

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-T32-3 THROUGH 7)

The United States Postal Service hereby provides the responses of witness Mayes to the following interrogatories of Parcel Shippers Association: PSA/USPS-T32-3 through 7 (filed on March 8, 2000). PSA/USPS-T32-8 has been redirected to the Postal Service for response.

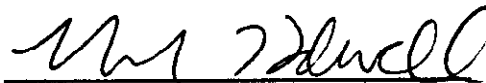
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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March 22, 2000

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES

PSA/USPS-T32-3.

In your response to PSA/USPS-T32-1 (a) you stated that one pricing criteria [sic] used to determine an appropriate set of cost coverages is the impact and that you did not regard a 1.3% increase, when the system-wide increases are 6.4%, to be out of line.

(a) Did you take into consideration the fact that, due to Postal Service data errors in previous rate cases, Parcel Post was subjected to rate increases that were far in excess of the increases that would have been required in order to meet either the cost coverage targets proposed by the Postal Service in the last rate proceeding, or those recommended by the Postal Rate Commission?

(b) You state in that same response that the cost coverage recommended by the PRC in 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." Please provide every instance since Postal Reform where the Postal Rate Commission recommended a cost coverage for Parcel Post that is higher than you are requesting in this proceeding, and also provide the system-wide cost coverage recommended by the PRC in each such proceeding.

Response:

(a) Under criterion 4, I did take into account the size of the rate increase recommended for Parcel Post in Docket No. R97-1. I cannot agree with the premise of your question, however, as I do not know whether or to what extent the cost coverage targets proposed by the Postal Service or recommended by the Commission would have been different had they not been associated with a rate increase of that size. Proposed cost coverages are not developed independent of associated rate increases both in deference to consideration of criterion 4 as well as consideration of the impact on financial breakeven.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES

Response to PSA/USPS-T32-3, cont'd

- (b) The following markups were derived from the chart in Appendix G, Schedule 3 in the Commission's Opinion and Recommended Decision for Docket No. R97-1.

Docket	97-1	94-1	90-1	87-1	84-1	80-1	77-1	76-1	74-1	71-1
Parcel Post	8.0	7.4	11.5	12	16	6	3	21	41	56
System Avg.	55.3	56.9	50.0	48	52	27	24	52	69	85

As can be seen in the table above, the markups for Parcel Post as recommended by the Commission in every docket except for R94-1, R80-1 and R77-1 were higher than the markup recommended in R97-1.

Schedule 3 also contains a chart showing the markup indices, the markups by subclass divided by the systemwide average markup. Only in Dockets R94-1 and R77-1 were the markup indices for Parcel Post lower than in Docket No. R97-1.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES

PSA/USPS-T32-4.

In response to PSA/USPS-T32-1 (c) you say you are unable to reconcile the 114.1% cost coverage that you say you are recommending for Parcel Post with witness Plunkett's statement that the rates proposed would provide a 115.1% cost coverage. If witness Plunkett's math is correct and yours is wrong, would you then recommend that Parcel Post rates be reduced so that they would be in accord with your coverage recommendation of 114.1%, or would you, rather than change your testimony, say that you are recommending a coverage of 115.1%, because that is the way the recommended rates come out?

Response:

In the development of the proposed cost coverages for all subclasses of mail, it was my understanding that the cost coverage of 114 percent was associated with a rate increase of 1.3%. I considered the cost coverage and the associated rate increase to be fair and equitable, and my expectations regarding the effects on volume, revenue and cost impacts of this rate increase were incorporated into the analysis of financial breakeven for the Postal Service in the test year. Given the system average increase and the increases proposed for other subclasses, I do not believe that I would have recommended a rate decrease for Parcel Post under the circumstances, and would have considered a modest one percentage point increase in the cost coverage appropriate.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES

PSA/USPS-T32-5.

In your response to PSA/USPS-T32-2 you say that you disagree with the representation contained in the question that rate increases and rates were "greatly excessive in terms of cost coverage" in R97-1.

(a) If the correct revenue and volume numbers for Parcel Post had been known by the Postal Service and by the Commission during the R97-1 proceeding, would a 12% increase in rates have been required in order to meet the PRC recommended coverage of 108%? Please explain any affirmative answer.

(b) Would any increase at all have been necessary in order to meet 108% cost coverage? Please explain any affirmative answer.

Response:

(a) No. Nor do I believe that the Postal Service would have proposed or the Commission recommended a cost coverage as low as 108 percent.

(b) I do not know. I am unaware of an estimate of the Test Year Before Rates (1998) volume or cost for Parcel Post. Exhibit 11C of witness Meehan's (USPS-T-11) testimony shows a base year 1998 cost coverage for Parcel Post of 109.9 percent. However, I do not know what would have been forecasted as the TYBR 1998 cost coverage in Docket No. R97-1 had the revised Parcel Post volume and revenue data been available at that time.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES

PSA/USPS-T32-6.

In your response to PSA/USPS-T32-2 (b) you state that you do not have sufficient information to determine whether, had the data collection for Parcel Post been adjusted in time for the R97-1 proceeding, the resulting rates would have been significantly different. Please explain what information it is that you lack in order to make this determination.

Response:

Please refer to my response to PSA/USPS-T32-5(b) and to PSA/USPS-T32-1(d)(ii). I am unaware of any application of the forecasting models *used in that docket* either for forecasting volumes or costs to the revised data. Therefore, I do not know what the *forecast of TYBR or TYAR 1998* Parcel Post volumes, revenues or costs would have been.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES

PSA/USPS-T32-7.

In response to PSA/USPS-T32-2 (b) you state that the pricing 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."

(a) If you are unable to determine whether the 12% rate increase recommended in R97-1 was excessive in order to meet the recommended cost coverage of 108%, then how have you been able to determine whether or not that fact, if true, would be taken into consideration, as you testify it should be, when determining the prices to be recommended in the current proceeding?


(b) Since you refuse to concede that the R97-1 increases were excessive, was it possible for you to take into account an excessive rate increase in R97-1 in determining your prices in the current case?

Response:

- (a) Regardless of whether the rate increase was excessive, it was 12 percent. I took into account the actual increase, not what it would have or could have been.
- (b) I took into consideration that Parcel Post received a rate increase of 12 percent in the most recent rate case.

DECLARATION

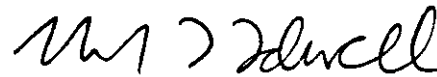
I, Virginia J. Mayes, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


Virginia J. Mayes

Dated: 3-22-00

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 "Michael T. Tidwell", written in a cursive style.

Michael T. Tidwell

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