 A We do, but we don't have it at the detail  
10 that your questions asked for.

11 Q Well, do you have it for all? I mean, our  
12 question was --

13 A Yes. You would be able to calculate for all  
14 presort, the combined basic presort and carrier route  
15 presort, if you refer to my workpaper in the billing  
16 determinants area.

17 Q Okay. Let's take it first the other way.  
18 Can you look at basic presort separately and come up  
19 with revenues, costs and contributions?

20 A You cannot come up with revenue per piece  
21 for basic presort separately.

22 Q Or costs or contributions?

23 A Not that I'm aware of.

24 Q Okay. And for carrier route bound printed  
25 matter you can't come up with revenues, costs or

1 contributions, correct?

2 A Correct.

3 Q But when you put them together, the two  
4 presorted components of BPM, there the data is in your  
5 workpapers? Is that what you're saying?

6 A The data to calculate revenue per piece for  
7 the combined presorted is in my workbook, yes. I  
8 didn't do those calculations, but you can take the  
9 data in the workbook to do it.

10 Q If you didn't do those calculations, do you  
11 have an opinion that the rates that you've designed  
12 and are proposing for BPM for the two presort  
13 categories are cost-based?

14 A They're not solely cost-based, but cost is  
15 an element that I looked into, yes.

16 Q Within the confines of what costs are  
17 available?

18 A Correct.

19 Q Let me ask you some questions about media  
20 mail. What I understand is that you're proposing  
21 three rate categories for media mail and library mail  
22 that are comparable. There's single piece and there's  
23 basic presort and five-digit presort. Is that  
24 correct?

25 A Correct.

1           Q     Okay.  Let's take single piece media mail.  
2     For single piece media mail did you examine the  
3     revenues from your proposed rates?

4           A     Are you referring to a specific  
5     interrogatory that discussed this question?

6           Q     No.  No.  I'm just trying to get at how you  
7     went about recommending the rates that appear in your  
8     testimony, as well as in Rate Schedule 523 and 524 for  
9     library mail.

10                  I'm wondering if you were able to isolate  
11     single piece media mail in this question and estimate  
12     revenues from what rates you're proposing.

13           A     If you turn to page 42 of my library  
14     reference -- excuse me.  Let me correct that.

15                  If you would turn to WP-MM-14 of my media  
16     and library spreadsheet, which happens to be page 18?  
17     The table is labeled Media Mail and Library Mail TYAR  
18     Revenue Calculation.

19           Q     One of the problems that occurs occasionally  
20     is that sometimes the printouts don't -- we were just  
21     discussing this before that the printouts and .pdf  
22     don't show up quite the same way as they do in the  
23     Excel spreadsheets and such.

24                  If you're looking at page 18, the heading on  
25     the printout I have is for bound printed matter.

1 A I'm referring to Workpaper Media Mail-14

2 Q I thought you said page 18 of your  
3 workpapers. I'm sorry. What page is it?

4 A It's page 18 of the media and library mail  
5 workpapers.

6 Q Okay. If you could just go ahead while I  
7 try to find that? You say the information is there?

8 A Correct.

9 Q So you know the single piece media mail  
10 revenues, and they're in there?

11 A Yes.

12 Q And the same thing for library rates?

13 A Yes.

14 Q Okay. Now, as I understand it, media mail  
15 and library rate have combined costs. They're not  
16 separated, correct?

17 A Correct.

18 Q Looking at, if you would, your response to  
19 our Interrogatory 28, this interrogatory has to do  
20 with medial mail. We asked you to provide a table  
21 showing test year after rates allocated costs in a  
22 format similar to that provided for Priority Mail  
23 elsewhere in the case.

24 You said, "These data are not available  
25 because costs are allocated by rate element, not by

1 rate cell," correct?

2 A Yes.

3 Q When you say not by rate cell I think I know  
4 what you mean, but when you say they're allocated by  
5 rate element do you mean that they're allocated to  
6 single piece media mail and basic and five-digit? Is  
7 that what you mean?

8 A If you would turn to Workpaper Media Mail-10  
9 titled Preliminary Rate Calculation of my media and  
10 library mail spreadsheet? The costs are allocated by  
11 the rate elements that are listed in the Cost/Rate  
12 Element column.

13 Q Okay. Could you tell me what those are,  
14 just for reference?

15 A Yes.

16 Q Because I can't find the page --

17 A Do you want me to read through the entire  
18 column?

19 Q Please.

20 A Okay. There's the total cost per pound, the  
21 total cost per piece, which is then used to calculate  
22 the first pound total and the additional pound total.

23 Q Okay. So those are considered rate  
24 elements, not rate cells, are you saying?

25 A Those are the costs that are allocated to

1 those rate elements. Correct. Those are not rate  
2 cells.

3 Q Are you able to state whether your single  
4 piece media mail rates covered attributable costs?

5 CHAIRMAN OMAS: Excuse me, Mr. Olson. I  
6 don't think your mic is on.

7 MR. OLSON: I'm sorry. Something happened.

8 CHAIRMAN OMAS: Thank you.

9 THE WITNESS: Could you repeat that question  
10 again?

11 BY MR. OLSON:

12 Q Sure. Are you able to say whether the  
13 single piece media mail rates that you've proposed  
14 cover attributable costs?

15 A I have not looked further into that, but my  
16 costs are derived from allocating them to the rate  
17 elements as I had listed earlier. They do not include  
18 specifically just single piece or just basic piece.

19 Q So you also wouldn't be able to calculate  
20 the coverage of single piece mail in media mail,  
21 correct?

22 A Correct.

23 Q Okay. For basic presort would the answer be  
24 the same?

25 A Yes.

1 Q And for five-digit presort would the answer  
2 be the same?

3 A Yes.

4 Q Could you look at your response to 28 one  
5 more time? Strike that. I don't need to ask that. I  
6 think we've already covered it.

7 Let me ask you to look at your testimony on  
8 page 13, please.

9 A Yes.

10 Q Lines 8 through 12 talk about the rate  
11 structure of media mail changing in 1975, and this  
12 begins on page 9.

13 The three-part structure that exists, is  
14 that one rate for the first pound and a second rate  
15 for pounds two through seven and a third rate for each  
16 additional pound? Do you see that?

17 A Yes, I do.

18 Q In the existing rate structure do you know  
19 what the rate is for pounds two through seven? I  
20 looked it up. It's 48 cents. Would you accept that?

21 A Okay.

22 Q Okay. And for each additional pound over  
23 seven, 34 cents. Does that sound about right?

24 A Uh-huh.

25 Q So the rates currently in effect for pounds

1 two through seven are different than the rates that  
2 are applicable to pounds over seven, correct?

3 A Correct.

4 Q Now if you can look at your response to our  
5 Interrogatory 4?

6 A Yes.

7 Q In (a) starting in the second sentence you  
8 say, "My proposed rates were proposed from a per piece  
9 and per pound rate construction manifested in a three-  
10 part structure that resulted in one rate for the first  
11 pound, a separate lower rate for additional weight up  
12 to seven pounds and the same lower rate for additional  
13 weights over seven pounds," correct?

14 A Correct.

15 Q So what is your proposed rate for pounds two  
16 through seven?

17 A Thirty-eight cents.

18 Q All right. And what's your proposed rate  
19 for pounds over the seventh pound?

20 A Thirty-eight cents.

21 Q So in what sense does charging the same  
22 identical pound rate for two through seven and over  
23 seven conform with the precedent of having different  
24 rates for those different pound ranges?

25 A I follow what you're saying. My intention

1 was not to deviate from the previous docket's three-  
2 part rate structure.

3 It so happens that when I adopted a  
4 different mitigating strategy for the large first  
5 pound rate increases in the five-digit and basic  
6 presort rate it resulted in the second to seven pound  
7 rate to be similar to the eight to 70 pound rate.

8 Q I guess what I'm saying is you're asserting  
9 that you have not broken with precedent, that there is  
10 still a three-part rate structure, the first pound,  
11 pounds two through seven and pounds eight to 15.

12 I'm saying under that logic couldn't you  
13 have proposed a 38 cent rate for pound one, two,  
14 three, four, five, six, seven, eight, nine, 10 and say  
15 you had a 15 element rate structure?

16 If you don't have different rates, how can  
17 you say you're maintaining the existing rate structure  
18 which has different rates?

19 A What I'm saying is that my intention is not  
20 to deviate from the three-part rate structure, and it  
21 doesn't mean that in future rate cases there will be  
22 no three-part rate structure.

23 I'm saying simply that my mitigating  
24 strategy and given the factors of all the rate design  
25 objectives it led me to these rates.

1           Q     Would you at least agree with me that your  
2     38 cent recommendation for two through seven and over  
3     seven, that there's nothing that distinguishes that to  
4     the mailer in terms of the prices that they pay? For  
5     the mailer it's not a three-part rate structure. It's  
6     a two-part rate structure.

7           A     One can view it as that if they don't know  
8     the background, yes.

9           Q     Could you take a look at your Interrogatory  
10    19?

11          A     Yes.

12          Q     That's where we asked you about what Witness  
13    Kiefer had done in R2000-1.

14          A     Correct.

15          Q     Isn't it true that he proposed different  
16    rates for media mail for two through seven and eight  
17    through 15?

18          A     Yes, he did.

19          Q     And in part (b) of this question we asked  
20    you did you consider following what Witness Kiefer  
21    described as the Postal Service and Commission  
22    practice of mitigating large first pound increases for  
23    media mail and library mail, and you said yes, you  
24    considered it, correct?

25          A     Correct.

1           Q     And you rejected it to avoid I think you  
2 called them unacceptably large first pound rate cell  
3 increases or something like that?

4           A     Yes, that is my testimony. In Witness  
5 Kiefer's R2001-1 testimony he also adopted a  
6 mitigating strategy to mitigate the large first  
7 pound -- the unacceptably large first pound rate  
8 increases.

9           Q     Okay. Let's look at what we're mitigating  
10 here. Look at your response to No. 6. That's one  
11 place where you say, "My rate design attempts to  
12 mitigate rate impact," as explained in response to No.  
13 4, correct?

14          A     Correct.

15          Q     And there the question we asked you has to  
16 do with one pound five-digit presort media mail, and  
17 we asked you to confirm that your proposed rate  
18 changes range from minus 5.3 percent to plus 44.4  
19 percent and that that is a range of 49.7 percent. You  
20 confirmed that, correct?

21          A     Correct.

22          Q     Did you give any consideration to a rate  
23 design which would mitigate a 44 percent rate  
24 increase?

25          A     My rate design adopted the mitigating

1 strategy that I saw best to mitigate those increases,  
2 those increases just like cost increases.

3 Q Let's look at what you said your objectives  
4 were. You responded to POIR 4, Question 24, I  
5 believe, correct?

6 A Correct.

7 Q And do you have that with you by chance?

8 A Yes. One second.

9 (Pause.)

10 A Yes.

11 Q Okay. In the first sentence there you say  
12 the adjustments, the markup factor, for each pound  
13 charge were derived iteratively to satisfy three rate  
14 design objectives -- generate sufficient contribution,  
15 produce acceptable rate increases and maintain  
16 reasonable rate relationships.

17 Is that it? Are those your objectives in  
18 your rate design for media mail?

19 A Yes, these are my rate design objectives.

20 Q I guess this question had to do with BPM,  
21 but they apply to BPM, media mail, library mail?

22 A Yes.

23 Q Any other objectives?

24 A As I said, they summarize my objectives.

25 Q Okay. In response to 21(b) you say -- I'll

1 let you get there. You say rate design must balance  
2 numerous factors.

3 Am I to conclude then that the factors you  
4 set out in response to the Presiding Officer's inquiry  
5 are the factors that you're referencing there, the  
6 numerous factors?

7 A Correct.

8 Q No other factors?

9 A They summarize the factors.

10 Q Go back to 24. You say twice that you want  
11 to avoid unacceptably high rate increases. Do you see  
12 that? It's in the fifth line and the next to the last  
13 line.

14 A Do you mean Question 24 or 4?

15 Q No. 24.

16 A Of the POIR?

17 Q Yes.

18 A And which line were you referring to?

19 Q The fifth line uses the phrase "unacceptably  
20 high rate increases," and the next to the last line  
21 talks about "unacceptably high rate increases,"  
22 correct?

23 A Correct.

24 Q In developing rates, how high in percentage  
25 terms would a rate have to go to be unacceptably high?

1           A     I believe you asked me that question too in  
2 an interrogatory.

3           Q     I remember the answer too.

4           A     I didn't have a specific maximum acceptable  
5 increase.

6           Q     How about asking the question this way?  
7 What criterion or criteria do you use to help you  
8 decide whether something is unacceptably high?

9           A     My evaluation of my proposed rates looks at  
10 the overall results rather than just the specific rate  
11 increase.

12          Q     Well, you said to the Commission that one of  
13 the reasons that you mitigated in the way you  
14 mitigated was, in the next to the last line here, to  
15 "offset unacceptably high DBMC rate increases."

16          A     Correct.

17          Q     So you do look at specific effects within  
18 the product?

19          A     Yes, I do look at the specific effects, but  
20 I don't have a specific maximum increase.

21          Q     I understand you don't have a specific  
22 number you'd want to testify to, but a moment ago I  
23 thought you had said you don't look at the effect on  
24 specific products. You look at overall. I thought  
25 that's what you said.

1 A I said I don't just look at --

2 Q Just. I'm sorry.

3 A -- specific effect on rate increases.

4 Q In your development of rates for BPM and for  
5 media mail and library mail, do you use the same  
6 methodology and criteria to identify unacceptably  
7 large rate increases?

8 A I'm afraid that's a very general statement.

9 Q It's a question.

10 A A question. You're asking me if I have a  
11 specific criteria that I follow?

12 Q Do you approach mitigating unacceptably high  
13 rate increases the same in bound printed matter --

14 A It really depends on the --

15 Q Let me just finish the question. Bound  
16 printed matter, library mail and media mail.

17 A Do I have a specific criteria?

18 Q Do you approach it the same way? No, I  
19 didn't ask about criteria. Do you approach it the  
20 same way?

21 A I would say so given the circumstances.

22 Q Would you look at our Interrogatory 12?  
23 Now, this goes back to BPM rates. I just want to ask  
24 you to confirm some things out of this series of  
25 interrogatories.

1                   In Interrogatory 12, for single piece BPM  
2 you propose percentage increases that range from 4.4  
3 to 18.2 percent, and you confirm that, correct?

4           A     I believe so.

5           Q     And that's a range of 13.8 percent?

6           A     Okay.

7           Q     In the next interrogatory, 13, for basic  
8 presort you propose increases for BPM from 11.9 to  
9 26.8 percent, and that's a range of 14.9 percent,  
10 correct, just subject to check?

11          A     Okay. Yes.

12          Q     And in Interrogatory 14 for DBMC basic  
13 presort they are in a range of 14.7 percent, your  
14 increases, 8.3 and 23.0, correct?

15          A     Correct.

16          Q     And in the next interrogatory, 15, for  
17 carrier route presort it's a range of 16.1 percent,  
18 correct?

19          A     Correct.

20          Q     And in the next one, 16, for DBMC carrier  
21 route presort it's a range of 13.9 percent, correct?

22          A     Correct.

23          Q     Okay. So in summary, for all the BPM  
24 products when you did your pricing there the range of  
25 increases were kept within a fairly small band from a

1 low of 13.8 percent to a high of 16.1 percent,  
2 correct?

3 A If those are the numbers, right. Correct.

4 Q Okay. But if you look at Amazon 6(b) you  
5 confirm that your percentage increases in media mail  
6 span a range of 49.7 percent, correct?

7 A Correct.

8 Q Can you explain to me why you avoided that  
9 type of income in BPM, but in media mail you found  
10 rate increases from minus 5.3 percent up to positive  
11 44.4 percent to be acceptable?

12 A The two subclasses are different.

13 Q And how does that bear on what's acceptable?

14 A I have to look at them separately. The rate  
15 increases or the range of rate increases should be  
16 considered in context.

17 Q And how in this context does it cause you to  
18 keep the range of increases for BPM to be between 13.8  
19 and 16.1 percent and within media mail to be 49.7  
20 percent?

21 A As I said, the range of increases resulted  
22 from my proposed rates, but I can't compare that to  
23 BPM because it has a different set of cost  
24 characteristics and different cost data.

25 Q So you're saying the reason that you thought

1 that the rate increases were acceptable within media  
2 mail is that it had higher costs than --

3 A They resulted from the best mitigating  
4 strategy that I used. Without my mitigating strategy  
5 they would be even greater, I believe.

6 Q And you could not identify a mitigating  
7 strategy for media mail that would have resulted in an  
8 increase of less than 44.4 percent?

9 A I deem mine as the best mitigating strategy.

10 Q And when you say best do you mean that you  
11 couldn't have gotten the maximum rate increase below  
12 44.4 percent?

13 A During my rate design process I did not come  
14 across any strategy that I thought would yield better  
15 results.

16 MR. OLSON: Thank you so much for answering  
17 my questions.

18 Thank you, Mr. Chairman.

19 THE WITNESS: Thank you.

20 CHAIRMAN OMAS: Thank you, Mr. Olson.

21 Mr. Volner, would you please introduce  
22 yourself and who you represent?

23 MR. VOLNER: Good morning, Mr. Chairman,  
24 members of the Commission.

25 CROSS-EXAMINATION

Heritage Reporting Corporation  
(202) 628-4888

1 BY MR. VOLNER:

2 Q Ms. Yeh, my name is Ian Volner, and I will  
3 be discussing with you your rate proposals for both  
4 bound printed matter and media services on behalf of  
5 the Association of Postal Commerce and the Mail  
6 Fulfillment and Services Organization, MFSA and  
7 PostCom or PostCom and MFSA.

8 A Good morning.

9 Q Good morning. If we could start with page 8  
10 of your testimony? I have a few questions about some  
11 comments that you made there.

12 At line 4 you start by saying that Witness  
13 Mayes has provided you with the estimated  
14 transportation costs per pound for bound printed  
15 matter.

16 A Can you give me one second, please?

17 Q Sure.

18 A Is that page 8?

19 Q Page 8, lines 4 through 6.

20 (Pause.)

21 A Correct. Okay. I'm there.

22 Q And then you say, and I'm quoting, "I  
23 included the standard two cent per pound allowance for  
24 weight-related non-transportation costs."

25 Now, you're the pricing witness. Where did

1 that allowance comes from?

2 A Yes. I believe you asked an interrogatory  
3 on that.

4 Q So it did not come from Witness Mayes?  
5 Let's turn to PostCom-5. I'm not trying to trap you.  
6 I'm just trying to find out whether --

7 A The first sentence there says Witness Mayes  
8 has provided me with the estimated transportation  
9 costs per pound by zone for both drop ship and non-  
10 drop ship BPM.

11 That includes other cost data. The standard  
12 two cents is just one cost sector, another cost.

13 Q It's separate and apart --

14 A Separate.

15 Q -- from the information that Witness Mayes  
16 provided you with?

17 A Right.

18 Q Okay. Good. Then I ask where did that  
19 standard two cent per pound allowance for weight-  
20 related non-transportation costs come from.

21 A Correct. Yes, you asked that.

22 Q And?

23 A From R84.

24 Q It came directly from the decision in R84?

25 A Not just R84, but you asked me to identify

1 the source. That was the earliest docket that I  
2 identified it in. It was also used in R2001 and the  
3 recommended decisions in the previous dockets.

4 Q It was advanced in the workpapers that were  
5 prepared by the witnesses in 2001 and the dockets in  
6 between 1984 and 2001. Is that correct?

7 A I believe that standard two cents has been  
8 used in those dockets, yes.

9 Q You believe so? Okay. Did you apply the  
10 standard two cent allowance the same way as it was  
11 applied in 1984?

12 A I didn't specifically look at R84, but I did  
13 apply it the same way as in R2001-1.

14 Q Well, do you know whether it was adjusted to  
15 reflect the difference between local and non-local  
16 transportation costs?

17 A I'm not sure.

18 Q Okay. And the way you applied it you're not  
19 sure either?

20 A No. I did apply it according to the way  
21 R2001-1 had.

22 Q When you say R2000-1 (sic) you're talking  
23 about what the Commission did or what Witness Kiefer I  
24 believe did?

25 A What Witness Kiefer did.

1 Q Okay. Have there been changes in the rate  
2 design in bulk bound printed matter since 1984 when  
3 this two cent allowance was created?

4 A Yes.

5 Q For example, there is now a machinability  
6 factor, and there is also drop entry which did not  
7 exist in 1984.

8 A Correct.

9 Q Did you, in examining Witness Kiefer's  
10 workpapers, see whether he had applied it in 2001 in  
11 the same way or whether he had changed the way it was  
12 applied because of the changes in the construct not  
13 just of bound printed matter, but also of parcel post,  
14 which is where this whole allowance comes from,  
15 doesn't it?

16 A It is my understanding that he applied it in  
17 the same way, but I will need to verify that.

18 Q Okay. Let's leave that the way it is for  
19 the moment.

20 Let me take this in a slightly different way  
21 and a little bit out of order. Turn to page 16 of  
22 your testimony, please. We're now in the media  
23 services/library rate, but in discussing --

24 . Give me one second, please.

25 Q Sure.

1 (Pause.)

2 A Okay.

3 Q You said that you there again applied the  
4 customary two cent per pound add-on for weight-related  
5 non-transportation cost to the total number of postage  
6 pounds. Is that correct?

7 A Are you referring to lines 13 through 15?

8 Q Yes.

9 A Yes.

10 Q And again that in your view is consistent  
11 with what Witness Kiefer did in his testimony in 2001?

12 A I believe so.

13 Q Now, if I am correct, and I can, if you  
14 would prefer, read you from the 1984 decision, but  
15 will you accept subject to check that it wasn't  
16 actually two cents across the board; it was two cents  
17 based upon distance?

18 How do you do that in a subclass like media  
19 services which is by statute arguably distance  
20 insensitive? The rates do not vary by distance.

21 A Could you repeat that question?

22 Q Well, let me try it this way. We do agree  
23 that media services rates are distance insensitive?

24 A They're required by law to be. Correct.

25 Q So they're therefore distance insensitive.

1 Do you have by any category in media services in your  
2 workpapers the average distance to which different  
3 types of media services mail is transported?

4 A No, I don't. The rates, according to you in  
5 your terms, are distance insensitive does not -- my  
6 opinion does not mean the costs are distance  
7 insensitive.

8 Q I certainly agree with you, but that's  
9 precisely the point. If you don't have the data as to  
10 how the mail is transported by separate subset and you  
11 have a graduated allowance that is based upon local  
12 transportation, long-haul transportation and so forth,  
13 how do you apply this allowance?

14 A It is my understanding that we did not have  
15 -- the information on the weight-related non-  
16 transportation costs is not available, and the two  
17 cents was applied to recognize that there is cost  
18 there.

19 Q That helps. Now let's go back to page 8 for  
20 a moment, please. On page 8 you also talk about  
21 another factor at lines 14 through 16 in discussing  
22 how you derive the piece component, and we're back in  
23 bound printed matter.

24 "I apportioned these non-weight-related  
25 costs between non-presort and presorted costs,

1       employing the two to one ratio for non-presorted  
2       pieces to presort unit non-transportation costs used  
3       by the Commission and the Postal Service in all recent  
4       rate cases."

5                   When you say used by the Postal Service, I  
6       assume that that means Witness Kiefer used it in 2001?

7           A       Yes, he did.

8           Q       Do you know whether it was used in the  
9       preparation or the testimony for 2002, which was not a  
10      litigated case?

11          A       I don't know.

12          Q       Do you know whether the two cent allowance  
13      was used in 2002, which was again not a litigated  
14      case?

15                   MR. REITER:   Which case, Mr. Volner?

16                   THE WITNESS:   R2002.

17                   MR. VOLNER:   R2002, the last settled case.

18                   MR. REITER:   2005?

19                   MR. VOLNER:   I'm sorry.  2005.  I've got my  
20      numbers wrong.

21                   CHAIRMAN OMAS:  Mr. Reiter, your mic is not  
22      on either.

23                   THE WITNESS:   I'm not aware that it was used  
24      in R2005-1.

25                   BY MR. VOLNER:

1           Q     Okay.  Let's go back for a moment to page  
2     16.  There's no mention on page 16 of this two to one  
3     ratio.  Is that just an oversight, or did the two to  
4     one ratio not factor into the development of media  
5     services?

6           A     I will have to double check with my  
7     spreadsheets formula to correctly answer that.

8           MR. VOLNER:  Rather than take the time  
9     during the hearing, Mr. Chairman, if counsel does not  
10    object, if counsel would prefer we can do a follow-up  
11    written interrogatory to deal with this.

12          MR. REITER:  We can also, if there's a break  
13    at some point, take a look at that and see if we can  
14    provide an answer to Mr. Volner's question.  If not,  
15    we can provide that in writing later.

16          CHAIRMAN OMAS:  Thank you, Mr. Reiter.

17          MR. VOLNER:  Thank you, Mr. Chairman.  Thank  
18    you, counsel.

19          BY MR. VOLNER:

20          Q     Let's turn now to PostCom-1.  I have a few  
21    questions -- it's still in bound printed matter --  
22    about the fabled parcel flat differential.

23                 Let's start by saying that am I correct that  
24    you have proposed to pass through the putative cost  
25    difference between flats and parcels by 123 percent of

1 the cost difference?

2 A Could you repeat what cost difference you  
3 said?

4 Q The parcel flat differential that appears in  
5 the bound printed matter rates.

6 A Correct.

7 Q And your proposed pass-through was 123  
8 percent of the cost difference?

9 A It was a pass-through of 123 percent of the  
10 delivery cost difference provided to me by Witness  
11 Miller.

12 Q Excellent. A couple questions about  
13 parcels. In response to PostCom-1 you say that there  
14 are only two shapes in bound printed matter because  
15 irregular parcels are treated as a subset of parcels.  
16 Is that correct?

17 A Correct.

18 Q So you're saying that the irregular parcels  
19 are not priced separately in bound printed matter?

20 A There's no price category just for irregular  
21 parcels.

22 Q Do you know whether they were costed  
23 separately when the costing witnesses provided you  
24 with the data?

25 A It was not provided to me.

1           Q     Okay.  So what we're dealing with is  
2 parcels, which includes the regular parcels, and  
3 flats.

4                     Now let's talk about flats for a moment.  
5 When you were using the term flats in developing your  
6 rates, you were using the DMM definition of a bound  
7 printed matter flat?

8           A     Yes.

9           Q     Now, there are actually two or arguably  
10 two -- or are there two -- different bound printed  
11 matter flats in your judgment, two different types?

12          A     My definition of the bound printed matter  
13 flats is based on the one in DMM.

14          Q     Which is a machineable flat?

15          A     Which is anything over a quarter inch and  
16 less than three-quarter inch and the other criteria as  
17 well.  I don't remember all of them.

18          Q     All right.  Maximum weight is 20 ounces.  Is  
19 that right?

20          A     Right.

21          Q     Okay.  So it has to be less than three-  
22 quarters of an inch?

23          A     Correct.

24          Q     And will you accept subject to check, with  
25 my addition, the definition you just gave us is a

1 piece that is AFSM 1000 automation compatible?

2 A I believe so.

3 Q Okay. Good. All right. We're not going  
4 where we went the other day, so don't get nervous  
5 about this. I'm not looking for holes. I am looking  
6 to understand categories.

7 Let's take a piece that is less than three-  
8 quarters of an inch thick, otherwise meets the  
9 definitions of a AFSM 100, but is greater than 20  
10 ounces. Is that in your development of rate revenues  
11 treated as a parcel?

12 A My rates for flats are specifically for the  
13 flats of BPM as defined in the DMM. I'm not sure.  
14 I'm not following your question.

15 Q So a piece that meets the shape but does not  
16 meet the weight of a DMM machineable parcel, because  
17 that's the only thing the DMM defines in terms of BPM.  
18 Accept that subject to check.

19 Well, instead of stating it let me try to  
20 put it in a question. Will you accept subject to  
21 check that the only DMM definition of a BPM flat is  
22 that it meet the AFSM external criteria and that it  
23 not exceed 20 ounces?

24 A I'll accept that subject to check.

25 Q So now I have a piece that meets the

1 external dimensions of an AFSM flat, but it's more  
2 than 20 ounces. How is it treated for your rate  
3 making revenue purposes? Is it treated as an  
4 irregular parcel?

5 A If it meets all the other requirements and  
6 eligibility of BPM. I would have to look into the DMM  
7 on that.

8 Q Well, in developing your workpapers didn't  
9 you look at this question?

10 A Your specific question regarding irregular  
11 parcels?

12 Q Yes, the specific question regarding  
13 irregular parcels. We asked you to confirm that there  
14 were three categories. You said no, there are only  
15 two because irregular parcels are a subset of parcels.  
16 Now I'm trying to understand if there are some other  
17 pieces floating around here.

18 A But I didn't have any information on the  
19 volume of irregular parcels so for the purposes of my  
20 rate design, which does not have a rate category for  
21 irregular parcels, I did not look into how irregular  
22 parcels --

23 Q You do have a rate difference between  
24 parcels and flats, don't you?

25 A A great difference?

1 Q A rate.

2 A A rate difference, yes.

3 Q Of about how much in dollar terms?

4 A 15.6 cents.

5 Q Well, then it becomes important, doesn't it,  
6 in determining whether you're going to achieve the  
7 revenue or perhaps overachieve the revenue target or  
8 the coverage target to know how some pieces are going  
9 to be classified, doesn't it?

10 A I agree with you it's important, but, as I  
11 said, that data is not available.

12 Q I'm not talking about irregular parcels  
13 anymore. I'm talking specifically about a piece that  
14 is rectangular and that weighs more than 20 ounces.

15 MR. REITER: Mr. Chairman, could I? I am  
16 losing your train, and so I wouldn't mind if counsel  
17 would repeat the question.

18 I would also throw out that the pricing  
19 witness doesn't do the classification of the pieces.  
20 She's already indicated she's aware of that issue, but  
21 if Mr. Volner could zero in on what she did that would  
22 be helpful.

23 MR. VOLNER: I think, counsel, last time it  
24 was a fair one. Let me try a slightly different  
25 question.

1 BY MR. VOLNER:

2 Q In the development of your rates you were  
3 given costs by two categories basically. Is that  
4 correct?

5 A If you are referring to the flat parcel  
6 differential I was given a single delivery cost number  
7 from Witness Miller that reflects the flat parcel cost  
8 difference.

9 Q But were you given by somebody, whether it  
10 was Mr. Miller or otherwise, a test year before rate  
11 volume of parcels and flats?

12 A Not separately. Not separated like that,  
13 no.

14 Q Well, then who did separate them into  
15 parcels and flats? You?

16 A Based on my opinions and my workpapers. The  
17 allocation of flats and parcels are derived from that.

18 Q The billing determinants is what derived the  
19 difference between parcels and flats that you used in  
20 developing the rates?

21 A It is the method I used to allocate, right,  
22 the flats and parcels.

23 Q Okay. So that if I were to look at the  
24 billing determinants for 2005 I presumably would find  
25 a certain number of pieces that were rated as parcels

1 and a certain number of pieces that were rated as  
2 flats, and you didn't go any further than that?

3 A Correct.

4 Q Okay. Good. Let's go back to PostCom-1 for  
5 one second.

6 On the second page of that you point out  
7 that you had inspected, presumably after you had  
8 prepared your rates, Witness Smith's estimation of  
9 mail processing costs for bound printed matter flats  
10 and his mail processing costs for bound printed matter  
11 parcels, and you said that in light of that your flat  
12 parcel differential of 123 percent is modest.

13 Is that the source of your conclusion that  
14 his characterization of parcels includes irregular  
15 parcels?

16 A I do not know what his costs reflect.

17 Q Okay. So you don't know whether those costs  
18 include or exclude parcels, and you don't know where  
19 the kind of odd little piece that I just came up with  
20 would fit into this scenario?

21 A As I wrote in my response, I see that he had  
22 a cost for BPM flats and BPM parcels. I do not know  
23 if it says irregular or --

24 Q Okay. Excellent. Could you turn to  
25 PostCom-3 for a moment?

1           A     Yes.

2           Q     We were talking about the drop ship savings,  
3     and you say, "It is my understanding that Witness  
4     Miller's unit cost savings for drop shipped bound  
5     printed matter reflect the avoided cost of drop  
6     entered parcels."

7           A     Correct.

8           Q     We and indeed Amazon asked you in a number  
9     of questions whether you were given average weight of  
10    parcels versus average weight of a flat cube or  
11    density, and in Item (b) you said, "These data are not  
12    available."

13                    Did you mean not available to you or that  
14    the Postal Service doesn't have them?

15           A     They're not available to me, and I'm not  
16    sure if the Postal Service has them somewhere.

17           Q     Well, if the Postal Service had them  
18    somewhere who would be the witness who would have had  
19    them? Do you know?

20           A     No, I don't know.

21                    MR. VOLNER: Okay. Counsel, I'm going to  
22    ask you to try to -- if you don't mind, Mr. Chairman  
23    -- identify the witness who had that data. I mean, it  
24    may be Witness Miller. In that case that's fine.

25                    BY MR. VOLNER:

1           Q     What has me puzzled is this, and let me  
2 state it explicitly or ask a question about it.

3                     You say that the unit cost savings estimate  
4 for drop shipped bound printed matter reflect the  
5 avoided cost of drop entered parcels, not the  
6 combination of parcels and flats. That's your answer  
7 to our interrogatory.

8                     What I'm trying to understand is how anybody  
9 could have calculated the avoided cost of drop entered  
10 parcels without having information concerning the  
11 average weight, the density and the distance  
12 transported.

13                    If it becomes necessary to simply correct  
14 this answer that's fine with me too. I just need to  
15 understand what the basis of this answer is. To be  
16 fair to the witness, she begins by saying, "It is my  
17 understanding that..."

18                    MR. REITER: Which answer are you looking at  
19 now, Mr. Volner?

20                    MR. VOLNER: PostCom-3(a).

21                    MR. REITER: Okay. I see it.

22                    MR. VOLNER: It's (a), (b), and we'll deal  
23 with (c) at a later moment.

24                    MR. REITER: All right.

25                    BY MR. VOLNER:

1           Q     Let's speculate for a few moments about this  
2 business of average weights.

3           CHAIRMAN OMAS:   Excuse me.   What was the  
4 decision?   Will they supply you with what you just  
5 asked for?

6           Mr. Reiter?

7           MR. REITER:   If you ask me to, I will  
8 certainly try.

9           CHAIRMAN OMAS:   Would you please supply that  
10 answer for the record for Mr. Volner?

11          MR. VOLNER:   Thank you, Mr. Chairman.

12          MR. REITER:   We shall, Mr. Chairman.

13          MR. VOLNER:   Thank you, Mr. Chairman.

14          BY MR. VOLNER:

15          Q     In developing your rates, did you kind of  
16 think that the average weight of a parcel and the  
17 average weight of a flat would be about the same?

18          A     I didn't think about that.

19          Q     At all?

20          A     Not in those terms, no.   The average weight  
21 of flats being the same as the average weight of a  
22 parcel?   I didn't think of that.

23          Q     In what terms did you think about the  
24 difference between parcel and flats other than the  
25 difference in delivery time?

1           A     That they would involve different -- they  
2     have different cost characteristics.

3           Q     They also might have different revenue  
4     characteristics, might they not? Is the pound rate  
5     for flats and parcels the same under your rate  
6     proposal?

7           A     I want to direct you to my workpaper.

8           Q     Sure. Let's try it a slightly different  
9     way.

10                     Let me direct you to 522B of your rate  
11     proposal. At the top of that schedule you have a  
12     heading called Proposed Rates for flats.

13           A     I'm sorry. Could you repeat what page  
14     you're on, what document?

15           Q     I'm in Attachment A to the rate request,  
16     Page 60 of 82, Rate Schedule 522B. That's the bound  
17     printed matter --

18           A     Proposed rates.

19           Q     -- proposed rates. Well, current and  
20     proposed rates.

21           A     Okay. I don't have that document in front  
22     of me.

23                     MR. VOLNER: If counsel doesn't object, I  
24     can I think make this easy.

25                     MR. REITER: I have no objection to your

1 making it easy, Mr. Volner.

2 THE WITNESS: Yes, I see that.

3 BY MR. VOLNER:

4 Q And the proposal?

5 A Uh-huh. The per pound rate.

6 Q So that the record is clear on this  
7 exchange, what I just showed the witness is the  
8 proposed rate schedule that was a part of the Postal  
9 Service's attachment, and we looked at both current  
10 and proposed rates arbitrarily for Zone 6. It didn't  
11 matter.

12 What we agreed is that the current pound  
13 rate for flats is 26 cents and the current pound rate  
14 for parcels is 26.1 cents to be technically accurate  
15 and that the proposed rate for flats at that Zone 6 is  
16 .322 and for parcels is .322.

17 We have I think arrived at the place where  
18 we agree that the pound rate, both current and  
19 proposed, for both flats and parcels is the same?

20 A Yes.

21 Q Now, indulge me in the following not-so-  
22 hypothetical that the average weight of a parcel is  
23 three pounds, and indeed the maximum weight of a flat  
24 is 20 ounces. Which of the two pieces is going to  
25 produce more revenue for the Postal Service

1           A     You're saying based on your example parcels  
2     the costs -- are you saying holding everything  
3     constant? You aren't saying if there was an enriched  
4     revenue it would produce more?

5           Q     Yes, that's exactly what I'm asking you. I  
6     understand that the costs are not the same, and the  
7     costs may vary to some extent by weight.

8           A     So we don't look at costs; just purely  
9     revenue, based on your example?

10          Q     In the mail processing category, which is  
11     what we're soon to be focusing on here, to what extent  
12     did the data you were provided show that parcels vary  
13     by weight in the same measure that the revenues you  
14     have calculated increase the revenues by weight?

15          A     I'm sorry. I don't follow what your  
16     question is.

17          Q     Let's go back to PostCom-1 and your  
18     reference to the number from Witness Smith.

19          A     Correct.

20          Q     The mail processing cost for a flat is 23.7  
21     and for a parcel, according to Witness Smith and  
22     according to you according to Witness Smith, is 62.8.

23                 That is based upon some characteristic, a  
24     cost causative characteristic, of those two different  
25     pieces, isn't it?

1           A     I'm not Witness Smith. I did not know the  
2 details of that cost number.

3           Q     But you say that that is what leads you to  
4 conclude that 123 percent is reasonable?

5           A     It led me to conclude that 123 percent is  
6 modest because --

7           Q     All right. Modest. But in reaching that  
8 conclusion that it's modest you gave no consideration  
9 -- indeed you couldn't, could you -- to the difference  
10 in average revenue per piece between these two  
11 categories?

12          A     I've given consideration to the fact that  
13 there are costs, including unit processing costs and  
14 other delivery costs, that were not available to me.

15                   My 123 percent pass-through is solely based  
16 on Witness Miller's Cost Segment 7 delivery cost. To  
17 recognize that there are other costs, I pass through  
18 over 100 percent.

19          Q     And in recognizing that there are  
20 differences in costs you do not recognize that there  
21 are differences in revenues. Is that a fair  
22 statement?

23          A     I'm not sure. What do you mean by  
24 differences in revenues? It really depends on the  
25 context.

1 Q Well, if the average weight of a flat is  
2 half that of the average weight of a parcel, will the  
3 revenues of the two be the same?

4 A I suppose not.

5 Q Okay. That I think finishes this line.  
6 Let's go to PostCom-3 again, and now let's take a look  
7 at Part (c).

8 I think we've agreed you don't have the cube  
9 by shape. You don't have the density by shape. You  
10 don't have the weight by shape. You did say that the  
11 DBMC drop entry rate was set to avoid 100 percent?  
12 Was set at 100 percent of avoided cost?

13 A I'm sorry. Could you repeat that?

14 Q The question is what percentage of the  
15 avoided cost did you pass through in establishing the  
16 DBMC drop entry rate?

17 A For BPM, right?

18 Q Yes.

19 A I believe it was 100 percent.

20 Q Okay. Let me ask a question. Did you  
21 attempt to do any calculations to figure out what the  
22 avoided cost pass-through for parcels and flats would  
23 be had they been calculated separately?

24 A I didn't do such a calculation.

25 Q Okay. What did you mean when you said in

1 response to Item (c) that the pass-throughs were  
2 exogenously chosen? Unrelated to cost? What does the  
3 phrase mean?

4 A The pass-through is a way of passing on the  
5 costs, so they are related to the costs. I don't know  
6 what you mean.

7 Q I'm just trying to understand what you meant  
8 when you said that the pass-throughs were exogenously  
9 chosen.

10 A It means I didn't have any specific  
11 calculation process that led to those pass-throughs.

12 Q So that the pass-throughs were derivative?  
13 When you told us in your testimony that 100 percent of  
14 the cost was avoided in the DBMC drop entry, that  
15 was --

16 A I said that based on all the factors of my  
17 rate design objectives I passed through 100 percent of  
18 the DBMC cost savings, yes.

19 Q So that it was chosen without reference to  
20 the cost factors or the different cost positive  
21 characteristics of the two kinds of pieces in the  
22 system?

23 A I can't agree that they are chosen without  
24 reference to the cost factors. They are chosen as a  
25 way to treat those cost factors.

1           Q     Is that what you meant by exogenously  
2 chosen?

3           A     Yes.

4           Q     One last question on bound printed matter  
5 and we can get on to media services. In response to  
6 Presiding Officer's Information Request No. 5, Item  
7 2(b), and again in the one that was just introduced in  
8 the record today, your response to POIR 10, Question  
9 5, you say:

10                   "The Postal Service intends to examine," and  
11 now you've gotten more specific this most recent time,  
12 and I'm referring to 5. "...intends to examine  
13 Witness Kelley's delivery cost to develop a pass-  
14 through for use in future rate cases."

15                   We're talking about pass-through of the  
16 letter/flat differential?

17           A     The flat/parcel differential.

18           Q     I'm sorry. The flat/parcel differential.

19                   If you're not the appropriate witness,  
20 please say so. Is all that you intend to examine the  
21 difference in delivery costs, or do you intend to  
22 examine the difference in shape, the difference in  
23 weight, conceivably the difference in level of entry,  
24 the difference in sortation?

25           A     I don't believe I'm the person to answer

1 that.

2 MR. VOLNER: Okay. I will take that up with  
3 Witness O'Hara.

4 CHAIRMAN OMAS: Mr. Volner, excuse me.  
5 Before you go to your next line of questioning I think  
6 we'll take a 10 minute break.

7 MR. VOLNER: Sure. Thank you, Mr. Chairman.

8 CHAIRMAN OMAS: Thank you. We'll come back  
9 at 11:35.

10 (Whereupon, a short recess was taken.)

11 CHAIRMAN OMAS: Mr. Volner?

12 MR. VOLNER: Thank you, Mr. Chairman.

13 BY MR. VOLNER:

14 Q Let's turn to a different subclass which has  
15 it's own complications, media services/library rate.

16 Am I correct in saying that the media  
17 services/library rate subclass is unusual in terms of  
18 rate design in that the way the rates work is you  
19 round up to the nearest whole pound?

20 Well, let me give you an example since the  
21 question seems a little unclear. Suppose I have a  
22 media services eligible book that weighs a pound and a  
23 half. Do I pay as if it weighed a pound and a half,  
24 or do I pay as if it weighed two pounds?

25 A Two pounds.

1 Q Okay. So you round up to the nearest whole  
2 pound. Do you round down if it's less than a pound  
3 and a half?

4 A No.

5 Q No. So that a book weighing a pound and a  
6 half pays the same as a book weighing 1.1 pounds?

7 A The media mail rate says the rates not over  
8 one pound would pay the one pound rate.

9 Q But I've given you a book that weighs one-  
10 tenth of a pound over one pound.

11 A So you're right. It would pay the two pound  
12 rate.

13 Q So the two books, though they differ  
14 significantly in weight --

15 A Significantly? I'm not sure.

16 Q All right. Let's take it to the other  
17 extreme. A book weighing 1.9 pounds pays the two  
18 pound rate, and a book weighing 1.1 pounds also pays  
19 the two pound rate.

20 A Correct.

21 Q Okay. Let's turn to your Workpaper MM-2.  
22 You use the term postage pounds, which you're  
23 referring to. I'm sorry.

24 A Yes.

25 Q You use the term in several of those

1 columns, postage pounds. That's not the actual  
2 aggregate weight. It is simply the postage calculated  
3 weight because of the rounding?

4 A Like you said, they're not the actual  
5 weight. They're the weight associated with the  
6 postage.

7 Q Take a look at the top column on that  
8 schedule. You have RPW Rates. If you look at the RPW  
9 weight, it is not the same for any of the categories  
10 you've shown as the postage pound weight.

11 A Correct.

12 Q And so for example in the presort category  
13 it's about 1.5 million postage pounds or about 1.5  
14 pounds greater than the RPW pounds?

15 A Okay.

16 Q That's the function of the rate design for  
17 media services? Is that correct?

18 A What do you mean by that is the function?

19 Q Well, is the RPW capturing postage pounds,  
20 or is it capturing --

21 A Actual pounds.

22 Q The actual? And postage pounds, I think we  
23 agreed a few minutes ago, are the result of the  
24 rounding?

25 A Yes.

1 Q Okay. Did you do the rounding, or was that  
2 rounding handed to you by somebody?

3 A The calculations are based from the billing  
4 determinants, as you can see.

5 Q Okay. So it's the billing determinants that  
6 provided you with the postage pounds, and the RPW  
7 provided you with the actual pounds. Excellent.

8 Could you turn to Amazon-3 for a moment,  
9 please? You said in your answer to that interrogatory  
10 that 39 percent of media services is less than one  
11 pound?

12 A I said 39 percent of the combined media mail  
13 and library mail volume

14 Q Okay. The volume is less than one pound?

15 A Right. It weighs less than one pound.

16 Q Was that actual pounds or postage pounds?

17 A That was the actual pounds.

18 Q Okay. So then we don't know what the  
19 percentage is in terms of postage pounds?

20 A I don't know.

21 MR. VOLNER: We've discussed, Mr. Chairman,  
22 the two cent piece and the two to one. I just want to  
23 make a note that I have requested some information  
24 about the testimony on that point.

25 BY MR. VOLNER:

1           Q     Now, there is another unusual  
2 characteristic. Well, it's not really so unusual. In  
3 developing your media services/library rates do you  
4 distinguish between retail and non-retail?

5           A     No, I don't.

6           Q     Do you have any cost data that distinguishes  
7 between retail and non-retail?

8           A     Not that I'm aware.

9           Q     So that when, for example, you calculate the  
10 revenue leakages resulting from, for example, the  
11 barcode discount that does not distinguish between  
12 retail and non-retail?

13          A     Barcode discounts?

14          Q     Well, let's turn to page 11 of your  
15 testimony I think it is. I'm sorry. It is not page  
16 11. Page 17. I'm sorry. You have a discussion there  
17 of barcoded mail.

18          A     Correct.

19          Q     You say that you propose that machineable  
20 media mail and library mail, parcels that are part of  
21 a mailing of 50 or more pieces and that there is a  
22 correct barcode receive a discount of three cents.

23          A     Correct.

24          Q     That barcode in theory applies to mail  
25 whether it is taken to a post office retail window or

1 applies to mail that is presorted?

2 A Not to through retail window, no.

3 Q It is not through the retail window?

4 A I'm not sure of any individuals bringing to  
5 the retail window a barcoded mail piece. It wouldn't  
6 meet the requirements of the barcode discount.

7 Q Well, you're probably correct. I mean, it  
8 would be very difficult for an individual consumer to  
9 put a barcode on his piece, but when you calculated  
10 the revenue leakage did you separate out retail mail?

11 A I would have to look at that in my  
12 workpaper. One second.

13 Q Please do.

14 (Pause.)

15 A I don't believe so.

16 Q Thank you. Two more lines of questions and  
17 we're done with this.

18 I believe Mr. Olson asked you in the context  
19 of bound printed matter, but let me ask you just to  
20 make sure that I understand what's going on here.

21 There is no way from the way the rates are  
22 designed on the cost information that you were given  
23 that I could calculate an imputed cost coverage for  
24 retail versus non-retail.

25 A Correct.

1           Q     There's no way that I could calculate an  
2 imputed cost coverage for pieces less than a pound as  
3 opposed to pieces more than a pound.

4           A     For BPM?

5           Q     For media services.

6           A     Media? I haven't done those calculations.  
7 I don't know.

8           Q     Do you think that you have the data to do  
9 them?

10          A     You want the cost coverages for just the  
11 first pound? No, I don't have the data to do that.

12          Q     As opposed to the cost coverages for pieces  
13 over a pound?

14          A     No. I have the cost coverages for just all  
15 of it.

16          Q     Okay. So that an implicit cost coverage  
17 could not be calculated?

18          A     Correct.

19          Q     And it is entirely possible, isn't it, that  
20 an implicit cost coverage for pieces over a pound, say  
21 between two and six or two and seven, is greater than  
22 109 percent?

23          A     I do not know.

24          Q     There is no way, is there, to calculate the  
25 difference in revenue had you used actual pounds as

1       opposed to postage pounds?

2             A       I haven't done those. I'm not sure.

3             Q       One last set of questions. Turn to page 18  
4 of your testimony, please. It's actually 18 going to  
5 19.

6                     You say that on a consolidated basis the  
7 media mail/library rate average revenue per piece  
8 increases by 17.9 percent. Do you know what the 2005  
9 rate case increase was?

10            A       Not off the top of my head.

11            Q       Well, will you accept subject to check that  
12 it was on the order of 12 percent?

13            A       Yes.

14            Q       And if we take the 17.9 and the 12 percent  
15 it's just short of a 30 percent increase in two years  
16 or three years?

17            A       Which years are you comparing to?

18            Q       I'm taking the 2005 increase, which was on  
19 the order of 12 percent, and the 17.9, and I'm adding  
20 the two together.

21            A       Uh-huh.

22            Q       Now, the 2005 rate increase went into effect  
23 in 2006, right?

24            A       Uh-huh.

25            Q       And this rate increase will go into effect

1       sometime in 2007, won't it?

2           A     I don't know for sure.

3           Q     Well, accept hypothetically.

4           A     Sure.

5           Q     So that the two together is an approximate  
6       30 percent increase in three years?

7           A     Since R2001 rates?

8           Q     No, no. Since 2005. If there was an  
9       increase of 12 percent in 2005.

10          A     Since R2001 rates? From R2001-1 through  
11       R2005, the rate, like you said, is 12 percent subject  
12       to check.

13          Q     I'm sorry. You're absolutely right.  
14       Between the increase in 2001 and the increase in 2005  
15       there was a 12 percent increase.

16          A     Correct.

17          Q     Between 2005 and 2007 there will be a 17.9  
18       percent increase?

19          A     Uh-huh.

20          Q     Now, the Chairman asked earlier whether you  
21       had looked at the Commission's decisions. Did you  
22       look at the Commission's decision in the 2005 case in  
23       the course as it relates to media services?

24          A     Yes, I did look.

25          Q     I know you're not the costing witness. Did

1 you ask your costing witnesses for any explanation of  
2 why they had made no changes in the costing  
3 methodology?

4 A My understanding is that R2005 was not a  
5 litigated case, and I'm not sure why I would ask that  
6 question to the costing witnesses.

7 Q Well, if you looked at the Commission's  
8 decision, the Commission asked some questions about  
9 the costing for media services and library rates,  
10 didn't they?

11 A Yes.

12 Q But you did not discuss that with your  
13 costing witness?

14 A I did not discuss it. I don't recall  
15 discussing it with them for the R2005 rate case.

16 Q No, no. I'm talking about for this case.

17 A I'm sorry. I don't follow you.

18 Q The question is when you looked at the 2005  
19 decision the Commission said hey, there's something  
20 very strange going on with these cost of media  
21 services/library rates. Postal Service, you ought to  
22 be able to do something about it.

23 You then get the cost data from your costing  
24 witnesses. Do you ask them whether they have done  
25 anything about it?

1           A     I'm not their supervisor. I did not  
2 specifically ask that question.

3           Q     Did you generally ask that question, or did  
4 you ask any questions about the Commission's decision  
5 in 2005?

6           A     Sure, I did.

7           Q     Such as?

8           A     I asked general questions. What were the  
9 decisions? I was aware that costing for media mail  
10 was brought up, was a concern.

11           MR. VOLNER: I have no further questions,  
12 Mr. Chairman.

13           CHAIRMAN OMAS: Thank you, Mr. Volner.

14           Ms. Dreifuss, would you introduce yourself?

15           MS. DREIFUSS: Yes. I'm Shelley Dreifuss  
16 from the Office of the Consumer Advocate.

17                           CROSS-EXAMINATION

18           BY MS. DREIFUSS:

19           Q     Good morning, Ms. Yeh.

20           A     Good morning.

21           Q     The questions I'm going to ask you concern a  
22 revision to your testimony that was submitted  
23 yesterday.

24                           I believe the primary change takes place at  
25 page 6 of your testimony and in particular Footnote 2.

1 Is that right?

2 A Correct.

3 Q It appears that the Postal Service wants to  
4 change some of the ways that non-presort bound printed  
5 matter will be handled in a retail setting, but  
6 perhaps not going quite as far as originally planned.  
7 Does that sound right?

8 A That sounds right.

9 Q I wonder if you could explain to me how  
10 things will change for bound printed matter retail  
11 customers. How can they take advantage of a retail  
12 setting today, and how will that be different once the  
13 plan changes take place?

14 A It is my understanding that in today's  
15 environment a retail customer seeking to mail bound  
16 printed matter could do so at the window even without  
17 any postage paid on it or just a piece they brought  
18 in.

19 With the change I propose, at the  
20 management's selection my understanding is that we  
21 will no longer offer BPM as a retail option.

22 Q I see. Will there be a requirement when a  
23 customer approaches the window that the postage  
24 already be applied to the piece under the planned  
25 changes?

1           A     Yes, I believe so.

2           Q     Do you know what would happen if a customer  
3 came to the window hoping to use BPM and did not have  
4 any postage applied to the piece? What do you think  
5 would happen at the window?

6           A     I'm not sure I could answer that question.

7           Q     Are you unable to answer it because those  
8 details have not yet been determined by the Postal  
9 Service?

10          A     Correct.

11          Q     So we're just not sure right now whether the  
12 customer could go forward with the transaction or  
13 would be unable to do so? Is that right?

14          A     As I said in my footnote, it is the Postal  
15 Service's intention to accommodate that customer who  
16 wants to mail BPM at the window, but the details are  
17 not available yet.

18                MS. DREIFUSS: I'm going to ask you a few  
19 more questions of that type, and if we find that you  
20 today are not able to answer them, Mr. Chairman, I  
21 would ask that OCA be able to submit some of these  
22 questions to the Postal Service, either to Ms. Yeh,  
23 giving her a chance to do further research, or to the  
24 Postal Service generally to find out how the Postal  
25 Service plans to implement these changes if Ms. Yeh is

1 unable to answer the questions this morning.

2 CHAIRMAN OMAS: Mr. Reiter?

3 MR. REITER: The question is?

4 MS. DREIFUSS: Can I submit questions?

5 CHAIRMAN OMAS: The question is if Ms. Yeh  
6 cannot answer the line of questioning she is about to  
7 approach she would like to submit it to the Postal  
8 Service for answers.

9 MR. REITER: I'm sure she can do that, yes.

10 CHAIRMAN OMAS: Well, we're not going to say  
11 I'm sure. Will you do that and get it to us within  
12 seven days, please?

13 MR. REITER: Will we answer her questions?

14 CHAIRMAN OMAS: Yes.

15 MR. REITER: Yes.

16 CHAIRMAN OMAS: Thank you.

17 MS. DREIFUSS: Let me ask counsel. Do you  
18 have a preference whether I go over these questions  
19 this morning orally to see whether Ms. Yeh has  
20 answers, or do you prefer that I submit them in  
21 writing?

22 MR. REITER: I think that they would, even  
23 if you directed them to the witness, be redirected to  
24 the Postal Service since this is well outside the  
25 scope of her testimony so it probably would be more

1 productive for everybody if you submitted them in  
2 writing.

3 MS. DREIFUSS: Okay. That's acceptable.  
4 Let me just try one or two more, and if I find that  
5 Ms. Yeh doesn't know the answers today then I think  
6 putting them in writing is the best approach.

7 BY MS. DREIFUSS:

8 Q Do you know, Ms. Yeh, whether bound printed  
9 matter customers will be able to use automated postal  
10 centers to mail bound printed matter?

11 A To my knowledge, even in today's environment  
12 they are not able to do that.

13 Q I see. I went onto the Postal Service's  
14 website this morning to see if information about using  
15 non-presort or single piece bound printed matter would  
16 be available, and I did find under the procedure for  
17 calculating postage that I was able to obtain zone  
18 information, weight information and thereby determine  
19 postage.

20 Do you know whether the Postal Service  
21 intends to continue to make that available to bound  
22 printed matter customers in the future?

23 A I'm not sure. I don't know that.

24 Q Would you happen to know whether the Postal  
25 Service will answer questions about how to determine

1 bound printed matter postage through its 1-800  
2 telephone number?

3 A I'm not familiar with their processes  
4 either.

5 Q Okay. Do you know whether in the Postal  
6 Service's changed environment a clerk might be willing  
7 to weigh a bound printed matter package and determine  
8 the zone between two zip codes so that postage could  
9 be determined?

10 A I'm not sure exactly formally how that  
11 process will be in place, but I'm sure if you asked  
12 one of our clerks to weigh something they'd be happy  
13 to do so.

14 Q Okay. I actually have just one more  
15 question in connection with the plan change in the way  
16 retail bound printed matter will be handled.

17 You proposed to change the name of the  
18 retail offering from single piece bound printed matter  
19 to non-presort bound printed matter. Is that correct?

20 A The term single piece bound printed matter  
21 also includes commercial as well as retail, not just  
22 retail. Yes, I am proposing that name change.

23 Q At Section 522.21 of the domestic mail  
24 classification schedule the Postal Service indicates  
25 that it wants to change the current name, single piece

1 bound printed matter, to non-presort bound printed  
2 matter. Is that correct?

3 A It's our intention to do so, yes. I don't  
4 have that document in front of me though.

5 Q And what's the reason that the Postal  
6 Service wants to identify this mail differently now  
7 calling it non-presort as opposed to single piece?

8 A I believe I answer that in an interrogatory.  
9 It's really to better reflect what the service is.

10 Q How does that name change better reflect  
11 what the service is?

12 A It's part of an effort to clarify bound  
13 printed matter and non-presort versus presort. The  
14 name non-presort makes it more clear, or we hope it  
15 does.

16 Q Who is the audience for this name change?  
17 Is it commercial users of bound printed matter or  
18 single piece users of bound printed matter?

19 A The name change should be useful to all, to  
20 everyone who plans to use bound printed matter, not  
21 just a specific audience.

22 Q Am I right that the term single piece  
23 suggests that the mail is not presorted?

24 A It probably does suggest that.

25 Q I'm still not clear on what you may

1 accomplish by that change of name.

2 A It was a decision based on management  
3 intention to clarify the counterpart of BPM presort as  
4 non-presort and so the name arose from that decision.

5 Q Well, I know you're proposing this change.  
6 You didn't necessarily develop the idea independently,  
7 did you?

8 A Correct.

9 MS. DREIFUSS: Okay. I have no further  
10 questions, Mr. Chairman.

11 CHAIRMAN OMAS: Thank you, Ms. Dreifuss.

12 Are there any additional follow-up  
13 questions?

14 (No response.)

15 CHAIRMAN OMAS: Are there any questions from  
16 the bench? Commissioner Goldway?

17 COMMISSIONER GOLDWAY: Thank you. I also  
18 want to follow up on the -- when you were preparing  
19 the issues regarding changing the service available  
20 for BPM mail at the retail counter it sounds like from  
21 the dialogue that you've just had with the  
22 representative from the Office of Consumer Advocate  
23 that when you were preparing your testimony management  
24 told you to make these changes.

25 Who was that management, and did they give

1 you an explanation as to why they needed to make these  
2 changes in the name and the kind of service offered at  
3 the retail window?

4 THE WITNESS: To your first question --

5 COMMISSIONER GOLDWAY: Who was the  
6 management?

7 THE WITNESS: -- my immediate supervisor,  
8 Joe Muller.

9 COMMISSIONER GOLDWAY: Did he indicate to  
10 you that he was getting that information from somebody  
11 else, somebody in operations, somebody who was  
12 reviewing the overall service of BPM mail?

13 THE WITNESS: I believe his management, his  
14 superiors.

15 COMMISSIONER GOLDWAY: So perhaps we need to  
16 ask somebody other than you for information?

17 THE WITNESS: I can relay my understanding  
18 for management's intention and that is --

19 COMMISSIONER GOLDWAY: What is that?

20 THE WITNESS: That is based on I believe it  
21 was R-76-1. There's a description of bound printed  
22 matter as a catalog intended for commercial use as a  
23 catalog mailing option and rules have evolved to allow  
24 books without advertising to also be included, but  
25 based on inspection of the volume history we know that

1 retail represents about three percent of bound printed  
2 matter and it is still predominantly used by  
3 commercial mailers.

4 It is the management's intention to clarify  
5 our parcel offering by making it simpler for the  
6 mailers who come to the window who understand which  
7 parcel offering is more suitable for, is the easiest  
8 for them to use for their mailing needs.

9 COMMISSIONER GOLDWAY: So what it sounds  
10 like is that management would prefer to have bound  
11 printed matter as a rate classification only available  
12 for bulk mailers because only a small percentage is  
13 currently used by retail and they want to simplify the  
14 offerings, they want to move that out of retail  
15 altogether. Am I paraphrasing you relatively  
16 correctly?

17 THE WITNESS: Yes.

18 COMMISSIONER GOLDWAY: Bound printed matter  
19 is a less expensive option for parcels isn't it?

20 THE WITNESS: In most cases, yes.

21 COMMISSIONER GOLDWAY: So the simplification  
22 looks like it's also eliminating a less expensive  
23 option for a consumer?

24 THE WITNESS: I'm not a cost expert, but my  
25 understanding is that the relatively favorable BPM

1 rates are due to the fact of the cost characteristics  
2 of BPM that are mailed by commercial mailers.

3 COMMISSIONER GOLDWAY: Well, but we  
4 traditionally average in retail and bulk mailers in  
5 establishing rates. We do it for first-class mail, we  
6 do it with -- may be doing less of it in the future,  
7 but that's certainly what we do do. So this was an  
8 attempt to remove this classification from the retail  
9 originally and now they're backed off on it somewhat,  
10 but nobody seems clear as to how that's going to  
11 function.

12 THE WITNESS: My understanding is that the  
13 intention is to make it easier for the mailers who  
14 come to the window by clarifying our postal offering  
15 because media mail was originally known as the book  
16 rate and that was intended for retail customers to use  
17 as well, and as I said it was due to changes that  
18 evolved in BPM due to eliminating the rule of  
19 requiring advertising in BPM that led to retail  
20 customers being able to take advantage of the BPM  
21 rates which really wasn't intended for commercial  
22 mailers as I understood.

23 COMMISSIONER GOLDWAY: Okay. So who would  
24 you suggest then is the appropriate person within the  
25 Postal Service for OCA to direct questions about the

1 policy of this change to?

2 MR. REITER: If I could, Mr. Chairman and  
3 Commissioner Goldway --

4 COMMISSIONER GOLDWAY: Thank you.

5 MR. REITER: -- I think that we already  
6 indicated that if Ms. Dreifuss had additional  
7 questions she could direct it to the Postal Service --

8 COMMISSIONER GOLDWAY: It will be just an  
9 institutional answer?

10 MR. REITER: Yes. I think so because this  
11 isn't really within any particular witness' complete  
12 purview. We'd be happy to do the same if you have  
13 questions.

14 COMMISSIONER GOLDWAY: Fine. Okay. If you  
15 feel the institutional answers will be specific enough  
16 then --

17 MR. REITER: I will do my very best to make  
18 sure that they are --

19 COMMISSIONER GOLDWAY: Thank you.

20 MR. REITER: -- as specific as they can be  
21 at the time you ask them.

22 COMMISSIONER GOLDWAY: Okay. Thank you.

23 MR. REITER: Sure.

24 COMMISSIONER GOLDWAY: I don't have any  
25 other questions.

1 THE WITNESS: Thank you.

2 COMMISSIONER GOLDWAY: Thank you.

3 CHAIRMAN OMAS: Is there anyone else?

4 Ms. Dreifuss?

5 MS. DREIFUSS: Mr. Chairman, I do want to  
6 follow-up on one of the exchanges between Commissioner  
7 Goldway and Witness Yeh.

8 CROSS-EXAMINATION

9 BY MS. DREIFUSS:

10 Q Witness Yeh, you were indicating that you  
11 believed or you were testifying that the reason that  
12 bound printed matter has lower costs on the whole than  
13 parcel post was due to its primarily commercial  
14 character. Is that right?

15 A I said that was my understanding. Yes.

16 Q Isn't it also true that bound printed matter  
17 generally involves much denser pieces than one would  
18 find in parcel post? Is that correct?

19 A I haven't looked at parcel post  
20 characteristics, but I could assume you are correct in  
21 that.

22 Q Yes. Well, let me just ask you to compare  
23 the kinds of pieces that are sent as bound printed  
24 matter as contrasted with parcel post. Bound printed  
25 matter consists primarily of what kinds of mail?

1           A     Catalogs, phone directories. Basically  
2 bound printed matter and books of course.

3           Q     All right. Would you call these items  
4 fragile and in need of lots of extra packing material  
5 around them to send them safely through the mail?

6           A     I guess it depends. Each person has a  
7 different opinion about how books should be handled,  
8 but I consider them -- I would handle them carefully.

9           Q     Let me switch to parcel post for a moment.  
10 Parcel post can be used to send a variety of contents  
11 for example, I'll give you one extreme example, if I  
12 wanted to mail a glass vase as a gift to somebody I  
13 could use parcel post to send that vase couldn't I?

14          A     I believe so.

15          Q     Would you suppose that I would need to add a  
16 great deal more packing material to transport that  
17 glass vase safely than I would a book?

18          A     I'm not sure. I mean, perhaps.

19          Q     Okay. Here's another thing I could do with  
20 parcel post. I could send a pillow via parcel post  
21 couldn't I?

22          A     Yes. I believe so.

23          Q     A pillow is probably not as dense as a book  
24 is it?

25          A     Correct.

1           Q     Would you happen to know whether different  
2 density characteristics have cost consequences in the  
3 way packages are handled at the Postal Service?

4           A     I'm not familiar with that information. No.  
5 MS. DREIFUSS: Okay. Thank you.

6 CHAIRMAN OMAS: Thank you, Ms. Dreifuss.

7           Mr. Reiter, would you like some time with  
8 your witness to determine if you have any redirect?

9           MR. REITER: Yes. I would like some. Ten  
10 minutes?

11 CHAIRMAN OMAS: All right. Ten minutes.

12 MR. REITER: Thank you.

13 (Whereupon, a short recess was taken.)

14 CHAIRMAN OMAS: Mr. Reiter?

15 MR. REITER: Mr. Chairman, we do not have  
16 any redirect.

17 CHAIRMAN OMAS: Well, thank you very much,  
18 Mr. Reiter.

19           Ms. Yeh, that completes your testimony here  
20 today. We would like to thank you for your appearing,  
21 and we appreciate your contribution to the record.  
22 You are now excused.

23 THE WITNESS: Thank you, Mr. Chairman.

24 (Witness excused.)

25 CHAIRMAN OMAS: Are you counsel for the next

1 witness?

2 MR. REITER: Yes, I am. Would you like to  
3 continue to the next witness?

4 CHAIRMAN OMAS: Yes.

5 MR. REITER: Our next witness is James  
6 Kiefer.

7 CHAIRMAN OMAS: Okay. Mr. Kiefer.

8 Mr. Reiter, Mr. Kiefer has already appeared  
9 here, and has been sworn in and is under oath, so we  
10 do not need to swear him in.

11 Please have a seat.

12 MR. REITER: Thank you.

13 Whereupon,

14 JAMES M. KIEFER

15 having been previously duly sworn, was  
16 recalled as a witness herein and was examined and  
17 testified further as follows:

18 (The document referred to was  
19 marked for identification as  
20 Exhibit No. USPS-T-37.)

21 DIRECT EXAMINATION

22 BY MR. REITER:

23 Q I will show him two copies of a document  
24 entitled direct testimony of James M. Kiefer on behalf  
25 of United States Postal Service designated USPS-T-37

1 as revised on August 10, 2006. Mr. Kiefer was this  
2 testimony prepared by you or under your direction?

3 A As I indicated in the POIR response, late in  
4 the development of the Postal Service's case there was  
5 a staff change in the pricing office and because of a  
6 staff reassignment I was asked to take over this  
7 testimony after the main body of the pricing was  
8 developed and the main body of the workpapers were  
9 developed.

10 Because of the late time what I did was I  
11 reviewed carefully all of the testimony and the  
12 workpapers. As I went through I made corrections  
13 where I found inconsistencies or errors, and I assured  
14 myself of the essential validity of the assumptions  
15 and of the pricing that came out of them.

16 I am fully confident in this work and  
17 willing and able to adopt it as my own testimony and  
18 workpapers.

19 Q If you were to testify orally here today  
20 would this represent your testimony?

21 A Yes, it would.

22 Q Do you have library references that you are  
23 also sponsoring?

24 A Yes. I am sponsoring two library  
25 references, USPS/LR-L-82 and USPS/LR-L-51.

1                   MR. REITER: Mr. Chairman, I will hand these  
2 two copies to the reporter and ask that they be  
3 admitted into evidence together with the library  
4 references mentioned as the direct testimony of James  
5 Kiefer.

6                   CHAIRMAN OMAS: Is there any objection?

7                   (No response.)

8                   CHAIRMAN OMAS: Hearing none I will direct  
9 counsel to provide the reporter with two copies of the  
10 corrected direct testimony of James M. Kiefer. That  
11 testimony is received into evidence, however as is our  
12 practice it will not be transcribed.

13   (The document referred to,  
14   previously identified as  
15   Exhibit No. USPS-T-37, was  
16   received in evidence.)

17                   CHAIRMAN OMAS: Mr. Kiefer?

18                   THE WITNESS: Yes?

19                   CHAIRMAN OMAS: Have you had an opportunity  
20 to examine the packet of designated written cross-  
21 examination that was made available to you in the  
22 hearing room today?

23                   THE WITNESS: Yes, I have, Mr. Chairman.

24                   CHAIRMAN OMAS: If the questions contained  
25 in that packet were posed to you orally today would

1 your answers be the same as those previously submitted  
2 to us in writing?

3 THE WITNESS: They would, Mr. Chairman,  
4 except for one exception. There's a minor correction  
5 on PSA/USPS-T-37-13. In the response in the sixth  
6 line there's a figure there that says that the  
7 adjustment factor or pass-through shown in WP-PP-29  
8 would have been 51.5 percent. That is a typo. The  
9 correct number is 51.1 percent.

10 I have made the correction on the two copies  
11 here.

12 CHAIRMAN OMAS: Are there any additional  
13 corrections or additions you would like to make to  
14 those answers now?

15 THE WITNESS: No. No, Mr. Chairman.

16 CHAIRMAN OMAS: Counsel, would you please  
17 provide two copies of the corrected designated written  
18 cross-examination of Witness Kiefer to the reporter?  
19 That material is received into evidence and is to be  
20 transcribed into the record.

21 (The document referred to was  
22 marked for identification as  
23 Exhibit No. USPS-T-37 and was  
24 received in evidence.)

25 //

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2006

Docket No. R2006-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS JAMES M. KIEFER  
(USPS-T-37)

<u>Party</u>	<u>Interrogatories</u>
Parcel Shippers Association	PSA/USPS-T37-1-6, 7c, 8, 9b-c, 10-13
Pitney Bowes Inc.	PB/USPS-T37-1
Postal Rate Commission	PRC/USPS-POIR No.3 - Q18a, 19-20, 21, 22, 23, 24, 25, 26, 27, 28, 29, POIR No.4 - Q18, 22, POIR No.5 - Q9a redirected to T37 PSA/USPS-T37-1, 3-6, 7c, 8, 9b-c, 10-13 UPS/USPS-T37-1-2, 3a-c, e, 4-5, 7-10, 11a-b, d, 12-15 UPS/USPS-T21-19b-c redirected to T37
United Parcel Service	PRC/USPS-POIR No.3 - Q18a, 19-20, 23, 28, POIR No.4 - Q18, 22 redirected to T37 PSA/USPS-T37-1, 3, 7c UPS/USPS-T37-1-2, 3a-c, e, 4-5, 8-10, 11a-b, d, 12-15 UPS/USPS-T15-1d-e redirected to T37 UPS/USPS-T21-19b-c redirected to T37
Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association Inc.	UPS/USPS-T37-10

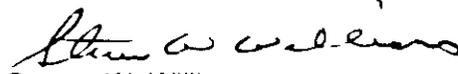
Party

Valpak Direct Marketing Systems,  
Inc. and Valpak Dealers'  
Association Inc.

Interrogatories

UPS/USPS-T37-10

Respectfully submitted,



Steven W. Williams  
Secretary

INTERROGATORY RESPONSES OF  
UNITED STATES POSTAL SERVICE  
WITNESS JAMES M. KIEFER (T-37)  
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

Designating Parties

PB/USPS-T37-1	Pitney Bowes
PRC/USPS-POIR No.3 - Q18a redirected to T37	PRC, UPS
PRC/USPS-POIR No.3 - Q19 redirected to T37	PRC, UPS
PRC/USPS-POIR No.3 - Q20 redirected to T37	PRC, UPS
PRC/USPS-POIR No.3 - Q21 redirected to T37	PRC
PRC/USPS-POIR No.3 - Q22 redirected to T37	PRC
PRC/USPS-POIR No.3 - Q23 redirected to T37	PRC, UPS
PRC/USPS-POIR No.3 - Q24 redirected to T37	PRC
PRC/USPS-POIR No.3 - Q25 redirected to T37	PRC
PRC/USPS-POIR No.3 - Q26 redirected to T37	PRC
PRC/USPS-POIR No.3 - Q27 redirected to T37	PRC
PRC/USPS-POIR No.3 - Q28 redirected to T37	PRC, UPS
PRC/USPS-POIR No.3 - Q29 redirected to T37	PRC
PRC/USPS-POIR No.4 - Q18 redirected to T37	PRC, UPS
PRC/USPS-POIR No.4 - Q22 redirected to T37	PRC, UPS
PRC/USPS-POIR No.5 - Q9a redirected to T37	PRC
PSA/USPS-T37-1	PRC, PSA, UPS
PSA/USPS-T37-2	PSA
PSA/USPS-T37-3	PRC, PSA, UPS
PSA/USPS-T37-4	PRC, PSA
PSA/USPS-T37-5	PRC, PSA
PSA/USPS-T37-6	PRC, PSA
PSA/USPS-T37-7c	PRC, PSA, UPS
PSA/USPS-T37-8	PRC, PSA
PSA/USPS-T37-9b	PRC, PSA
PSA/USPS-T37-9c	PRC, PSA
PSA/USPS-T37-10	PRC, PSA
PSA/USPS-T37-11	PRC, PSA
PSA/USPS-T37-12	PRC, PSA
PSA/USPS-T37-13	PRC, PSA
UPS/USPS-T37-1	PRC, UPS
UPS/USPS-T37-2	PRC, UPS



RESPONSE OF POSTAL SERVICE WITNESS KIEFER  
TO INTERROGATORY OF PITNEY BOWES

**PB/USPS-T37-1.** Please confirm that the Postal Service's current and proposed rate design for Parcel Select provides dropship discounts. If you cannot confirm fully, please explain fully.

**RESPONSE**

Confirmed.

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18. Please refer to USPS-LR-L-46. The addendum on page 75 states, "After results of the initial models were incorporated into the analysis of the downstream witnesses, errors were discovered in the calculations of the Parcel Post, Bound Printed Matter, and Media/Library Mail cost estimates."
- a. Please refer to USPS-LR-L-82, workbook "WP-ParcelPost.xls," sheet "Inputs." All of item 17 except a and k, and all of item 19 use cost figures from USPS-LR-L-46. Please update these figures with data from the USPS-LR-L-46 workbook "Parcel Post REV.xls"

**RESPONSE:**

- a. Please see WP-ParcelPost-R0601.xls, attached. The updated cost figures from USPS-LR-L-46 cause the pricing model in WP-ParcelPost-R0601.xls to generate values in some rate cells that differ slightly from the values I am proposing. Since the differences between the values in the updated workbook and my proposed rates are small, I do not see any reason to change my proposed rates as a result of this update.

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19. Please refer to USPS-LR-L-82, excel workbook "WP-ParcelPost.xls," sheet "Inputs."
- a. Item 6l shows the estimated TYBR PRS growth, with the Note section saying, "Assumed PRS growth between FY 2006 and TY 2008." Please explain the basis for this assumption.
  - b. Item 13 shows the share of Parcel Select using no-fee Delivery Confirmation. The Notes section says this value is an assumption. Please describe the basis for this assumption.
  - c. Item 17k shows the Electronic Delivery Confirmation cost per piece. The Notes section says this is an estimated value. Please provide workpapers showing how this figure is derived.

**RESPONSE:**

- a. The 15.5% growth between FY 2006 and TY 2008 represented the compounded effect of two years of volume growth, one at 10% and one at 5%. These growth rates were assumed by Postal Service pricing staff to generate conservative projections of revenues from Parcel Return Service in the test year.
- b. This value was developed by Postal Service pricing staff as an assumption through discussions with Postal Service product management staff who are familiar with the usage of Parcel Select products.
- c. This estimate was developed by Postal Service pricing staff as a working assumption early in the rate development process, when it was not certain that an alternative cost estimate would be developed by the Postal Service. It was not based on any cost study for Delivery Confirmation. The cost estimate sponsored by witness Page (USPS-T-23) was developed after the pricing staff assumption had been used to develop Parcel Post rates and was not used in pricing.

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20. Please refer to USPS-LR-L-82, excel workbook "WP-ParcelPost.xls" sheets that show Billing Determinants information for Intra-BMC, Inter-BMC, and Parcel Select (WP-PP-4 to WP-PP-6). It appears there are mistakes with several of the "Percent Nonmachinable Pieces" figures. The following table list the figures given in USPS-LR-L-82 as compared with the figures that are listed in USPS-LR-L-77, which is the library reference that shows the 2005 Billing Determinants:

<b>Service</b>	<b>LR-82 % Non-Mach Pieces</b>	<b>LR-77 % Non-Mach Pieces</b>
Intra-BMC	18.920615%	19.02391%
Inter-BMC	13.216375%	13.31049%
DBMC	6.4011060%	6.4029%

Please explain these differences and make any necessary corrections.

**RESPONSE:**

No correction is needed. The LR-77 nonmachinable piece shares include pieces paying the Oversized rate. For use in my workpapers (LR-82) the percentages have been recalculated to exclude Oversized-rate volumes as reported in the base year RPW reports. The reason for the change was to get a more accurate estimate of revenue from the Nonmachinable Surcharge, which is not applied to Oversized-rate pieces. This recalculation of the nonmachinable parcel percentages was one of the "late breaking" corrections cited in footnote 10 in my testimony (USPS-T-37). As a result of staff reassignment, I was requested to sponsor the Postal Service's proposed pricing for Parcel Post, along with the supporting testimony and workpapers, after most of the rate design was performed and workpapers developed by other pricing staff. After accepting this assignment, I thoroughly reviewed the Parcel Post rate design and pricing model that had been prepared. As a result of my review, I was able to confirm its essential validity and reliability. In addition, I made several minor changes to the workpapers, such as adjusting the nonmachinable parcel percentage calculations. See USPS-T-37, footnote 10 for a discussion of the impact of these changes. Because of the limited time available for review of the testimony and workpapers, I focused my attention primarily

RESPONSE OF POSTAL SERVICE WITNESS KIEFER (USPS-T-37) TO  
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on ensuring the reliability of the data and calculations supporting the proposed pricing, hence a number of documentation errors were not detected in the workpapers. All of the documentation errors noted in this information request, as well as others that I note in my responses, are corrected in the attached revised workbook, WP-ParcelPost-R0601.xls.

RESPONSE OF POSTAL SERVICE WITNESS KIEFER (USPS-T-37) TO  
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21. Please refer to USPS-LR-L-82, workbook "WP-ParcelPost.xls," sheet "Cube-Weight Relationships." Please confirm that the note on the bottom of this sheet should refer to USPS-LR-L-89, not to USPS-LR-L-47.

**RESPONSE:**

Confirmed. Please see WP-ParcelPost-R0601.xls. attached, for the corrected note.

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22. Please refer to USPS-LR-L-82, workbook "WP-ParcelPost.xls," sheet "TYBR Volumes," to the notes section at the bottom of the sheet. The part of note [2] explaining the derivation of pounds 1 and 2 for Intra-BMC volumes appears to be incorrect. Please confirm that the methodology used to compute these values is the same methodology used to compute Intra-BMC volumes for pounds 3 – 70 pounds, not the methodology referred to in note [2]. (It appears the note refers to the methodology used in R2001-1, which is not used in this case.)

**RESPONSE:**

Confirmed. The note has been corrected in WP-ParcelPost-R0601.xls, attached. The corrected workbook also updates several other incorrect references to the Inputs worksheet on the TYBR Volumes worksheet. In the original, several inputs were referenced by the wrong number, e.g. Input [7k], where Input [6k] was intended; in addition Inter-BMC TYBR volume was incorrectly referenced in Note 3 as Input [7g], rather than as Input [6f]. These references have been corrected.

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23. Please refer to USPS-LR-L-82, workbook "WP-ParcelPost.xls," sheet "Balloon Costs." The per piece excess cost of balloon parcels is equal to the balloon transportation cost minus the 15 pound transportation cost plus the balloon weight-related non-transportation cost minus the 15 pound weight related non-transportation cost (rows 11, 16, 21, 26, 31) The proposal in this case asks that the balloon rate class maximum weight requirement be pushed up to 20 pounds (from 15) and that likewise it be charged the 20 pound rate. Why was the 15 pound costs used in the formula instead of the 20 pound costs?

**RESPONSE:**

The Balloon Costs worksheet uses both unit costs and volumes developed from historical data where balloon parcels topped out at 15 pounds. While the Postal Service is proposing that the weight ceiling be raised from 15 pound to 20 pounds, no cost study or any volume estimate for Parcel Post balloon parcels were available that used the new definition. It is reasonable to assume that the unit transportation costs of all balloon parcels using the new definition would be higher than using the current definition. To be sure, the unit transportation costs of the new reference parcels (20-pound parcels) are higher than the unit costs for 15-pound parcels, but it is not clear whether the excess costs (the difference between the balloon parcel costs and the reference parcel costs) would be higher or lower. Consequently, while it is reasonable to conclude that raising the threshold for balloon parcels to 20 pounds will increase the balloon parcel volume, the net impact on excess balloon parcel transportation costs remains ambiguous.

It would, of course, be desirable to have estimates of costs and volumes based on the new definition but, since they were not available, I believe that using the unit costs and volumes based on the current definition should not pose any significant problems. I base this view on the following:

RESPONSE OF POSTAL SERVICE WITNESS KIEFER (USPS-T-37) TO  
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- The purpose of the calculation is simply to shift cost recovery from the per-piece rate element to the per-pound rate elements. The total amount of costs are recovered *whether* or not this adjustment is made, or whether the excess cost estimate is too high or too low. The costs that are not recovered in the per-pound rate element is recovered in the per-piece element, and vice-versa.
- The amount in question is relatively small. As can be seen from the Balloon Costs worksheet, the total excess costs that are shifted amount to \$5.3 million, about 0.4% of Parcel Post subclass costs.
- The preliminary rates for heavier weight pieces in many rate categories were highly constrained, as described in my testimony. The rate change mitigation and other constraints that were imposed significantly reduced the effects that prior shifting of costs between per-piece and per-pound rate elements might have had. Consequently, any alternative way of distributing these excess balloon costs *probably would not have had much impact on the final proposed rates.*

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24. Please refer to USPS-LR-L-82, workbook "WP-ParcelPost.xls," to the sheets that show the constrained rates (WP-PP-25 – WP-PP-27.) It appears that the numbered notes on the bottom of the page do not correspond with the numbers that appear with the data. Please make the necessary corrections and provide a revised version.

**RESPONSE:**

Please see WP-ParcelPost-R0601.xls. In addition to revising the incorrect reference numbers, the following notes have been revised to improve clarity: Note 5 on WP-PP-25; Note 7 on WP-PP-26; and Note 4 on WP-PP-27.

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25. Please refer to USPS-LR-L-82, workbook "WP-ParcelPost.xls," sheet "RDU Savings Calculations," note [1]. Please confirm that the note should show that the nonmachinable surcharge should be added for pounds 36 – 70, not pounds 1 – 35.

**RESPONSE:**

Confirmed. Note 1 has been corrected. Please see WP-ParcelPost-R0601.xls.

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26. Please refer to USPS-LR-L-82, workbook "WP-ParcelPost.xls," sheet "Parcel Post Financials," note [Ab]. Please confirm that the note should show that the formula for [Ab] is:  $(\text{Input 14a}) + (\text{Total Dimensional Wt. Volume})$ . (The note currently shows [Ab] is equal only to Input14a.)

**RESPONSE:**

Confirmed. The second part of note 1 has been corrected. Please see WP-ParcelPost-R0601.xls.

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27. Please refer to USPS-LR-L-82, workbook "WP-ParcelPost.xls," sheet "PRS Revenue Impacts," note [2]. Please confirm that the section of note [2] that shows the methodology for 36 pounds to 70 pounds should not show the subtraction of the Intra-BMC Nonmachinable surcharge, as the actual formula used does not perform this step.

**RESPONSE:**

Confirmed. The second part of note 2 has been corrected. Please see WP-ParcelPost-R0601.xls.

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28. Please refer to USPS-LR-L-82, workbook "WP-ParcelPost.xls," sheet "Dim-Wt Migrants Unit Costs," section [3] (Total Costs including Basic per piece cost). Please explain why the balloon costs for Intra-BMC (WP-PP-18 cell M13) are added to each cell as opposed to the balloon cost for Inter-BMC (WP-PP-18, cell M18).

**RESPONSE:**

The use of Intra-BMC balloon costs was an error. Please see WP-ParcelPost-R0601.xls, where the formulas in WP-PP-40 have been changed to include the correct balloon costs (Inter-BMC balloon costs). The change reduces the total estimated costs shown in WP-PP-40 by about \$36,000, or about 0.2% of the originally reported estimate.

RESPONSE OF POSTAL SERVICE WITNESS KIEFER (USPS-T-37) TO  
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29. Please refer to USPS-LR-L-82, workbook WP-ParcelPost.xls. Throughout this workbook there appear to be multiple inaccuracies with references that refer to information found in "Inputs." The actual numbers used in these instances are correct, but the references do not refer to the actual numbers used. Please confirm, with respect to references to items from "Inputs," that on sheet:
- a. "TYBR Volumes" note 2 should refer to item 6c, note 3 should refer to item 6f, note 4 should refer to 6 (k, j, and i) and note 4 should refer to 6p and 6o;
  - b. "TYBR Adjusted Revenue" notes should refer to item 6 instead of 7 (with 6f instead of 7j for note [Bx]), 8 instead of 9, 9 instead of 10, 4 instead of 5, 10 instead of 11, 11 instead of 12, and 5 instead of 6;
  - c. "Cubic Foot Costs" notes should refer to item 16 instead of 19;
  - d. "Wt.-Related Non-Transp. Costs" note [3] should refer to item 17 instead of 20;
  - e. "Oversized Costs" notes should refer to item 17 instead of 20;
  - f. "Leakages and Surcharges" notes should refer to item 6 instead of 7, 8 instead of 9, 9 instead of 10, 10 instead of 11, 11 instead of 12, and 17 instead of 20;
  - g. "Per Piece Costs and Charges" notes should refer to item 15 instead of 18, 12 instead of 14, 6 instead of 7, 17 instead of 20, and 13 instead of 15.
  - h. "Preliminary Intra-BMC Rates" and "Preliminary Inter-BMC Rates" notes should refer to item 17 instead of 20;
  - i. "Preliminary Parcel Select Rates" notes should refer to item 17 instead of 20 and 9 instead of 10;
  - j. "Constrained Intra-BMC Rates," "Constrained Inter-BMC Rates," and "Constrained Parcel Select Rates" notes should refer to item 17 instead of 20;
  - k. "TYAR Volumes" notes should refer to item 14 instead of 17 (with 14j instead of 17n, 14m instead of 17k, and 14l instead of 17m);
  - l. "RDU Savings Calculation" notes should refer to item 23 instead of 26, 16 instead of 19, 19 instead of 22, 14m instead of 17n, 9 instead of 10, and 6 instead of 7;
  - m. "RBMC Savings Calculation" and "PRS Oversize Cost Savings" notes should refer to item 19 instead of 22, 16 instead of 19, and 23 instead of 26.

**RESPONSE:**

- a-m. All of the corrections cited in the question can be confirmed with one qualification cited below. In almost all cases the discrepancies were due to the deletion of one or more items on the Inputs worksheet that caused a renumbering of the input

RESPONSE OF POSTAL SERVICE WITNESS KIEFER (USPS-T-37) TO  
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assumptions below the deleted item(s). This renumbering was evidently overlooked when the notes were prepared. Please see WP-ParcelPost-R0601.xls, where all of the changes cited in the question have been made to the appropriate workpapers. In subpart (a) of the question the second reference to *note 4* is presumed to be erroneous and it is believed that *note 5* was the intended reference. If "note 5" is substituted for the second reference to "note 4," the corrections following the second *note 4* reference can be confirmed.

RESPONSE OF POSTAL SERVICE WITNESS KIEFER (USPS-T-37) TO  
POIR NO. 4, QUESTION 18

18. Please refer to USPS-LR-L-82, workbook "WP-ParcelPost.xls," sheet "Inputs." Item 20 shows TYBR Fees of \$1,095,837; item 21 shows TYAR Fees of \$1,047,000. In contrast, the workpapers supporting USPS-T-39 (USPS-LR-L-123) show TYBR fees of \$1,163,212 (WP-29, cell D64) and TYAR fees of \$1,189,636 (WP-30, cell D65). Please reconcile the foregoing amounts. Also, regarding USPS-LR-L-82, workbook "WP-ParcelPost.xls," sheet "Inputs," the notes section cites USPS-T-31 as the source for the numbers. Please confirm the source for these numbers.

**RESPONSE:**

The correct Parcel Post fee values should be TYBR \$1,163,212 and TYAR \$1,186,311. I understand witness Berkeley (USPS-T-39) will file revised workpapers consistent with these corrected fees. Witness Berkeley (USPS-T-39) is the correct source for these fees.

RESPONSE OF POSTAL SERVICE WITNESS KIEFER (USPS-T-37) TO  
POIR NO. 4, QUESTION 22

22. Please refer to USPS-LR-L-82, workbook "WP-ParcelPost.xls," sheet "Leakages & Surcharges." Column [B] shows per piece rate differences and surcharges. Please explain why the Intra-Inter BMC differential, all of the Drop Ship discounts, and the RBMC nonmachinable surcharge are not rounded to reflect the actual rate differences, as was done in past rate cases. Please make the necessary corrections or explain why the rate differences per piece should not be rounded to reflect the actual rate difference used.

**RESPONSE:**

In the "Leakages & Surcharges" sheet, a distinction is made between items that are final rate elements (such as the barcode discount and nonmachinable surcharges) and those that are intermediate quantities. Intermediate quantities, which include the Intra-Inter BMC differential and the drop-ship discount differentials, are combined with other quantities (including other intermediate quantities) to form, first, the preliminary rates, and then, after adjustment, the constrained, or final, rates. These intermediate quantities, and even the preliminary rates themselves, receive further mathematical manipulation before the final rates stage, and are carried forward with more than two decimal places to avoid introducing potential rounding anomalies along the way. Once the constrained, or final, rates are produced, they are subjected to the customary whole-cent rounding constraint. These intermediate quantities, are therefore, not true rate differences per se, and so are not rounded separately. Inspection of the Postal Service's workpapers from Docket No. R2001-1 will show that this practice was followed in that earlier case also.

The RBMC nonmachinable surcharge, also mentioned in the question, is a final rate element and therefore should have been rounded to whole cents, as were the other surcharges. Correcting this error has no impact on rates or estimated revenues.

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TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 5

9. For Bound Printed Matter, the calculation of the value of leakages is based on the actual discounts. (See USPS-LR-L-41, workbook "R2006\_USPS-LR-L-41\_BPM Spreadsheets.xls," sheet "Revenue Leakages," column [E].) This does not seem to be the case for the other two Package Services, Parcel Post and Media/Library Mail.
- a. USPS-LR-L-82, workbook "WP-ParcelPost.xls," sheet "Leakages & Surcharges," calculates the value of leakages and surcharges in column [C] using the unit cost savings from the "inputs" sheet rather than the actual proposed discounts and surcharges. Please provide the rationale for using unit savings rather than the actual proposed discounts and surcharges in the calculation of their value for Parcel Post. Alternatively, please provide revised workpapers showing the calculation based on actual discounts and surcharges.

**RESPONSE**

Please see my response to UPS/USPS-T37-8, subpart (b)(i).

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**PSA/USPS-T37-1.** Please refer to WP-PP-29, WP-PP-30, and lines 8 through 13 on page 13 of your testimony where you state, "However, it is necessary to be cautious in selecting the level of passthroughs for two reasons. First, the benchmark Intra-BMC rates are already heavily constrained. And, second, the average weight of a typical PRS piece is less than the average weight of a typical Intra-BMC (benchmark) piece. As a result, moderated passthroughs are appropriate to guard against potential overstatement of cost savings in PRS discounts."

- (a) Please provide the average cost per piece and average revenue per piece for intra-BMC parcels and your underlying calculations.
- (b) Please provide the average weight of a "typical PRS piece" and a "typical intra-BMC (benchmark) piece."
- (c) Do you believe that the transportation cost savings figures shown in WP-PP-29 and WPPP-30 are potentially overstated? If so, please explain why the transportation cost savings figures are potentially overstated and the extent to which you believe they may be overstated.
- (d) Do you believe that the nontransportation cost savings figures shown in WP-PP-29 and WP-PP-30 are potentially overstated? If so, please explain why the transportation cost savings figures are potentially overstated and the extent to which you believe they may be overstated.
- (e) Please explain the meaning of the "adjustment factor" shown on WP-PP-29 and how it was developed.

**RESPONSE**

(a) The Postal Service does not develop costs for Parcel Post by rate category. As part of the rate development process, certain costs are assigned to individual rate categories and rate cells for recovery. The preliminary rates for rate cells and rate categories are developed using these assigned costs and these preliminary rates are subsequently adjusted as needed to achieve rate design goals such as rate change mitigation. The best one can do is to estimate these assigned costs by rate category. My per-piece estimate for these assigned costs for Intra-BMC parcels is \$5.36. This figure was calculated as follows:

- The per-piece element is calculated by taking the sum of Standard Size Parcels Non-weight-related Costs (\$761,671,513), plus Leakages (\$644,462,674), less Surcharges and Other Revenue (\$87,049,775) and dividing this sum by the Number of TYBR Pieces (419,250,650). All quantities are from the Per Piece Costs and Charges worksheet (in

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workbook WP-ParcelPost.XLS). The result (\$3.146) is shown at the upper left of the attached workbook PSA-USPS-T37-Rnd1.XLS.

- The per-piece rate element is added to the weight- and zone-related assigned cost element, then the Inter-BMC/Intra-BMC cost differential (from the Inputs worksheet in workbook WP-ParcelPost.XLS) is subtracted, and the sum is multiplied by the relevant volume from the TYAR Volumes worksheet (in workbook WP-ParcelPost.XLS). The results of these cell by cell calculations are shown in the Intra-BMC portion of the attached workbook PSA-USPS-T37-Rnd1.XLS.
- The weight- and zone-related elements are calculated by dividing the preliminary pound charges by weight and zone (from the Preliminary Pound Charges worksheet in workbook WP-ParcelPost.XLS) by the Gross Markup Factor (from the Per Piece Costs and Charges worksheet in workbook WP-ParcelPost.XLS).
- The assigned costs by weight and zone are summed up as shown in the attached workbook PSA-USPS-T37-Rnd1.XLS and are reported in the summary table Adjusted TYAR Assigned Costs And Revenues in cell R11. These costs are then adjusted for Intra-BMC barcode savings and costs of nonmachinable parcels to obtain Intra-BMC Non-Alaska Assigned Costs, shown in cell S15.
- The assigned costs total are divided by the non-Alaska TYAR volume (from the Inputs sheet in workbook WP-ParcelPost.XLS) to produce the per-piece assigned costs, \$5.36.

I do not know how close these per-piece assigned costs are to Intra-BMC unit costs.

Average revenue per piece is calculated by dividing the Intra-BMC Adjusted Revenue for non-Alaska bypass pieces from worksheet TYAR Revenue Summary (in workbook WP-ParcelPost.XLS), cell F14, by the

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TYAR volume. The value, \$5.39, is shown in workbook PSA-USPS-T37-Rnd1.XLS at cell S19.

- b. The average weight for a PRS piece is 2.6 pounds. This is obtained by summing up the postage pounds (weight times volume) in the PRS Billing Det. Worksheet (in workbook WP-ParcelPost.XLS) and dividing by the total non-balloon, non-oversized volume. The comparable average weight for an Intra-BMC piece obtained from the Intra-BMC Billing Det. worksheet (in workbook WP-ParcelPost.XLS) is 4.4 pounds.
  
- c. I have no reason to believe that the figures for transportation cost savings per cubic foot in worksheets WP-PP-29 and WP-PP-30 are overstated. The concern expressed in my testimony that was referred to in the preamble to this question focused on the application of these cost savings numbers in developing appropriate discounts. As can be seen in WP-PP-29 and WP-PP-30, the transportation cost savings per cubic foot are multiplied by average cubic feet per piece figures to obtain average transportation savings. The average cubic feet per piece figures were obtained from witness Miller (USPS-T-21) and represent the average cubic feet per piece for all Parcel Post. Using this figure for both the benchmark (Intra-BMC parcels) and for PRS should pose no problems of overstating transportation cost savings if there were convincing evidence that (on average) Intra-BMC parcels and PRS parcels had the same cubic feet per piece. I do not know of any studies that have compared the average cubic feet per piece for Intra-BMC and PRS parcels, so I cannot say definitively that PRS pieces are smaller in cubic volume than Intra-BMC pieces. If that were so, it would be reasonable to expect that the transportation cost savings would be smaller than what I have calculated using the average Parcel Post figure. The average Parcel Post cubic feet per piece for machinable parcels (the great majority of Intra-BMC parcels fit into this category) is 0.541 cubic feet per

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- piece. From worksheet WP-PP-8 (Parcel Post Cube-Weight Relationships), it can be seen that a piece having this cubic volume would be expected to weigh between four and five pounds. This comports well with the average weight for Intra-BMC pieces reported in my response to subpart (b) of this question. At the same time, the average PRS parcel weighs only 2.6 pounds. If both PRS and Intra-BMC parcels have the same density, one could reasonably conclude that PRS parcels had smaller cubic feet per piece and that the calculation of transportation cost savings per piece in worksheets WP-PP-29 and WP-PP-30 was overstated. It might possibly be true that PRS parcels are much less dense on average than Intra-BMC parcels and the actual PRS savings might be comparable to the savings estimate shown in my workpapers, despite the smaller average weight, but I have no evidence to support this conclusion. For this reason I consider it prudent to pass through only a portion of the calculated transportation cost savings per piece, in case the PRS and Intra-BMC pieces have comparable densities and the calculated transportation savings per piece overstate the actual savings.
- d. For the purposes of answering this question, I am assuming that the word “transportation” in the second sentence of subpart (d) was intended to be “nontransportation,” as in the first sentence. While I cannot rule out that the non-transportation cost savings in WP-PP-29 and WP-PP-30 are potentially overstated, I have no basis to believe that they, in fact, are overstated.
- e. The adjustment factor is used to adjust the amount of the calculated cost savings per piece that is passed through in developing the proposed rate for RDU parcels. It was developed judgmentally to balance the needs for increased revenue from Parcel Post with pricing policy goals, including increasing the share of savings that is reflected in the discounted price,

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guarding against potential overstatement of savings, and maintaining reasonable rate relationships.

Assigned Costs—Before Surcharges

Weight (Pounds)	Local	Zones 1 & 2	Zone 3	Zone 4	Zone 5	Intra-BMC Total	ODU
1	1,462,158	15,206,653	1,922,199	282,922	20,611	18,894,512	7,722,066
2	3,108,548	32,262,354	4,706,145	1,253,061	87,887	41,415,978	49,890,278
3	1,568,393	19,276,828	3,899,574	664,172	43,619	25,212,388	39,886,172
4	686,883	12,094,803	2,319,440	500,895	23,361	15,624,362	24,298,294
5	432,673	8,047,701	1,591,084	388,640	19,505	10,480,184	16,836,536
6	379,199	5,377,896	1,000,431	222,148	9,417	6,988,628	12,862,411
7	259,976	4,362,883	974,597	229,779	10,729	5,827,959	11,158,239
8	149,940	3,138,143	656,216	151,151	9,077	4,053,508	8,040,498
9	90,862	2,322,078	410,113	148,512	16,952	2,988,507	6,825,362
10	71,713	2,024,289	526,204	73,170	1,089	2,700,022	5,531,878
11	98,044	1,522,969	336,220	153,499	7,596	2,118,365	4,447,403
12	81,404	1,437,002	253,941	54,942	1,217	1,828,608	3,793,039
13	18,398	1,083,085	290,154	93,559	12,971	1,498,146	3,107,125
14	95,458	792,050	283,607	127,767	804	1,298,548	2,449,798
15	18,775	913,470	198,733	79,999	6,773	1,214,756	2,680,240
16	33,199	889,863	166,811	45,390	810	1,136,784	1,878,562
17	28,851	799,473	178,078	48,648	581	983,631	1,703,726
18	20,005	618,482	198,405	43,500	10,780	887,151	1,558,615
19	35,738	1,000,039	163,358	74,982	6,786	1,280,901	1,788,638
20	24,951	812,083	208,729	34,075	2,742	963,590	1,098,978
21	16,844	533,379	114,671	83,360	12,597	700,862	1,197,405
22	44,486	460,982	122,959	11,712	10,982	661,119	1,187,303
23	14,577	384,868	80,543	6,479	330	488,805	1,024,725
24	7,936	350,109	130,198	39,712	9,522	528,475	851,919
25	8,957	324,124	79,965	19,030	17,986	450,063	882,172
26	9,075	358,978	102,287	2,387	22,925	498,651	628,378
27	583	324,875	100,623	29,573	264	456,998	578,038
28	3,259	294,710	92,328	471	10,141	400,908	528,570
29	18,544	344,584	156,650	8,947	109	527,836	444,367
30	624	433,907	41,455	626	4,228	480,530	1,345,342
31	2,299	280,286	70,482	438	2,008	366,472	522,423
32	10,384	239,495	66,187	45,583	143	381,793	368,467
33	620	203,721	100,630	28,961	291	334,214	451,608
34	20,258	149,177	34,454	1,285	15	206,190	314,821
35	241	123,950	58,417	31,913	60	214,580	289,377
36	3,079	193,000	87,950	1,504	30	286,662	272,096
37	89	260,072	55,877	1,662	15	317,718	278,334
38	9,964	194,173	27,683	234	7,965	240,010	231,844
39	101	202,481	89,885	905	-	283,272	208,226
40	793	111,512	67,068	7,812	16	207,172	243,600
41	185	173,981	156,049	1,409	19	331,598	212,900
42	187	99,708	21,783	147	49	121,872	240,534
43	4,395	118,878	53,054	1,505	33	177,863	235,314
44	116	88,217	39,142	117	50	127,843	212,384
45	88	79,144	38,093	30,404	17	147,744	171,903
46	2,254	210,092	62,693	1,383	17	278,440	136,985
47	185	62,094	9,213	138	-	71,630	102,550
48	231	75,386	57,350	1,568	17	134,552	106,399
49	111	107,942	113,689	88	2,270	224,900	77,985
50	22	60,121	42,212	18	18	102,391	95,813
51	68	112,099	18,552	36	18	128,683	71,113
52	136	197,303	49,480	109	36	247,064	51,046
53	240	121,983	105,365	201	18	227,807	33,081
54	48	88,370	57,127	55	-	146,598	34,330
55	-	53,849	29,526	-	-	83,374	38,697
56	-	37,365	78,384	-	-	115,750	30,299
57	59	58,517	15,153	57	19	73,805	27,011
58	12	63,547	17,258	19	-	80,830	29,505
59	-	29,397	28,495	-	-	57,892	25,881
60	-	44,549	851	1,335	-	46,735	31,063
61	-	18,128	9,049	-	-	25,178	30,985
62	-	38,017	4,342	-	-	40,359	50,893
63	-	39,789	-	-	-	39,789	17,331
64	-	30,489	33,739	-	-	64,208	17,681
65	25	21,299	8,495	20	-	30	33,403
66	-	71,781	5,189	-	-	77,970	8,296
67	-	18,517	4,501	-	-	21,018	5,162
68	-	18,988	-	-	-	18,988	4,199
69	-	15,421	-	-	-	15,421	3,041
70	-	3,013	17,580	-	-	20,593	3,120
Balloon	10,672	728,319	106,213	17,464	1,226	896,895	702,848
Oversized	6,185	1,258,043	491,530	3,461	1,115	1,760,333	13,504
Total	8,859,874	123,555,706	23,431,291	4,948,793	398,264	161,193,928	218,946,067

Note: Calculations exclude Alaska Bypass pieces.

Cost Item/Adjustment	Subtotal	Totals
Calculated Intra-BMC Assigned Costs	161,103,028	
Less: Intra-BMC Barcode Savings	(50,032)	
Plus: Intra-BMC Non-mechanizable Costs	16,233,010	
Intra-BMC Revenue Adjustment Factor		0.00148843
Intra-BMC Non-Alaska Adjusted Assigned Costs		174,875,081
Intra-BMC Non-Alaska Volume		32,630,237
Intra-BMC Non-Alaska Per-Piece Assigned Costs		5.39
Intra-BMC Non-Alaska Revenue		175,815,661
Intra-BMC Non-Alaska Per-Piece Revenue		5.39
Calculated DDU Assigned Costs	218,046,067	
Parcel Select Revenue Adjustment Factor		1.01298204
DDU Adjusted Assigned Costs		221,780,623
DDU Volume		186,080,909
DDU Per-Piece Assigned Costs		1.19
DDU Calculated Revenue		312,108,543
DDU Adjusted Revenue		316,291,569
DDU Per-Piece Revenue		1.70
Note: Pickup Fees, Combination Revenue and Other Fees are not included in revenues. Contingency is not included in costs.		

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**PSA/USPS-T37-2.** Please refer to WP-PP-39, which calculates the financial impact of PRS. Please confirm that the Savings Passthrough shown in this workpaper is calculated by dividing the total revenue difference between PRS parcels and those parcels if mailed as intra-BMC parcels by the corresponding total cost difference. If not confirmed, please explain fully.

**RESPONSE**

Confirmed.

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**PSA/USPS-T37-3.** Please provide the TYAR average revenue per piece and TYAR cost per piece for Parcel Select - DDU parcels and explain how these figures were developed.

**RESPONSE**

See the response to PSA/USPS-T37-1a. As described in that response, cost per piece estimates for Parcel Post rate categories do not exist. Nevertheless, assigned costs per piece can be estimated for DDU parcels as follows:

- The per-piece element is calculated by taking the sum of Standard Size Parcels Non-weight-related Costs (\$761,671,513), plus Leakages (\$644,462,674), less Surcharges and Other Revenue (\$87,049,775) and dividing this sum by the Number of TYBR Pieces (419,250,650). All quantities are from the Per Piece Costs and Charges worksheet (in workbook WP-ParcelPost.XLS). The result (\$3.146) is shown at the upper left of the attached workbook PSA-USPS-T37-Rnd1.XLS.
- The per-piece rate element is added to the weight-related assigned cost element, then the Inter-BMC/Intra-BMC, Intra-BMC/DBMC and DBMC/DDU cost differentials (from the Inputs worksheet in workbook WP-ParcelPost.XLS) are subtracted, and the usage-adjusted Delivery Confirmation unit cost estimate is added. The sum is then multiplied by the relevant volume from the TYAR Volumes worksheet (in workbook WP-ParcelPost.XLS). The results of these cell by cell calculations are shown in the DDU portion of the attached workbook PSA-USPS-T37-Rnd1.XLS.
- The weight-related elements are calculated by dividing the preliminary pound charges by weight (from the Preliminary Pound Charges worksheet in workbook WP-ParcelPost.XLS) by the Gross Markup Factor (from the Per Piece Costs and Charges worksheet in workbook WP-ParcelPost.XLS).
- The assigned costs by weight are summed up as shown in the attached workbook PSA-USPS-T37-Rnd1.XLS and are reported in the

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summary table Adjusted TYAR Assigned Costs And Revenues in cell R21. These costs are then adjusted using the Parcel Select Revenue Adjustment Factor (from the Inputs sheet in workbook WP-ParcelPost.XLS) and the adjusted figure is reported in cell S23.

- The assigned costs total are divided by the DDU TYAR volume (from the Inputs sheet in workbook WP-ParcelPost.XLS) to produce the per-piece assigned costs, \$1.19.

I do not know how close these per-piece assigned costs are to DDU unit costs.

Average revenue per piece is calculated by multiplying the calculated DDU revenue from the worksheet TYAR Calculated Revenue, cell S86 (in workbook WP-ParcelPost.XLS) by the Parcel Select revenue adjustment factor (from the Inputs sheet in workbook WP-ParcelPost.XLS) and dividing the adjusted revenue by the TYAR DDU volume. The value, \$1.70, is shown in workbook PSA-USPS-T37-Rnd1.XLS at cell S28.

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**PSA/USPS-T37-4.** Please refer to WP-PP-24, WP-PP-27, and lines 19 through 22 on page 7 of your testimony where you state, "All Parcel Select DBMC machinable parcels will be required to be barcoded. The cost savings from barcoding will be reflected in the rates instead of being separately stated."

- (a) Please confirm that the percentage rate changes shown for DBMC parcels in WP-PP-24 and WP-PP-27 compare the preliminary rates and constrained rates for barcoded DBMC parcels with the current rates for nonbarcoded DBMC parcels. If not confirmed, please explain fully.
- (b) Please confirm that the percentage difference between the preliminary and constrained rates and the current rate for barcoded DBMC parcels is larger than shown in WP-PP-24 and WP-PP-27. If not confirmed, please explain fully.
- (c) When you were designing Parcel Post rates, were you aware that the average rate increase for barcoded DBMC parcels was larger than estimated in your rate design spreadsheet?

**RESPONSE**

- (a) Since, in my proposal, eligibility for DBMC rates will require barcoding, all DBMC pieces are assumed to be barcoded, and the savings for barcoding of machinable parcels were subtracted when the rates in WP-PP-24 and WP-PP-27 were developed. The current rates used for comparison did not have the barcode discount in them, so the statement can be confirmed.
- (b) It can be confirmed that if a piece paying my proposed DBMC rates were compared with a machinable piece with a barcode paying current DBMC rates, the percentage change for that piece would be larger than those shown in WP-PP-24 and WP-PP-27.
- (c) The proposed percentage rate changes were developed in a way that compared base DBMC pieces before and after rates. Currently, the base DBMC piece does not require a barcode. Under my proposals, DBMC pieces will be required to have a barcode or pay Intra-BMC rates, so the relevant base piece must bear a barcode. No explicit account was taken of the fact that currently-barcoded DBMC pieces would experience higher percentage increases than shown in WP-PP-27 which contains my proposed rates. It should be noted that the difference between the increases experienced by a currently barcoded piece and a currently non-

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barcoded piece (what is shown in WP-PP-27) would be 1.6 percentage points or less. This difference is rather small compared to the rate adjustments proposed between the preliminary DBMC rates and my proposed constrained DBMC rates.

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**PSA/USPS-T37-5.** Please refer to lines 24 through 25 on page 4 of your testimony where you state, "over 50 percent of Parcel Select is DDU-entered," WP-PP-1 and WP-PP-6.

- (a) Please confirm that, in FY 2005, 75 percent of Parcel Select volume was DDU-entered. If not confirmed, please provide the correct figure.
- (b) Please confirm that you estimate that, in the Test Year Before Rates, 75 percent of Parcel Select (excluding PRS) will be DDU-entered. If not confirmed, please provide the correct figure.
- (c) Please confirm that you estimate that, in the Test Year After Rates, 76 percent of Parcel Select (excluding PRS) will be DDU-entered. If not confirmed, please provide the correct figure.

**RESPONSE**

- (a) Confirmed, if PRS volumes are excluded. If PRS volumes are included in Parcel Select, DDU's share was approximately 73%.
- (b) Confirmed.
- (c) Confirmed.

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**PSA/USPS-T37-6.** Please refer to USPS-T-37, WP-PP-1 and WP-PP-27.

(a) Please confirm that, in FY 2005, 68.52% of DBMC parcels were barcoded. If not confirmed, please provide the correct figure.

(b) Please confirm that, in TYAR, you estimate that 100% of DBMC parcels will be barcoded. If not confirmed, please provide the correct figure.

(c) Please provide your best estimate of the TYAR cost savings that will result from the increase in the proportion of DBMC parcels that will be barcoded and provide your underlying calculations.

(d) Please confirm that the cost savings specified in subpart (c) of this interrogatory have not been incorporated into the TYAR costs for the Parcel Post subclass. If not confirmed, please explain your response fully.

(e) Assume that, in TYAR, the proportion of DBMC-entered parcels that are barcoded remains at 68.52%. How much higher would your estimate of TYAR Parcel Post revenue be? Please explain your calculations fully.

(f) Please confirm that the additional revenue specified in subpart (e) of this interrogatory has not been incorporated into the TYAR revenues for the Parcel Post subclass. If not confirmed, please explain your response fully.

(g) Please explain the basis of your assumption that, in TYAR, all Parcel Post pieces entered at the DBMC will be barcoded.

**RESPONSE**

- a. I can confirm that 68.52% of DBMC parcels received the barcode discount in FY 2005. While it is reasonable to assume that most DBMC barcoded pieces would claim the discount, we do not have data that specifically counts barcoded pieces as opposed to pieces claiming the discount.
- b. Not confirmed. In the TYAR I am assuming that all machinable pieces will be barcoded. Since a small percentage of DBMC pieces are nonmachinable the ratio of assumed barcoded pieces to total DBMC pieces is actually 93.6%.
- c. Raising the barcoded percentage from 68.5% to 93.6% of DBMC pieces would mean about 14 million more pieces would be barcoded in the TYAR: (56,301,666 DBMC pieces \* (0.936 – 0.685) ). For the purposes of responding to this question I will assume that the additional barcoded pieces save three cents per piece, the cost savings estimated by witness

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Miller. Using this figure the estimated cost savings is about \$424 thousand (14,131,666 \* \$0.03).

- d. Confirmed.
- e. I do not know. The 14 million pieces in question would pay a range of Intra-BMC rates. I do not know how these pieces would be distributed among the various Intra-BMC rates.
- f. It can be confirmed that no additional revenue arising from pieces moving from DBMC to Intra-BMC rates because of failure to barcode is included in the TYAR revenue calculation. No such migration of these pieces is assumed.
- g. Please see my response to subparts (e) and (f). The assumption that no pieces would migrate was a simplifying assumption for revenue calculation purposes. My assumption is reasonable in light of two facts. First, I have no studies that indicate how many pieces would migrate from DBMC to Intra-BMC rate schedules as a result of failing to meet the barcoding requirement. Moreover, if that number were known, I do not have information that adequately describes what DBMC rates these pieces currently pay, and what Intra-BMC rates they would pay. Second, I believe it is reasonable to assume that few, if any, DBMC mailers would choose to pay higher Intra-BMC rates rather than affix barcodes to their parcels.

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**PSA/USPS-T37-7.** Please refer to USPS-LR-L-59, Attachment 14A, "Shift Other Special Services Cost to Respective Subclass" and USPS-T-37, WP-PP-1.

(a) Please confirm that the Parcel Post Delivery Confirmation Final Adjustment increases TYAR Parcel Post costs by \$39.3 million. If not confirmed, please explain fully.

(b) Please confirm that the \$39.3 million was calculated by multiplying 267.83 million TYAR pieces by a unit cost of \$.1467 per piece. If not confirmed, please explain fully.

(c) In the test year, for how many TYAR Parcel Select pieces do you expect no-fee delivery confirmation to be used? Please explain your calculation.

(d) Taking into account your response to subpart (c) of this interrogatory, please provide your best estimate of how much the Parcel Post Delivery Confirmation Final Adjustment should increase TYAR Parcel Post costs. Please provide your underlying calculations.

**RESPONSE**

- a. Redirected to witness Page (USPS-T-23).
- b. Redirected to witness Page (USPS-T-23).
- c. 195,291,269 (= 80% \* 244,114,086 (TYAR drop-shipped volume))
- d. Redirected to witness Page (USPS-T-23).

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**PSA/USPS-T37-8.** Please refer to USPS-T-37, WP-PP-33, 34, 37, and 40. Please also refer to lines 4 through 8 on page 20 of your testimony where you state, "As discussed in Postal Service witness Scherer's (USPS-T-33) testimony, some Priority Mail pieces are expected to leave the subclass entirely to avoid dim-weighted pricing. He estimates that approximately 2.7 million Priority Mail pieces will migrate. Based on the mail characteristics of these pieces, I assume about a third of pieces leaving Priority Mail will migrate to Inter-BMC Parcel Post."

- (a) Please confirm that you project that the Postal Service's Priority Mail Dim-Weight Pricing proposal will result in approximately 877 thousand pieces migrating from Priority Mail to Inter-BMC Parcel Post. If not confirmed, please explain fully.
- (b) Please confirm that you project that the pieces specified in subpart (a) of this interrogatory will cost a total of \$17.3 million in the Test Year.
- (c) Please confirm that you project that the pieces specified in subpart (a) of this interrogatory will generate approximately \$10 million in revenue.
- (d) Please confirm that excluding the costs and revenues for "Dim-Wt Migrants" would increase the TYAR Parcel Post cost coverage from 115.2% to 116.0%. If not confirmed, please explain fully.
- (e) Please explain why you assumed that one-third of the pieces leaving Priority Mail will migrate to Parcel Post.
- (f) Please explain why you assumed that the pieces specified in your response to subpart (e) of this interrogatory will be mailed at Inter-BMC rates.

**RESPONSE**

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. I can confirm that excluding \$17.3 million from Parcel Post TYAR costs and \$10.0 million from Parcel Post TYAR revenue yields a cost coverage ratio of 116.0%.
- e. Witness Scherer (USPS-T-33) projected that approximately 2.7 million pieces currently paying Priority Mail rates would leave Priority Mail in the test year to avoid dimensional weight pricing. It is reasonable to assume that some fraction of those pieces would migrate to Parcel Post to avoid the higher pricing being proposed for Priority Mail. We do not know what the

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actual fraction will be, so for net revenue calculation purposes, an assumption was made that it would be approximately one-third. We do not have any mail studies that support this assumption.

- f. It is my understanding that many of the pieces that would qualify for dimensional weight pricing are currently entered at retail, rather than in bulk. It is also my understanding that witness Scherer is proposing dimensional weight pricing only for pieces falling into Zones 5 through 8. Except for Zone 5, only Inter-BMC has retail rates that cover these distant zones.

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**PSA/USPS-T37-9.** Please refer to USPS-LR-L-59, 'Summary of Final Adjustments by Cost Segment (\$000s).'

- (a) Please confirm that witness Page estimates that a change in the Parcel Post mail mix between the Base Year and TYAR will increase Parcel Post costs by \$32 million. If not confirmed, please provide the correct figure.
- (b) Please explain how Parcel Post mail mix will change between the Base Year and TYAR and why this change will occur.
- (c) By how much did these same Parcel Post mail mix changes increase TYAR revenue?

**RESPONSE**

- a. Redirected to witness Page (USPS-T-23).
- b. Between the Base Year and the Test Year After Rates, Inter-BMC Parcel Post is expected to gain two percentage points in volume share and Parcel Select is expected to lose volume share (approximately one percentage point for each component of Parcel Select). Intra-BMC is expected to maintain its share. I understand from witness Thress that the principal driving factors in determining the different growth paths for Parcel Post rate categories between the Base Year and the Test Year After Rates are the own-price elasticities and changes in rates.
- c. I have not made such a calculation, since it was unnecessary for calculating TYAR revenues. The TYAR volume forecast already includes the mail mix changes.

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**PSA/USPS-T37-10.** Please refer to your response to PSA/USPS-T37-1(a) where you estimate per piece “assigned costs” for Intra-BMC parcels of \$5.36 and calculate an average revenue per piece for Intra-BMC parcels of \$5.39.

(a) Please confirm that your best estimate of the TYAR average unit contribution of Intra-BMC parcels is 3 cents. If not confirmed, please provide the correct figure and provide all of your underlying calculations.

(b) Is the unit contribution figure specified in your response to subpart (a) of this interrogatory also your best estimate of the average TYAR unit contribution of RDU parcels if mailed as intra-BMC parcels? If not, please provide your best estimate of the TYAR unit contribution of RDU parcels if mailed as intra-BMC parcels and provide all of your underlying calculations.

(c) Is the unit contribution figure specified in your response to subpart (a) of this interrogatory also your best estimate of the average TYAR unit contribution of RBMC parcels if mailed as intra-BMC parcels? If not, please provide your best estimate of the TYAR unit contribution of RBMC parcels if mailed as intra-BMC parcels and provide all of your underlying calculations.

**RESPONSE**

- a. Not confirmed. Please see my response to PSA/USPS-T37-1(a). In that response I pointed out that the Postal Service does not have costs by rate category (i.e. Intra-BMC Parcel Post). Rather, for the purposes of developing rates, I assign costs to various categories. I do not know whether these assigned unit costs can produce reliable estimates of “per-piece contribution” when subtracted from estimates of per-piece revenues. I have not made any estimates of TYAR average unit contributions for Intra-BMC Parcel Post.
- b-c. Please see my response to subpart (a), which applies to RDU, RBMC and all other rate categories of Parcel Post as well.

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**PSA/USPS-T37-11.** Please refer to WP-ParcelPost-R0601.xls, WP-PP-39. For the purpose of this interrogatory, please assume that WP-ParcelPost-R0601.xls accurately calculates all PRS cost savings.

**Table 1. Per-Piece PRS Financial Summary**

	<b>Cost Savings</b>	<b>Revenue Reduction</b>	<b>Increase in Contribution</b>
	[1]	[2]	[3]=[1]-[2]
RDU	\$4.23	\$2.47	\$1.76
RBMC	\$2.10	\$1.15	\$0.95

(a) Please confirm that Table 1 above accurately summarizes the TYAR per-piece financial impact of PRS. If not confirmed, please update Table 1 with the correct figures and provide your underlying calculations.

(b) Please confirm that the TYAR unit contribution of PRS parcels can be calculated by summing the unit contribution specified in your response to PSA/USPS-T37-10(a) and the figures in the "Increase in Contribution" column in Table 1. If not confirmed, please provide your best estimate of the TYAR unit contribution of RDU and RBMC parcels and your underlying calculations.

**RESPONSE**

- a. With the qualification that the PRS cost savings estimates in WP-ParcelPost-R0601.xls are assumed to be an accurate reflection of the actual savings, the numbers in the table can be confirmed.
- b. Not confirmed. Please see my responses to PSA/USPS-T37-1(a) and PSA/USPS-T37-10. I have not made any estimates of TYAR total average unit contributions for Intra-BMC, RDU or RBMC Parcel Post rate categories.

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**PSA/USPS-T37-12.** Please refer to your response to PSA/USPS-T37-1(c). Please provide your best estimate of the extent to which the per-piece transportation cost savings figures in WP-PP-29 and WP-PP-30 may have been overstated and provide your underlying calculations.

**RESPONSE**

Please see my response to PSA/USPS-T37-1(c). In that response I attempted to make clear that I do not know whether the per-piece transportation cost savings in WP-PP-29 and WP-PP-30 are overstated or not. Since I do not know whether there is actual, or even highly probable, overstatement of unit costs, I have not attempted to measure the size of any potential overstatement. The thrust of my response was to point out that there was good reason for the Postal Service's cautious approach when pricing Parcel Return Service pieces.

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**PSA/USPS-T37-13.** Please refer to your response to PSA/USPS-T36-8 and your workpaper WP-PP-29. Please confirm that in your calculation of the average revenue of PRS pieces if mailed as Intra-BMC parcels, the denominator should have used the PRS TYBR volume.

**RESPONSE:**

Confirmed. Since the calculation of total "benchmark revenue" used PRS TYBR volumes, the divisor used to produce the average revenue should have been PRS TYBR total volume, not PRS TYAR volume as shown in WP-PP-29. Correcting this error reduces the estimated unit revenue of PRS pieces if mailed at Intra-BMC rates from \$4.79 to \$3.93. To maintain the proposed price of \$2.32 per piece the "Adjustment Factor" (i.e. passthrough) shown in WP-PP-29 would have to be <sup>51.1</sup>~~78.5~~ percent, rather than 78.5 percent. Despite this change in the reference revenue and the resulting effective passthrough, I believe that my original proposal is still a reasonable rate for RDU pieces.

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**UPS/USPS-T37-1.** Provide the back-up calculations for each of the rate increase figures cited on page 22 of USPS-T-37 in Section VII., *Financial Impact of Rates*.

**RESPONSE**

The calculations supporting the overall percentage change in line 3 are in WP-PP-37. Calculations for the remaining percentage changes by rate category can be found in the two attached workbooks, UPS-USPS-T37-1 WORKSHEET-A.xls and UPS-USPS-T37-1 WORKSHEET-B.xls in the sheets with the tab titles "Rate Class Increases" and "Constant Mix Increases." The "A" version of the worksheet assumes migration of pieces from Priority Mail to avoid dim weight pricing; the "B" version assumes no migration. The original calculations supporting the percentage changes on page 22 of my testimony were developed before I made some small corrections to the workpapers. These corrections were cited in my testimony in footnote 10 on page 19. The attached workbooks therefore were updated to contain those corrections, plus several further minor corrections made in response to POIR 3. In addition, I discovered and corrected an inconsistency in WP-PP-13 in the PRS Adjusted Revenue. In WP-PP-13 (Adjusted TYBR Revenue) the PRS revenue was multiplied by the Parcel Select revenue adjustment factor, whereas in WP-PP-36 the TYAR PRS revenue was not multiplied by the same factor. In the attached workbooks, neither calculation applies the Parcel Select revenue adjustment factor since I am not persuaded that this adjustment is appropriate for PRS pieces. As a result of my corrections to the original (i.e. pre-filing) workpapers, several of the percentage changes reported in my testimony on page 22 change slightly. The 13.2 percent figure in line 10 should become 13.3 percent; the 14.0 percent figure in line 11 should become 14.1 percent; and the 13.1 percent figure in line 18 should become 14.0 percent.

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**UPS/USPS-T37-2.** Refer to library reference USPS-LR-L-82, WP-PP-1, in this docket, and Docket No. R2001-1, USPS-T-33, WP-PP-1. Confirm that OMAS volume is no longer being separately identified for inter-BMC parcels in the R2006-1 Parcel Post rate design. If confirmed, explain the reason and explain how OMAS volume is being treated in Postal Service rates. If not confirmed, explain in detail.

**RESPONSE**

Confirmed that OMAS volume is no longer separately identified in the Inter-BMC rate design. OMAS volume is no longer separately reported in the RPW or billing determinants data. OMAS volume is combined with private sector volume, so that, for example, the Inter-BMC volumes, revenues and weights that are reported contain data for both private sector and OMAS pieces. Inter-BMC OMAS pieces pay the applicable Inter-BMC rates, so that all volume or revenue figures that are reported for the Inter-BMC category either in RPW or in my workpapers are composites of private and OMAS pieces.

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**UPS/USPS-T37-3.** Refer to library reference USPS-LR-L-82, WP-PP-1 and WP-PP-20.

(a) Confirm that the cost of no-additional-fee electronic Delivery Confirmation for Parcel Select is used to arrive at the \$0.107 per piece "Additional Parcel Select Per-Piece Charge" in line [y] of WP-PP-20 via the following steps:

1. Electronic Delivery Confirmation Unit Cost of \$0.1073 per piece;
  2. multiplied by 286,738,488 Parcel Select TYBR pieces;
  3. multiplied by 80%, the "Share of Parcel Select Using No-Fee Delivery Confirmation;"
  4. multiplied by 124.2% Gross Markup Factor (including contingency);
  5. divided by 286,738,488 Parcel Select TYBR pieces.
- If any step is not confirmed, explain in detail.

(b) Confirm that the source listed on WP-PP-1 for the Electronic Delivery Confirmation Unit Cost of \$0.1073 per piece on line [17k] is "Estimated value." If not confirmed, explain in detail.

(c) Confirm that the source listed on WP-PP-1 for the "Share of Parcel Select Using No-Fee Delivery Confirmation" on line [13] is "Assumption." If not confirmed, explain in detail.

(d) Refer to library reference USPS-LR-L-59, Attachment 4D and Attachment 14A, page 3.

- i. Confirm that the cost of no-additional-fee electronic Delivery Confirmation for Package Services applied in the final adjustments process is \$0.1467 per piece per Attachment 4D, "Volume Variable Costs Summary – Delivery Confirmation TY 2008(BR)." If not confirmed, explain in detail.
- ii. Confirm that in the final adjustment process in Attachment 14A, "Shift Other Special Services Cost to Respective Subclass," this cost of \$0.1467 per piece is applied to 100% of the Parcel Select volume. If not confirmed, explain in detail.

(e) Confirm that if the cost of electronic Delivery Confirmation is \$0.1467 per piece and is applied to 100% of the Parcel Select volume, then the "Additional Parcel Select Per-Piece Charge" in WP-PP-20 would increase from \$0.107 per piece to \$0.1822 per piece, all else equal. If not confirmed, explain in detail.

**RESPONSE**

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.

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- d. Redirected to witness Page (USPS-T-23).
- e. Confirmed.

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**UPS/USPS-T37-4.** Refer to library reference USPS-LR-L-82, WP-PP-33 and WP-PP-34.

(a) Confirm that 33% of the Priority Mail volume lost due to the commencement of dimensional weight pricing is assumed to migrate to Inter-BMC Parcel Post. If confirmed, provide the source for this assumption. If not confirmed, explain in detail.

(b) Confirm that 877,033 Priority Mail pieces are assumed to migrate to Inter-BMC Parcel Post in the TYAR, yielding additional Parcel Post revenue of \$9,976,403. If not confirmed, explain in detail.

(c) Refer to library reference USPS-LR-L-59, Attachment 14A, page 18. Confirm that the migrating pieces yield \$17,337,698 of additional Parcel Post costs in the TYAR. If not confirmed, explain in detail.

(d) Provide and describe in detail all studies and analyses regarding the likely loss of Priority Mail volume due to the commencement of dimensional weight pricing, the likely migration of this volume to Parcel Post, or the likely migration of this volume to other Postal Service services or to Postal Service competitors.

**RESPONSE**

- a. Confirmed. The source for this assumption is a judgment, made in consultation with witness Scherer (USPS-T-33), that a not insignificant amount of the volume leaving Priority Mail will migrate to Parcel Post (despite the loss in service standard), if only owing to the convenience of continuing to be able to tender a parcel at the post office retail window. On the other hand, I understand from witness Scherer that Priority Mail without dim-weighting is significantly lower-priced than the dim-weighted 2- and 3-day air competition. This has no doubt caused Priority Mail — and the Postal Service — to attract many parcels that it otherwise would not have attracted. Once Priority Mail dim weight pricing is implemented it is reasonable to believe that many of these parcels are susceptible to leaving the Postal Service altogether. Hence I am assuming that 33 percent would migrate to Parcel Post with 67 percent going elsewhere. For Parcel Post, the assumption was made that 100 percent of the migrating volume would

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pay Inter-BMC rates because Priority Mail dim-weighting will apply only in Zones 5 - 8, where there is very little Intra-BMC Parcel Post volume.

- b. I can confirm the volume estimate. Due to minor corrections to my workpapers (cited in footnote 10 to my testimony) the prices in the workpapers differ in a few cells from the Inter-BMC prices that I am proposing. Using the proposed prices (rather than the prices in the workbook), the migrating pieces are estimated to generate additional revenue of \$9,975,465.
- c. *I can confirm that this figure appeared in USPS-LR-L-59. Due to a correction in my workpapers in response to POIR 3, my best estimate of the additional cost is now \$17,303,502.*
- d. The likely loss of Priority Mail volume due to the implementation of dimensional weight pricing is documented in witness Scherer's USPS-LR-L-120. No study has been conducted on where this volume may migrate. Instead, I made the assumption discussed in subpart (a) above.

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**UPS/USPS-T37-5.** Refer to library reference USPS-LR-L-82.

(a) Confirm that in the Parcel Post rate design you have applied a 100% passthrough for DBMC-entry, DSCF-entry, and DDU-entry worksharing savings. If confirmed, explain why a 100% passthrough was selected. If not confirmed, explain in detail, provide the passthrough(s) that you have applied, and explain why you selected these passthrough(s).

(b) Confirm that, assuming a 100% passthrough of worksharing savings, the contribution per piece for workshared categories of Parcel Post in the preliminary rates should be the same as that of the non-workshared categories from which the workshared categories' preliminary rates are derived. If not confirmed, explain in detail.

**RESPONSE**

- a. I can confirm that my rate design passes through 100 percent of the non-transportation cost differentials for DBMC, DSCF and DDU rate categories in developing the preliminary rates for these rate categories. Since this portion of my rate design was focused on developing preliminary rates, I saw no need to alter the full passthrough of the cost differentials. Later adjustments were made to the preliminary rates to achieve the final proposed rates. These adjustments were made to the rates themselves, and not to components like the cost differentials. I do not have comparable "worksharing savings" figures for transportation costs, so transportation costs were not treated in the same way.
- b. Please see my response to UPS/USPS-T33-27 in Docket No. R2001-1. The reasoning, which in that response applied to DDU Parcel Select, also applies to DSCF and DBMC Parcel Select as well.

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**UPS/USPS-T37-7.** Refer to library reference USPS-LR-L-82.

- (a) Confirm that the "pound charges" by rate category derived in workpaper WP-PP-21 include the transportation charges by rate category derived in workpaper WP-PP-15. If not confirmed, explain in detail.
- (b) Confirm that the pound charges derived in workpaper WP-PP-21 include a markup, through application of a markup factor of 123%, to the underlying costs. If not confirmed, explain in detail.
- (c) Confirm that DBMC destination-entry parcels, DSCF destination-entry parcels, and DDU destination-entry parcels represent workshared rate categories of Parcel Post. If not confirmed, explain in detail.
- (d) Confirm that it is standard Postal Rate Commission practice in deriving worksharing category rates to deduct the passed-through worksharing cost savings from the rate assigned to the non-workshared rate category. If not confirmed, explain in detail and provide references to where the Commission in its Opinions and Recommended Decisions has accepted alternative practices.
- (e) Confirm that deriving preliminary rates by marking up the underlying transportation costs for each individual non-workshared rate category and each workshared rate category results in transportation worksharing cost avoidances being marked up. If not confirmed, explain in detail.
- (f) Confirm that the Commission explicitly stated in its Opinion and Recommended Decision in Docket No. R97-1, at 489, that Parcel Post transportation worksharing cost differences should not be marked up in deriving Parcel Post rates. If not confirmed, explain in detail.
- (g) Explain in detail why you have chosen to markup transportation worksharing cost avoidances in your derivation of Parcel Post rates.
- (h) Confirm that deriving preliminary rates by marking up the underlying transportation costs for each individual non-workshared rate category and each workshared rate category results in contributions per piece for workshared rate categories that are less than the contributions per piece for non-workshared rate categories.

**RESPONSE**

- a. I can confirm that the preliminary pound charges derived in WP-PP-21 include the transportation charges by rate category derived in WP-PP-15.
- b. Confirmed for the preliminary pound charges in workpaper WP-PP-21.
- c. Confirmed.
- d. Please see my responses to UPS/USPS-T33-17 subparts (d) and (h) in Docket No. R2001-1.

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- e. Please see my response to UPS/USPS-T33-17 subpart (f) in Docket No. R2001-1. If by "being marked up" the question means applying markup that is equivalent to the markup that would be applied to unit costs if a wholly top-down rate setting approach were used, then the statement is not confirmed. Please see my response to UPS/USPS-T33-17 subpart (e) in Docket No. R2001-1. I can confirm that the approach I have followed does result in transportation costs for different rate categories receiving a markup, thereby resulting in the cost differences between the rate categories also being marked up.
- f. Please see my response to UPS/USPS-T33-17 subpart (g) in Docket No. R2001-1.
- g. Please see my response to UPS/USPS-T33-17 subpart (h) in Docket No. R2001-1. It should be borne in mind that these markup calculations are performed to achieve the preliminary charges, and that this is just the starting point for developing the final proposed rates. Please see also my responses to UPS/USPS-T33-42 subpart (c) and UPS/USPS-T33-41, both in Docket No. R2001-1.
- h. Not confirmed. Please see my response to PSA/USPS-T37-10 in this docket. Since CRA costs for Parcel Post are measured only at the subclass level, all costs below the subclass level are assigned, using reasonable methodologies, for the purpose of developing rates. As I pointed out in my response to the PSA question, I do not know how precisely these assigned costs correspond to actual costs on a rate category basis. For this reason, I do not know the rate category level unit contributions actually produced by my preliminary rates, and I cannot confirm that the unit contributions for the Inter-BMC and Intra-BMC rate categories are higher than the unit

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contributions for the Parcel Select rate categories. In any event, the preliminary rates are not the final rates, and differences or lack of differences between rate category unit contributions in the preliminary rates are likely to change between the preliminary rates and the rates that are ultimately proposed. To illustrate the danger of trying to infer actual unit contributions by performing calculations on my assigned costs, please see PSA/USPS-T37-10, subpart (a) as well as my response. Based on assigned costs, PSA has inferred that the "average unit contribution of Intra-BMC parcels is 3 cents." While I do not confirm that amount, consider that statement in conjunction with UPS's assertion in this question that my methodology will lead to the circumstance where "contributions per piece for workshared rate categories ... are less than the contributions per piece for non-workshared rate categories." If UPS's and PSA's assertions were both true, then the unit contributions for all of Parcel Select (as well as Intra-BMC Parcel Post) would be less than three cents per piece. The TYAR volume for all of these pieces is 290 million pieces, or more than 78 percent of Parcel Post subclass mail. Multiplied by three cents per piece the total "contribution" from Intra-BMC plus Parcel Select would be less than \$9 million. What, then, accounts for the remaining \$181 million in Parcel Post contribution? It is unrealistic to conclude that Inter-BMC rate pieces (78 million in TYAR) pay on average \$2.31 per piece in contribution (\$181 million divided by 78 million pieces) while all the other rate categories contribute less than three cents per piece. I can only conclude that PSA's and UPS's attempts to infer unit contributions at the rate category level run the risk of producing seriously misleading results.

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**UPS/USPS-T37-8.** Refer to library reference USPS-LR-L-82, WP-PP-19 and WP-PP-20.

(a) Explain in detail your reasoning for deducting each of the following items in deriving the per piece charge:

- i. Other Revenue – Alaska Bypass Revenue;
- ii. Other Revenue – Combination Enclosure Revenue;
- iii. Other Revenue – Pickup Revenue; and
- iv. Excess Costs of Oversized and Balloon Parcels.

(b) Explain why the unit costs for the Non-Machinable surcharges were used to arrive at the “Surcharges” to deduct in the calculation of the per piece charge.

- i. Explain why the proposed rates for the Non-Machinable surcharges were not used to arrive at the “Surcharges” to deduct.
- ii. Confirm that using the unit costs is a change from the Postal Service’s methodology used in Docket No. R2000-1. If confirmed, explain why the change was made. If not confirmed, explain in detail.

**RESPONSE**

- a. The per piece charge is the basic charge per piece for the benchmark piece, a non-workshared Inter-BMC machinable piece that is not a balloon or oversized piece. The excess costs of balloon and oversized pieces is covered by the “extra” charges for these pieces and so is not included in developing the basic charge per piece. Similarly the other revenue sources are deducted because they are separately recovered and so should not be part of the basic charge per piece (otherwise they would be double-recovered).
- b. (i) In general, my approach views the development of the preliminary rates as reflecting the rates that would obtain before any mitigation or policy adjustments are made. For this reason I use the cost differences (i.e. assume a 100 percent passthrough), rather than impose an *a priori* passthrough adjustment, when I develop the preliminary rates. This puts all of the revenue shifts caused by rate change mitigation and other policy

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adjustments (such as, maintaining the Priority Mail / Inter-BMC and DBMC-Intra-BMC rate differentials) on the same footing when the preliminary rates are adjusted to obtain the final proposed rates.

(ii) I can confirm that a different approach was followed in Docket No. R2000-1. Unless one knows in advance whether, or to what degree, the nonmachinable costs will be mitigated in the final rates, I think my preferred approach is better for the reasons I cited in subpart (i), above.

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**UPS/USPS-T37-9.** Refer to library reference USPS-LR-L-82, WP-PP-1 and WPPP-19.

- (a) Confirm that Alaska Bypass mail volume in the TYBR is 1,671,068 pieces. If not confirmed, explain in detail. Also, provide the RPW data used to calculate this figure per note "6e".
- (b) Confirm that Alaska Bypass revenue is assumed to be 12.081% of Non-Alaska Intra-BMC revenue. If not confirmed, explain in detail. Also, provide the RPW data used to calculate this figure per note "5a-b".
- (c) Confirm that Alaska Bypass revenue in the TYBR is calculated to be \$19,048,805. If not confirmed, explain in detail.
- (d) Confirm that the TYBR cost for Alaska non-preferential air is \$1,063,000 (per library reference USPS-LR-L-89, Attachment B, page 8, row 3). If not confirmed, explain in detail.
- (e) Explain in detail the reasons for the significant differential between the Alaska Bypass revenue that you estimate and the cost for Alaska non-preferential air.

**RESPONSE**

- a. Confirmed. The calculation supporting the specific figure, 1,671,068, is shown in WP- PP-1, cell D29. It is the product of the TYBR total Intra-BMC volume forecast and the share of Intra-BMC pieces that are "Alaska Bypass" pieces, 4.627%, shown in cell D30. This ratio is obtained by dividing the RPW number of Alaska Bypass Intra-BMC pieces in the base year (1,578,095) by the RPW total Intra-BMC volume in the base year (34,107,784).
- b. Confirmed. This ratio is obtained by dividing the RPW revenue from Alaska Bypass Intra-BMC pieces in the base year (\$17,085,340) by the RPW total Intra-BMC non-Alaska revenue in the base year (\$141,428,465).
- c. Confirmed.
- d. Not confirmed. Please see witness 'ayes' response to UPS/USPS-T25-6.
- e. I understand from witness Mayes that the corrected Alaska non-preferential air costs will be significantly higher than the \$1 million figure mentioned in the question. This will narrow the difference between the Alaska Bypass revenue and the Alaska non-preferential air costs. I should note that the

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question sets up a comparison between one component of costs and total revenues for a single mail category. A more reasonable comparison would be between total unit costs for Alaska Bypass mail and unit revenues. As I have pointed out in earlier responses to UPS interrogatories, the Postal Service does not have cost information that is designed to adequately calculate unit costs and contributions below the subclass level. This reservation was expressed with respect to rate categories like Intra-BMC Parcel Post. It applies even more strongly to sub-components of Intra-BMC, like Alaska Bypass mail. I do not know what the difference is between Alaska Bypass revenue and actual Alaska Bypass total costs.

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**UPS/USPS-T37-10.** Refer to your response to PSA/USPS-T37-1 and PSA/USPS-T37-3. Provide the TYAR average cost per piece and TYAR average revenue per piece, and your underlying calculations, for:

- (a) Inter-BMC parcels;
- (b) DBMC parcels;
- (c) DSCF parcels; and
- (d) Intra-BMC Alaska Bypass parcels.

**RESPONSE**

- (a)-(c) Please see UPS-USPS-T37-10.XLS, attached. Please also see my responses to PSA/USPS-T37-1(a) and PSA/USPS-T37-3, in particular, the reservations I expressed that these costs are assigned costs and that I do not know how close these assigned costs are to the actual costs of Inter-BMC, DMBC and DSCF parcels.
- (d) The TYAR average revenue per piece for Alaska Bypass pieces is \$13.41 (= \$21,239,491 divided by 1,583,409 pieces). I do not know the average cost for these pieces and have not developed an assigned cost for them.

Per Piece Assigned Cost 3.146							
TYAR Assigned Costs Calculation							
Assigned Costs—Before Surcharges							
Weight (Pounds)	Local	Zones 1 & 2	Zone 3	Zone 4	Zone 5	Intra-BMC Total	DDU
1	1,462,158	15,206,653	1,922,188	252,922	20,611	18,864,512	1,722,085
2	3,106,548	32,262,354	4,708,145	1,253,061	67,867	41,415,978	46,880,278
3	1,566,393	19,276,628	3,069,574	654,172	43,619	25,212,486	36,886,172
4	685,883	12,064,803	2,319,440	500,885	23,351	15,624,162	4,549,254
5	432,673	8,047,701	1,591,664	388,640	19,506	10,460,184	16,826,538
6	378,186	5,377,666	1,000,431	222,148	9,417	6,988,428	12,862,411
7	259,975	4,362,880	974,597	229,776	10,729	5,627,956	11,548,216
8	149,940	3,138,143	655,215	101,131	9,077	4,051,506	8,180,648
9	90,857	2,322,078	410,113	148,512	18,962	2,988,507	6,629,162
10	71,113	2,024,266	529,204	73,170	1,669	2,500,022	5,511,878
11	98,044	1,522,996	336,220	153,499	7,545	2,118,363	4,447,403
12	81,404	1,437,002	253,941	54,942	1,217	1,828,548	3,981,039
13	18,368	1,063,065	290,154	93,559	12,911	1,468,146	3,107,125
14	95,458	762,050	283,607	127,767	664	1,249,548	2,449,798
15	18,775	913,476	198,733	76,990	6,773	1,214,756	2,681,240
16	33,109	889,863	166,811	45,390	810	1,135,764	2,478,562
17	28,851	709,473	178,078	46,648	581	963,833	2,033,276
18	20,005	616,462	196,405	43,500	10,780	867,151	1,548,615
19	35,736	1,000,039	163,358	74,982	6,786	1,248,401	2,704,638
20	24,951	612,063	209,729	34,075	2,742	861,600	1,808,978
21	16,844	533,379	114,671	83,380	12,597	760,852	1,597,408
22	44,485	460,962	122,959	11,712	10,982	651,119	1,187,303
23	14,572	384,868	80,643	6,479	300	486,865	1,024,225
24	7,935	350,109	130,198	30,712	9,522	528,475	951,919
25	8,957	324,124	79,965	19,030	17,986	410,083	682,172
26	9,075	358,976	102,287	2,367	22,925	496,661	628,176
27	563	324,875	100,623	29,573	264	455,868	578,038
28	3,259	294,710	92,328	471	10,141	400,908	528,570
29	18,544	344,584	155,650	8,947	109	527,835	644,192
30	624	433,607	41,456	626	4,228	480,539	1,345,342
31	2,299	280,266	70,462	438	2,006	355,472	522,423
32	10,384	239,495	86,187	45,583	143	361,793	158,497
33	620	203,721	100,630	28,951	291	334,214	451,608
34	20,258	149,177	34,454	1,265	15	206,190	314,821
35	241	123,950	58,417	31,913	60	214,580	280,377
36	3,079	193,000	87,950	1,504	30	285,562	272,086
37	89	260,072	55,877	1,662	15	317,716	276,334
38	9,954	194,173	27,683	234	7,965	240,010	231,644
39	101	202,481	89,886	805	-	293,272	208,226
40	763	111,512	87,068	7,612	16	207,172	243,600
41	165	173,961	156,049	1,406	16	331,598	212,900
42	187	99,706	21,783	147	49	121,872	240,534
43	4,395	118,876	53,054	1,505	33	177,863	236,314
44	116	88,217	39,142	117	50	127,643	212,384
45	86	79,144	38,093	30,404	17	147,744	171,903
46	2,254	210,092	62,693	1,383	17	276,440	136,985
47	185	62,094	9,213	138	-	71,630	102,550
48	231	75,386	57,350	1,568	17	134,552	106,399
49	111	107,942	113,889	88	2,270	224,300	77,965
50	22	60,121	42,212	18	18	102,391	66,813
51	68	112,009	16,552	36	18	128,683	71,113
52	136	197,303	49,480	109	36	247,064	51,046
53	240	121,983	105,365	201	18	227,807	33,081
54	46	88,370	57,127	55	-	145,598	34,330
55	-	53,849	29,526	-	-	83,374	38,697
56	-	37,365	78,384	-	-	115,750	30,299
57	59	58,517	15,153	57	19	73,805	21,011
58	12	63,547	17,258	19	-	80,836	29,505
59	-	29,397	28,495	-	-	57,892	25,881
60	-	44,549	851	1,335	-	46,735	31,063
61	-	16,128	9,049	-	-	25,176	30,985
62	-	36,017	4,342	-	-	40,359	50,893
63	-	39,788	-	-	-	39,788	17,331
64	-	30,469	33,739	-	-	64,208	17,681
65	25	2,269	8,495	20	-	29,809	33,403
66	-	71,781	6,189	-	-	77,970	8,296
67	-	16,517	4,501	-	-	21,018	5,182
68	-	18,988	-	-	-	18,988	4,109
69	-	15,421	-	-	-	15,421	3,041
70	-	3,013	17,580	-	-	20,593	3,120
Balloon	10,672	728	109,213	17,464	1,226	866,885	702,846
Oversized	6,185	1,258,043	491,530	3,461	1,115	1,760,333	13,504
Total	8,859,874	123,555,706	23,431,291	4,948,793	398,264	161,193,928	218,946,067

Note: Calculations exclude Alaska Bypass pieces

Adjusted TYAR Assigned Costs And Revenues		
Cost Item/Adjustment	Subtotal	Totals
Calculated Intra-BMC Assigned Costs	161,193,028	
Less: Intra-BMC Barcode Savings	(50,032)	
Plus: Intra-BMC Non-machinable Costs	15,233,010	
Intra-BMC Revenue Adjustment Factor		0.90148643
Intra-BMC Non-Alaska Adjusted Assigned Costs		174,875,661
Intra-BMC Non-Alaska Volume		32,630,237
Intra-BMC Non-Alaska Per-Piece Assigned Costs		5.36
Intra-BMC Non-Alaska Revenue		175,615,561
Intra-BMC Non-Alaska Per-Piece Revenue		5.39
Calculated DDU Assigned Costs	218,946,067	
Parcel Select Revenue Adjustment Factor		1.01798204
DDU Adjusted Assigned Costs		221,790,623
DDU Volume		186,088,689
DDU Per-Piece Assigned Costs		1.19
DDU Calculated Revenue		312,195,541
DDU Adjusted Revenue		318,251,599
DDU Per-Piece Revenue		1.70
Note: Pickup Fees, Combination Revenue and Other Fees are not included in revenues. Contingency is not included in costs.		

TYAR Assigned Costs Calculation																
Per Piece Assigned Cost 3.146																
Assigned Costs-Before Surcharges																
Weight (Pounds)	Zone 1 & 2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	Zone 9	Zone 10	Zone 11	Zone 12	Zone 13	Zone 14	Zone 15	Zone 16	Zone 17
1	1 518 849	2 755 647	5 557 718	8 040 387	3 254 842	2 268 901	4 189 164	1 588 113	4 189 164	1 588 113	4 189 164	1 588 113	4 189 164	1 588 113	4 189 164	1 588 113
2	2 810 264	6 799 707	25 066 617	32 723 808	17 586 785	13 403 805	24 635 365	13 846 481	24 635 365	13 846 481	24 635 365	13 846 481	24 635 365	13 846 481	24 635 365	13 846 481
3	1 867 736	4 356 653	18 457 219	23 560 023	13 589 144	10 137 279	17 864 085	8 862 121	17 864 085	8 862 121	17 864 085	8 862 121	17 864 085	8 862 121	17 864 085	8 862 121
4	2 096 853	2 883 148	13 078 962	16 223 825	8 158 375	6 285 426	12 248 891	6 928 186	12 248 891	6 928 186	12 248 891	6 928 186	12 248 891	6 928 186	12 248 891	6 928 186
5	1 314 481	2 294 342	9 128 542	10 504 170	5 545 298	4 485 684	8 568 872	4 190 125	8 568 872	4 190 125	8 568 872	4 190 125	8 568 872	4 190 125	8 568 872	4 190 125
6	972 568	2 187 005	5 961 954	7 737 303	3 183 478	3 442 483	4 697 321	2 891 121	4 697 321	2 891 121	4 697 321	2 891 121	4 697 321	2 891 121	4 697 321	2 891 121
7	785 466	1 713 187	4 755 212	5 111 665	2 132 864	1 978 999	4 007 514	2 434 948	4 007 514	2 434 948	4 007 514	2 434 948	4 007 514	2 434 948	4 007 514	2 434 948
8	541 951	1 327 701	3 617 143	4 885 570	1 484 235	1 475 563	3 622 364	2 449 118	3 622 364	2 449 118	3 622 364	2 449 118	3 622 364	2 449 118	3 622 364	2 449 118
9	348 704	1 028 446	3 305 998	3 928 567	1 529 087	1 250 863	3 173 753	1 967 118	3 173 753	1 967 118	3 173 753	1 967 118	3 173 753	1 967 118	3 173 753	1 967 118
10	429 525	880 352	2 630 863	2 780 184	1 236 928	1 063 213	495 103	1 168 111	495 103	1 168 111	495 103	1 168 111	495 103	1 168 111	495 103	1 168 111
11	521 975	1 583 622	2 046 989	2 307 578	936 330	844 977	1 111 466	634 948	1 111 466	634 948	1 111 466	634 948	1 111 466	634 948	1 111 466	634 948
12	258 929	510 175	1 655 739	2 284 978	1 378 356	1 007 800	1 526 111	837 114	1 526 111	837 114	1 526 111	837 114	1 526 111	837 114	1 526 111	837 114
13	306 892	707 897	1 780 072	1 944 587	1 186 568	791 878	1 431 811	811 111	1 431 811	811 111	1 431 811	811 111	1 431 811	811 111	1 431 811	811 111
14	119 521	458 891	1 206 180	1 442 407	901 630	638 799	1 111 111	644 948	1 111 111	644 948	1 111 111	644 948	1 111 111	644 948	1 111 111	644 948
15	228 880	441 253	1 215 518	1 401 508	878 932	676 032	1 211 111	711 111	1 211 111	711 111	1 211 111	711 111	1 211 111	711 111	1 211 111	711 111
16	135 004	580 040	806 893	1 480 370	1 127 056	722 745	811 111	644 948	811 111	644 948	811 111	644 948	811 111	644 948	811 111	644 948
17	179 689	380 137	579 311	1 067 542	546 712	543 043	711 111	644 948	711 111	644 948	711 111	644 948	711 111	644 948	711 111	644 948
18	132 743	285 413	707 870	990 814	655 577	494 825	711 111	644 948	711 111	644 948	711 111	644 948	711 111	644 948	711 111	644 948
19	121 921	225 535	586 931	847 014	485 335	482 584	644 948	511 111	644 948	511 111	644 948	511 111	644 948	511 111	644 948	511 111
20	88 702	191 457	501 129	805 503	567 116	818 490	494 249	411 111	494 249	411 111	494 249	411 111	494 249	411 111	494 249	411 111
21	94 388	174 367	465 629	656 225	582 005	310 678	483 449	147 641	483 449	147 641	483 449	147 641	483 449	147 641	483 449	147 641
22	148 135	127 800	369 432	644 732	684 897	403 179	476 936	169 111	476 936	169 111	476 936	169 111	476 936	169 111	476 936	169 111
23	65 651	125 087	305 105	1 009 027	478 546	305 912	411 111	311 111	411 111	311 111	411 111	311 111	411 111	311 111	411 111	311 111
24	107 125	419 863	649 216	575 338	495 545	47 358	638 441	111 111	638 441	111 111	638 441	111 111	638 441	111 111	638 441	111 111
25	40 849	147 184	349 018	402 122	170 483	145 674	278 146	133 520	278 146	133 520	278 146	133 520	278 146	133 520	278 146	133 520
26	159 857	227 924	501 457	311 048	408 506	166 410	483 449	411 111	483 449	411 111	483 449	411 111	483 449	411 111	483 449	411 111
27	17 577	148 703	345 580	383 325	368 640	133 677	120 111	111 111	120 111	111 111	120 111	111 111	120 111	111 111	120 111	111 111
28	114 971	179 780	301 242	337 111	348 141	114 351	144 848	169 111	144 848	169 111	144 848	169 111	144 848	169 111	144 848	169 111
29	88 972	42 367	301 053	367 563	279 156	256 936	131 111	83 121	256 936	131 111	256 936	131 111	256 936	131 111	256 936	131 111
30	33 688	91 987	310 476	209 426	497 225	211 832	451 111	311 111	451 111	311 111	451 111	311 111	451 111	311 111	451 111	311 111
31	47 298	157 748	146 097	278 038	167 620	134 520	446 111	111 111	446 111	111 111	446 111	111 111	446 111	111 111	446 111	111 111
32	31 156	61 984	154 140	367 148	330 376	130 298	128 918	461 111	128 918	461 111	128 918	461 111	128 918	461 111	128 918	461 111
33	82 672	103 586	184 708	297 504	103 403	223 864	44 111	141 111	44 111	141 111	44 111	141 111	44 111	141 111	44 111	141 111
34	20 296	66 350	87 078	134 900	507 935	100 842	164 111	144 111	164 111	144 111	164 111	144 111	164 111	144 111	164 111	144 111
35	31 180	75 599	184 601	393 212	63 948	114 914	495 225	162 659	495 225	162 659	495 225	162 659	495 225	162 659	495 225	162 659
36	102 058	42 844	88 508	329 493	168 335	67 705	530 425	179 668	530 425	179 668	530 425	179 668	530 425	179 668	530 425	179 668
37	10 849	45 151	134 918	147 056	68 451	90 052	541 111	133 645	541 111	133 645	541 111	133 645	541 111	133 645	541 111	133 645
38	7 196	13 296	68 996	74 891	122 107	124 951	210 948	612 295	210 948	612 295	210 948	612 295	210 948	612 295	210 948	612 295
39	20 443	27 030	125 481	49 382	269 568	3 805	391 992	187 261	391 992	187 261	391 992	187 261	391 992	187 261	391 992	187 261
40	9 053	52 828	111 982	147 862	44 075	28 288	344 107	178 166	344 107	178 166	344 107	178 166	344 107	178 166	344 107	178 166
41	981	7 792	55 433	113 777	63 784	13 274	244 521	496 478	244 521	496 478	244 521	496 478	244 521	496 478	244 521	496 478
42	8 912	8 809	21 174	291 089	207 749	41 607	190 447	167 798	190 447	167 798	190 447	167 798	190 447	167 798	190 447	167 798
43	120 852	63 805	41 025	55 710	82 626	82 626	82 720	448 332	82 720	448 332	82 720	448 332	82 720	448 332	82 720	448 332
44	1 681	36 801	63 369	212 984	107 677	332 829	219 996	974 896	219 996	974 896	219 996	974 896	219 996	974 896	219 996	974 896
45	24 371	18 910	12 652	74 314	43 121	21 530	242 818	437 511	242 818	437 511	242 818	437 511	242 818	437 511	242 818	437 511
46	322	11 466	46 828	28 918	27 489	55 040	157 420	125 490	157 420	125 490	157 420	125 490	157 420	125 490	157 420	125 490
47	14 138	6 506	27 868	95 961	54 135	32 368	199 858	430 858	199 858	430 858	199 858	430 858	199 858	430 858	199 858	430 858
48	24 713	203 827	12 964	62 564	98 233	15 071	14 778	432 170	14 778	432 170	14 778	432 170	14 778	432 170	14 778	432 170
49	3 302	12 230	78 417	47 755	48 275	54 297	34 673	278 948	54 297	34 673	278 948	54 297	34 673	278 948	54 297	34 673
50	15 976	15 976	749	28 843	78 302	9 696	61 020	143 896	61 020	143 896	61 020	143 896	61 020	143 896	61 020	143 896
51	621	255	17 337	9 534	15 033	55 182	60 045	158 008	60 045	158 008	60 045	158 008	60 045	158 008	60 045	158 008
52	4 880	34 173	90 119	70 117	45 269	28 005	44 033	318 595	44 033	318 595	44 033	318 595	44 033	318 595	44 033	318 595
53	652	997	75 924	25 406	61 288	19 158	138 700	322 124	19 158	138 700	322 124	19 158	1			

RESPONSE OF POSTAL SERVICE WITNESS KIEFER TO  
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**UPS/USPS-T37-11.** Refer to your response to POIR No. 3, Question 19(b).

- (a) What was the share of Non-PRS Parcel Select volume using no-fee Delivery Confirmation in:
- i. FY2003?
  - ii. FY2004?
  - iii. FY2005?
  - iv. FY2006 thus far?
- (b) Explain why some non-PRS Parcel Select mailers do not use no-fee Delivery Confirmation.
- (c) Explain specifically what steps a non-PRS Parcel Select mailer must perform in order to use no-fee Delivery Confirmation.
- (d) Refer to USPS-LR-L-77, pages H-1 and K-12.
- i. Confirm that the Parcel Select Electronic delivery confirmation transactions in FY2005 were 231,931,226. If not confirmed, explain in detail.
  - ii. Confirm that Non-PRS Parcel Select volume in FY2005 was 269,931,243 (sum of 64,993,386 DBMC parcels, 2,013,256 DSCF parcels, and 202,924,601 DDU parcels). If not confirmed, explain in detail.
  - iii. Confirm that Parcel Select Electronic delivery confirmation transactions in FY2005 represented 85.9% of the Parcel Select volume in FY2005.
    1. If confirmed, explain the reason for the difference between your 80% assumption and this 85.9% figure. If not confirmed, explain in detail.
    2. If this 85.9% figure does not match the figure provided in response to part (a)iii above, explain in detail.

**RESPONSE:**

- a. (i) 60.7 percent
- (ii) 86.1 percent
- (iii) 85.9 percent
- (iv) I am informed that audited data to calculate this share is not available on a part-year basis.
- b. I do not know.
- c. Redirected to the Postal Service.
- d. (i) Confirmed.
- (ii) Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS KIEFER TO  
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(iii) Confirmed.

(1) The 80 percent figure was based on an estimate from staff in the Postal Service marketing department. Apparently, at the time, staff was unaware of the more detailed transaction data available from the Postal Service RPW system.

(2) Not applicable.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KIEFER  
TO INTERROGATORIES OF UNITED PARCEL SERVICE

**UPS/USPS-T37-12.** Refer to your response to UPS/USPS-T37-2.

- (a) What was the OMAS volume in FY2005?
- (b) What was the OMAS Parcel Post volume in FY2005?

**RESPONSE**

(a)-(b) I am informed that this information is no longer compiled.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KIEFER  
TO INTERROGATORIES OF UNITED PARCEL SERVICE

**UPS/USPS-T37-13.** Refer to your response to UPS/USPS-T37-7(d), which references your response to UPS/USPS-T33-17 subparts (d) and (h) in Docket No. R2001-1. Your response to UPS/USPS-T33-17(d) in Docket No. R2001-1 was:

“This statement cannot be confirmed in the absolute. The Commission has accepted a range of practices for handling worksharing transportation costs, including applying a markup to separately derived transportation costs for destination-entry rate categories.”

Your response to UPS/USPS-T33-17(h) in Docket No. R2001-1 was:

“The Commission has recently shown its willingness to accept the transportation cost markup approach for independently derived destination-entry transport costs, in addition to the discount approach. My use of the transportation cost markup approach in this docket follows the procedure adopted by the Commission in its own Parcel Post workpapers in Docket No. R2000-1.”

Do you continue to be unaware of any other instances (per your response to UPS/USPS-T33-28 in Docket No. R2001-1) in which the Commission has applied the same markup to separately derived transportation costs for non-destination entry categories and destination-entry rate categories other than “the procedure adopted by the Commission in its own Parcel Post workpapers in Docket No. R2000-1”?

**RESPONSE**

I am unaware of any other instances save the Docket No. R2000-1 rate case, which was the last omnibus case in which the Commission produced a set of Parcel Post workpapers in support of its recommended rates.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KIEFER  
TO INTERROGATORIES OF UNITED PARCEL SERVICE

**UPS/USPS-T37-14.** Refer to USPS-LR-L-82, page WP-PP-18 and WP-PP-21. Confirm that the excess weight-related costs of balloon mail are recovered in the preliminary pound charges assigned to 1 through 70 pound pieces. If not fully confirmed, explain in detail.

**RESPONSE**

Confirmed. The excess costs in question are the transportation and non-transportation weight-related costs in excess of the costs for a 15-pound parcel.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KIEFER  
TO INTERROGATORIES OF UNITED PARCEL SERVICE

**UPS/USPS-T37-15.** Refer to USPS-LR-L-82, WP-PP-19. Confirm that the pickup revenue in line [t] is the revenue received for the pickup by the Postal Service of intra-BMC and inter-BMC parcels. If not fully confirmed, explain in detail.

**RESPONSE**

I can confirm that this item is the revenue received for the use of the Postal Service's Pickup On-Demand<sup>®</sup> service which, in Parcel Post, is available only to Intra-BMC and Inter-BMC parcels.

RESPONSE OF POSTAL SERVICE WITNESS KIEFER (USPS-T-37)  
TO INTERROGATORIES OF UNITED PARCEL SERVICE  
REDIRECTED FROM WITNESS KELLEY

**UPS/USPS-T15-1.** Refer to USPS-T-15, page 8; USPS-T-9, page C-16; and USPS-LR-L-77, page H-1.

- (d) Confirm that Alaska Bypass revenue for Parcel Post was \$17,085,340 in BY2005. If not confirmed, explain in detail.
- (e) Explain in detail why \$17,085,340 of BY2005 Alaska Bypass revenue was assigned to Parcel Post if only \$7,773,000 of BY2005 Alaska nonpreferential air costs were attributed to Parcel Post.

**RESPONSE**

- d. Confirmed.
- e. Alaska Bypass pieces pay Parcel Post Intra-BMC rates. The revenues assigned to Parcel Post reflect the postage actually paid by Alaska Bypass mail at Intra-BMC Parcel Post rates. Please see also my response to UPS/USPS-T37-9(e).

RESPONSE OF POSTAL SERVICE WITNESS KIEFER (USPS-T-37)  
TO INTERROGATORIES OF UNITED PARCEL SERVICE  
REDIRECTED FROM WITNESS MILLER

**UPS/USPS-T21-19.** Refer to your response to UPS/USPS-T21-9(d).

- (b) Confirm that the parcel characteristic ("nonrectangular") used to classify non-machinable parcels in Section H of USPS-LR-L-77 (Billing Determinants, Fiscal Year 2005), which is used as the basis for the billing determinants listed in USPS-LR-L- 82, WP-PP-4 and WP-PP-5, does not accurately correspond with the parcel characteristics used to assess mailers a non-machinable rate surcharge for Parcel Post listed in Domestic Mail Manual, § 101.7.2. If not confirmed, explain in detail.
- (c) Confirm that an incorrect estimate of the share of non-machinable parcels can impact the RPW Revenue Adjustment Factors for Parcel Post listed in Section H-1, page 10 of 10, USPS-LR-L-77, and derived from the Calculated Revenues listed in Section H-1, pages 7-9 of 10, USPS-LR-L-77. If not confirmed, explain in detail.

**RESPONSE:**

- b. I can confirm that the "nonrectangular" characteristic used to estimate the number of nonmachinable pieces for RPW reporting and, therefore, for billing determinants purposes, does not correspond precisely with the list of nonmachinable parcel characteristics in the DMM (Section 101.7.2). Since there is no exact count of nonmachinable pieces, I am unable to determine how accurate this estimate actually is. I have been involved in some discussions on this subject with the Postal Service's revenue and volume reporting staff and they have informed me that they believe an alternate estimation technique (which also does not correspond to the DMM nonmachinability definitions exactly; see the response to UPS/USPS-T21-19(a)) provides better estimates. This alternate technique uses the physical characteristics outlined in part (a) of this question.
- c. Confirmed.

1 CHAIRMAN OMAS: Is there any additional  
2 written cross-examination for Witness Kiefer?

3 (No response.)

4 CHAIRMAN OMAS: This then brings us to oral  
5 cross-examination. Two participants have requested  
6 oral cross-examination, the United Parcel Service and  
7 Valpak Direct Marketing Systems and Valpak Dealers  
8 Association, however counsel for Valpak has indicated  
9 that he no longer intends to cross-examine this  
10 witness.

11 Is there any other participant, again, who  
12 would like to cross-examine? If not, Mr. McKeever,  
13 you may begin.

14 MR. MCKEEVER: Thank you, Mr. Chairman.  
15 John McKeever for United Parcel Service.

16 CROSS-EXAMINATION

17 BY MR. MCKEEVER:

18 Q Mr. Kiefer, I have just a very few questions  
19 and they're going to be limited to the inter-BMC,  
20 intra-BMC, DBMC, DSCF and DDU rates. I guess that's a  
21 lot, but --

22 A It is an exhaustive subclass, but --

23 Q Well, we will not cover the PRS rates, the  
24 parcel return rates, or the oversize rates, et cetera,  
25 all the other rates, but those major categories.

1 A Thank you.

2 Q So keep that in mind --

3 A Sure.

4 Q -- as I ask the questions. In general,  
5 though, you took cost and volume data from other  
6 witnesses and you also took Mr. O'Hara's revenue  
7 target for parcel post and came up with what you call  
8 preliminary rates for each rate category?

9 A Yes, sir.

10 Q Okay. The preliminary rates are designed to  
11 cover volume variable costs, the contingency and a  
12 reasonable contribution to the Postal Service's  
13 institutional costs?

14 A Yes. As a whole.

15 Q Okay. Now, after developing the preliminary  
16 rates you decided for a number of reasons to  
17 incorporate what you call constraints and rate  
18 adjustment factors into your rate design. Is that  
19 correct?

20 A That's correct.

21 Q One of the constraints was to cap rate  
22 increases at 20 percent for the parcel select rates,  
23 that's DBMC, DSCF and DDU?

24 A That's correct.

25 Q Those are what you and I think others

1 referred to as the commercial categories of parcel  
2 post?

3 A That's a convenient shorthand. I should  
4 point out that there is a nontrivial amount of  
5 commercial mail that does pay for example intra-BMC  
6 rates. There's the mail that takes advantage of the  
7 BMC presort discount or the OBMC presort discount.  
8 Since it requires I think 50 pieces it's obviously not  
9 single piece retail type mail, but in general the  
10 common parlance is that's our commercial group versus  
11 the retail.

12 Q Okay. Just confining ourselves now, forget  
13 about inter-BMC and intra-BMC for example --

14 A Okay.

15 Q -- I'm talking about the composition of  
16 DBMC, DSCF and DDU.

17 A Yes.

18 Q Those categories are used almost exclusively  
19 by business mailers?

20 A Yes. I would agree with that.

21 Q Okay. Now, you capped the inter-BMC and  
22 intra-BMC rate increases at 30 percent, correct?

23 A That's correct.

24 Q As we were discussing there are sometimes  
25 called the retails categories which are predominantly

1 not commercial, but do have a not insignificant amount  
2 of commercial traffic in them?

3 A That is correct.

4 Q They are primarily retail?

5 A Yes. That is correct.

6 Q Okay. Why the 10 percent difference?

7 Twenty percent for the parcel select categories and 30  
8 percent for the retail categories?

9 A That was based upon a number of  
10 considerations. We are concerned in particular about  
11 the fact that if we compare the costs that we  
12 generally assign to the so-called retail categories  
13 that over time we believe that there's been a need to  
14 collect more revenue from those categories, and so we  
15 are willing to sort of let the rates float up a little  
16 bit more in those categories.

17 Q Why is there a need to collect more revenue  
18 from those categories?

19 A As I said when we allocate the costs to the  
20 individual categories the amount of revenue that we  
21 have been collecting from those categories is not much  
22 higher than the allocated costs.

23 In other words if you look at the  
24 preliminary rate schedules in the model you'll see  
25 that infrequently the preliminary rates tend to show

1 significant growth or clarify a significant rate  
2 increase I should say would be a better way to put it  
3 and from that looking at sort of the cost is giving us  
4 a signal in the direction we should move our prices.

5 We believe that we should be increasing the  
6 retail rates a little bit faster so that there is less  
7 of a discrepancy between the existing rates and what  
8 we get when we develop the preliminary rates, and so  
9 that when we look at the preliminary rates in some of  
10 the for example inter, intra-BMC rate cells on the  
11 preliminary rate page you see that there's an  
12 indication that these would go up by well over 30  
13 percent, and so we cap it, but we don't cap it as  
14 tightly as for the parcel select prices.

15 Q So it was primarily based on a comparison of  
16 the revenue for the retail categories versus the costs  
17 of those categories?

18 A Again, with the caveat that I said that the  
19 costs are what we assign using reasonable  
20 methodologies to those categories. We don't have  
21 specific CRA type cost by the categories.

22 Q You call them allocated costs?

23 A Allocated costs is the term I've been using.  
24 Yes.

25 Q Okay. Am I correct that you didn't cap rate

1 decreases for the parcel select categories, DBMC, DSCF  
2 and DDU, except in the case of the DDU oversized  
3 parcels?

4 A I believe that's correct. Yes.

5 Q So those rates, the DBMC, DSCF and DDU  
6 rates, the constrained or final rates, if the  
7 preliminary rates yielded rate decreases those would  
8 have been passed-through?

9 A I think I should actually amend that last  
10 statement. There is a formula in a rate change  
11 constraint that actually does limit the change that is  
12 called for between the existing rate and the  
13 preliminary rate and allows a certain portion of it to  
14 go through so that if the rate change factor were  
15 let's say 90 percent and the preliminary rates were  
16 calling for let's say a 10 percent decrease then the  
17 formula would actually bring it let's say down to a  
18 nine percent decrease.

19 So that formula does not kick in only with  
20 increases, so I wish to amend that. I mean, we did  
21 not put -- in the same way I believe there's a line  
22 item for specific rate decrease factoring I believe  
23 that only applies to the oversized pieces.

24 Q What about with respect to the retail  
25 categories? Did you do anything with respect to

1 decreases there?

2 A That same formula was used. In other words  
3 I believe it was the preliminary rate minus the  
4 current rate times a factor and then you add back in  
5 the current rate. So it allows sort of a percentage  
6 of what the preliminary rate is calling for to be sort  
7 of passed along.

8 Q Now, you adopted other constraints and  
9 adjustments as well, correct, to make sure for example  
10 that the parcel post rates would be lower than  
11 corresponding priority mail rates, et cetera?

12 A Yes.

13 Q Okay. When you were done incorporating all  
14 of the rate constraints and adjustments that you made  
15 virtually every rate that you propose is different  
16 than the corresponding preliminary rate produced by  
17 your rate design methodology. Isn't that correct?

18 A Of necessity that was the case because in  
19 most cases we were constraining rate increases. That  
20 means that in order to achieve the revenue target  
21 other rates had to increase. Because we've  
22 constrained certain cells to not increase at a certain  
23 rate we needed to raise other rates. That was  
24 generally spread among all other rates by the  
25 methodology.

1           Q     So every preliminary rate was changed before  
2 you proposed it as a final rate?

3           A     That's correct.

4           Q     In the overwhelming majority of the rates  
5 the final proposed rates are less than the preliminary  
6 rates aren't they?

7           A     If you count the rates by rate cells -- I  
8 haven't actually counted them, but I've looked at the  
9 charts and if you look and you see where there's 30  
10 percent or 20 percent you can tell that presumably has  
11 been constrained. By the absolute number of rate  
12 cells that's probably the case, although I'm not sure  
13 whether it's the case if you did it by let's say where  
14 you weighted the cells by the volumes of the pieces.  
15 I haven't done that calculation.

16          Q     Okay. Would it surprise you if I told you  
17 that the proposed rates differ from the preliminary  
18 rates produced by your rate design methodology by more  
19 than 25 percent in over 25 percent of all rate cells?

20          A     That would not surprise me for two reasons.  
21 One is that if one looks at the preliminary rates  
22 there are a good many cells that have very, very  
23 substantial rate increases called for, sometimes even  
24 over .00 percent, but on the other hand one has to  
25 understand that the preliminary rates that are shown

1 are influenced by the mark up factor which in the end  
2 the mark up factor that is reported is the mark up  
3 factor that is needed to achieve the target revenue.

4 It is not the mark up factor -- if there had  
5 been absolutely no rate constraints or no rate  
6 increase constraints the mark up factor would have  
7 been less, and so the preliminary rates in the cells  
8 that end up being constrained would have also been  
9 less, and so that once you hit the constraint as you  
10 keep increasing the mark up factor in order to try to  
11 achieve the target revenue the preliminary rate that  
12 is shown for the constrained cells, let's say the ones  
13 that have gone up to 20 or 30 percent, really has a  
14 lot less meaning than it would have if you had started  
15 off from 115 or 116 percent which is where the  
16 original target cost coverage would have been.

17 Q Would it surprise you if I told you that the  
18 proposed rates differ from the preliminary rates by  
19 more than 10 percent in over half of all rate cells?

20 A No, it wouldn't with the same explanations  
21 and the same reasons that I gave for the previous  
22 question.

23 Q The preliminary rates as we discussed are  
24 designed to cover the volume variable costs, the  
25 contingency and make a reasonable contribution. Is

1 that correct?

2 A That's correct. Well, with the caveat that  
3 I expressed in the last but one question that if one  
4 actually took the preliminary rates in the final  
5 workpapers and multiplied them by the volumes they  
6 would actually produce a revenue that is higher than  
7 the required target because as I said before once you  
8 start capping some of the rate cells you have to  
9 increase the mark up factor which affects the  
10 unconstrained rates so as to actually achieve the  
11 required revenue.

12 That means that in the constrained rate  
13 cells the preliminary rates keep marching up, but they  
14 shouldn't be given too much weight I would say in that  
15 regard. Once they hit the target they should be  
16 retired in some sense I guess if you wanted to  
17 actually calculate a revenue.

18 Q So you did make calculations of cost  
19 coverages by rate cell? Is that what I'm hearing or  
20 not?

21 A No.

22 Q You didn't do that?

23 A No, no. No. No. I'm talking about the  
24 actual rates that when we had the preliminary --  
25 leaving aside cost issues we allocate the costs, we

1 mark them up using the mark up factor, but given the  
2 fact that we have constrained certain cells to not  
3 increase by more than 20 percent or 30 percent, once  
4 those cells reach that constraint they cannot  
5 contribute any more to the total revenue, all right,  
6 no matter how high you mark those cells up.

7           You look at the sheet and it may say 115  
8 percent. Well, I mean, that doesn't figure actually  
9 into a revenue calculation.

10           Q     So because you couldn't get more revenue  
11 from the constrained cells you had to get that revenue  
12 from other cells? Is that what you're saying?

13           A     From the unconstrained cells. That is  
14 correct.

15           Q     Which of course then were adjusted? They  
16 weren't constrained, but they were adjusted from what  
17 they otherwise would have been in the preliminary  
18 rates?

19           A     They were adjusted, yes, although there may  
20 have been a constraint that was not an absolute cap  
21 type of constraint, the kind that I mentioned about  
22 the rate change factor, so that there was multiple  
23 layers of constraints that were put on there, too.

24           Q     As a result the constrained rates, the ones  
25 you proposed, are very different from the preliminary

1 rates?

2 A They are different from the preliminary  
3 rates. Yes.

4 MR. MCKEEVER: That's all I have, Mr.  
5 Chairman.

6 MS. DREIFUSS: Mr. Chairman?

7 CHAIRMAN OMAS: Thank you.

8 MS. DREIFUSS: I just wanted to let you know  
9 that I do have one or two follow-ups. I don't want to  
10 jump ahead of any Commissioners, but just to let you  
11 know I did have one or two.

12 CHAIRMAN OMAS: If you'd have given me a  
13 chance I was going to give you the opportunity.

14 MS. DREIFUSS: Thank you. Sorry. Sorry.  
15 Hit the button too quickly.

16 CHAIRMAN OMAS: Are there any follow-up  
17 cross-examination of Mr. Kiefer.

18 Ms. Dreifuss?

19 MS. DREIFUSS: Great intuition, Mr.  
20 Chairman. Thank you.

21 CROSS-EXAMINATION

22 BY MS. DREIFUSS:

23 Q Mr. Kiefer, I just wanted to ask you about  
24 one matter that Mr. McKeever took up with you. You  
25 explained to him that you capped the parcel select

1 rates at 20 percent, but allowed the retail rates to  
2 drift upward to approximately 30 percent. Is that  
3 correct?

4 A That's correct.

5 Q You said the reason for doing that was you  
6 felt that there was insufficient cost recovery in the  
7 retail rates. Is that correct?

8 A That is one of the motivating factors. Yes.

9 Q I didn't hear you say anything about service  
10 performance, comparing the service performance of  
11 parcel select pieces in contrast with retail pieces.  
12 Was that a consideration in how you set those caps?

13 A I do not believe that was a major  
14 consideration.

15 Q I'm going to ask you to accept this subject  
16 to check. I went to the Postal Service's website  
17 after listening to you and Mr. McKeever having this  
18 exchange. I went to a section where service  
19 performance data is reported by the Postal Service and  
20 I went specifically to the service performance data  
21 for package services.

22 What I find there -- and I'll read this to  
23 you, again, you can check it later or counsel can  
24 check it now if you would like -- it says that retail  
25 packages were delivered 54 percent on time in the most

1 recent quarter while parcel select packages were  
2 delivered 96 percent on time in the most recent  
3 quarter.

4 A Okay.

5 Q So the service performance for parcel select  
6 is almost twice as good as that of retail packages  
7 isn't it?

8 A Did that information break out the parcel  
9 post or other package services retail from priority  
10 mail?

11 Q I can't tell from looking at this, but with  
12 that qualification let's say for the sake of argument  
13 or as a hypothetical, which perhaps I can establish  
14 later with real facts, that parcel select performance  
15 is almost twice as good as retail parcel post  
16 performance. Did that enter into the caps that you  
17 established in any way?

18 A Not that I'm aware of. I should point out  
19 that the dominant category of parcel select is in fact  
20 the DDU drop ship so that these are pieces which are  
21 brought to the delivery unit and if they're brought by  
22 a certain time, and I'm not sure exactly what the cut  
23 off time is, but if it's brought in by a certain cut  
24 off time it has a very high chance, not a 100 percent  
25 chance, but it has a significant chance of being taken

1 out and delivered let's say the next day.

2 That is a lower hurdle than for example a  
3 retail package that is maybe an inter-BMC package that  
4 may be entered in Los Angeles and delivered in  
5 Washington and which may go through many more steps,  
6 so the hurdle is a little bit higher.

7 That's why for example if somebody says that  
8 the parcel select may have a higher performance on a  
9 standard I would not be surprised at that because  
10 knowing that parcel select is dominated by pieces that  
11 actually have a fairly lower hurdle as I said.

12 Q Isn't it correct that the DDU rates for  
13 parcel post are already set lower to reflect the fact  
14 that many steps are avoided by DDU parcel post?

15 A That's correct.

16 Q I'll characterize this. You can disagree  
17 with my characterization, but just accept this as a  
18 theoretical question.

19 A Sure.

20 Q Is it your testimony that dramatically  
21 different levels of service performance should not be  
22 taken into account in deciding how much to allow  
23 retail parcel post rates to go up as contrasted with  
24 commercial parcel post rates?

25 A I think that in our pricing decisions we try

1 to take all relevant factors into account and  
2 definitely a difference in performance should be  
3 considered a relevant factor.

4 Q Okay. So you just agree that it's a  
5 relevant factor, however you did not take it into  
6 account in setting those caps did you?

7 A At this point I guess I would have to say  
8 that I am not aware of the weight that was given. As  
9 you heard me say earlier I adopted this testimony. I  
10 realize that careful consideration was given within  
11 pricing to various factors. I cannot tell you  
12 precisely what weight was given to that specific  
13 factor in the decision, so I can't answer that  
14 specifically to that specific number.

15 Q Am I correct that nowhere in USPS-T-37 is  
16 service performance discussed? Would I be right in  
17 saying that?

18 A I do not believe that service performance is  
19 discussed in the testimony. My recollection is it's  
20 not in there.

21 MS. DREIFUSS: Thank you.

22 Thanks, Mr. Chairman.

23 CHAIRMAN OMAS: Thank you, Ms. Dreifuss.

24 MR. MCKEEVER: Mr. Chairman, if I may I have  
25 some follow-ups to that.

1 CHAIRMAN OMAS: I was going to ask.

2 MR. MCKEEVER: Thank you. We seem to be  
3 jumping the gun on you today. I apologize.

4 CHAIRMAN OMAS: I know the time is short,  
5 but we're doing pretty good.

6 FURTHER CROSS-EXAMINATION

7 BY MR. MCKEEVER:

8 Q Mr. Kiefer, you indicated in some of your  
9 responses to Ms. Dreifuss that you're not surprised  
10 that the parcel select categories would have a better  
11 on time percent than the retail categories, correct?

12 A That's correct.

13 Q The figures she gave you were on time  
14 measurements. I think I jotted them down correctly.  
15 Fifty-four percent on time for retail and 90 percent  
16 on time for parcel select. Now, on time means  
17 measured against a service standard doesn't it?

18 A I don't know exactly how -- I'm not familiar  
19 with that portion of the website. That website is  
20 prepared for sort of public viewing. I'm not sure  
21 exactly how on time is measured or determined for the  
22 use in that website.

23 Q It is true that the service standard for DDU  
24 for example might be one day after it reaches the  
25 office whereas the service standard for an inter-BMC

1 might be -- and I'm just trying to illustrate here,  
2 not tie you down -- six days from when the parcel is  
3 tendered to the Postal Service and to measure whether  
4 it's on time or not you would measure either how many  
5 are delivered in one day versus how many are delivered  
6 in six days. Is that correct?

7 A To the extent that there are different  
8 service standards for the different categories, and  
9 I'm not really sure that we have them for the  
10 different subcategories of parcel post, you would want  
11 to have them reflect the different pathways.

12 Q Right. I think you indicated you weren't  
13 sure whether the data that she mentioned to you may  
14 have included priority mail?

15 A Yes. I said I'm not sure just what is  
16 included for the purposes of this sort of public  
17 information website.

18 Q Is there a retail category of priority mail  
19 as opposed to a commercial one?

20 A As far as I'm aware there's no distinction.

21 Q There is no parcel select category for  
22 example for priority mail?

23 A No.

24 MR. MCKEEVER: Just a few more, Mr.  
25 Chairman.

1 BY MR. MCKEEVER:

2 Q Am I correct that the preliminary rates for  
3 parcel select in many instances would increase by over  
4 30 percent over current rates? You might want to  
5 refer to your workpaper PP-24.

6 A I believe that many would increase  
7 significantly.

8 Q By over 30 percent? This is preliminary  
9 rates.

10 A Yes. With the caveat I mentioned before  
11 about -- yeah, these preliminary rates reflect the  
12 increased mark up factor that was needed to achieve  
13 the revenue target, but yes, I agree with that  
14 statement.

15 Q Does that indicate that those rate cells  
16 where there are higher rate increases would require  
17 more revenue compared to allocated costs than are  
18 being recovered in current rates as you indicated were  
19 the case for the retail categories?

20 A Could I ask you to repeat that question?

21 Q Sure. It was a little tough. The fact that  
22 a high rate increase would be required under the  
23 preliminary rates for a number of these rate cells  
24 indicates -- I'm asking you to do the same analysis  
25 that you did for the retail categories that therefore

1 more revenue would have to be recovered compared to  
2 allocated costs in the case of those rates taking into  
3 account allocated costs.

4 A Yeah. Taking into account the allocated  
5 costs. That's correct.

6 MR. MCKEEVER: That's all, Mr. Chairman.  
7 Thank you.

8 CHAIRMAN OMAS: Thank you, Mr. McKeever.

9 Is there any additional questions? Are  
10 there any questions from the bench?

11 COMMISSIONER GOLDWAY: Can I ask --

12 CHAIRMAN OMAS: Commissioner Goldway?

13 COMMISSIONER GOLDWAY: I think this is  
14 appropriate to follow-up on. Were you able in looking  
15 at setting rates and making a distinction between the  
16 20 percent increase for the parcel select and 30  
17 percent for retail the volume trends in the last year  
18 or two of whether parcel select has grown, and whether  
19 retail parcel post has grown and what the differences  
20 were?

21 THE WITNESS: I am aware that the parcel  
22 select has not grown recently anywhere near the rate  
23 at which it had grown previously.

24 COMMISSIONER GOLDWAY: What about retail?

25 THE WITNESS: I think retail has fared a bit

1 better. We have lost a lot of DBMC parcel post, which  
2 is part of the parcel --

3 COMMISSIONER GOLDWAY: Select?

4 THE WITNESS: -- select.

5 COMMISSIONER GOLDWAY: So did you have  
6 differences in price elasticity in mind when you were  
7 developing these rates?

8 THE WITNESS: As far as a formal price  
9 elasticity one is calculated for parcel post  
10 generally, so I don't believe that a formal price  
11 elasticity was an issue.

12 COMMISSIONER GOLDWAY: You don't have  
13 distinctive price elasticities for the retail versus  
14 the parcel select?

15 THE WITNESS: I may have to check on that,  
16 Commissioner Goldway.

17 COMMISSIONER GOLDWAY: I was just trying to  
18 establish whether there were some other factors other  
19 than just attributable costs which seem to be the  
20 major factor. You seem to be able to distinguish the  
21 cost for retail versus parcel select and you have  
22 distinctions in that to look at when you were  
23 establishing rates, but what other distinctions did  
24 you have? Clearly you weren't considering service  
25 standards.

1 I'm trying to think of some others. The  
2 obvious one would be price elasticity.

3 THE WITNESS: I think that the volume trends  
4 suggest that sensitivity in parcel select to price and  
5 to other factors that parcel post as a whole has a  
6 high elasticity, so I think that was a concern that  
7 was in there to not have that particular price, the  
8 price of the parcel select, go up too much in order to  
9 not have significantly greater attrition in the parcel  
10 select area.

11 Specifically what weight might be given to  
12 the elasticity of this category I can't say  
13 specifically.

14 COMMISSIONER GOLDWAY: Thank you.

15 MR. MCKEEVER: Mr. Chairman, if I may?

16 CHAIRMAN OMAS: Yes.

17 FURTHER CROSS-EXAMINATION

18 BY MR. MCKEEVER:

19 Q You indicated in response to Commissioner  
20 Goldway that DBMC has been experiencing volume  
21 decline. Is that correct?

22 A That's my understanding. Yes.

23 Q My recollection is that you used that as an  
24 example for parcel select. Now, isn't it correct,  
25 though, as you state on page 4 of your testimony,

1 lines 22 and 23, that since FY2001, "this decline in  
2 DBMC has been offset by a growth in DDU volume". Is  
3 that correct?

4 A That's correct, but that statement is  
5 intended not to necessarily imply a one to one.

6 Q Understood, but DDU volume has been growing?

7 A Yes. There is no question that during the  
8 longer timeframe, let's say if you look back to 2000-  
9 2001, that DDU definitely has grown.

10 Q You say in your testimony there over 50  
11 percent of parcel select is DDU entered. I believe  
12 it's over 50 percent of all parcel post is DDU  
13 entered. Isn't that correct?

14 A I believe that's correct.

15 Q About 75 percent of parcel select is DDU  
16 entered?

17 A That is correct.

18 MR. MCKEEVER: That's all. Thank you.

19 CHAIRMAN OMAS: Thank you.

20 Mr. Reiter, would you like some time with  
21 your witness?

22 MR. REITER: if you'll just give me a minute  
23 I'll let you know if we are done or not.

24 CHAIRMAN OMAS: Fine. Take two.

25 MR. REITER: We will not have any redirect.

1 CHAIRMAN OMAS: Thank you, Mr. Reiter.

2 Mr. Kiefer, that completes your testimony  
3 here today and we, again, appreciate your appearance  
4 and your contribution to our record. You are now  
5 excused.

6 THE WITNESS: Thank you.

7 (Witness excused.)

8 CHAIRMAN OMAS: This concludes today's  
9 hearing. We will reconvene Monday morning at 9:30  
10 a.m. when we will receive testimony from Postal  
11 Service Witnesses Pajunas, Pifer, Pafford and Bozzo.  
12 Thank you. We will see you Monday morning.

13 (Whereupon, at 1:02 p.m., the hearing in the  
14 above-entitled matter was adjourned, to reconvene on  
15 Monday, August 14, 2006, at 9:30 a.m.)

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REPORTER'S CERTIFICATE

DOCKET NO.: R2006-1  
CASE TITLE: Postal Rate and Fee Changes  
HEARING DATE: 8/11/06  
LOCATION: Washington DC

I hereby certify that the proceedings and evidence are contained fully and accurately on the tapes and notes reported by me at the hearing in the above case before the Postal Rate Commission

Date: 8/11/06

Benedict J. Hester

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