

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MAYES
TO INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION
(PSA/USPS-T32-1 AND 2)

The United States Postal Service hereby provides the responses of witness Mayes to the following interrogatories of Parcel Shippers Association: PSA/USPS-T32-1 and 2 (filed on February 15, 2000).

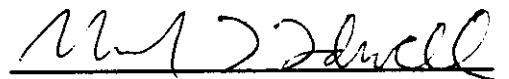
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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March 2, 2000

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES

PSA/USPS-T32-1. On pages 42 and 43 of your testimony you point out that in past proceedings Parcel Post revenue was not expected to exceed costs by such a large margin as the 114.1% coverage you are requesting in this proceeding, because of the desire of both the Commission and the Service to mitigate rate increases by reducing cost coverage so as to halt the volume decline.

- (a) Please explain why you have abandoned your low cost coverage proposals that the Postal Service proposed in prior rate proceedings.
- (b) Having reference to your testimony about the reasons for low cost coverage in the past, please explain what has changed that has caused the Service to propose significantly higher cost coverages for Parcel Post in this proceeding.
- (c) Please reconcile your 114.1% cost coverage number with witness Plunkett's 115.1% cost coverage number in his Attachment K to this Testimony (USPS-T-36).
- (d) On page 43 of your testimony you refer to what you describe as "improved...data collection for Parcel Post volume." (i) Please describe corrections made to FY 1997 and 1998 because of the "improved data collection" in your reference. (ii) Please provide the dollar amount of the revenue and the number of Parcel Post pieces that were underreported by the Postal Service for the Base Year and for the Test Year, Before and After Rates, in its filing, in R97-1. (iii) Please provide the percentage amount of the Parcel Post increase or reduction that would have been required in R97-1 to reach the 108% cost coverage level recommended by the Commission, had the Base Year and Test Year Parcel Post volumes and revenues reflected what you now call the "improved data collection."

Response:

- (a) I would disagree with your characterization that I "have abandoned [the] low cost coverage proposals that the Postal Service proposed in prior rate proceedings." If you refer to my Exhibit USPS-32C, you will see that the cost coverage assigned to Parcel Post is higher only than the cost coverages assigned to the Periodicals subclasses (which are afforded ECSI value consideration and in this case have their cost coverages

Response to PSA/USPS-T32-1(a), cont'd

mitigated somewhat in deference to the significant rate increases required to cover the large increases in their costs), Library Mail (a preferred subclass), and Special Rate (which is afforded ECSI value consideration).

As I described in my testimony at page 8, one of the pricing criteria used to determine an appropriate set of cost coverages is the impact on mailers. While I recognize that some Parcel Post rate cells received larger increases, the overall increase in Parcel Post rates in this case is only 1.3 percent. Given the cumulative rate of inflation between the most recent rate increase and the implementation of the rates proposed in this case, and given that the systemwide rate increase is 6.4 percent, I do not consider an increase of 1.3 percent, associated with a cost coverage of 114 percent, to be out of line.

The cost coverage recommended by the Commission in Docket No. R97-1 was one of the lowest cost coverages recommended for Parcel Post. I would, therefore, hesitate in using the R97-1 cost coverage as the only point of reference. Furthermore, as shown in LR-I-149, the cost coverage implied by reference to the Commission's version of costs in this case is 110.9%, only 3 percentage points higher than the Commission's R97-1 cost coverage.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES

Response to PSA/USPS-T32-1, cont'd

- (b) Please refer to my response to your PSA/USPS-T32-1(a) above.
- (c) I am unable to reconcile the two numbers at this time.
- (d)(i) Please refer to the response of the United States Postal Service to UPS/USPS-T5-13, redirected from witness Hunter.
- (ii) Please refer to the response to subpart (d)(i) above. Although it is my understanding, based on the response cited in subpart (d)(i), that the data for fiscal years prior to FY 1998 have not been restated, there is a time series of simulated volume data which incorporates several adjustments to volume data, including the use of postage statement data for Parcel Post volumes. This data series is provided in witness Thress's Workpaper 1 at page 16 of Table 1-10 in columns headed GVOL25, GVOL25_ND and GVOL25_DB. The base year for Docket No. R97-1 was FY 1996. Please refer to the cited workpaper for the revised estimate of FY 1996 volume. The test year before and after rates volumes and revenues used in R97-1 were estimates, not actual FY 1998 figures, and were developed by use of the forecasting models used by witnesses Thress and Tolley in Docket No. R97-1. To my knowledge, the revised Parcel Post volumes have not been run through the forecasting models from that case. Therefore, I do not know what the test year before and after rates volumes or revenues for Parcel Post would have been had the newer data been used.

Response to PSA/USPS-T32-1(d), cont'd

- (iii) I do not have sufficient information to answer this question. As noted in my response to subpart (d)(ii) above, I do not have test year before or after rates volume estimates or revenue estimates as would have been developed in Docket No. R97-1. My limited understanding of forecasting also suggests that had the newer data been used to develop the forecasting model in R97-1, the own-price elasticity estimate for Parcel Post may not have been the same as was used in that case. In addition, I do not have the estimated test year before or after rates costs as would have been produced using the cost rollforward model that was used in R97-1. Without that information, I cannot say what the change in Parcel Post rates would have been in order to target a cost coverage of 108 percent. I also note that the 108 percent cost coverage was the Commission's recommended cost coverage, not the Postal Service's proposed cost coverage. Therefore, I would note that the Commission's models for forecasting volumes, revenues and costs would have been the appropriate ones to use to properly respond to this question.

PSA/USPS-T32-2

On page 43 of your testimony you state that your proposed Parcel Post rate level is fair and equitable, satisfying Criterion 1.

- (a) Did you arrive at the level of coverage taking into account the fact that the Postal Service had made massive errors in its data reporting for Parcel Post in the recent past, leading to rate increases and rates which were greatly excessive in terms of cost coverage, both the coverage requested by the Postal Service and the higher coverage recommended by the Rate Commission in R97-1?
- (b) Would it not have been "fair and equitable" to remedy the Postal Service's past overcharging of Parcel Post by reason of faulty data collection to have proposed a rate reduction in Parcel Post in this proceeding? Please explain any negative response.

Response:


- (a) I disagree with your representation that the rate increases and rates were "greatly excessive in terms of cost coverage" in R97-1. One of the pricing criteria to be considered when determining rate levels is the impact of the rate increase on mailers. Thus, I would be very surprised to find that the cost coverage set by the Commission in R97-1 did not already take into consideration the impact on mailers of the associated 12 percent increase in rates. As would any rate level witness when determining the cost coverage for Parcel Post, I relied upon the data available to me at the time. The information available to me at the time included the restated volume and revenue figures for the base year and the associated base year cost coverage, as well as the forecasted test year before rates cost coverage which was developed using the volume forecasts which incorporated the restated volume data.

Response to PSA/USPS-T32-2, cont'd

- (b) No. I disagree with your characterization that the Postal Service overcharged Parcel Post in the past. I do not have sufficient information to determine that, had the data collection been adjusted in time for Docket No. R97-1, the resulting rates would have been significantly different. The pricing criteria do recommend the consideration of the impact of rate changes on mailers. This criterion has been interpreted in the past to include consideration of the cumulative rate increases on mailers from previous rate cases when added to the increase proposed in the current case. I did take into consideration the sizes of the Parcel Post rate increases resulting from recent rate cases when determining the cost coverage for Parcel Post.

DECLARATION

I, Virginia J. Mayes, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

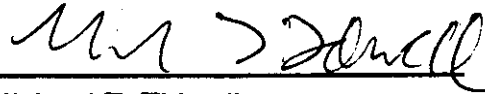

Virginia J. Mayes

Dated:

2-2-00

CERTIFICATE OF SERVICE

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

A handwritten signature in black ink, appearing to read "M. T. Tidwell", written over a horizontal line.

Michael T. Tidwell

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March 2, 2000