

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 KIEFER TO INTERROGATORIES OF
UNITED PARCEL SERVICE
(UPS/USPS-T33-44-45)

The United States Postal Service hereby files the response of witness Kiefer to the following interrogatories of United Parcel Service: UPS/USPS-T33-44-45, filed on December 28, 2001.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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January 8, 2002

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UPS/USPS-T33-44. Refer to your response to interrogatory UPS/USPS-T33-23.

- (a) Confirm that multiplying the Parcel Post transportation costs per piece by rate category, weight and zone in library reference USPS-LR-J-106, WP-PP-15, by the Test Year Before Rates volumes in library reference USPS-LR-J-106, WP-PP-9, yields total transportation-related cost of \$489,179 thousand. If not confirmed, explain.
- (b) Confirm that when multiplying the Parcel Post transportation costs per piece by rate category, weight and zone in library reference USPS-LR-J-106, WP-PP-15, by the Test Year Before Rates volumes in library reference USPS-LR-J-106, WP-PP-9, the resulting total should be equal to the Test Year Before Rates transportation-related costs net of final adjustments. If not confirmed, explain in detail.
- (c) Confirm that the total Parcel Post Test Year Before Rates transportation-related costs, after final adjustments, are:
 - (i) \$308,850,000 for Cost Segment 14,
 - (ii) \$58,171,000 for Cost Segment 8,
 - (iii) \$88,187,000 for Cost Segment 8, after application of the 1.516 piggyback factor,
 - (iv) For a total transportation-related costs after final adjustments of \$397,037,000. If not confirmed, explain.
- (d) Explain why the Parcel Post Test Year Before Rates transportation-related costs, net of final adjustments, are significantly below the total transportation-related costs derived by multiplying the transportation costs per piece by rate category, weight and zone in library reference USPS-LR-J-106, WP-PP-15, by the Test Year Before Rates volumes in library reference USPS-LR-J-106, WP-PP-9.

RESPONSE

- (a) I can confirm that the multiplication described yields the total cited.
- (b) Not confirmed. The total should equal the sum of cost segments 14 and 8 (after application of the appropriate piggyback factor), since this sum is what the components used in this multiplication were derived from. No final adjustments are applied to these figures in the Postal Service's rollforward model. Please also see my response to UPS/USPS-T33-33.
- (c) I cannot confirm any of these figures. Please see my response to subpart (b), above. As I stated in my response to question UPS/USPS-T33-33, final adjustments are applied to total costs. Furthermore, I do not know how the figures in parts (i) through (iv) were derived, since no formulas were supplied.

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(d) Please see my response to subpart (c).

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UPS/USPS-T33-45. Refer to your response to interrogatory UPS/USPS-T33-23.

- (a) Confirm that, in making Parcel Post rates, the division of costs between the per piece and per pound rate elements is an important step in deriving the preliminary rates for each rate category. If not confirmed, explain.
- (b) Confirm that, all else equal, recovering the correct amount of cost in the per piece rate elements but too much cost in the per pound rate elements, will lower the markup factor (shown in library reference USPS-LR-J-106, WP-PP-1, line (2)) used in the Parcel Post rate design process. If not confirmed, explain.
- (c) Confirm that, all else equal, recovering too little cost plus markup in the per piece rate element and too much cost plus markup in the per pound rate elements will yield Parcel Post rates that are too high for rate categories with relatively high pound-related costs and too low for rate categories with relatively low pound-related costs. If not confirmed, explain.

RESPONSE

- (a) I can confirm that the stated operation is one of many important steps.
- (b),(c) I cannot confirm any of these propositions since I am unable to discern what the terms “correct amount of costs,” “too much cost,” and “too little cost” mean within the context of developing per-piece and per-pound rate elements. Many factors enter into the ratemaking process. I cannot agree with the premise that there is a single “correct” value for the portion of cost that should be recovered in either the per-piece or per-pound rate elements in the same way one can say that there is a single “correct” value for physical constants like, for example, the speed of light, or for mathematical constants like pi. In developing its rate proposals the Postal Service takes into account mathematical processes and formulas, as well as many other factors as part of the rate design process. The end result is a set of rate proposals that the Postal Service believes are appropriate, after all factors have been considered. It would be inappropriate to identify any single value of cost as the only correct amount of cost that can be recovered in either the per-piece rate element or the per-pound rate element. In the course of rate design, the Postal Service often shifts the recovery of costs between the per-piece and per-pound rate elements, as well as between one rate category (such as DDU Parcel Post) and another (such as

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Inter-BMC Parcel Post). The Postal Service believes that such redistributions of cost recoveries can be appropriate, when taken within the right context of overall rate design. This approach leads to results where the proposed rates may sometimes differ significantly from the preliminary, or starting, rate figures produced by the application of mathematical formulas. For example, taking the case of the three-pound DDU parcel oft-cited in UPS's interrogatories, my preliminary rate for this piece is \$0.85, while using a different approach (described in interrogatory UPS/USPS-T33-39), UPS apparently develops a preliminary rate of \$1.03. My actual proposed rate for this parcel is \$1.29, which is significantly higher than the preliminary rate even UPS's approach produces. I believe that taking all factors into account, the \$1.29 proposed is appropriate for this parcel, and would still be appropriate, even had I followed an alternative approach to rate design that had produced a preliminary rate for a three-pound DDU parcel closer to UPS's preliminary rate.

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.

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