

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

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS MAYES TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T37-12-17)

The United States Postal Service hereby provides responses of witness Mayes to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T37-12-17, filed on September 12, 1997.

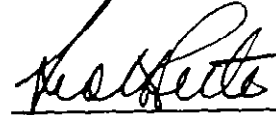
Each interrogatory is stated verbatim and is followed by the response.

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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OCA/USPS-T37-12. Please refer to your response to UPS/USPS-T37-16, in which you were asked to provide a complete description of various shipment requirements for OBMC entry, BMC presort, DSCF dropship, and DDU dropship discounts. You responded: "The qualifications and mail preparation requirements which will be applicable to these new categories, beyond those contained in the proposed DMCS provisions are still in the development stage and have not yet been produced or finalized."

- a. As to each of the proposed discounts, will any of the qualifications and mail preparation requirements which have not yet been produced or finalized affect the Postal Service's cost avoidance analysis? Please explain.
- b. As to each of the proposed discounts, will any of the qualifications and mail preparation requirements which have not yet been produced or finalized affect the Postal Service's projected volumes analysis? Please explain.
- c. If your answer to (a) and (b) is that you cannot provide a specific answer, please provide guidance to OCA and other participants as to how they might perform accurate cost avoidance analyses and projected volume analyses in the absence of specific information concerning the said qualifications and mail preparation requirements.

Response:

- a. As the qualifications and mail preparation requirements have not been produced or finalized, it would be impossible for me to categorically respond to your question. It is my understanding and expectation that the implementation by the Postal Service of the rates and classifications recommended by the Commission and approved by the Governors will be based on the assumptions presented with the Postal Service's proposals in this docket.
- b. Please refer to my response to part a above. In addition, however, I would note that, in the interest of maintaining the cooperation of respondents with the market survey, the descriptions of the mail preparation requirements for

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each of these dropship and presort discounts were necessarily brief. There may be details, such as the minimum number or weight or cube of pieces per 5-digit separation for the DSCF discount, for example, which were not included in the survey, but may cause mailers to either increase or decrease their participation relative to what they indicated in their survey responses.

- c. I am unaware of any circumstances with respect to the mail preparation requirements which would make the development of "accurate cost avoidance analyses and projected volume analyses" for the discounts listed in your interrogatory any more or less difficult or tenuous in this docket than for other worksharing discounts proposed in any other docket.

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OCA/USPS-T37-13. Please refer to your response to OCA/USPS-T37-5 pertaining to oversized parcel shipments (i.e., packages whose combined length and girth exceeds 108 inches). You state: "Simply because there may be a perceived desire for a particular type of service in the market for package delivery service does not imply that the Postal Service must necessarily provide such service. As illustration, please refer to the list of nonmailable and restricted items in the DMM at section C021." It is our understanding that the DMM section you cite applies to all shippers, not just small shippers or shippers the Postal Service prefers not to serve. Please confirm.

- a. If you do not confirm, please explain.
- b. If confirmed, please provide further explanation as to how your illustration is an appropriate analogy.

Response:

- a. Not confirmed. As noted in DMM section C021.2.1, there are statutory exceptions that apply to such things as "live scorpions, poisonous drugs and medicines, poisons for scientific use, switchblade knives, firearms, motor vehicle master keys, locksmithing devices, and abortive and contraceptive devices." As specified in Publication 52, Acceptance of Hazardous, Restricted, or Perishable Matter, some of the items listed above may be mailed by certain groups of mailers, but not by others.

For example, Class B poisons may be mailable "for scientific use only between manufacturers, dealers, bona fide research or experimental scientific laboratories, and designated employees of Federal, state, or local governments who have official use for such poisons." [Section 324.311 of Publication 52] For controlled substances and drugs, the mailer and

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addressee must be registered with the Drug Enforcement Administration or exempted from DEA registration, such as military, law enforcement, and civil defense personnel, in performing official duties. [Section 325.21a of Publication 52] Mailers of prescription medicines containing nonnarcotic controlled substances may be registered practitioners or dispensers mailing to the ultimate user, whereas "for prescription medicines containing narcotic drugs, the only mailer acceptable is a Veterans Administration medical facility, mailing to certain veterans." [Emphasis deleted.] [Section 325.21b. and 325.21c. of Publication 52] Intoxicating liquor is mailable only "between employees of Federal or state agencies who have official use for it, such as for testing purposes." [Section 424.22 of Publication 52] Perishable biological materials may only be sent in international mail by certain kinds of laboratories. [Section 634.131c of Publication 52] Similarly, some types of firearms are mailable only by licensed manufacturers or if sent to law enforcement personnel. [Exhibit 433.1 of Publication 52]

b. Not applicable.

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OCA/USPS-T37-14. Please refer again to your response to OCA/USPS-T37-5. As a reason for the Postal Service not providing oversized parcel service even though there is a perceived desire for such service, you state: "Provision of some service [sic] could be expected to result in negative impact on either the Postal Service's finances or the safety and health of its employees."

- a. What would be the negative impact on Postal Service finances if it offered service on oversized parcels to all who requested such service at the proposed noncompensatory rates? Please quantify and show the derivation thereof.
- b. Would any negative impact discussed in (a) be overcome if the proposed rate was compensatory? Please discuss.
- c. What would be the negative impact on the safety and health of Postal Service employees if it offered service on oversized parcels to all who requested such service?
- d. Referring to (c), is there some threshold oversized parcel volume at which Postal Service employees will not be injured if they handle "x" oversized volume (where "x" is the volume expected to be tendered under the proposal), but *will* be injured if they handle "x" + small shipper/consumer volume?
- e. Is it your testimony that the employee's health and safety would be compromised if they handled oversized shipments for small shippers or individual consumers, but not for shippers tendering enough volume to qualify for the proposed oversized parcel service? Please explain.

Response:

The statement to which you refer was made as part of a general discussion regarding the premise that the Postal Service must necessarily provide whatever service for which there may be a perceived desire, and was not intended to be viewed as specific to the provision of service to oversized parcels.

- a. I do not know the size of the impact on Postal Service finances, as I do not know what the volume of oversized pieces sent by individual mailers would be. I refer you to my workpapers at page 1 of WP I.I., lines (25) and (26) as compared to line (9) on the same page to demonstrate the relative cost

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differences associated with the nonmachinability of the oversized pieces. I also refer you to page 13 of WP I.H. and to pages 1 and 2 of WP I.E. for comparisons of the average cube of the oversized parcels to the average cube associated with parcels with combined length and girth under 108 inches. If one had an estimate of the number of oversized parcels to be tendered by small businesses and individuals, the cost difference to which I refer could be used to develop the loss associated with such parcels.

- b. Yes, although there could be some discussion regarding the appropriate markup to be applied to the rates that are sufficient to cover the costs estimated to be associated with those pieces.
- c. I did not say that the provision of service for oversized parcels to all who requested such service would have a negative impact on the safety and health of Postal Service employees. I made the statement to which you refer as part of a general discussion regarding the premise that the Postal Service must necessarily provide whatever service for which there may be a perceived desire. However, in response to OCA/USPS-T13-29i in Docket No. MC97-2, I provided pages from a textbook that described the National Institute of Occupational Safety and Health (NIOSH) guidelines for lifting. In that response I noted that the NIOSH model and the University of Michigan Static Strength Prediction Program required information on the dimensions of the parcel, and not just the combined length and girth. As one of the variables used in the models is the frequency with which such lifting of large items occurs, common sense would indicate that the more common such

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oversized parcels are in the mailstream, lifting injuries could also become more common. I have not attempted to verify or quantify the connection between the prevalence of oversized parcels and such injuries.

- d. I am unaware of any measurement of such a threshold, nor do I have information that would suggest that such a threshold is either above or below the volume that would accrue in connection with the ten percent limit on oversized parcels. As I stated in my response to part a above, I have no knowledge as to the volume of oversized parcels that would be tendered by "small shipper/consumer[s]."
- e. I have not testified that handling oversized parcels will, in fact, compromise the health and safety of employees. Please refer to my responses to parts c and d above. In the absence of a mailflow analysis, I know of no reason why the oversized parcels tendered by small shippers or individual consumers would be any more or less injurious to postal employees than the same number of oversized parcels tendered by large shippers. The point of the restriction is to try to limit the number of such oversized parcels, at least until the Postal Service is able to determine the effect of such parcels on both Postal finances and on the number of lifting injuries reported by postal employees.

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OCA/USPS-T37-15. In your response to OCA/USPS-T37-5 you further state: "Due to the expectation that these oversized parcels will not be fully compensatory, in the absence of evidence that the mailer is shipping additional volume that could be expected to be compensatory, the decision was made to exclude individual shipments of oversized parcels." Comment on the proposition that household mailers (i.e., individual consumers) should be permitted to mail oversized parcels at less than compensatory rates, because such mailers otherwise predominantly use the mails for First-Class Mail, and contribute substantially to coverage of the Postal Service's institutional costs. In responding to this interrogatory, please refrain from using extreme assumptions (e.g., refer to your response to OCA/USPS-T37-6, where you use the example of a customer mailing a parcel of perishable, nonmachinable items to a remote area in Alaska). Rather, use assumptions that employ average statistics, such as the Household Diary Study (see, e.g., the Response of the Postal Service to OCA/USPS-T32-46 (f-h)).

Response:

I disagree with, and am surprised at, the premise of this question that it is appropriate to cross-subsidize noncompensatory Parcel Post with revenues derived from another subclass, First-Class Mail. I do not agree that the contribution purportedly provided by any group of mailers' use of one subclass should be considered to make up for the loss associated with their mail in another subclass. In fact, although I am not a lawyer, I would suggest that such an assertion may be in conflict with the Postal Reorganization Act.

I am also bothered by the concept that the contribution associated with any particular subclass of mail should be divided up according to the mailer group originating such revenue and spread to other subclasses of mail according to the relative shares of use of the various mailer groups. It is not clear to me how

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such a process could be performed, much less why there should be any relationship between the relative contribution provided by one group of mailers through their usage of one subclass and the relative contribution provided by the same group of mailers through their usage of another subclass. I have always understood contribution and cost coverages to be concepts associated with subclasses, and not with mailers.

Furthermore, despite your assertion that "household mailers ... otherwise predominantly use the mails for First-Class Mail, and contribute substantially to coverage of the Postal Service's costs," I am unaware of any study which purports to segregate the First-Class Mail mailstream into household-originated and nonhousehold-originated volumes, revenues and costs. Thus, despite the documented contribution accruing from First-Class Mail, I am aware of no study which purports to document how much – if any – of that contribution can be directly associated with household-originated First-Class Mail.

Despite your request that I "refrain from using extreme assumptions," I feel compelled to point out that although households may originate prebarcoded, machine-addressed First-Class Mail such as courtesy reply envelopes or business reply mail, I would wager that they also produce oversized Christmas cards in green and red envelopes with outdated or incomplete addresses illegibly handwritten in silver or gold ink. I am aware of no study that can

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quantify the relative shares of the two types of mail just described, much less their relative contributions to institutional costs.

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OCA/USPS-T37-16. Please refer to your response to OCA/USPS-T37-9 where you state: "I continue to assert that the response to your question depends on the baseline conditions, and I believe that such a position is supported by the same paragraph in the Scherer text when it states: 'It is more difficult to generalize when the size distribution of sellers is highly skewed,' such as, I suggest, is the condition of the current market for ground service delivery."

- a. Please describe fully what you mean by "highly skewed."
- b. Does "highly skewed" mean that UPS is the predominant parcel carrier? Please explain.
- c. If the answer to (b) is affirmative, please discuss why such is the case. Include in your discussion responses to the following questions: (1) Is UPS more efficient than the Postal Service at delivering parcels? (2) If your answer to (1) is affirmative, is this comparative efficiency something beyond the control of the Postal Service? (3) Is the "skewing" caused by the Postal Service's unwillingness to compete in this sector?

Response:

- a. My interpretation of Scherer's use of the term "highly skewed" was that he was referring to a situation in which large differences exist among the market shares held by each of the sellers.
- b. I would say that UPS is the predominant parcel carrier.
- c. I am unable to detail the reasons that UPS is the predominant provider of parcel delivery service, especially as this situation developed over a number of years. It may very well be that UPS, from the beginning, developed a network and delivery system that is more conducive to the delivery of parcels, which are likely to represent a larger share of the items delivered by UPS. In comparison, the Postal Service developed a network and delivery system more conducive to the delivery of letters and flats, which represent the lion's share of the items delivered by the Postal Service. I do not know if

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adjustment of the comparative efficiency, if it exists, would be beyond the control of the Postal Service. It may very well be in the control of the Postal Service to attempt to set up a parallel delivery system to the one currently used to deliver letters, flats and occasional parcels or otherwise make adjustments to the existing systems such that the network is more amenable to the transportation, mail processing and delivery of parcels. Whether such a system would be profitable for the Postal Service, I don't know.

There may also be other reasons why the Postal Service did not vigorously compete for parcel delivery business in the past. For example, participants in previous Postal Rate Commission dockets have offered their view that it may be inappropriate for the Postal Service as a government agency holding a monopoly on the carriage of letters to compete with private, tax-paying firms that offer delivery service for parcels. Traditionally, the goals of the Postal Service and the Postal Rate Commission may have been more oriented toward protecting the interests of all participants in the market place. UPS, as a private profit-seeking firm, may have followed goals more oriented toward winning market share and profit.

As a result, there may also be restrictions placed on the Postal Service by the legislative and regulatory processes that do not hinder UPS in its efforts to serve business customers. For example, the Postal Service is required to make all of its price changes in a public forum, with input from intervenors

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including its competitors. UPS is not so constrained. UPS is able to provide volume discounts and other pricing features to its selected customers that the Postal Service is not permitted to provide. UPS also has the ability to choose the markets it emphasizes, and the ease with which customers, such as individual mailers, may do business with it.

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OCA/USPS-T37-17. Please refer to your response to OCA/USPS-T37-11(d). The inference for which comment was sought had to do with the Postal Service's efforts in Docket No. MC83-1 to provide service in the delivery of packages in a size that package designers often produced at that time (108 inches). Thus, it appears that at the time of the proposals in Docket No. MC83-1, the Postal Service wanted to compete in the market for a certain sized parcel (up to 108 inches) for which mailers could easily get cartons. The existence of such large-sized cartons arguably implies that there was a demand for the delivery of such cartons.

- a. Given this further explanation, please comment on whether there has been a change in Postal Service policy from Docket No. MC83-1 to the present with regard to desiring to be competitive in the delivery of packages for which there are readily available size cartons.
- b. Please comment on the proposition that the ready availability of a certain size carton implies that there is a demand for the transportation of packages using such cartons.

Response:

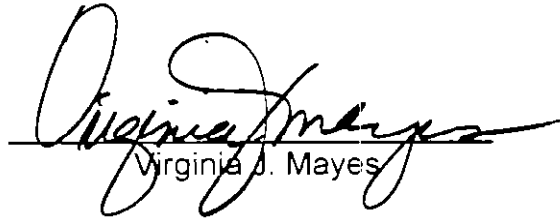
- a. I have done no research, nor am I aware of any research, which purports to list the various sizes of cardboard cartons "readily available" for any purpose. I would suggest that the position of the Postal Service in this docket is that the proposal to increase the size of parcels accepted is in direct result to requests from mailers, not from the results of a survey of the sizes of cardboard containers.
- b. I have not attempted to verify the "ready availability" of any size of carton. Nor can I easily determine what is meant by "ready availability." I would suggest that should there be a shift in the sizes of parcels carried by all freight carriers, there might well be a shift in "ready availability" of cartons in response. I cannot be sure that "the ready availability of a certain size carton implies that there is a demand for the transportation of packages using such

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cartons" without further information. In fact, the "ready availability of a certain size carton" may imply that this size of carton is perfect for the storage, and not the transport, of goods.

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.



Scott L. Reiter

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
September 26, 1997