

DOCKET SECTION

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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
UNITED PARCEL SERVICE
(UPS/USPS-T37-63-67)

The United States Postal Service hereby provides responses of witness Mayes to the following interrogatories of United Parcel Service: UPS/USPS-T37-63-67, filed on September 12, 1997. An objection to interrogatory UPS/USPS-69 was filed on September 22, 1997. Interrogatories UPS/USPS-T37-68, 70-72 were redirected to the Postal Service.

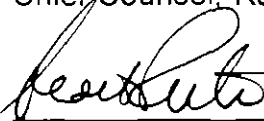
Each interrogatory is stated verbatim and is followed by the response.

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
September 26, 1997

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UPS/USPS-T37-63. Please confirm that tab "WP I.F., page 3," in the spreadsheet H197-4.xls, refers to the two spreadsheets:

"\EXCEL\96bd\96RPWREV\QT967V2.XLW]" and

"\EXCEL\96bd\4c\PPBD96R2.XLS]."

- (a) Please confirm that these two spreadsheets give the actual GFY 1996 volumes and are used to calculate the amount of GFY 1996 volume that currently participate in barcoding, presorting, OBMC entry, and DSCF entry.
- (b) Please confirm that the 1996 GFY volumes in WP I.F., page 3 are mislabeled, such that "GFY 1996 Volumes" would be more appropriately labeled as "Affected GFY 1996 Volumes."
- (c) Confirm that the values linked to in these sheets can be derived by dividing the GFY 1996 Volume by the Percentage of CY 1996 Volume.
- (d) Confirm that the values below are equal to what is found in the linked sheets. If you cannot confirm, please provide the sheets.

Volume Currently Barcoded:	Actual GFY 1996 Volumes
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Library Mail	30,133,194
Special Standard	189,793,314
Bound Printed Matter	516,111,172
Parcel Post	212,828,323

Parcel Post Volumes Currently:

BMC Presort	66,223,149
OBMC Entry	66,223,149
DSCF Entry	96,406,682

Response:

I confirm that there are cells in workpaper WP I.F., page 3 of workbook H197-4.XLS that refer to the two spreadsheets listed.

- (a) The two spreadsheets in question provide the total GFY 1996 volume of the subclasses listed. These GFY volumes are multiplied by the percentage of calendar year volume already performing the workshare activities to estimate the GFY 1996 volumes performing such activities.

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- (b) Given that the title across the top of the page was "Estimated Standard B FY 1996 Volumes Already Performing Worksharing Activities," I saw no need to repeat the title on the column headings.
- (c) Confirmed. These values may also be obtained by referring to the billing determinants or to the RPW total volume figures for FY 1996, both of which *were provided in this docket.*
- (d) Confirmed.

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UPS/USPS-T37-64. Both you and witness Sharkey apply a two-cent per pound non-transportation weight-related handling charge to your rates.

- (a) Please explain why two cents was chosen over some other amount (e.g., 1 cent per pound, or 5 cents per pound).
- (b) Please discuss any other amounts considered for this charge, or confirm that no other amounts were considered. Did you confer with witness Sharkey regarding the two-cent per pound charge?
- (c) Please discuss the historical use of this type of charge and provide documentation regarding the legitimacy of the charge and any commission decisions supporting it.

Response:

Please refer to my response to FGFS/USPS-T37-5 and to the response of witness Sharkey to UPS/USPS-T33-55.

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UPS/USPS-T37-65. Please refer to your response to UPS/USPS-T37-3.

- (a) Confirm that you have no survey data with respect to the amount of current volume entered as DDU or new volume that would be entered as DDU if a discount were implemented. If not confirmed, explain in detail.
- (b) Confirm that you assumed that there would be no new volume attracted by the implementation of DDU program in and of itself (i.e., other than the growth applicable to parcel post as a whole from the base year to the test year). If not confirmed, explain in detail.

Response:

Please refer to my responses to UPS/USPS-T37-56, UPS/USPS-T37-47(m), UPS/USPS-T37-46(e), and UPS/USPS-T37-53.

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UPS/USPS-T37-66. In Table 1 of USPS-T-6, witness Tolley notes that Test Year After-Rates volume for Parcel Post is 231.879 million, and that "Adjusted After-Rates" volume for Parcel Post is 234.660 million, and cites USPS-T-37 as the source of the Adjusted After-Rates volume for Parcel Post.

- (a) Provide the source page in USPS-T-37 that matches the 234.660 million figure cited by Tolley. If not available, show in detail how the 234.660 million figure can be derived based on figures contained in USPS-T-37.
- (b) In USPS-T-37, WP II.A., page 1 of 7, you list Test Year After Rates Volume for Parcel Post of 231,879,000. Please explain why you do not list Test Year After Rates Volume of 234,660,000 in WP II.A., per the Adjusted After-Rates volume for Parcel Post listed on Table 1 of USPS-T-6.
- (c) Provide a detailed explanation for the adjustments you made to the parcel post volume estimate of Tolley. Explain how the additional volume was used in your analysis.

Response:

(a) Please refer to WP II.C., page 4.

(b) The figures shown at WP II.A., page 1 are the unadjusted volume figures, and represent the results of Dr. Tolley's forecasts. These unadjusted volume figures were used in conjunction with the unadjusted cost forecasts. In addition to changes in volumes from TYBR to TYAR resulting from the proposed changes in rates, there are exogenous changes to the Parcel Post volume which were not easily incorporated into Dr. Tolley's analysis. As shown at page 4 of WP II.C., these changes were associated with the introduction of delivery confirmation service and packaging service, the increase in maximum length and girth to 130 inches, and the imposition of the Hazardous Materials surcharges. As shown at pages 1, 3 and 4 of WP II.C.,

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I adjusted TYAR volumes, revenues and costs to incorporate the impacts of these non-rate related changes to Parcel Post volume.

(c) Please refer to my responses to parts (a) and (b) above, as well as the workpapers referenced therein.

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UPS/USPS-T37-67. Refer to USPS-T-37, WP I.I., page 1 of 3.

- (a) Confirm that you propose to pass through 98.08% of the DBMC Nontransportation Cost Savings into the DBMC Nontransportation Discount. If not confirmed, explain.
- (b) Confirm that the DBMC Nontransportation Cost Savings are comprised of acceptance and processing costs avoided by DBMC mail in comparison to intra-BMC mail. If not confirmed, explain.
- (c) Confirm that the Commission only passed through 77 percent of the identified acceptance and processing costs avoided by DBMC mail in R90-1 and R94-1.
 - (i) If confirmed, explain why your proposed pass through is significantly higher than that used by the Commission in R90-1 and R94-1.
 - (ii) If not confirmed, explain in detail and in particular explain any and all differences between the 77% figure used in the Commission's DBMC rate design in R90-1 and R94-1, and the 98.08% pass through in your proposed R97-1 rate design for DBMC.

Response:

- (a) Confirmed.
- (b) Please refer to the testimony of witness Crum (USPS-T-28) for a complete description of the derivation of the DBMC nontransportation cost savings.
- (c) I cannot confirm the Commission's passthroughs of 77 percent. When I examined the Commission's workpapers for the estimation of the DBMC cost avoidances, I found that the Commission appeared to have calculated the cost avoidance figures, then multiplied by "77% non-dropshipped." I was unable to locate a specific reference that would clarify what was meant by this adjustment factor. However, at paragraph [6459] on page V-355 of the Commission's Opinion and Recommended Decision in Docket No. R90-1, the Commission states that it took "into account that some intra-BMC parcels are

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already dropshipped and therefore are currently incurring the lower costs identified in witness Acheson's study." This description appears to be consistent with the 77 percent adjustment factor found in the workpapers. I would not consider an adjustment factor that takes into account the share of volume already being dropshipped, and the associated revenue leakage, to be a "passthrough," per se. When I examined the Commission's workpapers from Docket No. R94-1, I found that the Commission appeared to have simply taken the cost savings calculated in Docket No. R90-1 and multiplied by a "targeted change in revenue per piece" factor of 1.182. (Refer to page 18 of the Commission's "Development of PARCEL POST Rates." Please also refer to the Commission's Opinion and Recommended Decision in that docket at page V-118, paragraph [5357].)

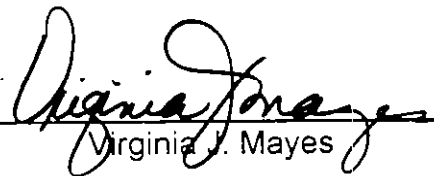
Docket No. R90-1 was the docket in which the concept of DBMC for Parcel Post was first introduced. It is understandable that the Commission might have chosen a conservative approach to introducing a discount of such magnitude with which there had been no experience. In Docket No. R94-1, the Postal Service did not provide any new cost studies to support the discounts. Rather, in Docket No. R94-1, the Postal Service chose to adjust the discount commensurate with the across-the-board increases in rates for the subclass. Thus, the Commission did not have an updated cost study provided by the Postal Service to use when adjusting the DBMC discounts. In this docket, there have been refinements made to the estimation

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processes used to develop the cost savings estimates. The Postal Service has also had several years of experience with the DBMC rate category.

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: 9-26-97

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 black ink, appearing to read "Scott Reiter", written over a horizontal line.

Scott L. Reiter

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