

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

RECEIVED
SEP 2 4 43 PM '97
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-T37-41-50)

The United States Postal Service hereby provides responses of witness Mayes to the following interrogatories of United Parcel Service: UPS/USPS-T37-41-50, filed on August 18, 1997.

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

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2999; Fax -5402
September 2, 1997

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-41. In reference to pages 7-8 of your testimony, please describe in detail the process by which OBMC mailers will provide gaylords, pallets, or other containers for their presorted parcels, including all contemplated rules and specifications for such containers. Under what conditions will mailers be provided with Postal Service containers for such purposes? Under what conditions will the gaylords, pallets, or other containers be returned to the mailers?

Response:

It is my expectation that the processes that will face Parcel Post mailers requiring containers for purposes of participating in the new presort and dropship worksharing programs would not differ substantially from those facing mailers of other subclasses currently utilizing containers for mail preparation. Please refer to the Postal Operations Manual, Chapter 57, and Handbook PO-502, Container Methods, especially at 214.6 and 266. Handbook PO-502 was filed as Library Reference H-133.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-42. In reference to pages 8-9 of your testimony, please describe in detail the process by which DBMC or OBMC presort mailers will provide gaylords, pallets, or other containers for their presorted parcels, including all contemplated rules and specifications for such containers. Under what conditions will mailers be provided with Postal Service containers for such purposes? Under what conditions will the gaylords, pallets, or other containers be returned to the mailers?

Response:

Please refer to my response to UPS/USPS-T37-41.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-43. In reference to pages 9-10 of your testimony, please describe in detail the process by which DSCF parcel mailers will provide gaylords, pallets, or other containers for their presorted parcels, including all contemplated rules and specifications for such containers. Under what conditions will mailers be provided with Postal Service containers for such purposes? Under what conditions will the gaylords, pallets, pallets, [sic] or other containers be returned to mailers?

Response:

Please refer to my response to UPS/USPS-T37-41.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-44. In reference to page 10 of your testimony, please describe in detail the process by which DDU parcel mailers will provide gaylords, pallets, or other containers for their parcels, including all contemplated rules and specifications for such containers. Under what conditions will mailers be provided Postal Service containers for such purposes? Under what conditions will the gaylords, pallets, or other containers be returned to the mailers?

Response:

Please refer to my response to UPS/USPS-T37-41.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-45. For each BMC and ASF, provide the estimated test year after rates Parcel Post volume for each category below:

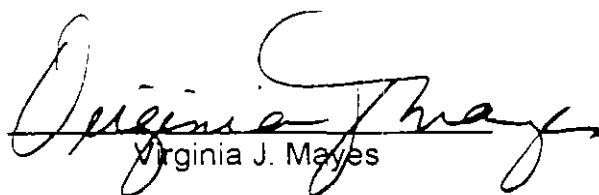
- (I) Intra-BMC
- (II) Inter-BMC
 - (a) Originating
 - (b) Destinating
- (III) Destination BMC
- (IV) Destination SCF
- (V) Destination Delivery Unit

Response:

Please refer to my response to UPS/USPS-T37-40. I do not have estimates of test year after rates volumes by BMC and ASF.

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:

9-2-97

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-46. Refer to WP I.F., page 1 of 1, of USPS-T-37.

- (a) Confirm that the market study shows that of the Parcel Post volume that will be prebarcoded after a rate discount is implemented, 96% is already being prebarcoded. If not confirmed, provide the correct figure.
- (b) Confirm that the market study shows that of the Parcel Post volume that will receive the BMC presort discount after a rate discount is implemented, 95% is already being presorted by BMC. If not confirmed, provide the correct figure.
- (c) Confirm that the market study shows that of the Parcel Post volume that will be dropshipped to the OBMC after a rate discount is implemented, 28% is already being dropshipped in the OBMC. If not confirmed, provide the correct figure.
- (d) Confirm that the market study shows that of the Parcel Post volume that will be dropshipped to the DSCF after a rate discount is implemented, 59% is already being dropshipped to the DSCF. If not confirmed, provide the correct figure.
- (e) Why is there no market study information listed for the amount of Parcel Post volume dropshipped to the DDU either currently, or after implementation of a discount?
- (f) With respect to the 1996 Parcel Post Volume of 214,578,737 listed at the top of the page, provide the respective volumes for machinable Inter-BMC, non-machinable Inter-BMC, and DBMC.
- (g) Confirm that the survey results contained in LR H-163 for "Parcel Post That The Organization Owns" were used as the source of the market study data in WP I.F. If not confirmed, explain.
- (h) Confirm that the survey results contained in LR H-163 for "Parcel Post That The Organization Prepared and Deposits for Some Other Organization" were not used in your rate design. If confirmed,
 - (i) Explain why these survey results were not used;
 - (ii) Describe in general terms the impact on your Parcel Post rate design analysis if these survey results had been used.If not confirmed, explain.
- (i) With respect to the "Volume Represented in Survey" of 114,984,817, confirm that this is the Parcel Post volume of the mailers who responded to the survey, not the Parcel Post volume of all of the mailers attempted to be contacted during the survey.
- (j) Explain the reasons why there would be "Lost Volume" resulting from the "Change in Size Limit to 130 inches."
- (k) Confirm that the market study data contained in WP I.F. and LR H-163 was not obtained in such a way that the impact on worksharing volumes of simultaneously offering a number of new discounts (e.g., BMC presort, OBMC, and DSCF) could be derived. If not confirmed, explain in detail.
- (l) Confirm that the market study data contained in WP I.F. and LR H-163 is on a "summary anecdotal" basis. If confirmed, why are you comfortable using this data in your rate design analysis? If not confirmed, explain.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

Response.

(a) Confirmed.

(b) Confirmed

(c) Confirmed

(d) Confirmed

(e) The DDU concept was added to the list of proposed changes to the Parcel

Post rate structure for Docket No. MC97-2 after the market survey was designed and begun. Thus, the market survey contains no questions regarding the DDU concept. Furthermore, the time period between the closing of the MC97-2 docket and the filing of the R97-1 rate case was insufficient to permit repeating or replacing the market survey provided as Library Reference H-163 in this case.

(f) Please refer to page 2 of workpaper WP I.F. The split of inter-BMC into machinable and nonmachinable inter-BMC was not available.

(g) Confirmed.

(h) Confirmed.

(i) I did not use the results associated with companies who only deposit mail for other companies because I wanted to avoid potential double-counting of the volume. Several of the firms who responded as survey participants owning volume were known to send some of their volume via one or more of the firms who responded as survey participants who deposit mail for others. Thus, some of the volume could have been

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

double-counted in the absence of asking the survey participants who deposit mail for others to break out their volume by category separately for each customer for whom they deposit mail, a task that seemed too burdensome to ask of survey participants. In addition, it seemed more appropriate to rely on the responses of those customers actually owning the mail, on the ground that they held the ultimate control over the disposition of the mail. The results from the participants who deposit mail *for others serve as confirmation that some of our largest customers, including firms who own no mail themselves, would be interested in the additional worksharing options and service features proposed.*

- (ii) I have performed no analysis of the impact of substituting the responses of mailers who deposit mail for the responses of mailers who owned mail, so I cannot comment on the impact, if any, that the substitution of the results would have had on the rate design. Both the owners and depositors of parcels indicated interest in the proposed worksharing discounts and service feature changes.

The depositors indicated that they would ship more than twice as much volume over 108 inches than did the owners of mail, which would represent a greater negative impact on Parcel Post contribution.

However, the volumes reported to be currently BMC presorted, prebarcoded, OBMC entered, or DSCF entered by the depositors were much smaller than were the volumes reported by the owners of mail. As these volumes would receive discounts for worksharing already being

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

performed, and thus result in a negative impact on Parcel Post contribution, the smaller volumes indicated by depositors as currently meeting the mail preparation criteria would result in less lost revenue to be recovered.

The responses of the depositors, in terms of additional volume participating in worksharing programs, varied. The additional volume to be barcoded by depositors was nearly 7 times the response indicated by owners, and the additional volume to be DSCF entered by depositors was more than 3 times the response indicated by owners, but the depositors indicated smaller volumes responding to the discounts for OBMC entry and BMC presort.

(i) Confirmed.

(j) I don't know why the respondents to the survey indicated, in some instances, that they would ship fewer pieces with the Postal Service after the change in the maximum combined length and girth. Although the respondents were not explicitly asked to explain their responses, the survey did include additional questions for respondents who indicated that their volume would decrease, in order to verify that the report of decreased volume was intentional. See the Parcel Post Questionnaire, Question 11, provided in Library Reference H-163. It is possible, for example, that some consolidation of parcels would have occurred under the new maximum size limit. Regardless of why some respondents indicated a decrease in volume, there was no reason to suspect that the responses were not valid.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

(k) Confirmed. At the time that the survey was conducted, it was not certain that all of the possible worksharing options would be proposed.

(l) I am not certain that I understand the meaning of the term "summary anecdotal." I used the results of the market survey because they represented the best available data at the time. The point of the survey was to establish that some of the Postal Service's largest customers -- those most likely to be in a position to participate in worksharing programs -- would respond favorably to the offering of new worksharing discounts within Parcel Post, and to provide broad estimates of the impact on postal volumes and net revenues.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-47. Refer to WP II C., pages 1 to 4.

- (a) Confirm that the revenue lost in the Test Year After Rates from the barcode discount in Parcel Post is \$3,924,069. If not confirmed, please provide the correct figure.
- (b) Confirm that the costs saved in the Test Year After Rates from the barcode discount in Parcel Post is \$160,399. If not confirmed, please provide the correct figure.
- (c) Confirm that in the Test Year After Rates, the barcode discount in Parcel Post yields more revenue loss than cost savings, and thus, through adjustments for revenue leakage, results in increased rates for single-piece Parcel Post.
- (d) Confirm that the revenue lost in the Test Year After Rates from the BMC Presort discount in Parcel Post is \$1,422,912. If not confirmed, please provide the correct figure.
- (e) Confirm that the costs saved in the Test Year After Rates from the BMC Presort discount in Parcel Post is \$87,577. If not confirmed, please provide the correct figure.
- (f) Confirm that in the Test Year After Rates, the BMC Presort discount in Parcel Post yields more revenue loss than cost savings, and thus, through adjustments for revenue leakage, results in increased rates for single-piece Parcel Post.
- (g) Confirm that the revenue lost in the Test Year After Rates from the OBMC Entry discount in Parcel Post is \$6,023,903. If not confirmed, please provide the correct figure.
- (h) Confirm that the costs saved in the Test Year After Rates from the OBMC Entry discount in Parcel Post is \$4,416,057. If not confirmed, please provide the correct figure.
- (i) Confirm that in the Test Year After Rates, the OBMC Entry discount in Parcel Post yields more revenue loss than cost savings, and thus, through adjustments for revenue leakage, results in increased rates for single-piece Parcel Post.
- (j) Confirm that the revenue lost in the Test Year After Rates from the DSCF discount in Parcel Post is \$7,401,580. If not confirmed, please provide the correct figure.
- (k) Confirm that the costs saved in the Test Year After Rates from the DSCF discount in Parcel Post is \$3,162,176. If not confirmed, please provide the correct figure.
- (l) Confirm that in the Test Year After Rates, the DSCF discount in Parcel Post yields more revenue loss than cost savings, and thus, through adjustments for revenue leakage, results in increased rates for single-piece Parcel Post.
- (m) Why is there no data regarding the impact of the DDU discount on costs in the Test Year After Rates in WP II.C? Please explain.
- (n) Confirm that, to the extent the amount of Parcel Post volume currently participating in prebarcode, BMC Presort, OBMC Entry, and DSCF worksharing programs has been understated, there would be even more

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

revenue loss than cost savings for these programs in the Test Year After Rates. If not confirmed, explain.

- (o) Confirm that the market study data in WP I.F. and LR H-163 identifies current worksharing only for the volume of the 39 Parcel Post mailers that responded to the survey, and that to the extent any additional Parcel Post mailers are already participating in prebarcode, BMC Presort, OBMC Entry, and DSCF worksharing, the cost coverage for Parcel Post in the Test Year After Rates would decline. If not confirmed, explain.

Response:

(a) Confirmed.

(b) Confirmed.

(c) Confirmed. In the process of deaveraging rates, and having the rates paid by a given set of customers more closely reflect the costs associated with handling their parcels, it is not a surprising result to find that adjustments to the rates of other mailers must also be made. The mailers of single-piece Parcel Post, or even bulk-entered Parcel Post that is not prebarcoded, have benefited in the form of slightly lower costs and rates by virtue of the fact that the mailers performing the prebarcoding were not paying rates that reflected the relatively lower cost of their mail. In addition, I would note that in many cases when new worksharing discounts are introduced, there are some customers who already perform such worksharing activities.

(d) Confirmed.

(e) Confirmed.

(f) Confirmed. Please also see the response to part (c) above.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

(g) Confirmed.

(h) Confirmed.

(i) Confirmed. Please also see the response to part (c) above.

(j) Confirmed.

(k) Confirmed.

(l) Confirmed. Please also see the response to part (c) above.

(m) The TYBR DDU volume from page 23 of workpaper WP I.A. was adjusted by the ratio of intra-BMC TYAR volume to TYBR volume for purposes of calculating the revenue impact of the DDU discount in workpaper WP II.C.

There is no cost impact because I have no estimate of the additional volume that would switch to DDU and result in additional cost savings for the Postal Service. Please also see my response to UPS/USPS-T37-46(e).

(n) Confirmed, although I would clarify that there currently are no prebarcode, BMC Presort, OBMC Entry or DSCF worksharing programs for Parcel Post. Thus, although mailers may be reporting that they are currently performing such activities in the absence of a discount for doing so, there is no quality control process to ensure that this mail meets the standards that would apply once a formal worksharing program is instituted. It is also worth noting that there exists the possibility of understatement of the intentions of mailers not currently performing these worksharing activities to do so once discounts are introduced.

(o) I do not have sufficient information to confirm this statement. It is possible that the participants in the survey have overstated their current participation.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

It is also possible that other mailers could have different profiles in terms of both their current participation as well as their intentions to participate. There also exists the possibility that no other firms would find the proposed worksharing options attractive enough to cause them to change their behavior. This is of particular note given the nature of the market survey, which focused on only the largest customers, the ones most likely to be in a position to adopt worksharing programs.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-48. Please refer to your response to interrogatory OCA/USPS-T-13-5(b) in Docket No. MC97-2. In your response, you state, "Additionally, the nonmachinable volume that will be OBMC entered should not appear in the numerator."

- (a) Please confirm that the number you are speaking of is found in cell B35 of WP I.F. in H197-4.XLS in your testimony submitted in Docket No. R97-1
- (b) If you confirm part (a), above, explain why the "correct" formula you give in your testimony submitted in Docket No. R97-1 for cell K31 of WP I.I. in H197-2.XLS is
- $$=+D43*(((+[H197-4.XLS]WP\ I.F.\! \$D\$14+[H197-4.XLS]WP\ I.F.\! \$D\$15)*([H197-4.XLS]WP\ I.F.\! \$B\$35)/([WP\ II.A.\! D13*D5*WP\ I.F.\! B9/WP\ II.A.\! D17))+([H197-4.XLS]WP\ I.F.\! \$B\$42)+([H197-4.XLS]WP\ I.F.\! \$B\$35))*WP\ II.A.\! D29/[H197-4.XLS]WP\ I.F.\! \$B\$9)$$
- (c) Should this cell reference be for cell B42, the machinable volume that will be OBMC entered, instead?

Response:

- (a) Confirmed. The statement should have referred to the "machinable volume that will be OBMC entered," rather than the "nonmachinable volume that will be OBMC entered." Please also refer to my response to part (c) below.
- (b) The formula you have reproduced above is not the formula found in cell K31 of WP I.I. in H197-2.XLS. The formula found in cell K31 of WP I.I. in H197-2.XLS matches the corrected formula as provided in my response to OCA/USPS-T13-5(b) in Docket No. MC97-2.
- (c) My statement that the "nonmachinable volume that will be OBMC entered should not appear in the numerator" should have referred to the "machinable volume that will be OBMC entered." Thus, as shown in the revised formula provided in Docket No. MC97-2, and in cell K31 of WP I.I. in H197-2.XLS, cell B42 does not appear in the numerator.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-49. Please confirm that one of the objectives of the Postal Service's rate proposal is to make a modest contribution to the financial goals of the Postal Service, including restoration of equity. If not confirmed, please explain.

- (a) Confirm that the worksharing discounts proposed for Parcel Post would pass through essentially 100% of the estimated cost savings. If not confirmed, explain.
- (b) Confirm that if a new worksharing discount is offered to a Postal Service user that is already engaging in the applicable worksharing activities, the new discount results in a loss of contribution to the restoration of equity. If not confirmed, explain.
- (c) Does the Postal Service have any analyses or studies for any of the proposed new discounts which indicate or discuss whether the gain in contribution from new users will more than offset the loss in contribution from mailers already engaging in the applicable worksharing activities? If yes, please provide copies of any and all such studies or analyses.

Response:

Confirmed.

- (a) Please refer to my response to UPS/USPS-T37-24(a).
- (b) Please refer to my response to UPS/USPS-T37-24(b).
- (c) Other than the financial analyses provided in my workpaper WP II.C., I am aware of no such studies. I would note, however, that even in the absence of an immediate positive impact on the contribution of the subclass, it may be in the interest of the Postal Service's long-term financial health to offer rates that more closely reflect the costs of providing service, and thus send more accurate price signals to the market. In addition, please refer to my response to UPS/USPS-T37-24(c).

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-50. Refer to your Direct Testimony on page 4, line 3. Please confirm that "additional worksharing opportunities for parcel shippers," will likely be of interest only to business firms that have large volumes of parcels to ship. If not confirmed, please explain.

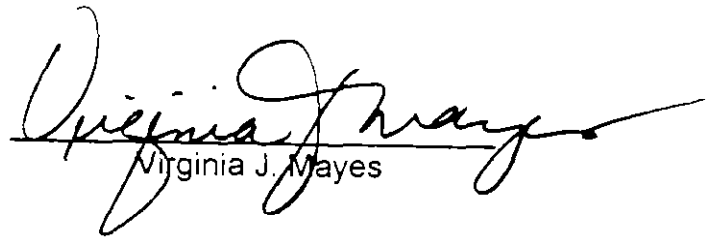
Response:

It is most likely that business firms that have large volumes of parcels to ship would be in a better position to take advantage of the worksharing options.

However, I would suggest that some of the options, such as the DSCF discount, for example, might be of use to a mailer of smaller size that happens to have a narrow geographic range of distribution. Similarly, a small firm may be able to avail itself of the prebarcode discount. In addition, I am aware that the shipping industry includes consolidators who may be able to assist smaller shippers in gaining access to worksharing programs by merging their mail with that of other firms.

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:

9-2-97

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

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
September 2, 1997