

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

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS JAMES M. KIEFER TO INTERROGATORIES OF
THE PARCEL SHIPPERS ASSOCIATION
(PSA/USPS-T33-1-4)

The United States Postal Service hereby files the response of witness James L. Kiefer to the following interrogatories of the Parcel Shippers Association: PSA/USPS-T33-1-4, filed on October 25, 2001. Interrogatory PSA/USPS-T33-5 was redirected to witness Patelunas.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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PSA/USPS-T33-1. Please refer to USPS-LR-J-106, PPWP.xls, worksheets Proposed Priority Mail Rates and Preliminary Inter-BMC Rates.

- (a) Please confirm that, in many rate cells, proposed Priority Mail rates are less than preliminary inter-BMC Parcel Post rates. If not confirmed, please explain fully.
- (b) Please explain in detail why any proposed Priority Mail rates are less than the corresponding preliminary inter-BMC Parcel Post rate.
- (c) Are there any rate cells where the unit cost for a Priority Mail piece is less than the unit cost for an inter-BMC Parcel Post piece? If so, please explain fully why the unit cost for Priority Mail is less than the unit cost for inter-BMC Parcel Post.
- (d) How many inter-BMC Parcel Post pieces are in rate cells where the proposed Priority Mail rate is less than the preliminary inter-BMC Parcel Post rate?
- (e) Please confirm that your rate design constrains the rate for inter-BMC Parcel Post pieces to be no greater than the proposed Priority Mail rate less ten cents. If not confirmed, please explain fully.
- (f) If you eliminated the Priority Mail constraint, do you believe that some inter-BMC Parcel Post pieces would migrate to Priority mail? If so, how many inter-BMC pieces would you expect to migrate? If not, why not?

RESPONSE

- (a) Confirmed.
- (b) One or more of a number of factors could have contributed to the situation where some proposed Priority Mail rates are lower than preliminary Inter-BMC Parcel Post rates. The first is the most obvious: that what is being compared are final Priority Mail rates, which include all rate mitigation adjustments, and *preliminary* Parcel Post rates, which exclude any adjustments to address anomalies that might have arisen during the rate design process. Another factor that potentially might have led to this situation are the different cost allocation algorithms used in the Priority Mail and Parcel Post rate design processes. It is also critical to note the fact that Inter-BMC is

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a de-averaged, high-cost component of Parcel Post, while Priority Mail is a cost-averaged product.

- (c) Based on cost information I have received from witness Scherer, I have found some rate cells where the unit cost allocated to Priority Mail is less than the unit cost allocated to Inter-BMC Parcel Post. I do not know why this situation has occurred, but potential explanations include the following factors: (i) the different composition of the Priority Mail and Inter-BMC Parcel Post mail mixes; (ii) the fact that Priority Mail's allocated costs are the average costs for the whole product, whereas Inter-BMC allocated costs are the de-averaged costs for the highest-cost component of Parcel Post; (iii) the fact that Priority Mail and Parcel Post use different algorithms to allocate costs to individual rate cells. I do not know what weight each of these contributing factors may have had in producing the observed outcome.
- (d) Excluding OMAS pieces, 20,571,255 pieces, based on TYBR volumes.
- (e) That is the intent of the Priority Mail constraint.
- (f) It is likely that some Inter-BMC Parcel Post pieces would migrate to Priority Mail. Factors in addition to the constrained Inter-BMC rates (for example, the numbers of pieces affected by discounts and surcharges and the sizes of these discounts and surcharges) affect the final prices paid by Inter-BMC mailers, and so are likely to have an impact on migration decisions. The impact of these other factors cannot be determined based on available data, so I cannot determine how many pieces would migrate if the Priority Mail constraint were eliminated.

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PSA/USPS-T33-2. Please refer to USPS-LR-J-106, PPWP.xls, worksheet TYAR Revenue Summary.

- (a) Please confirm that TYAR inter-BMC Parcel Post revenue is \$243 million. If not confirmed, what is it?
- (b) Please confirm that TYAR intra-BMC Parcel Post revenue is \$92 million. If not confirmed, what is it?
- (c) Please confirm that TYAR Parcel Select revenue is \$847 million. If not confirmed, what is it?
- (d) What is the total TYAR inter-BMC Parcel Post cost projected to be? Please also describe how you calculated this figure.
- (e) What is the total TYAR intra-BMC Parcel Post cost projected to be? Please also describe how you calculated this figure.
- (f) What is the total TYAR Parcel Select cost projected to be? Please also describe how you calculated this figure.
- (g) Please provide FY 2000 cost coverages individually for inter-BMC Parcel Post, intra-BMC Parcel Post, and Parcel Select and describe how you calculated each figure.

RESPONSE

- (a) Not confirmed. Inter-BMC adjusted revenue (excluding OMAS, combination enclosure and pickup revenue) is estimated to be \$241 million.
- (b) Intra-BMC adjusted revenue (exclusive of Alaska Bypass, combination enclosure, and pickup revenue) is estimated to be \$92 million.
- (c) Confirmed.
- (d) The estimated TYAR cost for Inter-BMC Parcel Post is \$239 million. I developed this estimate by multiplying the TYAR volume for Inter-BMC Parcel Post by the sum of the per-piece and per-pound charges (net of markup for contingency and institutional costs). I then adjusted these costs to reflect cost savings for barcoding, BMC presort and OBMC entry of some pieces, and to reflect additional costs due to

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nonmachinability of some pieces. Finally I inflated these costs by a percentage that reflected the inclusion of OMAS pieces in the overall Inter-BMC cost calculation.

- (e) The estimated TYAR cost for Intra-BMC Parcel Post is \$93 million. I developed this estimate by multiplying the TYAR volume for Intra-BMC Parcel Post by the sum of the per-piece and per-pound charges (net of markup for contingency and institutional costs) less the per-piece savings for Intra-BMC pieces relative to Inter-BMC pieces (Input [20b] on my workpaper WP-PP-1). I then adjusted these costs to reflect cost savings for barcoding of some pieces, and to reflect additional costs due to nonmachinability of some pieces. Finally I inflated these costs by a percentage that reflected the inclusion of Alaska Bypass pieces in the overall Intra-BMC cost calculation.
- (f) The estimated TYAR cost for Parcel Select Parcel Post is \$678 million. I developed this estimate by subtracting the Inter-BMC and Intra-BMC total cost estimates from the total Parcel Post TYAR cost.
- (g) No cost coverages were developed using FY 2000 data.

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PSA/USPS-T33-3. Please refer to pages 20 - 21 of your testimony where you discuss rate change constraints.

- (a) Please confirm that the sole reason you imposed rate change constraints was to mitigate the impact of the rate increase on individual mailers. If you do not confirm, please explain fully.
- (b) Please explain in detail why you selected the rate change constraints that you did.

RESPONSE

- (a) Not confirmed if the term “individual mailers” refers to specific customers. The purpose of the rate change constraints described in Section E.1 on pages 20 and 21 of my testimony was to mitigate the impacts of the rate increases on all of our Parcel Post customers. While the benefits of rate increase mitigation accrue to both commercial and retail customers, the retail rates (Intra-BMC and Inter-BMC) experience some of the largest rate mitigation, especially in the heavily used rate cells.
- (b) The rate change constraints selected represent the considered judgment of the Postal Service as to the maximum acceptable degree to which rates could change within the context of the present rate case. In making this selection, many factors were taken into consideration including, costs and changes in costs, likely impacts on mailers, current rate levels and rate relationships, the rate levels and rate relationships that would emerge as the result of rate mitigation efforts, market signals sent by various prices, and Postal Service business considerations.

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PSA/USPS-T33-4. Please refer to USPS-LR-J-106, PPWP.xls, worksheets Constrained Inter-BMC Rates, Constrained Intra-BMC Rates, and Constrained Parcel Select Rates.

- (a) Have you calculated the effective passthrough of DBMC cost avoidances that underlies your proposed rates? If so, please provide your estimate and explain your calculations.
- (b) Have you calculated the effective passthrough of DSCF cost avoidances that underlies your proposed rates? If so, please provide your estimate and explain your calculations.
- (c) Have you calculated the effective passthrough of DDU cost avoidances that underlies your proposed rates? If so, please provide your estimate and explain your calculations.

RESPONSE

- (a) This has not been calculated.
- (b) This has not been calculated.
- (c) This has not been calculated.

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.

Scott L. Reiter

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