

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 KIEFER TO  
INTERROGATORIES OF ASSOCIATION FOR POSTAL COMMERCE  
(POSTCOM//USPS-T37-2 & 3)

The United States Postal Service hereby provides the responses of witness Kiefer to the following interrogatories of the Association for Postal Commerce: PostCom/USPS-T37-2 & 3, filed on March 16, 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



Scott L. Reiter

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April 26, 2000

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KIEFER  
TO INTERROGATORIES OF ASSOCIATION FOR POSTAL COMMERCE**

**PostCom/USPS-T-37-2.** Please refer to pages 38-39 of your testimony, where you state: "Aside from mitigating rate shock, there are several other policy reasons why some of these preliminary rate elements should be adjusted. First, the jump in Basic Presort BPM rates shown in Table 15 is due to a significant degree to de-averaging the presort rate into drop-shipped and non-drop-shipped (that is, Basic Presort) components. Since there are no drop-ship discount rates in effect at present, it was necessary to develop proxy measures for the costs and cost savings generated by drop-shipping Bound Printed Matter. Prudence argues for a conservative implementation of these discounts, passing through only a portion of the estimated cost savings in this rate proceeding, in case the proxy cost savings turn out to be overly optimistic." Please also refer to lines 5-7 on page 15 of USPS-T-27, which states, "To estimate this [destinating SCF entered BPM] savings, I use the basic principles included in the Standard Mail (B)/Parcel Post mail processing models introduced in Docket No. R97-1 and testified to by witness Eggleston in this case."

(a) Please confirm that a DBMC discount has been available for Standard (B) Parcel Post parcels since the implementation of Docket No. R90-1 rates.

(b) Please confirm that the Postal Service is proposing to pass through 100 percent of the DBMC cost savings for Standard (B) Parcel Post in this case.

(c) Please confirm that DDU and DSCF discounts have been available for Standard (B) Parcel Post mail pieces since the implementation of Docket No. R97-1 rates.

(d) Please confirm that the Postal Service is proposing to pass through 100 percent of the DDU and DSCF cost savings for Standard (B) Parcel Post in this case.

(e) Do you have any reason to believe that the Standard (B) Parcel Post mail processing models presented by witness Eggleston are unreasonable models of Standard (B) Parcel Post mail processing costs? If yes, please explain your answer.

(f) Please confirm that the mail flow for Standard (B) Bound Printed Matter parcels is similar to the mail flow of Standard (B) Parcel Post parcels with the same entry, weight, presort, and machinability characteristics. If not confirmed, please explain.

(g) Did witness Crum use the same general method for determining BPM DBMC cost savings as witness Eggleston used to determine Parcel Post DBMC cost savings. If not, please explain all differences.

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**RESPONSE**

- (a) Confirmed.
- (b) Confirmed, for DBMC savings; however, it is my understanding that in this case the Postal Service is proposing to extend the non-machinable surcharge to DBMC parcels and is proposing to limit the surcharge by passing through only 35% of costs.
- (c) Confirmed.
- (d) Confirmed, although see the qualifications to this interpretation contained in witness Plunkett's response to UPS/USPS-T-36-6.
- (e) No.
- (f) Confirmed for Standard B BPM parcels and Standard B Parcel Post parcels having the same entry, weight, presort and machinability characteristics. It is my understanding, however, that these two subclasses as a whole differ significantly with respect to these and other characteristics that influence costs.
- (g) This is my understanding.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KIEFER  
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**PostCom/USPS-T-37-3.** Please refer to pages 38-39 of your testimony, where you state: "Aside from mitigating rate shock, there are several other policy reasons why some of these preliminary rate elements should be adjusted.

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Second, the per-piece cost savings estimated by Witness Crum for DBMC Bound Printed Matter are based on the assumption that BMC mail processing costs are nearly 100% volume variable. While the Postal Service is using this assumption for calculating attributable costs in this docket, it is uncertain that mail drop-shipped to BMCs will avoid all of these costs, also arguing for a more conservative pass-through strategy."

(a) Please list all instances in this case where the variability estimates the Postal Service uses for rate design are different than the variability estimates it uses for costing.

(b) Please explain all reasons for using different variability estimates for rate design than for costing.

(c) If a variability estimate is accurate for costing, is it not also accurate for rate design? If not, please explain your reasoning.

**RESPONSE**

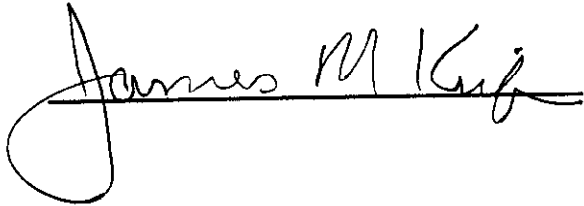
(a) I do not know of any instances where this has occurred, including in my own rate design. My testimony mentions the volume variability issue only within the context of identifying factors that were taken into consideration in judging whether to propose a full 100% pass-through of estimated BMC mail processing cost savings.

(b) I have not used different variability estimates for rate design than those that were used for costing.

(c) I have not investigated the variability issue and so am unable to express an opinion on it. I note that the Postal Service's views on this issue are presented in witness Bozzo's testimony (USPS-T-15, at pp.135-136).

## 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, reading "James M. Kiefer". The signature is written in a cursive style with a large, looping initial "J" that extends below the baseline. The name "James M. Kiefer" is written in a more formal, slightly cursive script above the baseline.

Dated: 4-26-00

## 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 dark ink, appearing to read "Scott L. Reiter", is written over a horizontal line.

Scott L. Reiter

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