

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, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS MAYES TO INTERROGATORIES OF
UNITED PARCEL SERVICE
(UPS/USPS-T37-1-13)

The United States Postal Service hereby provides responses of witness Mayes to the following interrogatories of United Parcel Service: UPS/USPS-T37-1-10, filed on July 23; UPS/USPS-T37-11-12, filed on July 24; and UPS/USPS-T37-13, filed on July 28, 1997

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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August 6, 1997

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-1. Refer to lines 10-15 on page 5 of USPS-T-37.

- (a) Confirm separately that some Parcel Post volume is already being entered (i) at origin BMCs and (ii) at destination SCFs. If confirmed, provide all reasons why you believe mailers are now entering parcels at origin BMCs and at destination SCFs in the absence of a rate discount.
- (b) Confirm that some Parcel Post volume is already being prebarcoded by mailers in the absence of a prebarcode discount. If confirmed, provide all reasons why some mailers are now prebarcoding their parcels in the absence of a rate discount.
- (c) Confirm that some Parcel Post volume is already being presorted to BMCs by mailers. If confirmed, provide all reasons why some mailers are already presorting parcels to BMCs.
- (d) Provide separately the volume of Parcel Post that is now (i.e., for the most recent year for which data is available):
 - (i) being entered by the mailer at the origin BMC;
 - (ii) being entered by the mailer at the destination SCF;
 - (iii) being prebarcoded by the mailer;
 - (iv) being presorted to BMCs by the mailer.

Response:

- (a) Confirmed. Please refer to my testimony at page 9, lines 8-11. I believe that the non-rate reasons given for use of DBMC would also apply to a greater or lesser extent to entry at the origin BMC and the destination SCF.
- (b) Confirmed. Some mailers who prebarcode their parcels have told me that they do so because they believe that the presence of a barcode allows for faster and more accurate processing of their parcels. They also believe that they are more likely to print an accurate barcode on their parcels, thus avoiding potential errors in keying by the postal employee.
- (c) Confirmed. It is my understanding that by presorting to the destination BMC, the mailer would expect this mail to be crossdocked at the origin BMC, rather

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than sorted. This could save some time at the origin BMC, as well as minimize potential missorting or damage, as these parcels would bypass the parcel sorting machine at the origin BMC. In addition, if the container is maintained intact through to the destination BMC, there would be a smaller window surrounding the delivery dates for the pieces contained therein. This could be important when a mailer is sending more than one parcel to the same addressee, or for some other reason, desires that the parcels be delivered within a narrow timeframe.

(d) Please refer to my workpaper WP I.F., page 1.

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UPS/USPS-T37-2. Refer to page 10, lines 3-4, of USPS-T-37.

- (a) What percentage of Parcel Post parcels skip the destination SCF and go directly to the AO from the BMC?
- (b) Do you agree that parcels that otherwise would go directly to the AO from the BMC would, if dropshipped at the destination SCF, incur additional processing and transportation costs due to the additional handling at the SCF?

Response:

- (a) It is my understanding that 12 percent of Parcel Post parcels bypass the destination SCF and travel from the BMC directly to the AO. This figure is shown at USPS-T-28, Exhibit G, page 2.
- (b) I do not agree that this is necessarily true. All parcels entered at the DSCF rates must be presorted to the five-digit level. Depending on the mix of pieces and the relative locations of the facilities, additional processing or transportation costs might be incurred. Additionally, Witness Crum assumes in his testimony that DSCF will not be available at SCFs bypassed by direct transportation from the BMC to the AO. See USPS-T-28, page 5, lines 27-29.

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UPS/USPS-T37-3. Refer to lines 13-23 of page 10 of USPS-T-37.

- (a) What is the Base Year volume of Parcel Post that was dropshipped to a DDU? Provide all supporting documentation.
- (b) What is the projected Test Year Before Rates volume of Parcel Post that will be dropshipped to a DDU? Provide all supporting documentation.
- (c) What is the projected Test Year After Rates volume of Parcel Post that will be dropshipped to a DDU? Provide all supporting documentation.

Response:

- (a) As noted in the source note at the bottom of USPS-T-37, WP I.A., page 23, there were 930,969 pieces of Parcel Post entered as Local zone pieces in mailings with 50 or more pieces destinating in the Local zone in FY 1996. This figure would represent an upper limit on the number of pieces entered as DDU pieces. This is because pieces may be entered at any of the delivery units within a Local service area and qualify for the Local rate, whereas to qualify as DDU mail, the same pieces would need to be dropped at the specific offices from which the carriers deliver the mail.
- (b) Please refer to USPS-T-37, WP I.A., page 23.
- (c) The TYBR estimation of DDU volume from USPS-T-37, WP I.A., page 23 was multiplied by the ratio of TYAR intra-BMC volume to TYBR intra-BMC volume from USPS-T-37, WP II.A., page 1 to derive an estimated TYAR DDU volume of 844,929 pieces which underlies the estimated revenue leakage associated with DDU on page 1 of USPS-T-37, WP II.C. at line (22).

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UPS/USPS-T37-4. Refer to page 16, lines 15-17, of USPS-T-37. Provide all studies and analyses that support that Parcel post pieces weighing less than 15 pounds but measuring more than 84 inches in combined length and girth have costs that are equal or substantially equal to those of the typical 15-pound Parcel Post piece.

Response:

I am aware of no studies which show that the costs of pieces weighing less than 15 pounds but with combined length and girth exceeding 84 inches are equal to or substantially equal to the costs of the typical 15-pound pieces. In fact, the data available suggests that the costs of the typical 15-pound pieces may be lower than the costs associated with the pieces of combined length and girth over 84 inches but weighing less than 15 pounds. This may be confirmed by comparing the average cubic feet per piece for pieces under 15 pounds but with combined length and girth over 84 inches, calculated as described in my response to UPS/USPS-T38-8, to the average cubic feet for the 15-pound pieces as shown in my workpaper WP I.E., page 1 to determine the comparative cube utilization and thus, transportation costs, for any given zone.

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UPS/USPS-T37-5. Refer to page 17, lines 16-19, through page 18, lines 1-2, of USPS-T-37. If the non-machinable surcharge is intended to cover cost differences in mail processing, why shouldn't there be a transportation cost surcharge for low density pieces based on the transportation costs derived by Witness Hatfield, instead of applying a balloon rate?

Response:

In essence, the balloon rate *is* a transportation cost surcharge, substituting the transportation costs associated with the cube of the referenced 15-pound rate rather than the average cube associated with the actual weight of the piece in the rate design. Refer to the footnotes to my workpaper WP I.G., pages 19-21. A transportation surcharge more directly targeting the cube of the individual piece would be a more accurate means by which to recover the transportation cost on a piece-by-piece basis, but would be difficult to administer. As noted on page 16 of my testimony, the Postal Service does not have a viable dimension-based pricing structure at this time.

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UPS/USPS-T37-6. Refer to page 19, lines 8-17, of USPS-T-37.

- (a) Confirm that parcels exceeding 108 inches in combined length and girth will have greater cubic feet per piece on average than the average 70-pound Parcel Post piece.
- (b) Confirm that charging parcels which exceed 108 inches in combined length and girth the same rate as a 70-pound piece that does not exceed 108 inches in combined length and girth will not cover those costs of transporting these less dense pieces that exceed the cost of transporting a 70-pound piece that does not exceed 108 inches in length and girth combined. If confirmed, why isn't an additional surcharge above the 70-pound rate applied to these parcels? If not confirmed, explain in detail.

Response:

(a) Confirmed.

(b) To the extent that I understand your statement to say that the applicable rates for 70-pound parcels not exceeding 108 inches in combined length and girth will not cover the costs of transporting pieces with combined length and girth exceeding 108 inches, the statement is confirmed. The 70-pound rate was chosen as a compromise between rates that strictly mapped the estimated costs for such pieces and the need to satisfy customers' desires to have the Postal Service accept larger parcels (and to do so at a price that would not result in zero volume above 108 inches), so that data garnered from actual experience with such pieces would be available in the future to make further decisions on the appropriate charges for pieces over 108 inches in combined length and girth.

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UPS/USPS-T37-7. Refer to page 20, lines 10-12, of USPS-T-37.

- (a) Why is the Postal Service not proposing a non-machinable surcharge for intra-BMC and DBMC "at this time"?
- (b) Is a non-machinable surcharge for intra-BMC and DBMC planned for some future time? Please explain.
- (c) Do you agree that non-machinable intra-BMC parcels are more expensive to process than machinable intra-BMC parcels?
- (d) Do you agree that non-machinable DBMC parcels are more expensive to process than machinable DBMC parcels?
- (e) Do you agree that non-machinable DSCF parcels are more expensive to process than machinable DSCF parcels?

Response:

- (a) It is my understanding that postal management did not believe that such surcharges were warranted at this time, given the lack of support among Parcel Post customers, the Commission's reluctance to institute a nonmachinable surcharge on intra-BMC parcels in Docket No. R80-1, and the already substantial increases imposed on many intra-BMC and DBMC rate cells before the institution of such a surcharge.
- (b) I am unaware of any plans on the part of the Postal Service to propose surcharges for nonmachinable intra-BMC and DBMC pieces.
- (c) Yes, for those that are processed at bulk mail centers. Please refer to the testimony of Postal Service witness Daniel, USPS-T-29, particularly Tables 2 and 3 at pages 18 and 19, and Exhibit 29E, and Appendix V.
- (d) Yes. Please refer to the testimony of Postal Service witness Daniel, USPS-T-29, particularly at Appendix V, pages 11 and 12.

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(e) DSCF parcels will be required to be sorted to the 5-digit level. There may be some additional costs associated with cube utilization in containers due to a piece having characteristics associated with nonmachinable parcels, but as parcels are not generally sorted on parcel sorters at the DSCF, it is not likely that there will be a cost differential between machinable DSCF and nonmachinable DSCF pieces comparable to that found between parcels in BMCs where parcel sorting equipment is utilized.

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UPS/USPS-T37-8. What is the average cubic feet per piece for those Parcel Post pieces for which a balloon charge is proposed? Provide for Inter-BMC, Intra-BMC and DBMC separately, and separately for each one pound weight increment from 2 to 14 pounds.

Response:

The figures you have requested may be calculated by referring to Library Reference H-135, Attachment V. Divide the total cubic feet by weight increment as shown at pages 31, 37, and 43 for intra-BMC, inter-BMC and DBMC, respectively, by the total pieces by weight increment as shown at pages 7, 13 and 19 for intra-BMC, inter-BMC, and DBMC, respectively.

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UPS/USPS-T37-9. Refer to page 22 of USPS-T-37. Would the proposed prebarcode discount apply to the following categories of Parcel Post:

- (a) Machinable inter-BMC;
- (b) Nonmachinable inter-BMC;
- (c) Presorted Machinable inter-BMC;
- (d) Presorted non-machinable inter-BMC;
- (e) Machinable inter-BMC eligible for the OBMC discount;
- (f) Non-machinable inter-BMC eligible for the OBMC discount;
- (g) Machinable intra-BMC;
- (h) Nonmachinable intra-BMC;
- (i) Machinable DBMC;
- (j) Nonmachinable DBMC?

Response:

- (a) Yes.
- (b) No.
- (c) Yes.
- (d) No.
- (e) Yes.
- (f) No.
- (g) Yes.
- (h) No.
- (i) Yes.
- (j) No.

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UPS/USPS-T37-10. Please refer to pages 7-8 of USPS-T-37.

- (a) Confirm that both machinable and non-machinable parcels are eligible for the OBMC discount.
- (b) Confirm that both machinable and non-machinable parcels eligible for the OBMC discount receive the same 57 cents per piece discount from the inter-BMC rates.
- (c) Confirm that non-machinable parcels that qualify for the OBMC discount will be assessed the non-machinable surcharge. If not confirmed, explain.
- (d) Confirm that there is a greater discount for non-machinable BMC Presort pieces than for machinable BMC Presort pieces.
- (e) Confirm that the Postal Service is proposing more than a 100% passthrough of the costs avoided by machinable OBMC parcels. If not confirmed, explain.
- (f) Explain why the Postal Service did not propose separate discounts for non-machinable and machinable OBMC pieces.

Response:

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed.
- (d) Not confirmed.
- (e) Not confirmed. Please refer to Exhibit E of USPS-T-28.
- (f) Separate OBMC entry discounts were not proposed for machinable and nonmachinable parcels because the difference in the avoided costs was so small that the administrative costs of keeping track of two discounts seemed to outweigh the difference in the mail processing costs, particularly as such discounts are being introduced for the first time.

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UPS/USPS-T37-11. Under the proposed rates, what total dollar contribution to institutional cost recovery in the test year after rates will be made by:

- (a) Parcel Post as a whole;
- (b) Parcel Post mail that qualifies for the BMC presort discount;
- (c) Parcel Post mail that qualifies for the origin BMC entry discount;
- (d) Parcel Post mail that qualifies for the DSCF entry discount;
- (e) Parcel Post mail that qualifies for the DDU entry discount;
- (f) Parcel Post mail that does not meet the qualifications for any of the discounts mentioned in parts (b), (c), (d), and (e) above?

Response:

(a) Please refer to page 3 of workpaper WP II.C.

(b) - (f) The Postal Service is required to develop estimates of contribution on a subclass level, and many of the costs are measured only at that level. The rates for Parcel Post were developed by allocating to rate cells certain categories of costs, such as transportation and mail processing costs, that were developed at a subclass level, then applying a markup factor designed to produce a target cost coverage after recovering losses associated with various factors such as Alaska transportation costs, revenue leakages resulting from the introduction of new worksharing discounts, and rate increase constraints designed to limit the impact of large cost increases, as well as incorporating the impacts of the new initiatives.

Therefore, I have not calculated contribution separately by the categories listed, nor am I convinced that it would be possible to do so in the absence of

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further information such as the distribution of OBMC-entered or BMC-presorted volume by weight and zone. Depending on the distribution of the volume, the applicable rate cells may be those that were constrained to not decrease (as in Zones 5 through 8), or those that were constrained to not increase more than 30 percent (as in the lower zones).

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UPS/USPS-T37-12. On page 23 of your testimony you discuss the impact of a new service, "Packaging Service," on the volume of Parcel Post. Please provide a complete description of Packaging Service, including its costs, volumes, rates, operational description, and any surveys supporting the proposal.

Response:

Please refer to the testimony and documents filed by the Postal Service in support of Docket No. MC97-5.

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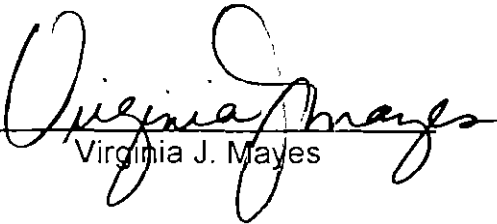
- UPS/USPS-T37-13. Please refer to lines 7 to 15 on page 23 of your testimony.
- (a) Will packaging service be available only in the case of packages shipped as Parcel Post? If not, please list all classes and subclasses in which packaging service will be available and state separately for each such class and subclass the estimated volume of the packages in the class or subclass that will also make use of packaging service.
- (b) Please refer especially to lines 11 to 12 on page 23. Do you expect the availability of packaging service for Priority Mail to cause "a larger portion of Parcel Post [to] convert to Priority Mail?" If so, state why and provide the estimated volume, and the associated revenue and cost of that volume, that you expect to migrate from parcel Post to Priority Mail because of the availability of packaging service for Priority Mail.

Response:

- (a) Please refer to the testimony of Postal Service witness Plunkett, USPS-T-3, in Docket No. MC97-5.
- (b) Please refer to the testimony of Postal Service witness Plunkett, USPS-T-3, in Docket No. MC97-5, particularly Exhibit 3C. For the estimated net impact on Parcel Post volume, revenue and cost, please refer to my workpaper USPS-T-37, WP II.C., at pages 1, 3, and 4. For the impact on Priority Mail, please refer to the testimony of Postal Service witness Sharkey, USPS-T-33, Table 6.

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:

August 6, 1997

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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