

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

EXPERIMENTAL PARCEL RETURNS SERVICES

Docket No. MC2003-2

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
JAMES KIEFER TO INTERROGATORIES OF THE AMERICAN POSTAL
WORKERS UNION, AFL-CIO (APWU/USPS-T3-5-9)
(July 10, 2003)

The United States Postal Service hereby files the response of witness James Kiefer to the following interrogatories of the American Postal Workers Union, AFL-CIO:

APWU/USPS-T3-5-9, filed on July 3, 2003.

The interrogatories are stated verbatim and are followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Brian M. Reimer
Attorney

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-3037; Fax -3084
July 10, 2003

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS JAMES KIEFER TO INTEROGATORIES OF THE AMERICAN POSTAL WORKERS UNION, AFL-CIO

APWU/USPS-T3-5. In responding to APWU/USPS-T3-4 you indicate that the Postal Service expects fewer than 20 participants in this experiment in the first year. What are your expectations on the number of participants using RDU/RBMC? What are your expectations on the number of participants using BPMRS? Do you anticipate any participants to use both sets of services?

RESPONSE:

I am assuming that, in the question, RDU/RBMC refers to PSRS RDU and RBMC parcels as distinct from BPMRS RBMC parcels. Since there are no essential distinctions between PSRS RBMC and BPMRS RBMC services other than the labels and the rates, I believe it is likely that some participants, particularly those who serve as agents for mailers, will handle parcels under both PSRS and BPMRS services. From contacts that the Postal Service has had with potential customers, I understand that the more probable division will occur between participants picking up RDU parcels and those picking up RBMC parcels, rather than between those picking up PSRS and BPMRS RBMC parcels. Some participants may only pick up PSRS parcels and others only pick up BPMRS parcels, but I have not made any specific estimates of the numbers of each of these two groups. I expect that the number of potential participants interested solely in BPMRS would be somewhat smaller than the number interested solely in PSRS.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS JAMES KIEFER TO INTEROGATORIES OF THE AMERICAN POSTAL WORKERS UNION, AFL-CIO

APWU/USPS-T3-6. You indicate on page 12 of your testimony that the split between the projected number of RDU parcels and the projected number of RBMC parcels is based on discussions with mailers. Given the relatively small number of participants and the relatively large number of potential RDU sites, why do you believe the density of returned parcels per RDU will be high enough to generate 1.8 million RDU pick-ups? Do you anticipate some RDUs being significantly more popular than others?

RESPONSE:

As stated in witness Gullo's response OCA/USPS-T1-34, RDU service will be made available to mailers and their agents at approximately 6,500 larger delivery units ("early-bird" units). We do not expect all 6,500 facilities to be equally popular, and expect that some may not be targeted by mailers/agents at all. The decision about which "early-bird" sites to use will be determined by the participants and will depend on their individual economic and business calculations. Customers who normally receive mail from non-targeted "early-bird" sites could still be sent PSRS RBMC labels and have their return parcels picked up at the RBMC. Even if all 6,500 "early-bird" sites were to be targeted by mailers or agents, the projected RDU volume of 1.8 million pieces averages to approximately 277 pieces per unit per year, or about five pieces per RDU per week. While this may seem like a small number of parcels to justify a separate pickup visit, the economics would be much more favorable if the mailer/agent were to pick up these returns during an already scheduled drop-off stop for outgoing DDU parcels. For this reason, the Postal Service believes that the PSRS RDU service would appeal primarily to DDU drop-shippers.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS JAMES KIEFER TO INTEROGATORIES OF THE AMERICAN POSTAL WORKERS UNION, AFL-CIO

APWU/USPS-T3-7. In your discussions with mailers, did you discuss the "conversion" of an RDU package to an RBMC package? Do mailers anticipate picking up both RBMCs and RDUs, wherever the packages end up? Has any mailer expressed concern with being charged higher RBMC rates when they were expecting to be charged an RDU rate for the return? Has any mailer expressed concern that their customers will be confused or inconvenienced by this unexpected change in the parcel return cost?

RESPONSE:

It is my understanding that the discussions that Product Development conducted with potential customers were at a higher, rather than detailed, level and the issue of the "conversion" of RDU parcels into RBMC parcels did not arise. Based on contacts with its customers, the Postal Service expects that mailers or agents who plan on participating in the RDU portion of the experiment will also visit BMCs, so that retrieving bypassed RDU parcels from RBMCs is not expected to be a problem for these customers.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS JAMES KIEFER TO
INTEROGATORIES OF THE AMERICAN POSTAL WORKERS UNION, AFL-CIO

APWU/USPS-T3-8. On page 10 of your testimony you make the statement that the proposed pricing passes through most of the aggregate savings projected for the RBMC rate category. However, in WP-PRS-13 the savings passthrough is calculated at approximately 67 percent. Please clarify your comment on page 10 with respect to the WP-PRS-13 savings passthrough.

RESPONSE:

The phrase “most of the aggregate savings” should be understood to be synonymous with “the majority of the aggregate savings” within the context of the statement on page 10 of my testimony. My workpaper WP-PRS-13 shows that a majority of the aggregate savings, 67%, were passed through in the form of discounts.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS JAMES KIEFER TO
INTEROGATORIES OF THE AMERICAN POSTAL WORKERS UNION, AFL-CIO

APWU/USPS-T3-9. On page 10 of your testimony you state that the savings passthroughs are lower for heavier parcels. At what weight do you begin reducing passthrough rates? If current actual parcel distributions contain more light weight parcels than was anticipated from the distributions in R2001-1, would that increase the overall passthrough percentage for the RBMC service?

RESPONSE:

In my rate design, nonmachinable parcels receive a lower passthrough of savings than machinable parcels. Since, at 35 pounds, parcels automatically become nonmachinable, at that weight the passthrough would drop based on weight alone. If the weight profile of the RBMC parcels, as opposed to the *current actual* parcel weight distribution (which, like the R2001-1 distribution, is only a proxy for the unknown RBMC weight distribution), has more lighter parcels than I assumed in my analysis, the rates I propose would contain a higher passthrough of cost savings than I have estimated for the PSRS RBMC product. But the impact on passthrough from including a larger share of lighter parcels in the mix would be tempered by the fact that light-to-medium weight, machinable pieces already make up the great majority of assumed PSRS RBMC volume.

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.

Brian M. Reimer

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-3037; Fax -3084
July 10, 2003