

DOCKET SECTION
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 PARCEL SHIPPERS ASSOCIATION
(PSA/USPS-T37-9)

The United States Postal Service hereby provides responses of witness Mayes to the following interrogatories of the Parcel Shippers Association: PSA/USPS-T37-9, filed on September 17, 1997. An objection to PSA/USPS-T37-10 was filed on September 29, 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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October 1, 1997

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES

PSA/USPS-T37-9. In your response to PSA/USPS-T37-7(b), you state that you do not think that it is necessarily fairer to use a markup approach rather than a surcharge approach to deal with the asserted cost differential between Standard (A) parcels and flats.

- (a) Is it not the case that a surcharge approach will disproportionately affect "low-cost, low-weight items"? If your answer is anything other than an unqualified affirmative, please explain any disagreement or qualifications.
- (b) In your further response to that interrogatory you say that you see no parallel between the efforts to recognize a distinct cost difference in Standard (A) between parcels and flats, and the recovery of revenue lost from constraining rates in parcel post. Granting that the cases are not apposite, would you not agree that, nevertheless, fairness and equity are better promoted through a recognition of alleged differences in cost between Standard (A) parcels and flats through an additional markup?
- (c) You further state in response to that interrogatory that: "As the revenue required for a subclass, in general, is recovered by marking up its costs overall, I viewed the application of an additional markup factor to be the more appropriate manner of meeting the total revenue requirement for parcel post." Since Standard (A) parcels and flats are in the same subclass, please explain why the Postal Service would not recommend that the revenue required for that subclass be recovered by marking up its cost overall as opposed to singling out a particular type of mail that is not recognized by either a subclass or a rate category distinction.

Response:

- (a) If by "disproportionately affect" you mean that the surcharge will represent a higher percentage of the rates for lower-rate pieces than for higher-rate pieces, then I confirm. I would suggest that this result may not necessarily be unfair, particularly when the measured cost difference between the flat-shaped and residual-shaped items was measured on a per-piece basis and is significantly higher than the proposed surcharge.
- (b) No, I would not.

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(c) I would first note that it is the proposal of the Postal Service that residual-shaped nonletter items in Standard (A) be recognized by a rate distinction. Thus, it is the precise intention of the Postal Service that the rates paid by each of the categories of shape (letters, flats and residual-shaped items) be more closely aligned with the costs of those three categories.

I would further draw comparisons to the rate design utilized for Parcel Post. The costs for Parcel Post in total were marked up in order to develop the revenue requirement for the subclass. Rates were then developed to recover this amount of revenue, with the preliminary rates tied to the distributed costs for the various rate categories of Parcel Post. Constraints subsequently imposed on the preliminary rates would have left the subclass revenue short of the goal, necessitating the imposition of an additional surcharge on the unconstrained rates.

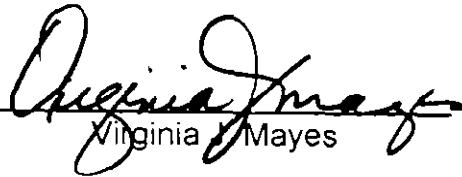
I do not claim familiarity with the rate design process used by witness Moeller in developing rates for Standard (A), but it is my understanding that, contrary to the implication of your question, Mr. Moeller did, in fact, develop his revenue requirement for the Standard (A) subclasses by marking up the overall costs of those subclasses. If an approach parallel to that used in Parcel Post had been applied to Standard (A), the starting point would have been the development of a revenue requirement for the subclass by reference to the total costs of the subclass. It is my understanding that Mr. Moeller did so. Then, following the Parcel Post approach, the estimated underlying costs for letters, flats and residual shape items would have been

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identified and distributed separately, and a uniform markup calculated to recover all of the subclass costs as well as reach the target cost coverage for the subclass would have been applied to these distributed costs. I would suggest that the result of such a process could have been much higher rates for residual shape items than witness Moeller is proposing.

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:

10-1-97

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 L. Reiter", is written over a horizontal line.

Scott L. Reiter

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