

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS KIEFER  
TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA  
(NAA/USPS-T36-1-10)

The United States Postal Service hereby files the responses of witness Kiefer to above-listed interrogatories, June 7, 2006.

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

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June 21, 2006

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KIEFER TO  
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**NAA/USPS-T36-1.**

Please refer to page 31, lines 19-20 of your testimony. Did you give any consideration to abandoning the practice of setting the Basic letter rate equal to the corresponding flats rate? If so, why did you choose to continue the practice? If not, please explain why not.

**RESPONSE**

As part of the rate case development process many ideas were considered, including this one. In the end, it was believed that continuing the present arrangement would best support the Postal Service's goal of promoting automation and sequencing of letters at plants to the extent possible.

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**NAA-USPS-T36-2.**

Please refer to page 30, lines 13-26 of your testimony, in which you discuss your proposal to eliminate the DDU discount for letters and state your expectation that “few mailers will continue” to enter letters at the DDU. Consistent with that, your workpaper WP-STDECR shows zero Test Year letter revenue at the DDU level. If an ECR letter mailer chose for service reasons to enter the mailing at the DDU, what rate would be charged?

**RESPONSE**

The best rate available for ECR letters is the DSCF rate. It is my understanding that the Postal Service routinely transports letters entered directly at delivery units back to plants to sequence them along with other letter mail. Therefore, I don't see why a letter mailer would choose to enter mail at the DDU “for service reasons.”

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**NAA-USPS-T36-3.**

Please refer to page 32, lines 7-13 of your testimony, in which you describe the proposed new charge for detached address labels. Please elaborate on why you chose a surcharge of \$0.015 per piece instead of some other amount.

**RESPONSE**

The level of the surcharge was not based on a specific cost study. It was an amount that was believed adequate to provide a significant incentive to encourage on-piece addressing.

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**NAA/USPS-T36-4.**

Please refer to page 32, lines 14-24 of your testimony. Please elaborate on the process by which you “selected” the piece and pound rates for ECR flats.

**RESPONSE**

The selection process involved the following steps:

- Consideration of the current rates and rate elements
- Choosing a pound rate element that did not exceed the current pound rate element in order to bring greater emphasis to the piece rate element in the overall rate
- Consideration of the relationship between the minimum per piece charge for flats and the minimum per piece charge for letters
- Consideration of how the rates produced by the selected piece and pound rate elements related to the unit cost information for flats
- Consideration of the revenues produced by the rates and how they related to the revenue targets
- Consideration of the impacts on the percentage rate changes for flats and other shapes
- Consideration of how the selected piece and pound rate elements affected the commercial/nonprofit revenue per piece ratio.

These steps were repeated many times over many iterations in an attempt to balance the need to generate increased revenue from ECR and NECR with considerations of achieving reasonable rate changes and maintaining reasonable rate relationships. The order in which I have listed these steps is not necessarily the sequence of events that was followed in any or all iterations.

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**NAA/USPS-T36-5.**

Please describe what you regard as the appropriate relationship between the piece and pound rates for ECR mail?

**RESPONSE**

Piece-rated pieces pay a fixed minimum charge per piece for all weights up to the breakpoint weight, currently 3.3 ounces. Pound-rated pieces are those that weigh more than 3.3 ounces and pay a fixed charge per piece and a fixed charge per pound. To ensure that there is no rate anomalies or discontinuities at the breakpoint when a piece transitions from paying the minimum charge per piece to paying a per-piece charge plus a per-pound charge, the per-piece and per-pound rate elements must be selected so that a pound-rated piece would pay the same rate at the breakpoint weight as a piece-rated piece would pay.

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**NAA/USPS-T36-6.**

Please refer to page 32, lines 14-17 of your testimony. Please elaborate on how you used the cost information from witnesses Talmo and Kelley in selecting the base rates for Standard Enhanced Carrier Route mail.

**RESPONSE**

Please see my response to NAA/USPS-T36-4. I received unit cost information by shape and density from witnesses Talmo and Kelley. I combined the unit mail processing and delivery costs for the base piece, which, for example, for flats was a Basic flat. This served as a reference which informed the selection of the initial flats piece and pound rate elements as well as subsequent changes to the flats piece and pound rate elements in subsequent iterations, when these elements were adjusted to achieve the proposed rates. When the piece and pound rate elements were changed I would refer to the "Mail Processing + Delivery Costs" total shown in cell E6 (for flats) of my workpaper WP-STDECR-16 to ensure that these costs were likely to be covered by the proposed rates.

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**NAA/USPS-T36-7.**

Please refer to page 32, lines 17-20 of your testimony. Please elaborate on how you used the cost information from witnesses Talmo and Mayes in adjusting the base rates for Standard Enhanced Carrier Route mail.

**RESPONSE**

The portion of my testimony cited in the question should have also included witness Kelley (USPS-T-30) as one of the sources of the cost information I used in adjusting the base rates. I combined the mail processing unit cost data from witness Talmo with the unit delivery cost information from witness Kelley for each density level. Then I used this information to calculate the differences between adjacent density levels. These resulting figures are shown in the column labeled "Density Savings" in my worksheet WP-STDECR-16. I then multiplied each of these density differentials by the passthroughs in the next column to produce the rate differentials shown in the column labeled "Differential." These differentials were used to adjust the base rates to obtain rates for the respective density levels.

I received cost information from witness Mayes that contained estimates of the cost savings from drop-shipping Standard Mail pieces. These are shown in the row labeled "Entry Savings" in my worksheet WP-STDECR-16 for the various drop-shipping levels. As discussed in footnote 6 of my testimony, I then passed through a portion of these savings into drop-ship discounts to reflect the fact that all minimum-per-piece-rated pieces are given discounts (which are taken off the per-pound rate element) as if they weighed 3.3 ounces—the breakpoint weight. These drop-ship discounts, together with the density differentials, are the adjustments applied to the base prices to develop the detailed rates for each shape category.

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**NAA/USPS-T36-8.**

Please refer to the "Proposed Rates" spreadsheet of your workpaper WP-STDECR.

- a. Please identify the source of the High-Density and Saturation density cost savings of \$0.0241 and \$0.0185, respectively.
- b. Please explain why you propose to passthrough 120 percent of those cost savings in the density discounts.
- c. Did you consider setting the High-Density and Saturation passthroughs to 100 percent of the cost savings? If so, why did you reject that alternative? If not, why not?

**RESPONSE**

- a. Please see my response to NAA/USPS-T36-6. The sum of the unit mail processing cost and unit delivery cost for a Basic flat is \$0.1109 (= \$0.0401 + \$0.0708) and for a High Density flat is \$0.0868 (= \$0.0160 + \$0.0708). The difference is \$0.0241. The unit mail processing plus delivery costs for a Saturation flat is \$0.0683 (= \$0.0160 + \$0.0523). The difference between the High Density and Saturation costs (\$0.0868 - \$0.0683) is \$0.0185.
- b. Please see my response to NAA/USPS-T36-4. The selection of the final passthrough values was part of the overall rate development process. Passthroughs were adjusted together with base piece rate elements taking into consideration the items described in the response to NAA/USPS-T36-4. The final passthrough values, in this case 120%, emerged as the end result of this process.
- c. Please see my response to subpart (b), above. I began the rate design iteration process with these values set at 100%, but changed them as the rate design process proceeded. The rate design process yielded final rates that were judged to provide the appropriate balance of the considerations described in response to NAA/USPS-T36-4. These final rates were

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consistent with a passthrough of 120% for these density cost difference estimates.

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**NAA/USPS-T36-9.**

Please refer to page 32, lines 20-24 of your testimony, where you state that you “adjusted some density cost passthroughs to maintain reasonable rate relationships.” Please identify to which density cost passthroughs you adjusted for that reason, and explain how the adjustments that you made maintain reasonable rate relationships and rate changes. Other than the High-Density and saturation passthroughs that are the subject of NAA/USPS-T36-8, did you adjust any other density cost passthroughs? If so, please identify which ones and elaborate on why you made the adjustments.

**RESPONSE**

Please see my response to NAA/USPS-T36-8. The portion of my testimony cited in this question refers to the ECR flats density cost passthroughs. These passthrough levers were adjusted as part of the overall rate design process for ECR (and, by extension, for NECR as well to meet the 60% average rate requirement). The rates produced by these passthrough selections maintain what are, in my judgment, reasonable rate relationships between ECR letters and flats, between Saturation flats and High Density flats, and between High Density flats and Basic flats. The proposed rate changes are also reasonable in my judgment. The percentage rate changes are slightly higher for flats than for letters, reflecting the Postal Service’s decision to slightly widen the rate differential between flats and letters in ECR. While the percentage changes shown in WP-STDECR-17 may appear to significantly favor Saturation flats over High Density flats, it is necessary to remember that I am also proposing a surcharge on the use of detached address labels that will fall mainly on Saturation flats mailers. The percentage rate changes shown in WP-STDECR-17 for Saturation flats do not reflect the impact of the surcharge. Saturation flats mailers that continue to use detached address labels would see significantly higher percentage increases than shown in WP-STDECR-17.

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As can be seen in my workpaper WP-STDECR-16, only the passthrough value for High Density parcels was ultimately set different from 100%. This was set at 120% to maintain a fixed rate differential between ECR flats and pieces paying the ECR parcels rates. For additional discussion of this issue, see the discussion of ECR parcels beginning on page 33 of my testimony.

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**NAA/USPS-T36-10.**

Please refer to the sheet labeled "Standard Mail Commercial and Nonprofit ECR Sample Rate Changes" in your Workpaper WP-STDECR. In general, for the illustrative pieces that your present, parcels appear to receive smaller rate increases than either letters or flats. Please elaborate on why that is an appropriate qualitative result given the desire in this case to rate parcels separately.

**RESPONSE**

Please see my testimony (USPS-T-36) at page 33, lines 18 to 24. There I discuss my belief that the pieces most likely to be paying ECR parcels rates in the future would be pieces that will be reclassified from ECR flats due to the Postal Service's changes to the definition of what will qualify as a flat. In my testimony I state that, based on this belief, I decided to propose a fixed differential between the rates for ECR parcels and ECR flats to mitigate the rate change impact on pieces that would be reclassified by the definition changes. The fixed rate differential I am proposing, \$0.20, is less than the current residual shape surcharge, \$0.211. Because the percentage rate changes shown in worksheet WP-STDECR-17 are comparisons of the proposed rates to the current rates for parcels paying the residual shape surcharge, the calculated increases are smaller than for flats. But if the proposed rates were calculated with reference to the current ECR flats rates (the rates that reclassified pieces would be paying today) the percentage increases would be higher than shown on WP-STDECR-17 and, clearly, substantially higher than the percentage increases for flats. In any event, the FY 2005 billing determinants show that there are only 632 thousand parcels currently paying the RSS in the ECR subclass. Therefore the number of parcels that might experience a lower percentage increase than letters or flats is rather limited.

## **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.

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