

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

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PLUNKETT TO INTERROGATORIES OF AMAZON.COM, INC.
(AMZ/USPS-T36-1-14)

The United States Postal Service hereby provides the responses of witness Plunkett to the following interrogatories of Amazon.com, Inc.: AMZ/USPS-T36-1-12, filed on March 23, 2000.

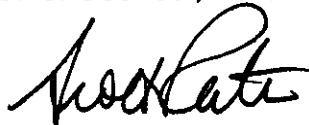
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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April 7, 2000

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT TO
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AMZ/USPS-T36-1.

Please refer to Attachment I to your testimony, pages 1-6. The note that is below the rate table on each page refers to workpapers from USPS-T-37 (Kiefer). Please confirm that you are relying on witness Keifer's workpapers. If you do not confirm, please supply the correct reference.

AMZ/USPS-T36-1 Response.

Not confirmed. See attachment.

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Attachment to response to AMZ/USPS-T36-1.

Corrected notes to USPS-T-36 Attachment I:

Page 1:

Rate for each cell calculated by subtracting line 11, Attachment H from inter BMC per piece rate element (LR-62, Att H, cell 034) to estimate per piece portion of rates. A markup factor of 1.21 was applied to the sum of the appropriate transportation cost from Attachment G and the product of the 2-cent per-pound nontransportation weight-related handling charge multiplied by the appropriate postage weight, and the contingency was added. The result was added to the per-piece portion, and the rate was rounded to the nearest whole cent.

Page 2

Rate for each cell calculated by applying the markup factor of 1.21 to the sum of the appropriate transportation cost from Attachment G and the product of the 2-cent per-pound nontransportation weight-related handling charge multiplied by the appropriate postage weight, and the contingency. was added. The result was added to the per-piece portion from LR62-Att H, cell O34 and the rate was rounded to the nearest whole cent.

Page 3

Rate for each cell calculated by applying the markup factor of 1.21 to the sum of the appropriate transportation cost from Attachment G and the product of the 2-cent per-pound nontransportation weight-related handling charge multiplied by the appropriate postage weight, and the contingency was added. For each individual rate category, the relevant discount factor from attachment H was subtracted. The result was added to the per-piece portion from LR62-Att H, cell O34 and the rate was rounded to the nearest whole cent.

Page 4

Preliminary rates from Attachment I, page 1, constrained such that no rate went up more than 10 percent relative to existing rates , and no rate exceeds the Priority Mail rate for the same weight less 5 cents. In addition, rates were constrained not to decline by more than 2 percent relative to existing rates, subject to rounding.

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Page 5

Preliminary rates from Attachment I, page 1, constrained such that no rate went up more than 10 percent relative to existing rates, and no rate exceeded the comparable Priority Mail rate less 5 cents. Rates are rounded to the nearest whole cent.

Page 6

Preliminary rates from Attachment I, page 3, constrained such that no rate went up more than 10 percent relative to existing rates, and no rate exceeded the comparable Priority Mail rate shown at, less 5 cents. Rates were also constrained such that no rate could decline by more than 2 percent relative to existing rates. All rates rounded to nearest whole cent.

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AMZ/USPS-T36-2.

Please refer to Attachment I, page 6.

- a. Please confirm that the proposed DSCF rate for a 30-pound package is \$3.67.
- b. Please confirm that the Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services (January 12, 2000), Attachment B, page 41, shows a proposed DSCF rate of \$3.94 for a 30-pound parcel.
- c. Please resolve the above-cited differences.

AMZ/USPS-T36-2 Response

- a. Confirmed.
- b. Confirmed.
- c. The discrepancy apparently arose as rate tables were scanned into electronic form for document production as characters were inadvertently changed from 67 to 94.

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AMZ/USPS-T36-3.

Please refer to Attachment I, page 6.

- a. Please confirm that you propose DSCF rates for 36- and 37-pound parcels of \$3.94 and \$3.91, respectively.
- b. Please confirm that these same rates are shown in the Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services (January 12, 2000).
- c. Please explain why charging a higher rate for a 36-pound parcel than for a 37-pound parcel is not anomalous.

AMZ/USPS-T36-3 Response.

- a. Confirmed.
- b. Confirmed.
- c. The higher rate for the 36 pound rate is an anomaly, which apparently arises as rates in higher weights for DSCF parcels become driven more by per pound costs than by per piece costs. This anomaly could have been smoothed by manual adjustment of the rates. See also my response to UPS/USPS-T36-9.

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AMZ/USPS-T36-4.

Please refer to Attachment H to your testimony. For each dollar amount shown in lines 6-35, please indicate whether it is a per piece or per pound amount.

AMZ/USPS-T36-4 Response.

These are per piece amounts.

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AMZ/USPS-T36-5.

Please refer to Attachment H to your testimony.

- a. Lines 25 and 34 reference USPS-T-27. Please provide precise citations (i.e., page and line number or table) where each referenced datum can be located.
- b. At line 34, please explain the entry "5.798" under the passthrough column.
- c. Is this a percentage? If not, what is it?
- d. Line 28 references USPS-T-28. Please provide precise citations (i.e., page and line number or table) where each referenced datum can be located. Lines 6, 8, 10, 12, 14, 18, 20, 22, 24, 29, 31, and 33 reference USPS-T-26. Please provide precise citations (i.e., page and line number or table) where each datum can be located.

AMZ/USPS-T36-5 Response.

a & d. Citations are as follows

<u>Att H Line Number</u>	<u>Reference</u>
6	USPS-T-26, Attachment C, Page 1, line 2
8	USPS-T-26, Attachment A, Table 3, Row 5
10	USPS-T-26, Attachment A, Table 3, Row 6
12	USPS-T-26, Attachment B, Page 1, Row 1
14	USPS-T-26, Attachment C, Page 1, line 1
18	USPS-T-26, Attachment C, Page 1, line 9
20	USPS-T-26, Attachment C, Page 1, line 5
22	USPS-T-26, Attachment C, Page 1, line 11
24	USPS-T-26, Attachment A, Table 3, Row 9
25	USPS-T-26, Attachment A, Table 3, Row 11
29	USPS-T-26, Attachment A, Table 3, Row 7
31	USPS-T-26, Attachment A, Table 3, Row 8

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33 USPS-T-26, Attachment I, Page 1, line 9

34 Line 35 less USPS-T-26, Attachment J, Page 1, Row

5

b & c. See my response to PSA/USPS-T36-1. This number is not used in rate design

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AMZ/USPS-T36-6.

Please refer to Attachment G, page 5.

- a. Please provide a specific citation (i.e., page and line number or table) to USPS-T-26 for the cost/cubic foot.
- b. The note states that "cube per piece by weight for intra-BMC" is from USPS-T-16 (Degen), Exhibit B. Please provide a copy of witness Degen's Exhibit B, or correct the citation.
- c. Please confirm the citation to USPS-T-37 (Kiefer), WP I.E.

AMZ/USPS-T36-6

- a. Destination BMC transportation costs per foot are from USPS-T-26,
Attachment N, column 11..

b-c. These notes should read as follows:

DBMC cube per piece from Attachment F
Cost/cubic foot from USPS-T-26, Attachment N, page 5, row 12

Discount per piece calculated by subtracting the DDU transportation cost per piece from transportation cost per piece for Local intra-BMC Attachment G, pages 1 & 2, and rounding to nearest whole cent.

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AMZ/USPS-T36-7.

Please confirm that current and proposed Parcel Post DDU Destination Entry rates are identical. If you do not confirm, please identify where they differ.

AMZ/USPS-T36-7 Response.

Confirmed.

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AMZ/USPS-T36-8.

- a. Please confirm that your Parcel Post DDU Destination Entry preliminary rates (Attachment I, p. 3) are \$0.12 to \$0.36 less than your proposed rates. If you do not confirm, please identify where this is not correct and supply the correct amount(s).
- b. Please confirm that your Parcel Post DDU preliminary rates are 10 to 17 percent lower than your proposed rates. If you do not confirm, please identify where this is not correct and supply the correct percent(s).
- c. Please refer to pages 13-14 of your testimony, where you state that for the newest rate categories, rate changes were restricted so that no rate could change by more than 2 percent in either direction. Please identify the circumstances under which you would have reduced your final proposed rates to reflect your lower Parcel Post DDU Destination Entry preliminary rates.
- d. In your opinion, are the underlying data and cost modeling for Parcel Post rate design in this docket superior, inferior, or essentially identical to the underlying data and cost modeling used in Docket No. R97-1? Please explain your answer.
- e. Why did you formulate preliminary rates for Parcel Post DDU Destination Entry? What function did they serve?

AMZ/USPS-T36-8 Response.

- a. Confirmed.
- b. Confirmed.
- c. As indicated in my testimony my reason for tightly controlling rates in the DDU and DSCF categories was the dearth of empirical data on which to base a significant change in rates. While this refers to cost data, it is also meant to refer to volume information from which to derive reliable elasticity estimates.
- d. My understanding is that the basic approach to costing has changed little since the previous docket. As is indicated in my response to part c, the dearth of empirical data supporting DDU and DSCF rates is a source of concern, however, the same lack of data existed in Docket No. R97-1.

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- e. The preliminary rates perform two main functions; to establish the cost basis for rates within a given category, and to provide a preliminary estimate of the magnitude of price changes to which underlying cost data give rise prior to application of other statutory ratemaking criteria.

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AMZ/USPS-T36-9.

- a. Please confirm that your proposed rates for DSCF Destination Delivery Parcel Post for mailpieces over 36 pounds correspond to your preliminary rates set forth at Attachment I, page 3. If you do not confirm, please identify where they differ.
- b. Please explain why your proposed rates reflect current rates for DSCF Destination Delivery Parcel Post for mailpieces weighing from 2 to 36 pounds, and preliminary rates for higher weight rates.

AMZ/USPS-T36-9 Response.

- a. Confirmed.
- b. During the final stages of rate design, in order to conform to the revenue/rate level requirement for Parcel Post, I imposed tighter constraints on lower weight increments.

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AMZ/USPS-T36-10.

Please refer to Attachment G, pages 4 and 5. Why are DDU transportation discounts per piece calculated from transportation costs per piece from local intra-BMC, while DSCF transportation costs are calculated from DBMC transportation costs per piece in zones I&2?

AMZ/USPS-T36-10 Response.

In both cases, benchmarks were chosen based on the approximate distances traveled, similarity of origination and destination facility, and the types of equipment considered likely to be used on such trips.

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AMZ/USPS-T36-11.

- a. Please confirm that the references to USPS-T-37 in the notes to the tables in your Attachments refer to Docket No. R97-1, USPS-T-37. If you do not confirm, please provide a specific citation to witness Kiefer's testimony in this docket.
- b. Please confirm that the preliminary rates for DDU Parcel Post cannot be calculated following the procedure outlined at the bottom of Attachment I, page 3, and provide a detailed explanation of how preliminary rates for DDU Parcel Post may be calculated.

AMZ/USPS-T36-11 Response.

- a. Not confirmed. Prior to the final assignment of witness numbers in this docket, USPS-T-37 was used as a "working designation" during preparation of workpapers. These references are internal to the parcel post workpapers. See my response to AMZ/USPS-T36-6.
- b. Preliminary DDU Parcel Post rates are calculated by subtracting the appropriate discounts (Attachment H, lines 7, 11, and 23) from the benchmark per piece charge (see my response to AMZN/USPS-T36-13). Transportation charges, which are shown in Attachment G, page 5 are added based on weight increment, and the two cent per pound weight related non-transportation cost is added, along with a contingency. In order to produce rates that are consistent with proposed rate levels, a markup of 1.21 is applied to the result.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT TO
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AMZ/USPS-T36-12.

- a. Why does the DDU transportation cost per cubic foot increase from \$0.0660 in Docket No. R97-1 (USPS-T-37, Docket No. R97-1, WP I.E., p. II), to \$0.0908 in this docket (USPS-T-36, Attachment G, p. 5), an increase of 37.6 percent?
- b. Why does the DSCF transportation cost per cubic foot increase from \$0.3997 in Docket No. R97-1 (USPS-T-37, Docket No. R97-1, WP I.E., p. 9), to \$0.5362 in this docket (USPS-T-36, Attachment G, p. 4), an increase of 34.2 percent?

AMZ/USPS-T36-12 Response.

Redirected to witness Eggleston.

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AMZ/USPS-T36-13.

Has a Parcel Post per piece rate element been calculated in this docket, corresponding to USPS-T-37, WI' 1.1, page 2, in Docket No. R97-I? If so, please provide a reference to where this datum can be found.

AMZ/USPS-T36-13 Response.

See LR-62, Attachment H, file PPAtd-J.xls, cell O34.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT TO
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AMZ/USPS-T36-14.

For TY 2001, what is the coverage on parcels entered at the DDU and DSCF rates?

AMZ/USPS-T36-14 Response,

As cost coverage is typically calculated at the subclass level, I did not incorporate analysis of implied coverages within rate categories into parcel post rate design.

My estimate of the implied cost coverage of DDU parcel post TYAR is approximately 113 percent.

DECLARATION


I, Michael K. Plunkett, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Michael K. Plunkett

Dated: 2/7/00

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 "Scott L. Reiter", written over a horizontal line.

Scott L. Reiter

475 L'Enfant Plaza West, S.W.
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April 7, 2000