

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
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T37-5-7(C), 8-11)
AND MOTION FOR EXTENSION OF TIME TO RESPOND TO
INTERROGATORIES OCA/USPS-T37-1 AND 4

The United States Postal Service hereby provides responses of witness Mayes to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T37-5-7(c), 8-11, filed on August 22, 1997. Interrogatories OCA/USPS-T37-2, 3, and 7(d) were redirected to the Postal Service.

Each interrogatory is stated verbatim and is followed by the response. The Postal Service also request a one-day extension to provide witness Mayes' responses to interrogatories OCA/USPS-T37-1 and 4.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

OCA/USPS-T37-5. In Docket No. MC97-2, you responded to OCA/USPS-T13-2(c) (regarding the ten percent restriction) as follows: "The Postal Service is not especially interested in garnering volume that is oversized, but rather, wanted to make it easier for our customers to do business with us. As shown in my workpapers, even at the applicable 70-pound rate, the oversized parcels are not expected to be associated with revenues sufficient to cover the costs of providing service to those parcels."

- a. Why would the Postal Service not want to make it easier for all its customers (including small businesses and households that may not have sufficient parcel volume to overcome the restriction) to do business with it? Please explain fully.
- b. In this docket, are the oversized parcels "not expected to be associated with revenues sufficient to cover the costs of providing service to those parcels?" Please provide a quantitative answer, showing the derivation of the quantification process. Further, please show and explain whether your quantitative process would have changed since Docket No. MC97-2 because of different costing methodologies employed in the two cases.

Response:

- a. Simply because there may be a perceived desire for a particular type of service in the market for package delivery does not imply that the Postal Service must necessarily provide such service. As illustration, please refer to the list of nonmailable and restricted items in the DMM at section C021. Some unspecified number of customers may wish to ship such items, but the Postal Service does not carry such items. The reasons for such refusal to serve some markets may include legal restrictions or the determination by the Postal Service that providing such service would not be in the best interest of either the Postal Service or its employees. Provision of some services could be expected to result in negative impact on either the Postal Service's finances or the safety and health of its employees.

As noted in my testimony, UPS provides delivery service for both business and household mailers of items exceeding 108 inches in combined length and girth. The Postal Service intends to make it easier for mailers who have occasional oversized items, not necessarily those mailers for whom such oversized items are representative of the items they regularly ship. Due to the expectation that these oversized parcels will not be fully compensatory, in the absence of evidence that the mailer is shipping additional volume that could be expected to be compensatory, the decision was made to exclude individual shipments of oversized parcels. This restriction will also prevent businesses predominantly shipping oversized items from using the Postal Service for such purposes.

- b. That is correct. Please refer to my response to PSA/USPS-T37-4. The process of comparing the cube of the oversized parcels to the estimated cubes for 70-pound parcels is no different in this docket from the process used in Docket No. MC97-2. As noted in my response to OCA/USPS-T37-10, the estimated cube figures differ between the two dockets due to the change in base year.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

OCA/USPS-T37-6. In Docket No. MC97-2, OCA submitted the following interrogatory as OCA/USPS-T13-28(c): "Please confirm that the customer that generally mails parcels one at a time (and is forbidden from mailing single oversized parcels) is at least partially subsidizing the mailers that would be allowed to mail oversized parcels at a loss. If you do not confirm, please explain." You responded in part by stating that you "do not have sufficient information to confirm or deny this statement." Please redirect this question to someone in the Postal Service who does, or to the Postal Service for an institutional response.

- a. The witness responding (or the Postal Service) should provide a quantitative answer, showing the derivation of the quantification process.
- b. Further, the witness (or the Postal Service) should show and explain whether his/her quantitative process would have changed since Docket No. MC97-2 because of different costing methodologies employed in the two cases.

Response:

When I responded that I did not have sufficient information to confirm or deny the statement, I did not mean to imply that there was another individual who *did* have the information necessary to make such an assessment. Rather, I meant to communicate that the answer to that question would depend on a number of different variables, such as the zone and weight distributions, the cubes and densities, and the actual origins and destinations of the items in question and the facilities through which such items would pass, which were not provided in your comparative example. As a rather extreme example, consider that the customer mailing parcels one at a time might well have been shipping perishable, nonmachinable items to a relative in a remote area in Alaska, whereas the mailers sending some oversized parcels might have been shipping prebarcoded or presorted bulk-entered items, or items dropshipped for local delivery. (Please refer to my response to UPS/USPS-T37-11.) The response to

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

your question could be very different, had different sets of assumptions been used with regard to the characteristics listed above.

In addition, there are analyses, such as the measurement of the avoided window costs and the costs of bulk acceptance of parcels provided in the testimony of witness Crum (USPS-T-28), that may provide some guidance regarding the difference in narrowly defined segments of costs for bulk-entered and single-piece items.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

OCA/USPS-T37-7. In response to OCA/USPS-T13-29(a) in Docket No. MC97-2, you stated: "I am aware of no time at which the Postal Service has considered raising the weight limit above 70 pounds. Each time of which I am aware that the question was raised, it was immediately dismissed. I am aware of no documents discussing such decisions."

- a. You state that "[e]ach time of which I am aware that the question was raised, it was immediately dismissed." Who dismissed it and on what occasions? Provide positions of persons involved in such decisions, dates (or approximate dates), and contextual circumstances (e.g., why the issue was being discussed).
- b. Submit all documents related to the inquiry in (a) above.
- c. Your original response stated a conditional description about your knowledge ("I am aware") suggesting that others may have more knowledge about this subject. Please redirect the question in OCA/USPS T13-29(a) to the person in the Postal Service most familiar with this issue, or to the Postal Service for an institutional response.
- d. In your answers to OCA/USPS-T13-29(b), (c), (d) and (g) in Docket No. MC97-2, you stated a lack of familiarity with the issues. Please redirect these questions to the person in the Postal Service most qualified to respond to the questions indicated herein, or to the Postal Service for an institutional response.

Response:

- a. I cannot provide specific examples, dates, names or positions of the individuals who dismissed the idea of raising the weight limit because such details were not documented. I can, however, relate the contextual circumstances in which such dismissals have been made. In meetings relating to parcel services, someone new to these issues invariably raises questions as to why the Postal Service does not match the offerings of UPS. At that point, individuals – sometimes managers, sometimes staff – with more experience will bring up safety, operational, financial and collective

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

bargaining issues such as those I listed in the responses to your previous questions regarding the idea of raising the weight limit above 70 pounds.

- b. After consultation with individuals – both staff and management level – who have had experience with parcel issues over the past two decades, I have been able to locate no such documents, nor am I aware of the existence of such documents.
- c. When I responded to your interrogatory with the conditional phrase "I am aware," I did not mean to imply that I was ignorant of the information you requested. Rather, I meant to communicate that after checking with individuals of greater authority and experience, I was unable to find anyone who could recollect an instance in which the Postal Service seriously considered changing the weight limit. As an expert witness, I qualified my response out of the concern that the OCA or some other party to these proceedings might have knowledge of some isolated instance in which the possibility of increasing the weight limit above 70 pounds was indeed discussed. I did not qualify my response to your question with the intention of not providing a full response. I transmitted your question to every previous parcel services manager still employed with the Postal Service headquarters, and received responses indicating that not one of them seriously entertained the idea of raising the weight limit. In addition, I might add that I have worked on parcel-related issues myself for ten years, but rather than rely on only my own experience, I researched your question and at the conclusion of this

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

exercise, remain *“aware of no time at which the Postal Service has considered raising the weight limit above 70 pounds.”*

- d. Redirected to the Postal Service.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

OCA/USPS-T37-8. As a Postal Service economist in this case, please answer OCA/USPS-T13-31(a) and (b) in Docket No. MC97-2 as originally asked. "Other things being equal" is a condition frequently used by economists and is understood to mean *all* other things being equal (the *all* is redundant). (Note: sometimes the Latin phrase "ceteris paribus" is used.)

Response:

I am familiar with the phrase "ceteris paribus," but have usually encountered its use under circumstances in which the baseline conditions are described. In other words, some set of baseline conditions are established, with only one change examined in isolation. In attempting to answer your questions, I could not determine if you were asking me to consider the changes in the context of some theoretical market or in the context of the existing market for parcel delivery services, the latter of which would be the more appropriate context for discussion of the issues raised in my testimony. Thus, I found it difficult to respond to your questions if I was to assume that *all* other things are equal, such as the height of entry barriers as your question specified, when I knew such assumptions to be contrary to reality. I find your clarification of the phrasing of this interrogatory to be less than useful.

- a. With reference to the qualifications cited in my response to OCA/USPS-T13-31(a) in Docket No. MC97-2, I would agree that if *all* things are equal and the market is not yet a perfectly competitive market in long-run equilibrium, additional firms entering the industry could move the market toward such an equilibrium situation.
- b. With *all* other things being equal, and a market that is not yet a perfectly competitive market in long-run equilibrium, a larger number of firms entering the industry is expected to reduce economic profits.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

OCA/USPS-T37-9. In response to OCA/USPS-T13-31(c) in Docket No. MC97-2, you stated in part that you were not sure you understood "what is being asked." In order to aid your understanding, please refer to the widely available text "Industrial Market Structure and Economic Performance," by F.M. Scherer (2d. Edition), at page 199, where the phraseology is used. After referral, please supply a response to OCA/USPS-T31(c).[sic]

Response:

As I stated in my original response to your interrogatory OCA/USPS-T13-31(c) in Docket No. MC97-2:

"If I am interpreting the statement correctly, it is implying that, as market share for any particular firm decreases, the firm will behave as if its pricing and output decisions do not affect competitors' behavior or the market prices. I would agree that the firm may not perceive that its behavior has an effect on competitors or the market as a whole, but I am not sure what type of behavior would follow from such a perception."

In fact, the paragraph of the Scherer text in which this statement appears continues by stating that such an effect may appear when the number of firms exceeds 10 or 12 "if evenly matched firms supply homogeneous products in a well-defined market." As noted in my response to OCA/USPS-T37-8, I could not tell if your question was to be responded to in the context of some theoretical market in which "evenly matched firms supply homogeneous products" or the existing market for package delivery services. I continue to assert that the response to your question depends on the baseline conditions, and I believe that such a position is supported by the same paragraph in the Scherer text when it states: "It is more difficult to generalize when the size distribution of sellers is

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

highly skewed," such as, I suggest, is the condition of the current market for ground service delivery.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

OCA/USPS-T37-10. The Postal Service testimony in this case indicates in various places that it has altered costing methodologies since Docket No. MC97-2. The testimony you provide herein as to standard parcel post appears to be substantially similar to the testimony offered in Docket No. MC97-2.

Nonetheless, there appear to be some substantive differences regarding rate proposals. Thus, the proposed discount for OBMC Entry has been increased to 57 cents (up from 49 cents) per piece. In the instant case, the proposed BMC Presort discount is 12 cents per piece. In Docket No. MC97-2, the proposed discount for BMC presorted machinable parcels was 16 cents, and 21 cents per piece for nonmachinable parcels. In the instant case, you state in your direct testimony at page 19 that "[t]he cubic feet per piece figures associated with the 70-pound rate cells that result from the three cube/weight relationships are 2.64, 2.52, and 3.54 for intra-BMC, inter-BMC and DBMC, respectively." In Docket No. MC97-2, you stated in your direct testimony at page 27 that the figures were 2.32, 2.69, and 3.02 respectively. In the instant case, you state in your direct testimony at page 20 that the Postal Service proposes to reduce the nonmachinable inter-BMC parcel post surcharge to \$1.35 from its current \$1.75, a surcharge that would apply "to the approximately 8.7 percent of inter-BMC parcels categorized as nonmachinable" In Docket No. MC97-2, you noted in your direct testimony at page 28 the proposal to drop the surcharge to \$1.25, which would apply "to the approximately 9.5 percent of inter-BMC parcels categorized as nonmachinable" Your testimony on delivery confirmation in this docket reflects a proposed fee for manual delivery confirmation that is now 60 cents per piece, rather than the 50 cents per piece proposed in Docket No. MC97-2. In your testimony in this proceeding, you also discuss the proposed increase in the pickup fee for parcel post (from the current \$4.95 to a proposed \$8.25). How have each of the above rate proposals been affected by the change in methodologies? Please show what each of these proposed rates would be if the Postal Service used the methodology it employed in Docket No. MC97-2.

Response:

The changes in the cubic feet per piece figures associated with the 70-pound rate cells from 2.32, 2.69, and 3.02 to 2.64, 2.52, and 3.54, respectively result from the change in base year from FY 1995 in Docket No. MC97-2 to FY 1996 in the instant docket, and do not result from any change in methodology. Similarly, the change in the percent of inter-BMC parcels categorized as nonmachinable

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

from 9.5 percent in Docket No. MC97-2 to 8.7 percent in this docket is the result of a change in the base year from FY 1995 to FY 1996, and not the result of any change in methodology.

The changes in the proposed discounts for OBMC entry and BMC presort, and the change in the proposed surcharge for nonmachinable inter-BMC parcels all tie directly to the measured cost differences which are described in the testimony of witnesses Crum (USPS-T-28) and Daniel (USPS-T-29). Please refer to the testimony of witness Plunkett (USPS-T-40) for discussion of the justification of the 60 cent fee for manual delivery confirmation, and to the testimony of witness Sharkey (USPS-T-33) for discussion of the justification of the pickup fee.

I am unaware that any of the witnesses listed above have calculated the cost differences in question using both the current approaches and those used in the development of such estimates in Docket No. MC97-2 in combination with the base year and test year data for this case. Even were such comparisons available, I cannot say what the effect of using the methodological approaches from Docket No. MC97-2 with the new data would have been on my rate design as I would have to reconsider the rate design as a whole, including such things as the passthroughs and rate relationships.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

OCA/USPS-T37-11. Please refer to your response in this docket to UPS/USPS-T37-21 and 22, which in turn refers the reader to Docket No. MC83-1 as the "documentation supporting the determination of the 108 inch maximum combined length and girth for parcel post pieces." Please comment on each segment of the testimony of Postal Service witness Wargo, USPS-T-1, cited immediately below in relation to the instant proceeding. If the Postal Service's current position with regard to uniformity in package length and girth is different now than it was during the pendency of Docket No. MC83-1, please explain what these differences are and why there has been a change in position. We request comments on the following testimony:

- a. At page 3 of the Wargo testimony, he notes that the Postal Service was proposing "to enlarge its parcel size limitations to equal those used by other major providers of small parcel service." He states at page 4: "My testimony will show the unfairness and inconvenience caused by non-uniform parcel post size and weight limits and size limitations for Postal Service parcel services that are smaller than those for other parcel delivery services." On that same page he states: "Enlarging parcel size limits will bring more standardization to parcel delivery service, thus reducing confusion and inefficiency." At page 10 he states that since two of the largest non-postal small parcel delivery services already had a common size limitation of 108 inches in length and girth combined, "[I]f the Postal Service adopted this same size limit for all its parcel services, a great step would be made toward establishing a uniform size limitation for the parcel delivery industry."
- b. At page 10 he noted the problem of mailers having to "sort out parcels larger than 100 inches in length and girth combined from shipments otherwise to be tendered to the Postal Service." At page 12 he stated: "As I described above, uniform parcel size and weight limits will eliminate the need for mailers to perform extra sortations."
- c. Further, he observed at pages 10-11 that "the enlarged size limits will offer better service to the public. This improved service is particularly significant for *household mailers* who often find their local post office the most convenient place to bring parcels they wish delivered." [Emphasis added.]
- d. He also noted on page 11 that package designers often produced package cartons that measured up to 108 inches.

Response:

- a. It is my understanding that Mr. Wargo's testimony was intended to not only increase the size limits to 108 inches and 70 pounds, but also to standardize

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

those limits *across all post offices*. As such, I would assert that there has been no change in the position of the Postal Service that the size limits should be the same at every post office. Mr. Wargo's testimony regarding the desirability of adopting a common size limitation across the parcel delivery industry would lend support to the Postal Service's current proposal to permit some portion of parcels to meet the size limit of 130 inches currently used by the dominant parcel delivery company. However, I would note that there is potentially a large difference in size between a parcel of combined length and girth of 108 inches and the size of one with combined length and girth of 130 inches. Thus, I cannot be certain that the Postal Service would have been in favor of adopting a standardized size limit of 130 inches in Docket MC83-1 had UPS used a limit of 130 inches at that time.

- b. It is important to recognize that Mr. Wargo was testifying not only to expand the size limits from 84 or 100 inches to 108 inches, but also to standardize them *across all post offices*. Current customers do not have the difficulty of sorting parcels by size limits that differ by post office. Otherwise, Mr. Wargo's statement is consistent with my testimony at page 18 with regard to the stated inconvenience of mailers in sorting out the few pieces that do not match the existing postal limit on combined length and girth. Mr. Wargo also mentions weight limits. Again, it is important to note that he was testifying to standardize the weight limit for parcel post *across all post offices*. Current customers do not have to sort parcels by weight limits that vary by post office. As noted in my response to OCA/USPS-T37-5, as well as elsewhere, despite

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

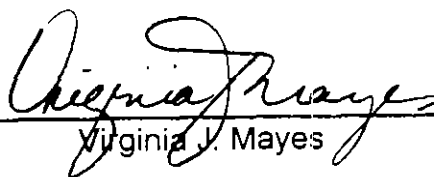
the possible inconvenience to customers of sorting out parcels that exceed the postal weight limit, it is not the current position of the Postal Service that increasing its current weight limit of 70 pounds would be in the best interest of the Postal Service or its employees.

c. As noted in my response to part b above, Mr. Wargo was not only proposing to expand the size limits but also standardize them across all post offices. I would expect that such a change would have been significant to the household mailer who would be less likely than a business mailer to have the wherewithal to seek out postal facilities with the higher size limits in order to facilitate the delivery of a larger parcel. As a result of Mr. Wargo's efforts, the size and weight limits were standardized, and the current household mailer does not face the same confusion in trying to mail parcels; the size and weight limits for parcels are the same at any postal facility.

d. I fail to see particular relevance of this statement to the current situation. The existence of a market supply of cartons up to 108 inches neither argues for nor against the acceptance of occasional items exceeding 108 inches in combined length and girth. The Postal Service will continue to accept parcels not exceeding 108 inches in combined length and girth from any postal customer. For such customers, the existence of a supply of cartons that measure up to 108 inches will be convenient. The statement to which you refer does not imply or reject the possibility of the existence of cartons exceeding 108 inches in combined length and girth.

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:

9-5-97

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.

A handwritten signature in cursive script, reading "Scott L. Reiter", written over a horizontal line.

Scott L. Reiter

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September 5, 1997