

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 THE UNITED STATES POSTAL SERVICE
WITNESS MAYES TO INTERROGATORIES OF
PARCEL SHIPPERS ASSOCIATION
(PSA/USPS-T37-7-8)

The United States Postal Service hereby provides the response of witness Mayes to the following interrogatories of Parcel Shippers Association: PSA/USPS-T37-7-8, filed on August 28, 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



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September 11, 1997

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES

PSA/USPS-T37-7. In your response to UPS/USPS-T37-34(a) in explaining why you used a markup methodology to recover revenues lost from the constraint of setting parcel post rates 5 cents less than comparable priority mail rates, you explained your preference for markups rather than surcharges as follows:

“I believe that the markup methodology is more fair than a per-piece surcharge because it ties to the cost and revenue base for each cell rather than the relatively more regressive per-piece surcharge approach that places relatively more burden on the low-cost, low-weight items.”

- (a) Please explain why you did not apply this same preference and rationale to the recovery of the alleged cost difference between parcels and flats in Standard (A).
- (b) Would it not have been fairer, to use your terminology, to use a markup approach, rather than a surcharge that disproportionately affects “low-cost, low-weight items”?

Response:

- (a) I did not establish the methodology for the “recovery of the alleged cost differences between parcels and flats in Standard (A)” in this docket. The residual shape surcharge is presented in the testimony of witness Moeller (USPS-T-36). Please also refer to my response to part (b).
- (b) Not necessarily. I believe that you are comparing apples and oranges in these circumstances. I do not see a parallel between the efforts to recognize a distinct cost difference in Standard (A), and the recovery of the revenue lost from constraining rates in Parcel Post.

In Standard (A), there is a measurable cost difference between two types of mail. It is my understanding that the measured cost difference was in the

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form of a per-piece difference and, therefore, in witness Moeller's testimony, a per-piece surcharge is applied to the pieces with higher costs

The Parcel Post situation is very different. In Parcel Post the total costs were distributed to the rate cells and unconstrained rates were developed for all cells. Some rates were then constrained to prevent them from conflicting with Priority Mail rates, or changing so much that the rate shock needed to be mitigated. (Please refer to my responses to UPS/USPS-T37-29(b) and UPS/USPS-T37-37.) The result of implementing these constraints is that the revenue recovered for the subclass with some rates constrained did not match the total revenue requirement for the subclass. In order to recover the revenue deficiency, I considered the use of either a per-piece surcharge (such as the Commission utilized for such purposes in Docket No. R90-1) or an additional markup (such as the Commission utilized for such purposes in Docket No. R94-1).

Because the revenue that needed to be recovered in Parcel Post was a result of the constraints, and not the result of an underlying cost characteristic associated with the mail being asked to recover this revenue, I did not believe that a per-piece surcharge was the appropriate means to recover this revenue. As the revenue required for a subclass, in general, is recovered by marking up its costs overall, I viewed the application of an

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additional markup factor to be the more appropriate manner of meeting the total revenue requirement for Parcel Post.

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PSA/USPS-T37-8. In your response to POIR 1(a) (2) you state that the calculation of TYAR cost coverage as shown in your workpaper WP 11C. [sic] uses as its Base Year the total TYAR costs for parcel post with contingency, including intra-Alaska nonpreferential air costs. . . ." [sic] Please supply the total amount of Alaska nonpreferential air costs that are shown as a part of the TYAR costs for parcel post, and also supply for the record the TYBR intra-Alaska nonpreferential air costs charged to parcel post.

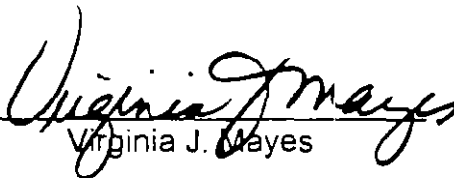
Response:

When I referred to the total TYAR costs for Parcel Post with contingency as the "base" for the calculation of the TYAR cost coverage, I did not mean "Base Year." Rather, the meaning I associated with "base" was its more generic meaning, as in a "starting point" for the calculation.

Please refer to the testimony of witness Hatfield (USPS-T-16) at Appendix I, page 12 where he reports "Test year Alaska non-pref air costs" of \$106,437(000). It is my understanding that these are the test year before rates costs. It is my further understanding that there is no separate TYAR or TYBR distribution key in the rollforward model for Alaska non-pref air costs, so the TYAR share of total Domestic Airmail costs that is Alaska non-pref air is the same as the TYBR share, which in turn comes from the base year share.

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: 9-11-97

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

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