

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 FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION
(FGFSA/USPS-T37-1-14)

The United States Postal Service hereby provides responses of witness Mayes to the following interrogatories of the Florida Gift Fruit Shippers Association: FGFSA/USPS-T37-1-14, filed on September 3, 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
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RESPONSE OF POSTAL SERVICE WITNESS MAYES TO FGSA INTERROGATORIES

FGSA/USPS-T37-1. On page 5 you state that "constraints" have been incorporated in the proposed rate design. Please fully explain just what these "constraints" consist of, with complete statement of the underlying reasoning for each.

Response:

Please refer to my responses to UPS/USPS-T37-29, UPS/USPS-T37-33a, UPS/USPS-T37-37, and FSFGA/USPS-T37-10. Please also refer to the formulae underlying the rates in my workpapers WP I.L., pages 3 through 8; WP I.M., pages 1 through 6; and WP I.N., pages 1 through 6, provided in Library Reference H-197 in file H197-1.XLS.

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FGFSa/USPS-T37-2. Refer to your testimony, beginning at page 7, and your description of the OBMC entry discount.

- a. May a qualified mailing (50 or more parcels) consist of a mixture of machinable and nonmachinable parcels?
- b. Is there a minimum number of parcels for each BMC? If so, provide the minimum number.
- c. If a mailer presents 50 parcels to a BMC, with 20 parcels for Intra-BMC handling and 30 parcels for Inter-BMC handling, will the mailing qualify for the OBMC entry discount?
- d. If a mailer presents 50 parcels to a BMC for Intra-BMC handling, will the upstream facilities be by-passed to the same extent as if the 50 parcels were presented for Inter-BMC handling? If so, will the OBMC entry discount be available to the mailer for such mailing?
- e. Explain why this entry discount applies only to Inter-BMC mailings.

Response:

- a. If, when separated into machinable and nonmachinable pieces by destination BMC, the machinable pieces adequately fill the appropriate containers and the nonmachinable pieces adequately fill the appropriate containers, then the mailing may contain both machinable and nonmachinable parcels.
- b. At this stage in the process of developing the implementing regulations, it is my understanding that there is no minimum volume associated with the BMC separations. However, there is a requirement that a sufficiently full gaylord for machinable parcels or a sufficiently full pallet for nonmachinable parcels be prepared to each destination BMC.
- c. Yes, in the unlikely event that the 30 parcels are sufficient to substantially fill the appropriate gaylord or pallet to each of the destination BMCs.

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- d. Such a mailer would be qualified for DBMC rates. Please refer to the testimony of witness Crum (USPS-T-28) for the discussion and estimation of the costs avoided both by DBMC and by OBMC entered parcels.
- e. The OBMC entry discount only applies to inter-BMC mailings because that is the only group of mail to which it logically could be applied. Intra-BMC and DBMC parcels already pay rates that reflect the avoidance of many of the same costs identified by the OBMC entry discount.

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FGFSa/USPS-T37-3. Refer to your discussion of the BMC presort, beginning at page 8 of your testimony.

- a. Why is this discount restricted to Inter-BMC parcels?
- b. Will the same processing cost savings result for parcels presented to the BMC for Intra-BMC handling?
- c. Identify the entry points which are permitted to qualify for the discount.
- d. What must a mailer do to presort "to the secondary sort operations"?
- e. Describe the "secondary sort operation".
- f. May a mailer qualify for the discount by presenting a mix of machinable and nonmachinable parcels, as long as the total of 50 parcels is presented?
- g. Describe a "properly prepared mailing" as you those terms on line 21 of page 8 of your testimony.
- h. Must the presorted parcels be containerized (including pallets) in any manner to qualify for the discount?

Response:

- a. The BMC presort discount is restricted to inter-BMC parcels because that is the only logical group of parcels to which such a discount could apply. By definition, intra-BMC and DBMC parcels are already within the BMC service area.
- b. Parcels presented to the BMC for intra-BMC handling would be paying the DBMC rate. Please refer to the testimony of witness Crum (USPS-T-28) for the measurement of cost savings associated with both DBMC and BMC presorted mail.
- c. The implementing regulations associated with the BMC presort discount have not been produced. However, it is my understanding that BMC presorted parcels may be entered at any upstream facility capable of handling the pallets or gaylords associated with the BMC separations.

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- d. The sort to the secondary operation is not required to qualify for the BMC presort discount, but the mailer may separate the parcels such that they are consistent with a particular secondary sort scheme in an effort to improve service performance. Should mailers choose to perform this optional sort, they would be preparing the parcels such that when they arrive at the destination BMC, the parcels can be inducted directly into the appropriate secondary scheme.
- e. Please refer to the testimony of witness Daniel (USPS-T-29) at page 17, and to her response to UPS/USPS-T29-1.
- f. Please refer to my response to FGFSa/USPS-T37-2a.
- g. Please refer to my response to UPS/USPS-T37-16.
- h. Yes. The BMC presort discount is intended to encourage the preparation of parcel mailings such that it is possible to simply crossdock the mail at the origin BMC. To do so, the separations must be prepared such that they may be maintained from acceptance until the arrival at the destination BMC. Although the final implementing regulations have not been developed, in order to achieve the cost savings developed in the testimony of witness Crum (USPS-T-28), it will be necessary for the mail to be containerized.

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FGFSa/USPS-T37-4. Refer to page 9 of your testimony and the discussion of the DSCF Dropship.

- a. Explain what is required for the mailer to enter a "properly prepared mailing".
- b. Will a mix of machinable and nonmachinable parcels qualify for the 50 piece minimum?
- c. If a SCF usually receives parcels from the BMC sorted to the 3 digit level, will the mailer qualify for this discount for parcels entered with a similar 3 digit sort?
- d. How can a mailer determine the level of sortation of parcels of parcels [sic] received by a SCF from the BMC?
- e. Are nonmachinable parcels generally sorted by the destination BMC to a level finer than 3 digits?

Response:

- a. Please refer to the response to UPS/USPS-T37-16.
- b. Yes.
- c. No. A five-digit presort is required.
- d. There would be no need for a mailer to do so, as the required presort level for the DSCF discount is to the 5-digit level.
- e. Not generally, although there occasionally may be arrangements worked out between particular BMCs and SCFs for finer sorts of nonmachinable parcels.

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FGFSa/USPS-T37-5. The per-piece rate element of the proposed rate takes into account a reduction of an amount determined from 2 cents per pound for "nontransportation weight-related handling cost". (See wp 1.1)

- a. Identify the costs which are included as "weight related nontransportation costs".
- b. Identify any study which specifies and quantifies "weight related nontransportation costs".
- c. Provide a complete explanation of the method you used to determine that 2 cents per pound is the proper amount to cover "weight related handling costs". What is the total amount of such costs?
- d. Identify the additional costs totalling [sic] 80 cents which would be incurred in the handling of a 40 pound parcel, but which amount to only 20 cents for a 10 pound parcel.
- e. Would it be more correct to describe these "weight related handling costs" as "cube related handling costs"?

Response:

- a. Any nontransportation costs that are positively correlated with the weight of the piece of mail.
- b. I am aware of no such study.
- c. The determination of 2 cents per pound was based almost entirely on Commission precedent. The total amount of such costs is shown at line (5) on page 2 of my workpaper WP 1.1.
- d. I cannot.
- e. It is quite likely that some of the costs being associated with the 2 cent per pound weight-related nontransportation handling cost are related to the cube of the parcel and not its weight. See my testimony at pages 13 and 14. For example, some of the costing models presented in the testimonies of witnesses Crum (USPS-T-28) and Daniel (USPS-T-29) may be used to

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demonstrate that as the cube of parcels increases so that the number of parcels that can fit into any given container decreases, the cost per piece of unloading, moving or dumping that container will increase. Even if the costs represented by the 2 cents per pound are more closely related to the cube of the parcel and not the weight, the use of weight as a proxy for cube is not unreasonable, given the generally positive correlation between the two.

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FGSA/USPS-T37-6. Refer to your WP I.E. Transportation cost per piece for Intra-BMC is the same amount for all zones, except Local zone, for each weight increment, but for DBMC the transportation cost per piece increases in each zone. Fully explain how the transportation cost per piece in Intra-BMC does not increase from zone to zone.

Response:

Please refer to the testimony of witness Hatfield (USPS-T-16), particularly at pages 10 and 11.

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FGSA/USPS-T37-7. Are the vehicles used and the routes covered in connection with the transportation of mail from the BMC to the destination postal facility the same for Intra-BMC and DBMC transportation? If not, please fully explain.

Response:

There may be isolated cases in which only DBMC or intra-BMC is on a particular truck, but in general, trucks are not loaded or dispatched solely for one rate category of mail. Rather, the vehicles transport whatever mail of whatever class happens to be available for transport at the time of dispatch. Intra-BMC and DBMC parcels will generally travel on the same trucks and on the same routes. However, there may be isolated instances in which a truck may contain only one or the other type of mail in addition to mail of other classes, simply due to the prevailing mail mix at the time of dispatch.

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FGFA/USPS-T37-8. Are Intra-BMC and DBMC parcels intermingled at the destination BMC and transported to the postal facilities served by that BMC in the same vehicles? If not, please fully explain.

Response:

Generally, yes. There may be some instances in which the mail mix at the time leads to a vehicle containing only intra-BMC parcels or DBMC parcels in addition to the other classes of mail being transported on that vehicle, and not both DBMC and intra-BMC parcels.

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FGFA/USPS-T37-9. Are the rates which you propose cost-based rates? Do the proposed rates cover attributable costs for each weight cell and zone destination?

Response:

Yes. I do not know the attributable cost for each weight and zone combination, but as described in my responses to FGFA/USPS-T37-1 and FGFA/USPS-T37-10 as well as in my testimony and workpapers, some of the rates are constrained so as to mitigate against the rate shock that mailers would have experienced had the rates tied more closely to the costs implied by more recent cost studies. The result is that in some rate cells, the rates may not cover the costs of handling the pieces associated with those cells.

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FGSA/USPS-T37-10. Your WP I.E shows that the transportation costs per piece to zone 4 and zone 5 for Intra-BMC differ from such costs for DBMC in each weight level. If the transportation costs per piece are different, explain why your proposed rates for all weights to zones 4 and 5 are the same for Intra-BMC and DBMC.

Response:

The rates proposed in this docket represent a transition between the existing rate design and a rate design more closely reflective of the transportation costs measured by witness Hatfield (USPS-T-16). As noted in my responses to UPS/USPS-T37-33a and UPS/USPS-T37-37a, the rates for Zones 3 through 8 were constrained such as to not decrease. This constraint held the rates for intra-BMC zones 4 and 5 to the current rates. The unconstrained rates for DBMC zones 4 and 5 would have increased substantially, but were constrained to not increase above the rates for intra-BMC in this instance, in order to maintain a logical rate relationship.

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FGFSa/USPS-T37-11. Explain the "de-averaging" process (see your testimony on page 6) that gives some mailers a rate decrease and other a rate increase.

Response:

The rates for any group of parcels apply to some parcels that are more expensive, on average, than others in the same rate category. Thus, the relatively more expensive parcels are receiving some rate benefit from the inclusion of the lower cost parcels. This is because the presence of the lower cost parcels pulls down the average cost and associated rate applied to both the more expensive parcels and the less expensive parcels.

The de-averaging process is no more than separately identifying individual groups of mail and measuring the costs associated with each group, then setting rates for each group that more closely align with their costs. The mailers receiving a rate decrease from such an effort would be those mailers who had previously been paying rates that were pulled up by the presence of the higher cost items. Conversely, the mailers who end up with higher rates would be those mailers who had previously paid rates that had been held low by the presence of the lower cost items. I would note that the de-averaging process may not result in one group receiving a rate increase and another receiving a rate decrease. Rather, both groups may receive rate increases, although of different sizes, or both groups may receive rate decreases of different sizes.

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FGFA/USPS-T37-12. Refer to your testimony, page 23. Please provide a description of the proposed packaging service, and the qualifications for use. Also provide the anticipated date when this service will be filed with the Commission.

Response:

Please refer to Docket No. MC97-5, filed with the Postal Rate Commission on July 29, 1997.

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FGSA/USPS-T37-13. In each FY 1995 and 1996 the volume of parcel post declined.

- a) In setting your proposed rates do you intend to foster a continuation of this decline in parcel post volume?
- b) Do you expect that your proposed rates [sic] will provide an incentive for business mailers to use parcel post, especially to zones 1-2 and 3? Please fully explain how this will occur.
- c) How much increased volume do you anticipate for DBMC parcels to zone 3 weighing 6 pounds and up? What mailers will continue to use parcel post under your proposed increases in rates?
- d) How much increase in volume do you anticipate for Intra-BMC parcels to local zone, and zones 1-2 and 3? What mailers will continue to use parcel post under your proposed increases in rates?

Response:

- a) The proposed rates are intended to raise the level of contribution to institutional costs from Parcel Post to a positive number, and provide a closer alignment of costs and rates. I refer you to the testimonies of witnesses Tolley (USPS-T-6) and Thress (USPS-T-7) for discussions of the volume trends for Parcel Post and the variables affecting those volumes. I will note that the test year after rates volume forecasted for Parcel Post is lower than the forecasted test year before rates volume, but is higher than the FY 1996 volume.
- b) Many of the proposed changes to both the rate design and the service features associated with Parcel Post should appeal to business mailers. I recognize that the rates for Zones 1&2 and Zone 3 were increased more than rates for other zones. However, as shown at pages 1 through 6 of my workpaper WP I.K., many of the unconstrained rates for those zones would

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have been much higher than the rates being proposed in this docket. The rates for Zones 1&2 and Zone 3 remain significantly below those for more distant zones.

- c) I do not have separate elasticities or forecasting models for individual weight and zone combinations. Thus, I cannot say what the volume response associated with any particular rate cell will be. Nor do I have market research that would allow me to map particular mailers to particular rate cells and forecast their individual responses to rate changes. It is my expectation that Parcel Post will continue to be used by mailers who find its combination of price and service features to be better than those available to them from competitors to Parcel Post.

In Docket No. MC97-2, I responded to a series of interrogatories posed by the OCA which related to this topic. I repeat my response to OCA/USPS-T13-18b-e:

"It is beyond the realm of possibility and plausibility to consider independently calculating, establishing and defending a unique elasticity estimate for every rate element in every subclass of mail. In the absence of additional information such as market research, the generally accepted means of estimating the volumes for revenue estimation and rate design has been to apply the fixed distribution of volume to weights and zones to the new estimate of total volume. The before- and after-rates volume forecasts for Parcel Post were performed at an aggregate level for Inter-BMC

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separately, and for DBMC and Intra-BMC together. The volume figures appearing in each cell for revenue estimation purposes are not volume forecasts, per se, for each cell. They simply represent the distributions of the aggregate forecasted volumes according to the base year distribution. In the absence of independent calculations of a unique elasticity for each rate cell based on more than the one-time change in price and the estimated one-time change in volume for that cell (particularly when the change in volume, such as would be used to develop your 'implicit own price elasticities for particular rate cells,' was developed with reference to distributions of an aggregate volume to cells using a base year distribution, and ignores any possible cross-price effects), the calculation of 'implicit own price elasticities' does not yield meaningful results, but rather, may lead to a false sense of precision as well as improper and unsupported conclusions.

Some mailers are cognizant of the exact weight and zone associated with each of the parcels they send. Depending upon the sophistication of their shipping operations, such mailers may be able to shift their volume from a particular cell in response to a rate change in that cell. I do not, however, have data that would inform me as to how many pieces in each rate cell are associated with such mailers.

Similarly, some mailers may concentrate their usage within a limited range of weights and distances, and may focus their attention on the rates within that

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range. However, these mailers may decide to choose one shipper for all of their business based on the array of relevant rates, rather than to shift volume from one shipper to another on a package by package basis. Other mailers may choose to shift between carriers on a shipment by shipment basis. As is the case with the most sophisticated mailers described above, I do not have data that would inform me as to how many pieces in each rate cell are associated with such mailers.

Perhaps the retail customer preparing a single package might be swayed by a change in the price for a particular combination of weight and zone. However, in such cases, the customer often does not know the weight of the piece, and may not know the zone applicable to the destination address until the parcel is presented at the retail window and the clerk announces the applicable rate. At such time, the customer may decide that the rate is too high, but that the inconvenience of carrying the parcel to the retail window of another carrier is not worth the potential savings. The customer may, however, have the general impression that a competitor's rates are lower than those for Parcel Post, and take the parcel to the competitor to begin with. In such a case, it is again the full array of rates, and not the rate for an individual rate cell that would determine this behavior.

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For further discussion regarding these issues, please refer to the response of Postal Service witness Ashley Lyons to Presiding Officer's Information Request No. 3, Question 1, in Docket No. MC96-3. Tr. 8/3002-3."

d) Please see my response to parts a) and c) above.

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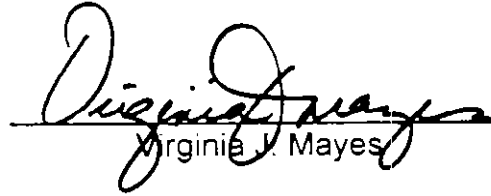
FGFSA/USPS-T37-14. What are your proposed rates for parcels using the Alaska By-pass?

Response:

The intra-BMC rates are applicable to parcels using the Alaska Bypass air service.

DECLARATION

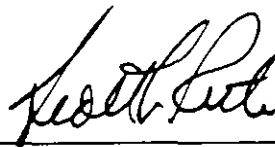
I, Virginia J. Mayes, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


Virginia J. Mayes

Dated: 9-17-97

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
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