

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 KIEFER TO  
INTERROGATORIES OF THE ASSOCIATION OF AMERICAN PUBLISHERS  
(AAP/USPS-T37-15-23(a) (in part), 23(b), 24)

The United States Postal Service hereby provides the responses of witness Kiefer to the following interrogatories of the Association of American Publishers: AAP/USPS-T37-15-23(a) (in part), 23(b), 24, filed on March 21, 2000. Interrogatories AAP/USPS-T37-23(a) (in part) and 23(c) were redirected to the Postal Service.

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

  
\_\_\_\_\_  
Scott L. Reiter

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April 4, 2000

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**AAP/USPS-T37-15** Please refer to your response to AAP/USPS-T37-4. In your response you refer to discussions within the Postal Service that "led to the proposal to develop a full range of drop ship discounts and the elimination of the Local rate as a solution to these problems." With respect to this statement:

- (a) Please address whether any consideration was given to phasing in the drop ship discounts for BPM, much in the same manner that such discounts were phased in for the Parcel Post subclass.
- (b) Please provide all documents which pertain to the discussions and the proposal to eliminate the Local rate and to develop the full range of drop ship discounts, including any documents which constitute such proposal.

**RESPONSE**

- (a) I was not a participant in these discussions, but it is my understanding that phasing was not considered.
- (b) It is my understanding that there are no such documents.

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**AAP/USPS-T37-16** Please refer to your response to AAP/USPS-T-37-5. In your response, you state that "the possibility of offering both a Local Rate that was considerably higher than the current Local Rate as well as a lower DDU rate was briefly considered" but that this alternative was rejected. You also state that "no formal studies, reports, data or other evidence describing this or other alternatives exist" that address alternatives to the elimination of the Local zone rates. With respect to your response to AAP/USPS-T-37-5:

- (a) Please describe the extent and substance of all discussions regarding such alternatives.
- (b) Please explain, in further detail, why such alternatives were rejected.
- (c) Please provide all documents which describe or pertain to such alternatives and the rejection of these alternatives.

**RESPONSE**

- (a) I was not at the discussions in which these alternatives were considered, but it is my understanding that the discussions consisted of one brief meeting. During that meeting, it became apparent to the participants that, once a DDU discount was established, the continued existence of a separate Local rate would have no apparent justification or logic. Moreover, participants believed that the rate structure and level for any continuing Local rate would have to be adjusted to reflect the costs imposed by mail entered as Local rate mail better than the ad hoc pricing assumptions used in the past. It was believed that such adjustments would yield a Local rate that was higher than the DDU rate. Maintaining this separate, higher rate for Local rate mail was believed to add unnecessarily to rate complexity and hence it was rejected from further consideration.

- (b) See the response to subpart (a).

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(c) No documents were created.

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**AAP/USPS-T37-17** Please refer to your response to AAP/USPS-T37-6. In your response, you state that "Postal Service finance personnel did review the cost assumptions that underlay the Local rates." You also state that "[t]his review consisted of informational gathering, and produced no report." Please provide all documents that describe the "cost assumptions" and the analysis of those assumptions referred to by your response.

**RESPONSE**

The cost assumptions underlying current Local rates are contained in the testimony and relevant workpapers of USPS witness Adra in Docket No. R97-1 (USPS-T-38). Please refer to Sections I to III of witness Adra's testimony which deal with Bound Printed Matter, and witness Adra's BPM workpapers. In particular, witness Adra's workpapers show that, in developing the rates for Local rate mail, no share of BPM's transportation costs were allocated to Local rate mail. This assumption is inconsistent with the realities of the way Local rate mail is processed by the Postal Service. I did not participate in this review of Local rate cost assumptions, but I understand that no documents were produced as part of the review process.

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**AAP/USPS-T37-18** Please refer to the attachment to your response to AAP/USPS-T37-12. Please provide a complete explanation of the savings and per piece discounts shown in the right hand columns of the attachment.

**RESPONSE**

The column title for the three columns on the right in the attachment contained a typographical error. It should have read "Per Pound" rather than "Per Piece." In reviewing this table, I also discovered another error in the way the per-pound savings for the DSCF and DDU discounts were computed. The values for the per-pound savings in the original attachment were too high, causing the reported pass-through percentages to be too low for these discounts. A corrected version of the table is attached.

The per-pound savings are the difference between the fully marked up costs (cost plus leakages per pound) for the non-drop-shipped pounds in each zone less the fully marked up costs for the discounted pounds in the same zone. The difference between these two figures is the cost savings per pound. The Zones 1&2 costs were used as the reference point for the DSCF and DDU discounts. The per-pound discounts are the differences between the final per-pound rates shown in my workpaper WP-BPM-16. The pass-through per pound is the ratio of the per-pound discount to the per-pound cost savings expressed as a percentage.

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**AAP/USPS-T37-19** Please refer to WP-BPM-1 and WP-BPM-2. Both workpapers show input values used to prepare the BPM rates proposed in this case. With respect to these input values, please confirm that the correct mathematical procedure for eliminating the proposed DSCF and DDU discounts without changing the overall BPM TYAR cost coverage shown by Mr. Kiefer would be as described below. If this procedure is not correct, please provide a full explanation of the correct procedure to be followed for eliminating the proposed DSCF and DDU discounts.

- 1) On WP-BPM-15, under the heading "Presort Bound Printed Matter" at columns (B), (D), (G) and (J), set DSCF and DDU rates and rate adjustments to equal the rates and rate adjustments shown for Zone 1&2.
- 2) Set inputs 13 (c) and 13 (d) to zero.
- 3) Reduce the Cost Coverage Markup Factor (WP-BPM-1, Input (2)) from 117.62% to 115.80% in order to bring the cost coverage to its previous level of 117.6%.

**RESPONSE**

*I have not attempted any calculations to eliminate the DSCF and DDU discounts, so I do not know what the correct mathematical procedure to do so is.*

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**AAP/USPS-T37-20** Please provide any documents that show the derivation of the same test-year after rate revenue and cost coverage for BPM currently proposed by the Postal Service but that retain the existing BPM rate structure.

**RESPONSE**

No such documents exist.



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**AAP/USPS-T37-21** With respect to Single Piece BPM revenue to be recovered in the test year (See WP-BPM-28), please provide any data or estimates regarding the amount of such revenue that will result from Postal Service charges to mailers for BPM returns back to the mailer. Please estimate the portion of those returns that constitute books.

**RESPONSE**

No such data or estimates exist. The Postal Service does not have any data on which to base an estimate of the portion of such returns that are books.

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**AAP/USPS-T37-22** Please provide any mailer makeup requirements that you relied upon in estimating the amount of BPM mail that would qualify for the DBMC, DSCF and DDU discounts.

**RESPONSE**

To estimate of the amounts of mail that would be entered at the various discounted rates, I relied on the results of the BPM Mail Characteristics Study described in the testimony of USPS witness Charles Crum (USPS-T-27). A copy of the results of this survey are presented in Attachment H to his testimony. Mail preparation requirements for the new drop-ship discounts have not yet been determined as of this date.

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**AAP/USPS-T37-23** Please refer to Table 14 found on page 31 of your testimony. With respect to Table 14:

- (a) Please identify the source of the BPM volume data shown in Table 14 of your testimony and identify all alternative sources for BPM volume data that are available to the Postal Service.
- (b) Please update Table 14 to reflect FY 1999 volume figures for BPM.
- (c) Please explain footnote 2 of Table 14 which states that "1998 is recast to account for a Parcel Post reclassification."

**RESPONSE**

- (a) Redirected in part to the United States Postal Service. The BPM volume in Table 14 is derived as follows: volume for years 1972 through 1976 is taken from the Cost and Revenue Analysis (CRA) Report. Volume for years 1977 through 1998 is taken from the Revenue, Pieces and Weight (RPW) Report.
- (b) See attached updated Table 14. The data for 1999 are taken from the RPW report.
- (c) Redirected to the United States Postal Service.

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**AAP/USPS-T37-24** Please provide a complete and detailed explanation describing why proposed rates for Basic Presort BPM mail are increasing from between 21.8% to 25.9%, depending on weight and zone. In responding to this question, please address the following issues:

- (a) Identify, in detail, each factor which contributed to the increase.
- (b) Please justify the need and basis for a 25.9% increase since the last rate case.
- (c) Explain whether each of the factors which contributed to the rate increase existed or was known, at the time of the Postal Service's filing in R97-1.
- (d) Please address whether the Postal Service considered the effect that a 25.9% increase might have on the BPM mailers and the future viability of the BPM subclass.
- (e) Does a 25.9% increase constitute rate shock?

**RESPONSE**

- (a) The following factors contributed to the final rate increases proposed for Basic Presort BPM:

- An increase in BPM unit costs
- A decrease in the markup for BPM
- Allocation of costs between BPM single piece, BPM Basic Presort, and BPM Carrier Route Presort; between BPM pieces and pounds; and between origin entry and destination entry.
- Mitigation of rate increases.

My workpapers WP-BPM-1 to WP-BPM-16 provide and document the mathematical details showing how the rates were developed.

- (b) From the base year of the last rate case to the base year of the present rate case unit costs for BPM as a whole increased by more 40%. A large increase in rates is needed to cover this cost increase. The specific 25.9% percentage increase

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cited in the question resulted from applying the allocation process cited in subpart (a) to the unit cost increase. The specific increase cited in the question is higher than the average cost increase for the subclass as a whole (18.1%). The higher than average increase is justified in part because the Postal Service is proposing to de-average rates, offering lower rates to those mailers who enter BPM at DBMCs, DSCFs or DDUs. In consequence, mailers who do not drop ship their mail to destination BMCs, SCFs or DUs will see higher than average rate increases.

- (c) The unit cost increases between the two base years was not known. The R2000-1 markup percentage was not known. In many aspects the rate design methodology used in the current rate case to allocate the costs among the various components is similar to that used by the Postal Service in R97-1, however there are some significant differences. Chief among these differences is the need to accommodate the new drop-ship discounts proposed in R2000-1, as well as the significant modifications to the preliminary rates employed to mitigate the "push-up" consequences of the rate de-averaging proposed in R2000-1.
- (d) Yes. The Postal Service considers the 25.9% increase (which is the maximum increase seen by Basic Presort mailers) to be a large increase. As I pointed out in my testimony, we considered the percentage increases inherent in the preliminary rates, before any mitigation efforts (Table 15) to be too high to ask mailers to pay. For this reason we engaged in significant mitigation efforts which brought the highest percentage increase required of some Basic Presort mailers

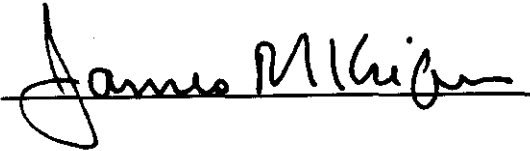
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down to 25.9% or less. At the same time we attempted to offer drop-ship mailers, who account for the majority of BPM volumes, a reasonable pass-through of estimated drop-shipment cost savings. Since the Postal Service expects a majority of BPM mail will take advantage of one or another of the new drop-ship discounts, maintaining a viable subclass argues for keeping the drop-shipped mailers' rate increases reasonably low, given the underlying cost increases. We considered both the rate increases to the non-drop-shippers (including those mailing in the 25.9% rate cells), as well as the rate increases to the drop-shippers, when we put together a rate proposal that reasonably balances the present and future needs of the BPM subclass as well impacts on BPM mailers.

- (e) The higher the overall percentage rate increase, the greater is the likelihood that some mailers will perceive rate shock. The Postal Service mitigated the rate increases as much as it reasonably could to lower the potential for rate shock to all BPM mailers. Please see my response to subpart (d), above.

**DECLARATION**

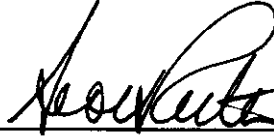
I, James M. Kiefer, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

A handwritten signature in black ink that reads "James M. Kiefer". The signature is written in a cursive style and is positioned above a horizontal line.

Dated: 4/4/00

## 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.



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Scott L. Reiter

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April 4, 2000