

Official Transcript of Proceedings

File

Before the

UNITED STATES POSTAL RATE COMMISSION

RECEIVED
OCT 16 3 01 PM '97
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

In the Matter of: POSTAL RATE AND FEE CHANGES

Docket No. R97-1

VOLUME 8

DATE: Wednesday, October 15, 1997

PLACE: Washington, D.C.

PAGES: 3864 - 4320

ANN RILEY & ASSOCIATES, LTD.

1250 I St., N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES:

2 On behalf of the Newspaper Association of America:

3 WILLIAM B. BAKER, ESQUIRE

4 ALAN R. JENKINS, ESQUIRE

5 Wiley, Rein & Fielding

6 1776 K Street, NW

7 Washington, DC 20006

8 (202) 429-7255

9 fax (202) 429-7049

10

11 ROBERT J. BRINKMANN, ESQUIRE

12 Newspaper Association of America

13 529 14th Street, NW, Suite 440

14 Washington, DC

15 (202) 638-4792

16 fax (202) 783-4649

17

18 On behalf of the Alliance of Nonprofit Mailers:

19 JOEL T. THOMAS, ESQUIRE

20 11326 Dockside Circle

21 Reston, VA 20191

22 (703) 476-4646

23 fax (703) 620-2338

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of the United States Postal Service:

3 SUSAN DUCHEK, ESQUIRE

4 ERIC KOETTING, ESQUIRE

5 RICHARD COOPER, ESQUIRE

6 MICHAEL TIDWELL, ESQUIRE

7 ANNE REYNOLDS, ESQUIRE

8 ANTHONY ALVERNO, ESQUIRE

9 DAVID RUBIN, ESQUIRE

10 KENNETH N. HOLLIES, ESQUIRE

11 SCOTT L. REITER, ESQUIRE

12 United States Postal Service

13 475 L'Enfant Plaza West, SW

14 Washington, DC 20260

15

16 On behalf of Hallmark Cards, Incorporated:

17 DAVID F. STOVER, ESQUIRE

18 2070 S. Columbus Street, Suite 1B

19 Arlington, VA 22206

20 (703) 998-2568

21 fax (703) 998-2987

22

23

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of the McGraw-Hill Companies, Inc.:

3 TIMOTHY W. BERGIN, ESQUIRE

4 Squire, Sanders & Dempsey

5 1201 Pennsylvania Avenue, NW, Suite 500

6 P.O. Box 407

7 Washington, DC 20044

8 (202) 626-6608

9 fax (202) 626-6780

10

11 On behalf of Readers Digest Association, Parcel Shippers

12 Association:

13 TIMOTHY J. MAY, ESQUIRE

14 Patton Boggs, LLP

15 2550 M Street, NW

16 Washington, DC 20037

17 (202) 457-6050

18

19 On behalf of the National Postal Policy Council, Inc.:

20 MICHAEL F. CAVANAUGH, ESQUIRE

21 National Postal Policy Council, Inc.

22 1800 Diagonal Road, Suite 600

23 Alexandria, VA 22314

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of the American Bankers Association:

3 IRVING D. WARDEN, ESQUIRE

4 American Bankers Association

5 1120 Connecticut Avenue, NW

6 Washington, DC 20036

7 (202) 663-5027

8 fax (202) 828-4548

9

10 On behalf of the Direct Marketers Association:

11 DANA T. ACKERLY, II, ESQUIRE

12 DAVID L. MEYER, ESQUIRE

13 MICHAEL D. BERGMAN, ESQUIRE

14 Covington & Burling

15 1201 Pennsylvania Avenue, NW

16 Washington, DC 20016

17 (202) 662-5296

18 fax (202) 778-5296

19

20

21

22

23

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of Nashua Photo, Inc.; District Photo, Inc.;
3 Mystic Color Lab; Seattle FilmWorks, Inc.; ValPak Direct
4 Marketing Systems, Inc.; ValPak Dealers' Association; Carol
5 Wright Promotions:

6 WILLIAM J. OLSON, ESQUIRE

7 ALAN WOLL, ESQUIRE

8 William J. Olson, P.C.

9 8180 Greensboro Drive, Suite 1070

10 McLean, VA 22102-3823

11 (703) 356-5070

12 fax (703) 356-5085

13
14 On behalf of American Business Press:

15 DAVID STRAUS, ESQUIRE

16 Thompson Coburn

17 700 14th Street, NW, Suite 900

18 Washington, DC 20005

19 (202) 508-1013

20 fax (202) 508-1010

21
22
23
24
25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of American Business Press: [continued]

3 STEPHEN FELDMAN, ESQUIRE

4 Ramsey, Cook, Looper & Kurlander

5 c/o Thompson Coburn

6 700 14th Street, NW, Suite 900

7 Washington, DC 20005

8 (202) 508-1022

9 fax (202) 508-1010

10

11 On behalf of the United Parcel Service:

12 JOHN E. McKEEVER, ESQUIRE

13 Schnader Harrision Segal & Lewis LLP

14 1600 Market Street, Suite 3600

15 Philadelphia, PA 19103

16 (215) 751-2200

17 fax (215) 751-2205

18

19 On behalf of the Major Mailers Association:

20 RICHARD LITTELL, ESQUIRE

21 1220 19th Street, NW, Suite 400

22 Washington, DC 20036

23 (202) 466-8260

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of ADVO, Inc.:

3 JOHN M. BURZIO, ESQUIRE

4 THOMAS W. McLAUGHLIN, ESQUIRE

5 Burzio & McLauglin

6 1054 31st Street, NW, Suite 540

7 Washington, DC 20007

8 (202) 965-4555

9 fax (202) 965-4432

10

11 On behalf of Time Warner, Inc.:

12 JOHN M. BURZIO, ESQUIRE

13 TIMOTHY L. KEEGAN, ESQUIRE

14 1054 31st Street, NW, Suite 540

15 Washington, DC 20007

16 (202) 965-4555

17 fax (202) 965-4432

18

19 On behalf of Advertising Mail Marketing Association:

20 IAN D. VOLNER, ESQUIRE

21 Venable, Baetjer, Howard & Civiletti

22 1201 New York Avenue, NW

23 Washington, DC 20005

24 (202) 962-4814

25 fax (202) 962-8300

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of the Office of Consumer Advocate:

3 SHELLEY S. DREIFUSS, ESQUIRE

4 KENNETH E. RICHARDSON, ESQUIRE

5 Office of the Consumer Advocate

6 Postal Rate Commission

7 1333 H Street, NW, Suite 300

8 Washington, DC 20268

9

10 On behalf of the Dow Jones & Company, Inc.:

11 SAM BEHRENDTS, ESQUIRE

12 LeBoeuf, Lamb, Greene & Macrae

13 1875 Connecticut Avenue, NW

14 Washington, DC 20009

15 (202) 986-8018

16 fax (202) 986-8102

17

18 On behalf of David B. Popkin:

19 DAVID B. POPKIN

20 P.O. Box 528

21 Englewood, NJ 07631-0528

22 (201) 569-2212

23 fax (201) 569-2864

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of the Association of Alternate Postal Systems:

3 BONNIE S. BLAIR, ESQUIRE

4 Thompson Coburn

5 700 14th Street, NW, Suite 900

6 Washington, DC 20005

7 (202) 508-1003

8 fax (202) 508-1010

9

10 On behalf of the Mail Order Association of America:

11 DAVID C. TODD, ESQUIRE

12 Patton Boggs, LLP

13 2550 M Street, NW

14 Washington, DC 20037

15 (202) 457-6410

16 fax (202) 457-6513

17

18 On behalf of the Magazine Publishers of America:

19 JAMES R. CREGAN, ESQUIRE

20 Magazine Publishers of America

21 1211 Connecticut Avenue, NW, Suite 610

22 Washington, DC 20036

23 (202) 296-7277

24 fax (202) 296-0343

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of Edison Electric Institute:

3 R. BRIAN CORCORAN, ESQUIRE

4 Oliver & Oliver, P.C.

5 1090 Vermont Avenue, NW, Suite 800

6 Washington, D.C. 20005

7 (202) 371-5656

8 fax (202) 289-8113

9

10 On behalf of the Florida Gift Fruit Shippers Association:

11 M.W. WELLS, JR., ESQUIRE

12 Maxwell W. Wells, Jr., P.A.

13 105 E. Robinson Street, Suite 201

14 Orlando, FL 32801

15 (407) 422-8250

16 fax (407) 422-8262

17

18 On behalf of RIAA, AMMA, Recording Industry Association of
19 America, and Advertising Mail Marketing Association:

20 N. FRANK WIGGINS, ESQUIRE

21 Venable, Baetjer, Howard & Civiletti, L.L.P.

22 1201 New York Avenue, NW

23 Washington, D.C.

24 (202) 962-4957

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of the National Federation of Nonprofits:

3 GEROGE MILLER, ESQUIRE

4 CAROLYN EMIGH, ESQUIRE

5 LENOARD MEREWITZ, ESQUIRE

6 Nonprofit Service Group

7 815 15th Street, NW, Suite 822

8 Washington, D.C. 20005

9 (202) 628-4380

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1	C O N T E N T S				
2	WITNESS	DIRECT	CROSS	REDIRECT	RECROSS
3	PHILIP A. HATFIELD				
4	BY MS. REYNOLDS	3876			
5	BY MR. WELLS		3979		
6	BY MR. MAY		4007		
7	VIRGINIA J. MAYES				
8	BY MR. REITER	4014			
9	BY MR. WELLS		4218		
10	BY MR. MAY		4230		
11	BY MR. McKEEVER		4243		
12	MOHAMMAD A. ADRA				
13	BY MR. REITER	4268			
14	BY MR. WELLS		4302		
15	BY MS. DREIFUSS		4304		
16	BY MR. REITER			4314	
17	BY MS. DREIFUSS				4315
18					
19					
20	DOCUMENTS TRANSCRIBED INTO THE RECORD:				PAGE
21	Designation of Written Cross-Examination				
22	of Philip A. Hatfield				3879
23	Witness Hatfield's Responses to Presiding				
24	Officer's Information Request Number 4,				
25	Questions 7, 9 and 10				3972

1	DOCUMENTS TRANSCRIBED INTO THE RECORD: [continued]	PAGE
2	Designation of Written Cross-Examination	
3	of Virginia J. Mayes	4017
4	Witness Mayes' Response to Presiding	
5	Officer's Information Request No. 4,	
6	Question 8(b)	4216
7	Designation of Written Cross-Examination	
8	of Mohammed A. Adra	4271

9

10

11 E X H I B I T S

12	EXHIBITS AND/OR TESTIMONY	IDENTIFIED	RECEIVED
13	Direct Examination of Philip		
14	A. Hatfield, Exhibit No.		
15	USPS-T-16	3877	3877
16	Designation of Written Cross-		
17	Examination of Philip A.		
18	Hatfield		3878
19	Witness Hatfield's Responses		
20	to Presiding Officer's		
21	Information Request Number		
22	4, Questions 7, 9 and 10		3971
23	Direct Testimony and Exhibits		
24	of Virginia J. Mayes,		
25	Exhibit No. USPS-T-37	4015	4015

1 E X H I B I T S [continued]

2 EXHIBITS AND/OR TESTIMONY IDENTIFIED RECEIVED

3 Designation of Written Cross-

4 Examination of Virginia J.

5 Mayes 4016

6 Witness Mayes' Response to

7 Presiding Officer's

8 Information Request No. 4,

9 Question 8(b) 4215

10 Direct Testimony and Exhibits

11 of Mohammad A. Adra, Exhibit

12 No. USPS-T-38 4269 4269

13 Designation of Written Cross-

14 Examination of Mohammed A.

15 Adra 4269

16

17

18

19

20

21

22

23

24

25

P R O C E E D I N G S

[9:30 a.m.]

CHAIRMAN GLEIMAN: Good morning.

Today, we resume hearings on Docket Number R97-1. Scheduled to appear today are Postal Service Witnesses Hatfield, Mayes and Adra.

Does any participant have a procedural matter to raise before we begin?

[No response.]

CHAIRMAN GLEIMAN: If not, then our first witness is Philip A. Hatfield.

Mr. Hatfield, as I recall, is already under oath in this proceeding. Welcome back.

Ms. Reynolds, if you are prepared to proceed with his testimony?

Whereupon,

PHILIP A. HATFIELD,
a witness, was called for examination by counsel for the United States Postal Service and, having been previously duly sworn, was further examined and testified as follows:

MS. REYNOLDS: Thank you.

DIRECT EXAMINATION

BY MS. REYNOLDS:

Q Could you please state your name once again for the record?

1 A Philip A. Hatfield.

2 Q Mr. Hatfield, I am handing you two copies of a
3 document entitled the Direct Testimony of Philip A. Hatfield
4 on behalf of the United States Postal Service and designated
5 USPS-T-16. Are you familiar with this document?

6 A Yes, I am.

7 Q Was it prepared by you or under your direction?

8 A Yes, it was.

9 Q And if you were to testify orally here today,
10 would this be your testimony?

11 A Yes, it would.

12 Q Does the document that you have incorporate the
13 modifications to your testimony that were made on August 11,
14 September 29 and October 10?

15 A Yes, it does.

16 MS. REYNOLDS: At this time, Mr. Chairman, I would
17 like to move this document into evidence.

18 CHAIRMAN GLEIMAN: Are there any objections?

19 [No response.]

20 CHAIRMAN GLEIMAN: Hearing none, Mr. Hatfield's
21 testimony and exhibits are received into evidence and I
22 direct that they be transcribed -- accepted into evidence
23 but not transcribed, as is our practice.

24 [Direct Examination of Philip A.

25 Hatfield, Exhibit No. USPS-T-16 was

1 marked for identification and
2 received into evidence.]

3 CHAIRMAN GLEIMAN: Mr. Hatfield, have you had an
4 opportunity to examine the packet of designated written
5 cross-examination which was made available to you earlier
6 this morning?

7 THE WITNESS: Yes, I have.

8 CHAIRMAN GLEIMAN: If these questions were asked
9 of you today, would your answers be the same as those you
10 previously provided in writing?

11 THE WITNESS: Yes, they would.

12 CHAIRMAN GLEIMAN: That being the case, I am going
13 to hand two copies of the designated written
14 cross-examination of Witness Hatfield to the reporter and
15 direct that they be accepted into evidence and transcribed
16 into the record at this point.

17 [Designation of Written
18 Cross-Examination of Philip A.
19 Hatfield was received into evidence
20 and transcribed into the record.]

21
22
23
24
25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

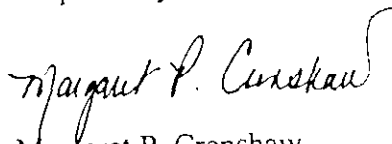
Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS PHILIP A. HATFIELD
(USPS-T-16)

The parties listed below have designated answers to interrogatories directed to witness Hatfield as written cross-examination.

<u>Party</u>	<u>Answer To Interrogatories</u>
Florida Gift Fruit Shippers Association	FGFSA\USPS: Interrogatories T16-1-11 and 16-18.
Nashua Photo Inc., Distict Photo Inc., Mystic Color Lab, and Seattle Filmworks, Inc.	NDMS\USPS: Interrogatories T32-23(b) redirected from witness Fronk.
Office of the Consumer Advocate	DBP\USPS: Interrogatories 43-44(a), 46-47 re-designated pursuant to request of Presiding Officer at Tr. 4\1703-4 from designation by DBP to witness Hatfield T25. FGFSA\USPS: Interrogatories T16-1-11, 16-17(a) and 18. UPS\USPS: Interrogatories T16-1-6(a), 7(b)-35, and 37-40. POIR: POIR No. 1 Questions 1.c.(1), and 1.d., X
Parcel Shippers Association	UPS\USPS: Interrogatories T16-25.
United Parcel Service	UPS\USPS: Interrogatories T16-21, 23-24 , 26 and 33. DBP\USPS: Interrogatories 43-44 and 46. FGFSA\USPS: Interrogatories T16-1-6.

Respectfully submitted,

A handwritten signature in cursive script, reading "Margaret P. Crenshaw". The signature is written in dark ink and is positioned above the printed name.

Margaret P. Crenshaw
Secretary

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF DAVID POPKIN

DBP/USPS-43. In column 8 of Exhibit USPS-16A, it is indicated that the Parcel Post Unit Transportation Costs for Zones 1 through 5 are \$1.7521.

(a) Confirm, or explain if you are unable to do so, that the value utilized for Docket No. MC97-2 was 1.5021.

(b) What is the justification for a 16.6% increase in only a few months.

RESPONSE:

(a) Confirmed.

(b) In Docket No. MC97-2, postal owned vehicle transportation costs were accounted for in the rate design of parcel post through the per piece cost. These costs are more closely related to transportation costs as opposed to per piece costs, and they have been accounted for in my current analysis. This does not represent an increase in total costs, but an increase in the transportation component of Parcel Post costs and a decrease in the per piece costs.

In addition, differences between Docket No. MC97-2 costs and the current docket reflect changes for a whole year. In Docket No. MC97-2 the test year was 1997 and in this docket the test year is 1998. Therefore, among other changes, the cost differences between my Docket No. MC97-2 testimony and my testimony in this docket reflect an additional year of forecasted cost changes.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF DAVID POPKIN

DBP/USPS-44.

(a) Confirm, or explain if you are unable to do so, that the greater distance between BMCs will necessarily result in a greater Great Circle Distance (GCD).

RESPONSE:

(a) As is explained on page 7 of my testimony, holding all else constant, increasing the distance between BMCs for a given inter-BMC parcel will increase the GCD of that parcel.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF DAVID POPKIN

DBP/USPS-46.

(a) Confirm, or explain if you are unable to do so, that the GCD associated with Zone 5 is 601 to 1000 miles and Zone 6 is 1001 to 1400 miles.

(b) Confirm, or explain if you are unable to do so, that if I have two post offices, A and B, whose three-digit locations are 900 miles apart that the postage for a parcel would be calculated at the fifth zone.

(c) Confirm, or explain if you are unable to do so, that if the BMCs that serve post offices A and B are on an east-west line and 1000 miles apart, and office A's three-digit prefix is located 50 miles east of the westernmost BMC and office B's three-digit prefix is located 50 miles west of the easternmost BMC, then the conditions in subpart b above would be met and the parcel would be charged the fifth zone rate for a BMC distance of 1000 miles.

(d) Confirm, or explain if you are unable to do so, that if I have two post offices, C and D, whose three-digit locations are 1050 miles apart that the postage for a parcel would be calculated at the sixth zone.

(e) Confirm, or explain if you are unable to do so, that if the BMCs that serve post offices C and D are on an east-west line and 950 miles apart, and office C's three-digit prefix is located 50 miles west of the westernmost BMC and office D's three-digit prefix is located 50 miles east of the easternmost BMC, then the conditions in subpart d would be met and the parcel would be charged the sixth zone rate for a BMC distance of 950 miles.

(f) Confirm, or explain if you are unable to do so, that the conditions described above would produce an example of a greater distance between BMCs for a lesser distance between post offices (actually their three-digit location).

(g) Confirm, or explain if you are unable to do so, that if I have two post offices, E and F, which are served by the same BMCs as offices A and B above and whose three-digit locations are 1100 miles (E being 50 miles west of the westernmost BMC and F being 50 miles east of the easternmost BMC) apart that the postage for a parcel would be calculated at the sixth zone.

(h) Confirm, or explain if you are unable to do so, that the same BMC distances exist for both the A to B parcel as well as the E to F parcel.

(i) Based on the above, namely, A-B has a greater BMC distance but a lesser not greater GCD than C-D as well as A-B and E-F have the same BMC distance but a different GCD, how do you reconcile the evaluation of long distance costs which is

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF DAVID POPKIN

based on the concept of a greater distance between BMCs will necessarily have a greater GCD?

RESPONSE:

- (a) Confirmed.
- (b) If the GCD measurement for a piece of Parcel Post is 900 miles, then the postage for that parcel should reflect postal zone five.
- (c) Not confirmed. Postal zone is determined as described on page 5 of my testimony. The origin for the GCD calculation is based on the location of the origin post office or facility, and the destination is based on the delivery address of the parcel. Therefore, regardless of the path the parcel takes through the transportation network, postal zone is determined by the GCD between origin and destination. If in your example, the GCD between origin and destination is 900 miles, the parcel will be in the fifth postal zone based on the GCD and not the distance between BMCs.
- (d) If the GCD measurement for a piece of Parcel Post is 1,050 miles, then the postage for that parcel should reflect postal zone six.
- (e) Not confirmed. As stated in my response to part (c) of this question, postal zone is would not be determined based on the distance between BMCs. In the example given, the parcel would be in the sixth postal zone based on a GCD measurement of 1,050 miles.
- (f) Confirmed. Hypothetical examples can be contrived in which parcels with GCD measurements that are close to a zone boundary can have a lower postal zone and greater distance between BMCs. However, this does not change the fact that

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF DAVID POPKIN

since the inter-BMC movement is from the vicinity of the origin point towards the destination point, greater distance between BMCs is related to greater GCD.

Because the analysis contained in my testimony allocates transportation costs to zones and does not calculate the costs associated with individual pieces of Parcel Post, it is more accurate to examine average distances by zone rather than hypothetical examples of individual parcels. Within this framework, I would argue that the average distance between BMCs for parcels in each zone increases with zone.

(g) If the GCD measurement of a parcel originating at post office E and addressed for delivery within the service area of post office F is 1,100 miles then the parcel will in postal zone six.

(h) Confirmed.

(i) As stated in my response to part (f) of this question, the hypothetical situations described in this question do not contradict the fact that increased distance between BMCs for an inter-BMC parcel will necessarily imply an increased GCD provided all else is held constant. Compare the parcel that travels between offices C and D with the parcel that travels between offices E and F. In this example, the distance between offices and BMCs is constant, i.e., the easternmost office is 50 miles east of the easternmost BMC and the westernmost office is 50 miles west of the westernmost BMC. In this example, the increased BMC distance (950 for the C-D parcel and 1,000 for the E-F parcel) leads to an increased GCD measurement (1,050 for the C-D parcel and 1,100 for the E-F parcel).

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF DAVID POPKIN

6
3886

Because the analysis contained in my testimony allocates transportation costs to zones and does not calculate the costs associated with individual pieces of Parcel Post, it is more accurate to examine average distances by zone rather than hypothetical examples of individual parcels. Within this framework, I would argue that the average distance between BMCs for parcels in each zone increases with zone.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF DAVID POPKIN

DBP/USPS-47. It was indicated that a new method has been adopted from previous rate cases of allocating parcel post transportation costs to the different zones. This reallocation has apparently resulted in greatly increased rates for the lower zones and no increase for the upper zones. If the total transportation costs were the same and the reallocation resulted in higher costs for the lower zones, why didn't they result in lower costs for the upper zones?

RESPONSE:

The new method of allocating Parcel Post transportation costs to zones described in my testimony did result in higher costs for the lower zones and lower costs for the higher zones.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

GFSA/USPS-T16-1. Is the total purchased transportation cost attributed to the various classes and subclasses of mail using the methodology described in your testimony?

(a) If not, explain how such costs are attributed.

(b) If not, do you recommend that your methodology be used for the attribution of total transportation costs?

RESPONSE:

No, my testimony develops unit transportation costs by zone and rate category based on the total amount of transportation costs that are distributed to parcel post. Because the purpose of my testimony is not to attribute transportation costs to the various classes and subclasses of mail, the methodology cannot be used to do so.

(a) Distribution of transportation costs to the various classes and subclasses of mail is accomplished in a variety of ways including the Transportation Cost System (TRACS) and special studies. For a description of the methods of attributing transportation costs to the classes and subclasses of mail, see Library Reference USPS LR-H-1. In addition, the following sources provide information relevant to the distribution of transportation costs to the classes and subclasses of mail:

- Witness Alexadrovich (USPS-T-5) provides information on the development of all base year costs, including transportation.
- Witness Bradley (USPS-T-13) provides information on the determination of volume variability in certain transportation accounts.
- Witness Nieto (USPS-T-2) provides information on the Transportation Cost System (TRACS) used to distribute certain transportation costs to class and subclass.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

(b) As stated above, the purpose of my testimony is not to attribute *transportation costs to the various classes and subclasses of mail*; therefore, the methodology described in my testimony cannot be used to do so.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

GFSA/USPS-T16-2. Provide and identify the source of the number of pieces of each class and subclass of mail transported in each type of highway transportation (intraSCF, inter SCF, intra BMC, and interBMC).

RESPONSE:

Data regarding the number of pieces of each class and subclass of mail transported in each type of highway transportation are not used in the development of unit transportation costs in my testimony. Further, I am not aware that these data currently exist for parcel post or any other subclass of mail.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

GFSA/USPS-T-16-3. Provide and identify the source of the cubic feet of each class and subclass of mail transported in each type of highway transportation (intraSCF, interSCF, intraBMC and inter BMC).

RESPONSE:

Data regarding the number of cubic feet of each class and subclass of mail transported in each type of highway transportation are not used in the development of unit transportation costs in my testimony. Further, I am not aware that these data currently exist for parcel post or any other subclass of mail.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

GFSA/USPS-T-16-4. Provide and identify the source of the cubic foot miles for each class and subclass of mail transported in each type of highway transportation (intra SCF, inter SCF, intra BMC and inter BMC).

RESPONSE:

Data regarding the number of cubic foot miles of each class and subclass of mail transported in each type of highway transportation are not used in the development of unit transportation costs in my testimony. Further, I am not aware that these data currently exist for parcel post or any other subclass of mail.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

3FSA/USPS-T-16-5. Confirm that you treat the transportation costs between a BMC and a P&DC served by that BMC as "intermediate transportation costs". If you do not confirm, please explain fully.

RESPONSE:

Confirmed.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

FGFSA/USPS-T-16-6. Are the cube-weight relationships which you describe in your testimony (beginning at page 11) used to determined the portion of total purchased highway transportation costs which is attributable to parcel post? If not, do you recommend that such relationships be taken into account in determining the attribution of such costs?

RESPONSE:

The cube weight relationships estimated in my testimony are used by me to estimate the total number of test year cubic feet by zone for each rate category of parcel post and by Ms. Mayes to convert costs per cubic foot into costs per piece for each weight increment. These relationships are not used to determine the portion of total purchased highway transportation costs that are attributable to parcel post. It is my understanding that TRACS uses density data from special studies of many subclasses of mail, including parcel post, in distributing some purchased highway transportation accounts to the classes and subclasses of mail. It is also my understanding that the special studies are designed specifically to measure the density of mail as it travels in containers on highway transportation. Therefore, I would not recommend that the cube weight relationships estimated in my testimony be used in the distribution of transportation costs to parcel post because the data collected in the special studies more accurately reflects the density of parcel post as it travels on highway transportation.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

FGFSA/USPS-T-16-7. For a machinable parcel mailed at Daytona Beach, Florida, for delivery in Dalton, Georgia, confirm that the parcel will receive:

intra BMC transportation

from Daytona Beach to the Jacksonville, FL BMC

from the Atlanta, Ga BMC to Dalton, Ga.

inter BMC transportation

from the Jacksonville BMC to the Atlanta BMC

If you do not confirm, please fully explain.

If you do confirm, explain how the intra BMC transportation for this parcel is unrelated to the GCD between each BMC and the originating/destinating facilities.

RESPONSE:

Not confirmed. Although the transportation pattern described above could represent a likely travel pattern for a piece of parcel post traveling between the specified origin and destination, data regarding how each piece of parcel post travels between a particular origin and a particular destination does not exist.

Further, even if the transportation pattern described above could be verified for every piece of machinable parcel post traveling between Dayton Beach and Dalton, it is still correct to treat the intra-BMC transportation costs as unrelated to GCD. Please refer to the example described in Figure II-2 of my testimony. Using a similar comparison, substitute the parcel described above for parcel B in my testimony and consider another parcel traveling from Dayton Beach to Eugene, Oregon as parcel A. The parcel sent to Eugene would be zone 8 and would have a GCD that is approximately ten times that of the parcel sent to Dalton. Treating intra-BMC costs as GCD related would imply allocating ten times more intra-BMC cost to parcel A than to parcel B, even though the intra-BMC distance traveled by each parcel is roughly equivalent. Clearly, in the case of inter-BMC parcels, intra-BMC transportation costs should not be distributed based on GCD distance.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

FGFSA/USPS-T-16-8. Assume a 20# machinable parcel is placed in the mail at the Panama City, Florida, SCF for delivery to an addressee served by the Tampa, Florida, SCF. Confirm that this parcel will receive intra BMC transportation from Panama City, FL to the Jacksonville, FL BMC and from the Jacksonville, FL BMC to Tampa, FL.

In this example, Panama City is Zone 3 from the Jacksonville BMC and from Tampa, and Tampa is also Zone 3 from the Jacksonville BMC.

What will be the actual miles for which transportation service is provided? Will this be actual highway mileage or GCD miles?

What will be the transportation miles taken into account for the determination of attributable costs?

What will be the transportation miles to be taken into account using the methodology explained in your testimony?

RESPONSE:

Not confirmed. Although the transportation pattern described above could represent a likely travel pattern for a piece of parcel post traveling between the specified origin and destination, data regarding how each piece of parcel post travels between a particular origin and a particular destination does not exist.

Assuming that the transportation pattern described above is correct, it would be difficult to quantify the actual miles for which transportation service is provided. In order to determine the actual mileage, the individual contracts and routing between the facilities described above would need to be analyzed. Further, it is quite possible that there exist a number of contracts that provide service between the facilities, each of which may follow a different route and therefore travel a different number of miles. If an estimate of actual highway miles were made it would reflect actual miles and not GCD miles. GCD miles between two points will, in general, be less than the miles actually traveled because highway transportation rarely is able to follow a straight line between two points.

It is my understanding that TRACS uses the actual highway miles traveled on a contract by contract basis in distributing intra-BMC purchased highway transportation to the classes and subclasses of mail.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

The miles used in my testimony to distribute distance related transportation costs to zone are the GCD miles between the origin and destination of the parcel. However, since the parcel described in this question is an intra-BMC parcel, miles (either actual or GCD) are not considered when distributing costs to zone.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

FGFSA/USPS-T-16-9. Assume a 20 lb. machinable parcel entered as parcel post at the Jacksonville, Florida SCF as Intra-BMC mail for delivery to an address served by the Tampa, Florida SCF, and an identical 20 lb. machinable parcel entered at the Jacksonville, Florida BMC as DBMC mail for delivery to the same address served by the Tampa, Florida SCF. Both parcels are received and processed at the Jacksonville BMC on the same day.

(a) Will both parcels be transported from the BMC to the SCF on the same vehicle?

(b) Will both parcels receive the same highway transportation service from the Jacksonville BMC to the Tampa SCF?

(c) Will the amount of the highway transportation costs from the BMC to the SCF for the Intra BMC parcel be determined on the basis of the cubic feet of the parcel, regardless of the distance? If not, how will the cost be determined?

(d) Will the amount of the highway transportation costs from the BMC to the SCF for the DBMC parcel be determined on the basis of the cubic foot miles of the parcel? If not, how will the cost be determined? If so, is the mileage actual highway miles or the GCD distance?

(e) If the amounts under (c) and (d) are not the same, explain why the amount of transportation costs are different for the two parcels, when the transportation service utilized by each parcel will be the same.

RESPONSE:

(a) In this hypothetical example, both parcels may travel on the same vehicle; however, I cannot confirm that two such parcels would always travel on the same vehicle.

(b) It is unclear exactly what is meant by "the same highway transportation service." If the same highway transportation service means the same vehicle, then I cannot confirm that two such parcels would always travel on the same vehicle. If, on the other hand, same highway transportation service means that both parcels will receive intra-BMC highway transportation, I would confirm that this is likely.

(c) The question mistakenly implies that the methodology used in my testimony to calculate parcel post unit transportation costs by zone is also able to uniquely calculate transportation costs for individual parcels. In actuality, the methodology calculates the transportation costs associated with the average parcel

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

within each zone. Further, the amount of transportation costs for intra-BMC parcels is not specifically divided between movements from the SCF to the BMC and movements from the BMC to the SCF. Therefore, it is accurate to state that the amount of highway transportation costs between the SCF and the BMC and between the BMC and the SCF will be determined on the basis of cubic feet of the parcel.

(d) Again, the transportation costs associated specifically with the parcel described in the example above cannot be determined. However, the amount of highway transportation costs from the BMC to the SCF for average DBMC parcels in each postal zone will be determined on the basis of cubic foot miles in each zone. Cubic foot miles in this situation are calculated using the GCD of the parcel because GCD is directly related to actual distance traveled in the case of DBMC parcel post.

(e) As stated in my response to parts (c) and (d) of this question, the amounts described cannot be calculated; therefore, it is impossible to say whether or not they will be the same. In addition, this question mistakenly assumes that the transportation service utilized by each parcel will be the same. The intra-BMC parcel originating at the Jacksonville SCF will receive additional transportation between the SCF and the BMC that the DBMC parcel will not. Granted, the amount of additional transportation is small; however, it represents a difference between the two parcels described in this example.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

FGFSA/USPS-T-16-10. Assume a machinable parcel is entered at the Tallahassee, Florida SCF for delivery to an addressee served by the Thomasville, Georgia SCF. Confirm that the transportation to be provided for this parcel will be: intra-BMC from Tallahassee to the Jacksonville BMC, inter-BMC from the Jacksonville BMC to the Atlanta BMC, and intra BMC from the Atlanta BMC to Thomasville. If you do not confirm, please explain fully.

(a) Is this circuitous route determined for the convenience of the USPS?

(b) Is the transportation cost assigned to this parcel for rate making purposes limited to the GCD mileage between the originating and destinating postal facilities?

RESPONSE:

Not confirmed. Data regarding how each piece of parcel post travels between a particular origin and a particular destination does not exist.

(a) In some instances, a parcel may take a route similar to the one described in the above example due to the operational procedures for handling parcel post. It is my understanding that, in general, outbound parcel post will be transported from the origin SCF to the local BMC for sorting and dispatch towards its destination. However, there do exist instances in which parcel post travels directly from an origin SCF to a destination SCF.

(b) As stated in my response to FGFSA/USPS-T-16-9, the methodology described in my testimony does not calculate the transportation costs associated with individual pieces of parcel post. Therefore, the parcel described in this example would pay a rate that is based upon the average transportation cost associated with whichever zone the parcel happened to fall into. The parcel post transportation costs allocated to zones are based on a variety of measures as described in my testimony. For the case of the hypothetical parcel described above, the local and intermediate transportation costs would be allocated to zone based on the cubic feet in each zone and the long distance transportation costs would be allocated on the basis of cubic foot miles in each zone.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

FGFSA/USPS-T16-11. In your autobiographical sketch at page iii, you stat that your experience includes "attributable cost analysis in transportation" and you "have worked on various projects related to parcels and transportation." You also state that you have observed transportation cost system (TRACS) tests.

(a) Are you sponsoring any of the material in LR-PCR-17 or LR-PCR-20? If not, is any other witness sponsoring any part of these references, and which witness is best qualified to answer questions pertaining to each of these library references?

(b) Please describe fully your familiarity with the TRACS programs described in LR-PCR-17 used to develop the distribution keys for attributable highway costs. In your answer, please state explicitly whether you are knowledgeable about the methodology, procedures and formulas used by TRACS (i) to expand sampled mail volume up to the container level, (ii) to expand sampled mail volume from the container level up to the whole truck or van, and (iii) to compute cubic foot miles of transportation service for each class and subclass of mail.

(c) Are you familiar with and knowledgeable about the way the TRACS sample is selected? For Intra-BMC routes, would you know how many TRACS samples are taken of trucks outbound from the BMC, and how many samples are taken of trucks inbound to the BMC (including samples taken at the BMC itself)?

(d) Have you ever used any of the data contained in the CDs in LR-PCR-20 for any kind of analysis, or any other purpose? If so, please describe the nature of such analysis.

RESPONSE:

(a) Assuming that the question actually refers to Library References USPS LR-H-82 and USPS LR-H-84, the witness most qualified to answer questions pertaining to them is Ms. Nieto (USPS-T-2).

(b) Although I have a general understanding of TRACS, that understanding does not include the specifics of the SAS programs involved in its implementation.

(c) I am not familiar with the specifics of how the TRACS sample is selected. For the purposes of preparing my testimony in this docket, I did not investigate the specifics of the number of routes sampled; however, Ms. Nieto's testimony (USPS-T-2)

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

3902

and Library Reference USPS LR-H-78 contain information regarding TRACS sampling procedures.

(d) If this question refers to Library Reference USPS LR-H-84, I have not used any of the data contained therein.

FGFSA/USPS-T-16-16. Assume that there are two identical (size, shape, weight and cube) parcels, one using the intra-BMC rate and the other using the DBMC rate, with both parcels destined for the same address, that are transported on the same day in the same vehicle from the same BMC to the same destination SCF.

a) Confirm that the transportation cost from the BMC to the SCF for the Intra-BMC parcel be determined on the basis of the cubic feet of the parcel. If you do not confirm, please explain.

b) Confirm that the transportation cost from the BMC to the SCF for the DBMC parcel be determined on the basis of the cubic foot miles of the parcel. If you do not confirm, please explain.

c) Explain why the transportation costs of these two identical parcels, for this portion of the transportation service should each be determined in a different manner.

RESPONSE:

a) As stated in my response to FGFSA/USPS-T-16-9, the methodology used in my testimony is not able to uniquely calculate transportation costs for individual parcels and the methodology does not distinguish between transportation from the SCF to the BMC and transportation from the BMC to the SCF for intra-BMC parcels. Intermediate transportation costs (both from the SCF to the BMC and from the BMC to the SCF) for intra-BMC parcels are allocated to zone based on cubic feet of intra-BMC parcels in each zone.

b) Again the methodology used in my testimony is not able to uniquely calculate transportation costs for individual parcels. Intermediate transportation costs for DBMC parcels are allocated to zone based on the cubic foot miles of DBMC in each zone.

c) As stated in my responses to parts a) and b) of this question, the methodology used in my testimony is not able to uniquely calculate transportation costs for individual parcels. Intermediate transportation costs for intra-BMC parcels are

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

allocated to zone based on cubic feet because these costs are not related to GCD. In contrast, intermediate transportation costs for DBMC parcels are allocated to zone based on cubic foot miles because these costs are related to GCD.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

FGFSA/USPS-T-16-17. Refer to your response to FGFSA/USPS-T-16-10 and your statement that "However, there do exist instances in which parcel post travels directly from an origin SCF to a destination SCF."

- a) Identify all of the factors taken into account in determining when those "instances" apply for machinable parcels entered using the Intra-BMC.
- b) Confirm that the usual and customary operating procedures for handling parcel post provide that the parcels will be sent to the BMC for sorting.
- c) Are the parcels sent to the BMC for sorting for the convenience of the Postal Service or the mailer?
- d) Confirm that one reason for sending the parcels to the BMC for sorting is to avoid manual sorting at the SCF.
- e) If more than 30 parcels, destined for various 5-digit delivery offices, are entered by the same mailer at the same time, will these parcels be sorted manually by the SCF or will they be sent to the BMC for sorting?

RESPONSE:

- a) In preparing my testimony, I did not take into account specific factors that determine when or why a parcel travels between P&DCs.
- b) - e) Redirected to the Postal Service.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

4
3906

FGFSA/USPS-T-16-18. Refer to your response to FGFSA/USPS-T-16-8. Since you did not confirm the travel pattern described, please explain what other travel pattern would be used by the Postal Service for this parcel originating in Panama City, Florida and destinating in Tampa, Florida.

a) Confirm that the selection of the travel pattern is for the convenience of the Postal Service. If you do not confirm, please fully explain.

RESPONSE:

As stated in my response to FGFSA/USPS T-16-8, data are not available to determine the transportation pattern of individual pieces between their origin and destination. Therefore, there are no data available to describe the different routings through the transportation network that an individual parcel may take. Although the transportation pattern described in FGFSA/USPS-T-16-8 may be a likely path for the hypothetical parcel, another possible path may include travel directly from origin P&DC to destination P&DC.

a) It is my understanding that transportation patterns are determined based on factors such as cost, geography, and service. I would not categorize these factors as only being related to the convenience of the Postal Service.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF UNITED PARCEL SERVICE

3907

UPS/USPS-T16-1. Refer to page 12 of USPS-T-16. Were the oversized parcels that are proposed to be charged the balloon rate included in the cube-weight regression analyses? Why, or why not?

RESPONSE:

The volume of parcel post that is used in the regression analyses contained in my testimony includes parcels that are proposed to be made subject to a balloon surcharge, because the costs associated with transporting those parcels are included in the test year before rates parcel post transportation costs. The purpose of the regression analyses is to determine the relationship between the weight of various rate categories of parcel post and their cubic volume. Among other things, this relationship is used to estimate the total number of cubic feet of parcel post by zone. The estimates of cubic feet are then used to distribute parcel post costs to zones and to calculate unit costs. It is necessary for the number of cubic feet to be consistent with the pool of transportation costs that are distributed to rate category and zone in my testimony. If a subset of parcel post volume were omitted from the regression analyses, the results could yield cubic foot estimates that either overestimate or underestimate the total number of cubic feet of parcel post.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T16-2. Refer to page 10, lines 14-16 through line 1 on page 11 of your Direct Testimony, where you state, "Increases in intermediate transportation distance for intra-BMC parcels do not necessarily cause parcels to migrate towards a higher zone."

(a) Do you agree that, on average, a higher zone intra-BMC parcel likely will have a higher intermediate transportation cost than a Zone 1/2 intra-BMC parcel? Why, or why not? Provide all evidence and supporting documentation for your answer.

(b) Do you agree that a higher zone intra-BMC parcel will always travel a significant distance to and from the BMC, but that a Zone 1/2 intra-BMC parcel may or may not? Explain your answer.

RESPONSE:

(a) I do not agree that, on average, a higher zone intra-BMC parcel will necessarily have a higher intermediate transportation cost than a Zone 1/2 intra-BMC parcel. Because, as stated in the cited portion of my testimony, increases in intermediate transportation distance for intra-BMC parcels do not necessarily cause parcels to migrate to higher zones, it is reasonable to treat intermediate transportation for intra-BMC parcels as non-distance related. It could be the case that, on average, higher zone intra-BMC parcels do travel further on intermediate transportation than Zone 1/2 intra-BMC parcels. It could also be the case that, on average, Zone 1/2 intra-BMC parcels travel further on intermediate transportation than higher zone intra-BMC parcels. For example, if the majority of Zone 1/2 intra-BMC volume had a transportation pattern similar to Parcel A shown in Figure II-3 of my testimony, it could very well be the case that Zone 1/2 intra-BMC parcel post travels further than higher zone intra-BMC parcel post on intermediate transportation.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF UNITED PARCEL SERVICE

(b) I do not agree that a higher zone intra-BMC parcel will *always* travel a significant distance *both to and from* the BMC but that a Zone 1/2 intra-BMC parcel may or may not. It is true that a Zone 1/2 intra-BMC parcel may or may not travel a long distance to or from a BMC. A higher zone intra-BMC parcel, on the other hand, could still travel a shorter distance than a lower zone intra-BMC parcel either to or from a BMC. Simply put, it is not true that all higher zone intra-BMC parcels travel a significant distance *both to and from* the BMC.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF UNITED PARCEL SERVICE

3910

UPS/USPS-T16-3. Please refer to Table III-3 on page 25 of USPS-T-16.

(a) Confirm that the transportation cost for Zone 1/2 DDU is the difference between the \$0.3997 per cubic foot for Zone 1/2 DSCF minus the DDU avoided transportation cost of \$0.3337 per cubic foot, or \$0.0660 per cubic foot. If not confirmed, explain.

(b) Explain in detail why the local zone intra-BMC transportation cost of \$0.9402 per cubic foot is substantially more than that for Zone 1/2 DDU.

(c) Explain in detail why the transportation cost for local zone intra-BMC of \$0.9402 per cubic foot is substantially more than that of Zone 1/2 DSCF of \$0.3997 per cubic foot.

RESPONSE:

(a) Confirmed, as indicated on Appendix III page 9.

(b) In Docket No. R94-1, the methodology employed by the Commission for calculating the purchased transportation cost per cubic foot for intra-BMC parcels resulted in a local zone unit cost which was equal to the non-distance related unit cost in all other intra-BMC zones. Using this methodology resulted in a local zone intra-BMC transportation cost that was based primarily on intra-SCF purchased highway transportation, approximately \$0.34 per cubic foot (see Docket No. R94-1, PRC LR-12). The methodology used in my testimony, which results in \$0.94 per cubic foot, differs in two primary ways. First, the parcel post transportation cost analysis in my testimony includes postal owned vehicle costs (see pages 14-15). Inclusion of these costs substantially increases the amount of transportation costs that are incurred transporting parcels between AOs and P&DCs. In addition, my calculation of local zone intra-

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF UNITED PARCEL SERVICE

3911

BMC transportation costs also includes a portion of the transportation costs that are incurred transporting parcels between P&DCs and BMCs.

The costs associated with a piece of DDU parcel post do not include any of the transportation costs associated with transportation between AOs and P&DCs or between P&DCs and BMCs. Because the local zone intra-BMC transportation cost estimate includes a portion of the costs associated with transportation between AOs and P&DCs and between P&DCs and BMCs, whereas the DDU transportation cost estimate does not, the local zone intra-BMC transportation cost estimate is substantially higher than the DDU transportation cost estimate. The reason that local zone intra-BMC parcel post and DDU parcel post are treated differently is that, by definition, DDU parcel post will not receive any transportation between the delivery unit and the P&DC or between the P&DC and the BMC. Because DDU parcel post must originate at the destination delivery unit, there is no reason why DDU parcel post would travel to the P&DC. By contrast, local zone intra-BMC parcel post may receive transportation between the associate office where it originates and the P&DC and between the P&DC and the BMC. In order for local zone intra-BMC parcel post not to receive any transportation beyond the origin AO, the origin AO must identify and separate local zone pieces from the rest of the originating parcel post. Often times this separation does not occur because of space and time considerations. Therefore, because local zone intra-BMC parcels will not always

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF UNITED PARCEL SERVICE

3912

avoid transportation beyond the origin AO, only a portion of these costs were removed from the local zone transportation cost calculations.

(c) As stated in my response to part (b) of this question, the local zone intra-BMC parcel post transportation cost estimate includes a portion of the costs associated with transportation between the AO and the P&DC and between the P&DC and the BMC. Again, this is due to the fact that local zone intra-BMC will not always avoid transportation beyond the origin AO and will be treated as non-local zone intra-BMC. On the other hand, DSCF parcels, by definition, will only receive one leg of transportation between the destination P&DC and the destination AO. Because DSCF parcels must originate at the destination P&DC, these parcels will not receive transportation from an AO to a P&DC. Instead, these parcels will only receive transportation from the P&DC to the destination AO. Since parcels entered at the destination SCF will only incur approximately one leg of transportation between the P&DC and the AO, and a portion of local zone intra-BMC parcels will receive approximately two legs of transportation between both the AO and the P&DC and the P&DC and the BMC, the costs for local zone intra-BMC parcels are significantly higher than the costs for DSCF parcel post.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T16-4. Please refer to Appendix I, page 2-3 of 13, of USPS-T-16.

(a) Confirm that inter-SCF highway costs are primarily associated with intra-BMC parcels. If not confirmed, explain.

(b) Will those intra-BMC parcels that are transported directly from the origin P&DC to the destination P&DC avoid incurring intra-BMC highway costs?

(c) State separately for each the percentage of inter-BMC, intra-BMC, DBMC, DSCF, and DDU parcels that are expected to be transported directly from the origin P&DC to the destination P&DC in the Test Year.

(d) What analytic methodology and data would be required to take into account the impact of the percentage of parcels transported directly from the origin P&DC to the destination P&DC in your transportation cost analysis?

RESPONSE:

(a) Not confirmed. Inter-SCF highway transportation costs are associated with contracted highway transportation that travels primarily between P&DCs. This type of transportation can be incurred by different rate categories of parcel post. Page 3 of Appendix I of my testimony indicates that inter-SCF highway transportation costs have been categorized as intermediate transportation. Intermediate transportation is incurred by all types of parcel post, inter-BMC and DBMC, as well as intra-BMC. Being categorized as intermediate transportation does not mean that the costs are only associated with intra-BMC parcel post. As shown in table III-2 on page 20 of my testimony, intermediate transportation costs are distributed to all three of the rate categories of parcel post. Because the costs in the inter-SCF transportation account are treated as intermediate, they are also distributed to all three rate categories of parcel post.

(b) Yes, if a piece of intra-BMC parcel post is transported directly from origin P&DC to destination P&DC, that piece will most likely not incur intra-BMC highway transportation costs.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF UNITED PARCEL SERVICE

(c) The amount of parcel post that will travel from origin P&DC directly to destination P&DC is not known for the rate categories of parcel post in the test year or in the base year. There is currently no data on how specific types of mail are routed through the transportation network. Estimates of the amount of inter-BMC, intra-BMC, and DBMC traveling on inter-SCF highway are not available.

(d) The methodology used to distribute parcel post transportation costs to rate category and zone used in my testimony could be modified to account explicitly for the situations where parcel post travels directly from origin P&DC to destination P&DC. By categorizing inter-SCF transportation costs as intermediate, however, my testimony has an implicit distribution of inter-SCF transportation costs to the rate categories of parcel post. In order to account explicitly for pieces that travel directly from origin P&DC to destination P&DC, the information described in part (c) of this question is needed. As stated in my response to part (c) of this question, however, these data were not collected for FY 96. Because inter-SCF transportation costs account for less than 8 percent of the base year parcel post transportation costs shown in my testimony, a new method of distributing them would likely have a minimal impact on the transportation cost estimates.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF UNITED PARCEL SERVICE

3915

UPS/USPS-T16-5. Please refer to Appendix I, page 13 of 13, of USPS-T-16. Confirm that the source of Row 14, the "Percentage of DBMC parcels entered at destination SCFs," is Mayes WP 1.F at 1 and that the percentage used is for the Test Year Before Rates. If confirmed, why was the percentage for the Test Year After Rates not used? If not confirmed, explain.

RESPONSE:

Confirmed, the percentage of DBMC parcel post entered at destination SCFs used in my testimony is 7.11 percent. This figure was obtained from Mayes WP 1.F, which shows the percentage of DBMC that was entered at the destination SCF in calendar year 1996. The percentage reflects the amount of DBMC entered at the destination SCF under the existing rate structure. This percentage was used, as opposed to the percentage of DBMC that will be entered at the destination SCF if a DSCF discount is offered, in order to ensure that all figures used to distribute transportation costs to rate category and zone are consistent with the transportation costs that are analyzed in my testimony. The transportation costs shown on page 13 of Appendix I are test year before rates transportation costs. These costs reflect the percentage of DBMC parcels that are entered at the destination SCF given the current rate structure. The current rate structure offers no additional incentives to enter DBMC mail at a destination SCF. If the percentage of DBMC entered at the destination SCF (assuming the existence of a DSCF discount) were used in lieu of the figure used in my testimony, this would result in a misallocation of test year before rates costs.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T16-6. Refer to page 7 of the Direct Testimony of Nicholas Acheson in Docket No. R90-1 (USPS-T-12).

(a) Confirm that the mail flow diagram for third class mail shown on that page is similar to that used to derive transportation costs for parcel post in your testimony (e.g., Figure II-1, on page 6 of USPS-T-16). If not confirmed, explain in detail.

(b) Do you agree with Mr. Acheson's statement on line 2 of page 7 of his testimony that the mail flow diagram shown on that page is a "simplistic model"? Explain your answer.

RESPONSE:

(a) Not confirmed. The methodology used in my testimony to distribute parcel post transportation costs to rate categories and zones does not rely on a mail flow diagram such as the one used by Mr. Acheson in Docket No. R90-1. Figure II-1, on page 6 of my testimony, is used for illustrative purposes. The figure represents the typical travel pattern for a piece of inter-BMC parcel post and is used only to illustrate the determination of distance relation in inter-BMC parcel post transportation costs. Nowhere in my testimony is it stated that Figure II-1 is a representation of all mail flows in parcel post or that the figure is used to derive transportation cost estimates.

(b) This subpart was withdrawn by UPS.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T16-7. Refer to Table 2 on page 8 of Mr. Acheson's testimony in Docket No. R90-1 (USPS-T-12), entitled "Flowpaths in Postal Transportation System," in which 13 possible flowpaths are identified for third class bulk mail.

(a) Do you agree with Mr. Acheson's statement on line 12 of page 7 of USPS-T-12 in Docket No. R90-1 that the transportation patterns shown on Table 2 are "more realistic" than the "simplistic model" shown on page 7? Explain your answer.

(b) Confirm that your analysis of parcel post transportation costs considers only 5 of the 13 flowpaths shown on Table 2 and does not consider flowpaths 1, 2, 4, 5, 6, 8, 9, and 12? If confirmed, why did you not take into account all 13 flowpaths in your parcel post transportation analysis? If not confirmed, explain in detail.

(c) Confirm that if all 13 flowpaths were considered in your analysis of parcel post transportation costs, the proportion of local and intermediate transportation legs incurred by DBMC and DSCF parcels would be greater. If not confirmed, explain in detail.

(d) What modification to your analysis would be required and what data would be needed to take into account all 13 flowpaths in your analysis of parcel post transportation costs? Explain in detail.

RESPONSE:

(a) This subpart was withdrawn by UPS.

(b) Not confirmed. As stated in my response to UPS/USPS-T16-6, the methodology used in my testimony to distribute parcel post transportation costs to rate categories and zones does not rely on a mail flow diagram such as the one used by Mr. Acheson in Docket No. R90-1. The methodology employed in my testimony accounts for the purchased transportation costs associated with all mail flows in parcel post, whether or not they are pictured in Mr. Acheson's table 2.

(c) Not confirmed. Again, the methodology used in my testimony to distribute parcel post transportation costs to rate categories and zones does not

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF UNITED PARCEL SERVICE

rely on a mail flow diagram such as the one used by Mr. Acheson in Docket No. R90-1. In order to respond to a hypothetical question regarding what an analysis of parcel post transportation costs using the methodology presented by Mr. Acheson in Docket No. R94-1 would yield requires that such an analysis be done. My testimony does not employ this methodology. In addition, there is no indication that the methodology used by Mr. Acheson is appropriate for distributing parcel post transportation costs to rate category and zone. Mr. Acheson's testimony uses a mail flow methodology to calculate destination entry discounts for third-class mail. The methodology does not consider distribution of transportation costs to rate categories or distribution of transportation costs to zones.

(d) As stated in my response to part (c) of this question, there is no indication that the methodology used by Mr. Acheson is appropriate for distributing parcel post transportation costs to rate category and zone. Mr. Acheson's testimony uses a mail flow methodology to calculate destination entry discounts for third-class mail. The methodology does not consider distribution of transportation costs to rate categories and distribution of transportation costs to zones. It does not make sense to consider modifying the methodology presented in my testimony to take into account certain flowpaths pictured in Mr. Acheson's table 2, because the methodology does not rely on a mail flow diagram such as the one described in table 2.

UPS/USPS-T16-8. Refer to Table 3 on page 9 of Mr. Acheson's testimony (USPS-T-12) in Docket No. R90-1.

(a) Confirm that the "Category of Contract Highway Service" for each of the 13 flowpaths identified in the Table is correct for parcel post in the Base Year and in the Test Year in this proceeding. If not confirmed, provide the correct information.

(b) Provide all available data for parcel post in the Base Year and in the Test Year for this proceeding on the "Proportion of Volume From the Origin" for each of the 13 flowpaths shown in the Table. If not available, explain why parcel post data was not gathered in the same manner that Mr. Acheson gathered them for his analysis of third class transportation costs.

RESPONSE:

(a) Confirmed.

(b) The data shown in Mr. Acheson's table 3 which indicates

Proportion of Volume From the Origin are not available for parcel post. These data were not gathered in the same manner that Mr. Acheson gathered them for his analysis of third-class destination entry discounts because Mr. Acheson's flow model is only concerned with third-class mail. Similar estimates for parcel post were not made because they were not necessary for the analysis of parcel post transportation costs contained in my testimony.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T16-9. Refer to Table 1 on page 6 of USPS-T-12 in Docket No. R90-1. For parcel post in the Base Year and in the Test Year in this proceeding, provide the same entry profile data as is contained in that Table. Also provide the data broken out separately for inter-BMC, intra-BMC, and DBMC.

RESPONSE:

The entry profile shown in Mr. Acheson's table 1 is not available for parcel post, either in total or by rate category. For the purposes of Mr. Acheson's analysis, these data were collected for third-class mail by means of a special study. *A special study to develop a similar entry profile for parcel post was not conducted because all of these data were unnecessary for the analysis of parcel post transportation costs contained in my testimony. Certain estimates similar to the those contained in Mr. Acheson's table 1 are, however, available for parcel post and are used in my testimony. Specifically, the percentage of inter-BMC parcel post that is entered at the origin BMC is available from Ms. Mayes (Mayes WP I.F.). The percentage of DBMC which is entered at a destination SCF is also available in Mayes WP I.F. The amount of parcel post that is entered at a destination BMC can be calculated by subtracting the portion of DBMC entered at a destination SCF from total DBMC volume.*

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T16-10. Refer to Exhibit G, page 2 of 3, of USPS-T-12 in Docket No. R90-1, where, relying on a 1980 study, Mr. Acheson assumed that "approximately 67% of intra-SCF costs is associated with service to stations, branches, and AOs."

(a) Have there been any updates to the information contained in this 1980 study? If so, provide all such updates.

(b) Confirm that you assume that DDU parcel post avoids 33.37 cents per piece, or 83.5%, of the 39.97 cents per piece of unit attributable transportation costs for DSCF parcel post. If not confirmed, explain.

(c) Do you agree that you have overstated DDU transportation cost savings if Mr. Acheson's assumption that "67% of intra-SCF costs is associated with service to stations, branches, and AOs" is correct? If you do not agree, explain in detail.

(d) Provide all analyses and supporting documentation for your statement contained in Appendix III, Page 5 of 9, of your testimony (USPS-T-16) that Intra-SCF van and Intra-SCF trailer contract costs are completely avoided by DDU parcel post. Confirm that your statement cannot be true if Mr. Acheson's assumption that "67% of intra-SCF costs is associated with service to stations, branches, and AOs" is correct; if not confirmed, explain.

RESPONSE:

(a) Based on figures presented by Dr. Bradley (Exhibit USPS-13B) my testimony shows that 83.63 percent of intra-SCF purchased highway transportation costs are associated with transportation between P&DCs and AOs. Development of this percentage represents a new method of calculating the figure presented by Mr. Acheson. A description of the derivation of this percentage can be found on pages 5 and 9 of Appendix III of my testimony.

(b) Not confirmed. The analysis of the cost difference between DSCF and DDU parcel post shows that DDU parcel post transportation costs are 83.50 percent of DSCF transportation costs. This calculation is based on the estimate of the portion of intra-SCF purchased highway transportation costs that are

associated with transportation between P&DCs and AOs described in my response to part (a) of this question. The result of the calculations shows that cost difference between DSCF and DDU parcel post is 33.37 cents per cubic foot. I do not simply assume that the cost difference is 33.37 cents per piece; rather, *I calculate that the difference is 33.37 cents per cubic foot.*

(c) I do not agree. As stated in my response to part (a) of this question, my estimate of the proportion of intra-SCF highway costs that are associated with transportation between P&DCs and AOs, 83 percent, represents a new method of calculating the 67 percent figure used by Mr. Acheson in Docket No. R90-1. The estimate used in my testimony is based on the best and most recent data available and there is no evidence that would suggest it is *either overstated or understated.*

(d) As stated on page 5 of Appendix III of my testimony, intra-SCF van and intra-SCF trailer contracts are primarily associated with purchased transportation between P&DCs and AOs. The other elements of intra-SCF highway transportation costs, intra-city and box-route contracts, are associated with transportation between AOs and other locations. Because, by definition, DDU parcel post will be entered at the destination AO, there is no reason to believe DDU parcel post would travel on transportation between the AO and the P&DC. Therefore, DDU parcel post will avoid all transportation costs associated with intra-SCF van and intra-SCF trailer contracts. This is entirely consistent with Mr. Acheson's adjustment to intra-SCF highway transportation costs in Docket No. R90-1.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF UNITED PARCEL SERVICE

3923

The second sentence of this question appears to jump to erroneous inferences based on the mistaken impression that intra-SCF costs are synonymous with subsets thereof. My statement that DDU parcel post avoids all intra-SCF *van* and intra-SCF *trailer* costs is not inconsistent with Mr. Acheson's statement that 67 percent of *intra-SCF costs* are associated with service to AOs. Indeed, Mr. Acheson excludes all intra-SCF highway transportation costs not associated with service from SCFs to AOs from his calculations because these costs will not be avoided by destination entry mail. My testimony likewise excludes these costs from the calculation of the DDU parcel post transportation cost difference because they will not be avoided by DDU parcel post.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF UNITED PARCEL SERVICE

3924

UPS/USPS-T16-11. Refer to lines 23 and 24 on page 31 of USPS-T-12 in Docket No. R90-1, which states: "Unlike intra-BMC transportation, which every piece of DBMC mail would avoid, only a certain percentage of DBMC parcels would avoid intra-SCF transportation as well." Do you agree with this statement?

(a) If yes, did you take into account in your analysis of parcel post transportation costs that only a certain percentage of DBMC parcels would avoid intra-SCF transportation? Explain your answer.

(b) If no, explain in detail why you do not agree.

RESPONSE:

In his Docket No. R90-1 testimony, Mr. Acheson calculates the difference in transportation cost between intra-BMC parcel post and DBMC parcel post. Within the context of his analysis, I agree that not all DBMC parcels would avoid intra-SCF highway transportation that is incurred by intra-BMC parcel post. When calculating the difference in transportation cost between intra-BMC parcel post and DBMC parcel post, as Mr. Acheson did in Docket No. R90-1, there is a certain percentage of intra-BMC parcels that do not incur any intra-SCF transportation because they travel directly from the origin AO to the BMC. If a piece of intra-BMC parcel post does not incur intra-SCF transportation costs, then it would be reasonable to exclude intra-SCF costs in the cost difference between intra-BMC and DBMC parcel post for those pieces not receiving intra-SCF transportation.

(a) Yes, in distributing parcel post transportation costs to rate category, the methodology used in my testimony accounts for parcel post which avoids intra-SCF transportation implicitly. There are a number of reasons why parcel

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF UNITED PARCEL SERVICE

post may not receive intra-SCF transportation, such as when the delivery unit for a piece of parcel post is co-located with the P&DC or when the BMC has a direct transportation link with the AO. When considering parcel post volume that avoids intra-SCF transportation, there are two situations that need to be considered: (1) when parcel post outbound from the BMC avoids intra-SCF transportation and (2) when parcel post inbound to the BMC avoids intra-SCF transportation. To incorporate both of these situations into my testimony, the average number of local legs of transportation for each of the three rate categories could be reduced explicitly. The effect of this reduction in average number of legs would not, however, change the distribution of local transportation costs to rate category based on the assumption that the percentage of parcel post inbound to the BMC that avoids intra-SCF transportation is the same as the percentage of parcel post outbound from the BMC that avoids intra-SCF transportation. Because there are no data to suggest that these two percentages are different, there was no need to account for them in my testimony. Since the amount of parcel post that avoids intra-SCF transportation does not affect the distribution of costs to rate category or zone, there was no need to estimate this volume using the percentage that Mr. Acheson used in Docket No. R90-1.

(b) N/A

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T16-12. Refer to lines 25-26 on page 31, through lines 1-3 on page 32, and Exhibit N of USPS-T-12 in Docket No. R90-1. Confirm that Mr. Acheson assumed that 73.8% of parcel post came to the BMC from satellite facilities.

(a) If confirmed, do you agree with this assumption? If not confirmed, explain in detail.

(b) Provide all studies analyzing the percentage of parcel post at BMCs that originated at satellite facilities which update or refine the information contained in the study relied upon by Mr. Acheson.

RESPONSE:

Not confirmed. Mr. Acheson does not simply *assume* that 73.8 percent of parcel post arrives at the BMC from satellite facilities. My review of his testimony, which was prompted by this interrogatory, indicates that Mr. Acheson obtained an estimate of this volume from a special study.

(a) As stated in my response to UPS/USPS-T16-11, I agree that a certain portion of parcel post avoids intra-SCF transportation. I do not have any detailed knowledge about the sources of Mr. Acheson's estimate and did not have occasion or reason to review this information in preparation for my testimony in this docket; consequently, I do not draw any conclusions about whether the 73.8 percent figure would be reflective of the BY or TY in this docket. As stated in my response to UPS/USPS-T16-11, the amount of parcel post that avoids intra-SCF transportation both outbound from the BMC and inbound to the BMC does not ultimately affect the transportation cost estimates contained in my testimony.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF UNITED PARCEL SERVICE

3927

(b) I am not aware of any studies that have updated the percentage of parcel post at BMCs that originated at AOs. It is my understanding that what Mr. Acheson refers to as satellite facilities in his R90-1 testimony are any non-SCF facilities. These would primarily be AOs.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T16-13. You state on page 5, lines 23-25, of your testimony that "The distance used to calculate zones is the greater circle distance ("GCD") between origin and destination 3-digit ZIP Code area."

(a) What is the minimum, average, and maximum GCD for each of the postal zones for inter-BMC parcels?

(b) What is the minimum, average, and maximum GCD for each of the postal zones for intra-BMC parcels?

(c) What is the minimum, average, and maximum GCD for each of the postal zones for DBMC parcels?

RESPONSE:

(a)-(c) The minimum and maximum GCD for each postal zone does not vary by rate category of parcel post. The minimum and maximum GCD for each postal zone can be found in the Domestic Mail Manual (DMM) and are listed below:

<u>Zone</u>	<u>Minimum GCD</u>	<u>Maximum GCD</u>
1 / 2	0	150
3	>150	300
4	>300	600
5	>600	1,000
6	>1,000	1,400
7	>1,400	1,800
8	>1,800	

The average GCD for each of the postal zones can be calculated using data from Library Reference USPS LR-H-135. By dividing the total inter-BMC

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF UNITED PARCEL SERVICE

3929

cubic foot miles in each zone by the total inter-BMC cubic feet in each zone, an estimate of average GCD miles by zone can be obtained. Using the same method, estimates of the average GCD for intra-BMC and DBMC can be calculated as well. The results of these calculations for each rate category of parcel post are listed below:

<u>Zone</u>	<u>Inter-BMC</u> <u>Average GCD</u>	<u>Intra-BMC</u> <u>Average GCD</u>	<u>DBMC</u> <u>Average GCD</u>
1 / 2	113	45	57
3	251	213	221
4	459	401	361
5	808	497	768
6	1,178		
7	1,593		
8	2,419		

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T16-14. Please confirm that it is the use of GCD measurements between origin and destination 3-digit ZIP Code area to establish Parcel Post zones that leads you to assert that intermediate transportation costs are non-distance related for intra-BMC parcels. If not confirmed, please explain.

RESPONSE:

Intermediate transportation costs for intra-BMC parcels are treated as non-distance related because GCD, as measured for calculating postal zones, for intra-BMC parcels is not necessarily related to the actual distance that intra-BMC parcels travel on intermediate transportation.

UPS/USPS-T16-15. Please explain why Parcel Post zones are derived from GCD measurements between origin and destination 3-digit ZIP code area, and not, as described in your testimony and shown in Figure II-1, on the distance the parcel will travel under parcel transportation patterns. Please provide all studies in which the Postal Service has contemplated revising how a Parcel Post zone is derived.

RESPONSE:

Although I was never involved with the determination of how to calculate postal zones, GCD may have been used to define postal zones because data on transportation routings are not available. There are no specific data available on exactly how a piece of parcel post or another postal product will flow from any particular origin to any particular destination. This data would be needed in order to determine the actual miles traveled by any given piece of mail. In addition, using actual traveled distance to determine postal zones could introduce considerable transaction costs in offering zoned products. If actual traveled distance were used, the algorithm used to determine zone would need to be modified each time there were a change in transportation patterns. Changing this algorithm for all postal retail outlets is no doubt a costly exercise. By using GCD based on the origin and destination of a piece of mail to determine zone, the algorithm for determining zone does not change with changes in transportation patterns.

I am not aware of any studies conducted by the Postal Service that contemplated using data other than GCD in order to determine postal zones.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T16-16. Please refer to pages V-120 and V-121 of the Commission's Recommended Decision in Docket No. R94-1. Confirm that in your rate design for Parcel Post transportation costs, you have not taken into account "distance taper" as requested by the Commission. If not confirmed, explain how and where you did so, and provide all data used for this purpose. If confirmed,

(a) Why was "distance taper" not taken into account in your rate design?

(b) What information and data would you need in order to take distance taper into account in the Parcel Post rate design?

(c) Do you agree that there is distance taper in transportation costs? Explain your answer.

(d) Identify in detail the information and data that is currently available that would help design a distance taper into the Parcel Post rate design and explain how this information and data could be used to estimate distance taper. What are the weaknesses associated with using these particular data to estimate distance taper?

RESPONSE:

First, it is not accurate to describe the analysis contained in my testimony as "rate design." Witness Mayes' testimony (USPS-T-37) describes the rate design of parcel post. Although the unit transportation costs by rate category and zone play an integral part in rate design, characterizing their development as rate design is not accurate.

Distance taper analysis was considered in the preparation of my testimony. As a result of the functional approach to allocating transportation costs to rate categories and zones within parcel post, parcels that tend to travel in higher zones, inter-BMC parcels, have a lower cost per cubic foot mile than parcels that tend to travel in lower zones, intra-BMC and DBMC parcels.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF UNITED PARCEL SERVICE

Although not a direct measurement of cost per cubic foot mile by zone, the analysis contained in my testimony does incorporate certain distance taper effects.

The development of unit transportation cost estimates contained in my testimony, by virtue of the functional analysis, does include an implicit distance taper. As the Commission stated on page V-120 of the Recommended Decision in Docket No. R94-1, "A distance taper occurs when the cost per mile on longer routes tends to be less than the cost per mile on shorter routes." If a distance taper does exist in parcel post, it would be true that the cost per mile for transportation costs that have been categorized as long distance in my testimony would be less than the cost per mile for other transportation costs. By assigning long distance costs only to inter-BMC parcel post, the average cost per mile for inter-BMC parcel post would be lower than the average cost per mile in other rate categories. It is difficult to quantify the degree of this implicit distance taper because the number of cubic foot miles traveled by parcel post pieces on the different categories of transportation are not known. However, an aggregate measure of total transportation cost per cubic foot mile by rate category can be calculated. This calculation results in approximately \$0.0055 for inter-BMC, \$0.0240 for intra-BMC, and \$0.0095 for DBMC.

(a) Explicit distance taper analysis beyond that described above was not conducted in the development of parcel post unit transportation costs because it would have little to no impact on the parcel post rates proposed in this

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF UNITED PARCEL SERVICE

proceeding. One of the most significant differences between the analysis contained in my testimony and previous developments of parcel post transportation cost estimates is the treatment of the costs I have categorized as intermediate. By accurately treating these costs as non-distance related in certain instances, the resulting unit transportation cost estimates by zone tend to be significantly lower in higher zones and higher in the lower zones. The addition of an explicit distance taper analysis, that included lower costs per cubic foot mile in higher zones, would further decrease the unit transportation costs in higher zones and increase the unit transportation costs in lower zones. It is my understanding that the effects of the analysis contained in my testimony are significant enough that certain bounds were reached in rate design such that the full effect of the changes could not be reflected in the proposed parcel post rates (see USPS-T-27 at 5, lines 1-5). Because of constraints in rate design, it is my understanding that the additional impact of a distance taper analysis would have had little to no impact on parcel post rates proposed in this proceeding.

(b) In order to incorporate a distance taper explicitly into the development of unit transportation costs for parcel post, several issues would need to be resolved. Assume for the sake of argument that the relationship between transportation cost per cubic foot mile and distance could be calculated for each type of highway transportation based on current information. Incorporating these relationships into the development of unit transportation costs by zone still poses two significant problems. First, the distance taper

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF UNITED PARCEL SERVICE

relationships by type of highway transportation would, no doubt, be based on the highway miles traveled on different types of transportation. Since information does not exist that would allow the determination of actual miles traveled by parcel post pieces in each zone, there is an inconsistency in the data. In order to incorporate the distance taper relationships, the issue of to incorporate relationships based on highway miles into zones based on GCD miles would need to be resolved. Second, data does not exist that would allow the determination of the mix of highway transportation accounts by zone. Because distance taper relationships would vary by highway transportation account, information regarding the mix of such accounts in each zone would needed.

(c) From a theoretical point of view I agree that certain types of transportation will exhibit a distance taper. Further, Dr. Bradley's testimony in Docket No. MC93-1 (check-second-class pallet discount case) provides strong evidence that a distance taper exists in certain Postal Service purchased transportation costs.

(d) Based on my response to part (b) of this question, there are three areas that would need to be investigated further to incorporate a distance taper explicitly into the development of unit transportation cost estimates: (1) the relationship between cost per cubic foot mile and distance in each transportation account where a distance taper exists, (2) resolution of how to apply relationships based on actual distance to zone distance, and (3) how to accurately distribute the effects of distance taper by transportation account to

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF UNITED PARCEL SERVICE

each zone. Currently, not enough data or analysis exist to suggest a method of incorporating distance taper into the development of unit transportation cost estimates by zone.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORY OF UNITED PARCEL SERVICE

UPS/USPS-T16-17. Please refer to page 16, lines 8 and 9, of your testimony.

(a) Does commercial air transportation move Parcel Post mail between facilities that are within the service area of a processing and distribution center? Please explain your answer.

(b) Does commercial air transportation move Parcel Post mail between facilities that are within the service area of a BMC? Please explain your answer.

(c) If your answer is yes to either (a) or (b) above, please provide:

(i) *Specific descriptions of all routings; and*

(ii) The commercial air test year transportation costs for the routings.

RESPONSE:

(a)-(b) In general, commercial air is not used to transport Parcel Post. In the few instances where Parcel Post may travel on air transportation, these instances will most likely not be between facilities that are within the service area of a processing and distribution center or a BMC. It is my understanding that the geographic areas covered by these facilities are typically not large enough to necessitate air transportation between facilities within that area.

(c) N/A

UPS/USPS-T-16-19. Referring to Appendix I, pages 12 and 13, please indicate what portions of Alaska Parcel Post cubic feet or cubic feet miles are reflected in your calculations. Explain how you reconcile your answer with the omission of "Alaska non-pref air costs" in the total costs allocated at page 13.

RESPONSE:

Cubic feet and cubic foot miles associated with Alaska bypass Parcel Post volume are not included in the calculations contained in my testimony.

Therefore, the cubic feet and cubic foot miles used my testimony are consistent with removal of Alaska non-pref air costs.

UPS/USPS-T-16-20. Referring to page 6, Figure II-1, and page 10, Figure II-3, of your testimony, please confirm that all inter-BMC and intra-BMC parcels follow the indicated pathways including one or more BMC/ASFs, with the exception of the AO holdouts and DSCF parcels cited at rows 10 and 14 of Appendix I, page 13. Please explain any nonconfirmation and reconcile your answer with the \$14,027,000 in the inter-SCF highway transportation costs indicated at page 11 of Appendix I. Do parcels ever travel directly between P&DCs (line f in the above-referenced Figures)?

RESPONSE:

Not confirmed. Figures II-1 and II-3 represent the typical transportation pattern of Parcel Post pieces and are used only for illustrative purposes. These figures are not intended to represent all possible transportation patterns of Parcel Post. Some Parcel Post pieces do travel between P&DCs, as evidenced by the inter-SCF highway transportation costs distributed to Parcel Post. However, these inter-SCF highway transportation costs amount to only 4.6 percent of all Parcel Post purchased transportation costs. Although transportation between P&DCs is not reflected in the figures describing typical Parcel Post transportation patterns, the costs associated with this transportation are accounted for in my testimony.

UPS/USPS-T-16-21. Referring to Appendix 1, page 13, footnote 10, please provide your rationale and all evidence underlying the 0.5 factor applied to account for intra-BMC parcels being held out at the local AO.

RESPONSE:

It is my understanding that local zone intra-BMC parcels may or may not be held out at local offices for a variety of reasons including availability of space, time, and/or lower volumes that allow a clerk to recognize local addresses. It is also my understanding that the process of holding out a parcel is left to the discretion of the local office, and it depends on the unique circumstances that an office encounters on any given day.

No data currently exist and no studies have been conducted that measure the amount of local zone intra-BMC parcel post held out at local offices. Further, these data would be difficult to collect due to the small volume of local zone intra-BMC Parcel Post and the inconsistent nature with which it is held out. Therefore, based on qualitative information from field personnel and because of the varying and undetermined percentage of held out Parcel Post, the 0.5 factor was chosen as a reasonable estimate of held out parcels.

UPS/USPS-T-16-22. Please refer to your testimony at pages 14 and 15, and Appendix I, at pages 11 and 12.

(a) Please confirm that "parcel post postal owned vehicle costs are treated in the same manner as intra-SCF purchased transportation costs" (page 15 lines 21-22). Please explain any nonconfirmation.

(b) Please confirm that intra-SCF purchased transportation costs are all assigned as local functional costs. Please explain any nonconfirmation.

(c) Please confirm that intra-SCF purchased transportation costs include costs for the contractors' vehicles in addition to other highway contractor costs. Please explain any nonconfirmation.

(d) Please confirm that Appendix I, page 12, line 16, is for Cost Segment 8, Vehicle Service Drivers, and does not include vehicle costs. Please explain any nonconfirmation.

(e) Please explain how your analysis accounts for Vehicle Service Driver vehicle costs.

RESPONSE:

(a) Confirmed.

(b) Confirmed

(c) Confirmed

(d) Confirmed

(e) These costs are accounted for in the vehicle service driver piggyback factor that is applied to vehicle service driver costs on page 12 of Appendix I of my testimony.

UPS/USPS-T-16-23. Did you perform any studies, analyses or reviews to identify activities and areas where additional Postal Service transportation costs are incurred due to DBMC mail, on average, compared to intra-BMC parcels (not DBMC mail) that are dropshipped to destination BMCs? If yes, please provide copies of all workpapers and results. If no, explain why this has not been done.

RESPONSE:

It's difficult to answer this question because the meaning of "activities and areas" is unclear. For example, the analysis contained in my testimony will show that the average transportation cost for a piece of DBMC mail will be higher than that of an intra-BMC parcel on a given leg because DBMC parcels tend to be less dense than intra-BMC parcels. However, no individual studies were performed that attempted to measure unique transportation activities that are incurred by DBMC parcels but are not incurred by intra-BMC parcels.

UPS/USPS-T-16-24. Did you perform any studies, analyses or reviews to identify activities and areas where additional Postal Service transportation costs will be incurred due to the proposed DSCF mail, on average, compared to intra-BMC parcels (not DBMC mail) that are dropshipped at destination SCFs? If yes, please provide copies of all workpapers and results. If no, explain why this has not been done.

RESPONSE:

As stated in my response to UPS/USPS-T-16-23, it is difficult to answer this question because the meaning of "activities and areas" is unclear. For example, the analysis contained in my testimony will show that the average transportation cost for a piece of DBMC mail entered at a destination P&DC will be higher than that of an intra-BMC parcel on a given leg because DBMC parcels tend to be less dense than intra-BMC parcels. However, no individual studies were performed that attempted to measure unique transportation activities that are incurred by DBMC parcels entered at destination P&DCs but are not incurred by intra-BMC parcels.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORY OF UNITED PARCEL SERVICE

UPS/USPS-T16-25. Have you or the Postal Service conducted any tests, surveys or analyses to confirm the transportation costs estimated to be saved or avoided under the DBMC Parcel Post Service? If so, please identify, describe and provide the results of all such tests, surveys, and analyses, and provide copies of all notes, reports, workpapers and other source documents used. If not, please explain how the Postal Service can confirm and substantiate the accuracy of estimated avoided costs for DBMC mailings.

RESPONSE:

I have not conducted any analyses or tests to confirm the transportation costs estimated to be avoided by DBMC Parcel Post. To my knowledge, the Postal Service has not produced any final reports on this topic either. The methodology presented in my testimony does not calculate the costs avoided by DBMC Parcel Post; therefore, it would not make sense to confirm or substantiate the accuracy of estimates that have not been made in this docket. The methodology presented in my testimony does, however, accurately estimate the unit transportation costs by zone for each of the three rate categories of Parcel Post: inter-BMC, intra-BMC, and DBMC. Since this methodology is new, no special studies have been conducted to verify the actual costs of inter-BMC, intra-BMC, and DBMC Parcel Post.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORY OF UNITED PARCEL SERVICE

UPS/USPS-T16-26. Please refer to Figure II-4, on page 11 of your direct testimony.

(a) How are GCD and zone determined for a DBMC parcel? Please explain your answer.

(b) Is a DBMC mailer permitted to designate the 3-digit ZIP Code of any of the P&DCs in the DBMC service area as the point of origin for purposes of deriving the zone applicable to the DBMC shipment? Please explain your answer.

(c) What percentage of DBMC volume has a P&DC designated as the point of origin?

(d) What percentage of DBMC volume has a P&DC designated as the point of origin where the 3-digit ZIP code of the designated P&DC is different from the 3-digit ZIP code area that would be assigned as the point of origin for the DBMC piece in the absence of mailer designation?

(e) Please explain how your analysis of the relationship between intermediate transportation costs and GCD for DBMC mail accounts for the ability of a mailer to designate any P&DC as the point of origin.

RESPONSE:

(a) As stated on page 5 of my testimony, zone for all Parcel Post pieces is determined based on great circle distance (GCD). Great circle distance is calculated as described in footnote 2 on that same page. Similar to all Parcel Post pieces, the destination used to determine GCD for DBMC pieces is defined by the delivery address of the piece. The origin used to determine GCD for DBMC pieces is the BMC or other facility where the pieces are dropshipped.

(b) No. Please see my response to part (a) of this question.

(c) It is my understanding that in certain situations DBMC pieces may be entered at a P&DC (please see DMM E652.4.0). The best available estimate of how

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORY OF UNITED PARCEL SERVICE

2 3947

many pieces of DBMC mail are entered at a P&DC can be found in witness Mayes' work papers (Mayes WP I.F.).

(d) 0 percent. To my knowledge the origin of a piece of DBMC Parcel Post cannot be selected by a mailer. The origin is determined by the location where the piece is dropshipped.

(e) My analysis does not account for this situation because, to my knowledge, this situation does not occur.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF UNITED PARCEL SERVICE

1

3948

UPS/USPS-T16- 27. Please refer to page 1, lines 11 through 13 of your direct testimony, where you state, "this testimony estimates the potential difference in transportation costs between DBMC parcel post entered at a destination P&DC and a new rate category of parcel post entered at a destination delivery unit (DDU)." Please explain the use of the term "potential" in this statement.

RESPONSE:

The word potential refers to the fact that the DDU rate category for Parcel Post is under consideration but does not yet exist. Thus, the DDU computation is an estimate of the costs that could be avoided by a new rate category of Parcel Post if it is approved.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF UNITED PARCEL SERVICE

3949

USPS/USPS-T16-28. Please refer to Exhibit USPS-16A.

(a) Please confirm that the DSCF costs shown in this Exhibit have as an input assumption that DSCF mail has the same cube/weight relationship as DBMC mail. If not confirmed, please explain.

(b) Please confirm that the DDU cost avoidance (i.e., DSCF costs less DDU costs in \$/cf) of 0.3337 \$/cf has as an input assumption that DDU mail has the same cube/weight relationship as DBMC mail. If not confirmed, please explain.

RESPONSE:

(a) - (b) Not confirmed. The cube/weight relationships presented in my testimony are used to allocate total Parcel Post transportation costs to the three existing rate categories of Parcel Post. Because the results of my testimony are presented in terms of cost per cubic foot, no assumptions have been made about how these estimates should be converted to cost per piece.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF UNITED PARCEL SERVICE

3

3950

UPS/USPS-T16-29. Please refer to Appendix I, page 13 of 13 of USPS-T-16.

(a) Please confirm that you do not take into account the percentage of inter-BMC mail that is entered at the origin P&DC. If confirmed, explain why you did not do so.

(b) Confirm that you do not take into account the percentage of intra-BMC mail that is entered at the origin P&DC. If confirmed, explain why you did not do so.

(c) Identify and provide all studies or data with respect to the percentage of inter-BMC or intra-BMC mail that is entered at the origin P&DC.

RESPONSE:

(a) Confirmed. It would not be accurate to account for a portion of Parcel Post volume that avoids a leg of transportation from a local office to an origin P&DC without also considering the volume that avoids a similar leg of transportation from the destination P&DC to the destination local office. To the extent that these two volumes are similar, the effect of including them in my analysis would be minimal. Since there is no available data on these volumes of Parcel Post they were not accounted for explicitly in my analysis.

(b) See my response to part (a) of this question.

(c) To my knowledge, no such information exists.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF UNITED PARCEL SERVICE

4

3951

USPS/USPS-T16-30. Please refer to Appendix III, page 3 of 9 of USPS-T-16.

(a) Please explain how or under what circumstances a held-out local zone intra-BMC parcel will incur intra-city and box route transportation costs.

(b) Will a held-out local zone intra-BMC parcel incur intra-city and box route transportation costs equally on the incoming leg and on the outgoing leg? Please explain your answer and identify and provide all supporting studies and data.

RESPONSE:

(a) Local zone intra-BMC Parcel Post will incur box route transportation costs whenever these pieces are addressed for delivery to an address that is served by a box route contract. Intra-city transportation costs could be incurred by local zone intra-BMC Parcel Post in a variety of circumstances. It is my understanding that intra-city transportation can be used for transportation between AOs and branches and between businesses and AOs. Therefore, any local zone intra-BMC Parcel Post traveling between AOs and branches or between businesses and AOs is a candidate for incurring intra-city transportation costs.

(b) Most likely, local zone intra-BMC Parcel Post will incur box route transportation costs only on the leg outbound from the local office. For intra-city transportation, local zone intra-BMC Parcel Post can incur transportation costs both inbound to and outbound from the local office.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF UNITED PARCEL SERVICE

3952

UPS/USPS-T16-31. Please refer to page 15, lines 3 through 5 of your direct testimony, here you state that the costs of labor associated with postal owned transportation are closely related to purchased transportation costs."

(a) Discuss, identify and provide all supporting studies and data for this assertion.

(b) Please explain how, when, and why postal owned transportation substitutes for purchased transportation.

(c) Are postal owned transportation costs related to cubic feet, cubic foot miles, or pieces? Please explain your answer.

(d) Please explain what indirect costs are piggybacked off of vehicle service drivers. In your answer identify each cost segment and component in which there are indirect costs and the amount in the Base Year or Test Year that are allocated to Parcel Post in each cost segment and component.

(e) Please explain how each of the indirect costs identified in part (d) above are "closely related to purchased transportation costs." Identify and provide all supporting evidence.

(f) Please explain how each of the indirect costs identified in part (d) above are correlated with cubic feet, or cubic feet miles.

RESPONSE:

(a) This assertion is primarily based upon a number of pieces of information including witness Acheson's development of destination entry cost avoidance estimates in Docket No. R90-1 (see Docket No. R90-1 USPS-T-12G at 1-2) and the treatment of vehicle service driver variability in Docket Nos. R90-1 and R94-1 (see USPS-T-20 at 5).

(b) It is my understanding that postal owned transportation substitutes for purchased transportation where it will enhance the Postal Service's ability to provide quality service to its customers at reasonable rates. For a description of the operational and financial analysis that is required to justify substitution of certain types of

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF UNITED PARCEL SERVICE

6

3953

transportation please see Handbook PO-513, Chapter 2.1.1 and Handbook PO-701, action 250.

(c) Since postal owned transportation is used primarily for transportation within the service area of a P&DC, the costs associated with transportation are allocated to rate category and zone based on cubic feet.

(d) Please see Library Reference USPS LR-H-77 at 103-119.

(e) The costs associated with the vehicle service driver piggyback factor are piggybacked to vehicle service driver costs because they, in conjunction with vehicle service driver costs, contribute to the provision of postal owned vehicle service. These costs are closely related to intra-SCF purchased highway transportation because this highway transportation is similar to postal owned vehicle service.

(f) See my response to part (c) of this question.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF UNITED PARCEL SERVICE

7

3954

UPS/USPS-T16-32. Please refer to page 15, lines 20-21 of your direct testimony, where you state that "postal owned vehicle service mirrors intra-SCF purchased transportation costs."

(a) Discuss, identify and provide all supporting studies and data for this assertion, including but not limited to any studies performed or data obtained since R90-1.

(b) Please explain how, when, and why postal owned transportation is substituted for intra-SCF purchased transportation.

(c) Is postal owned vehicle service used for anything other than intra-SCF transportation needs? If yes, describe all other uses.

(d) Does postal owned vehicle service "mirror" intra-SCF purchased transportation with respect to the percentage that is intra-SCF vans, intra-SCF trailers, intra-city and box route? Please explain your answer and identify and provide all supporting evidence for your answer.

(e) Do the indirect costs associated with postal owned vehicle service "mirror" intra-SCF purchased transportation with respect to the percentage that is intra-SCF vans, intra-SCF trailers, intra-city and box route? Please explain your answer and identify and provide all supporting evidence for your answer.

(f) Please confirm that the data cited for intra-SCF highway transportation costs by contract type in Appendix III, page 9 of 9 in USPS-T-16, do not include postal owned vehicle service. If not confirmed, please explain.

RESPONSE:

(a) See my response to part (a) of UPS/USPS-T-16-31.

(b) See my response to part (b) of UPS/USPS-T-16-31.

(c) Yes. Witness Wade's testimony shows that a small portion of vehicle service driver costs are incurred at BMCs (please see USPS-T-20 at 21).

(d) - (e) No data exist that provide information regarding the breakdown postal owned vehicle costs into any component parts.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF UNITED PARCEL SERVICE

3955

(f) Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF UNITED PARCEL SERVICE

9

3956

UPS/USPS-T16-33. Please refer to Appendix I, page 13 of 13 of USPS-T-16.

(a) Please confirm that witnesses Daniel and Crum take into account in their cost analyses that 12.3 percent of Parcel Post travels directly from the destination BMC to the destination AO. (See USPS-T-29, Appendix V and USPS-T-28, page 5 and Exhibit G). If not confirmed, please explain.

(b) Please confirm that the transportation costs for Parcel Post that travels directly from the destination BMC to the destination AO would be categorized as intra-BMC. If not confirmed, please explain.

(c) Please confirm that, according to your answer to UPS/USPS-T16-11a, you implicitly assume, in the absence of better information, that the same percentage of Parcel Post travels directly from the origin AO to the origin BMC as does from the destination BMC to the destination AO, and therefore, the direct travel from AO to BMC or BMC to AO does not need to be taken explicitly into account in Appendix I, page 13. If not confirmed, please explain.

(d) Please confirm that 100 percent of DSCF Parcel Post will incur a transportation leg from the DSCF to the destination AO. If not confirmed, please explain.

(e) Please confirm that only 87.7 percent (100% minus 12.3%) of DBMC Parcel Post will incur a transportation leg from the DSCF to the destination AO. If not confirmed, please explain.

(f) Please confirm that those DBMC parcels that incur a transportation leg from the DSCF to the destination AO will, on average, incur the same transportation cost from the DSCF to the destination AO as will DSCF parcels. If not confirmed, please explain.

(g) Please confirm that a DSCF parcel will, on average, have greater transportation cost from the DSCF to the destination AO than will a DBMC parcel on average, because 12.3 percent of DBMC parcels travel directly from the DBMC to the destination AO. If not confirmed, please explain.

RESPONSE:

(a) Witnesses Daniel and Crum take into account in their analyses that 12.3 percent of Parcel Post either travels directly from the destination BMC to the destination

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF UNITED PARCEL SERVICE

10
3957

local office or travels to a destination P&DC that is co-located with the destination delivery unit.

(b) Confirmed.

(c) In the absence of better information, the analysis contained in my testimony does not explicitly account for Parcel Post pieces that avoid intra-SCF transportation between the local office and the origin P&DC and between the destination P&DC and the destination delivery unit. If the amount of Parcel Post that avoided each leg were similar, the effect on my analysis would be minimal.

(d) Not confirmed. There are some instances in which a delivery unit is co-located with a P&DC. In these instances Parcel Post entered at a destination P&DC will not incur a transportation leg from the destination P&DC to the destination local office.

(e) Confirmed.

(f) Confirmed, provided the comparison is between DBMC pieces that incur transportation between destination P&DC and local office and DSCF pieces that incur transportation between destination P&DC and local office.

(g) Not confirmed. I agree that, to the extent that there is direct transportation between a BMC and a local office that bypasses a destination P&DC, then the average cost from the destination P&DC to the destination office will be lower for the average piece of DBMC than for the average piece of DSCF. However, the greater the portion of the 12.3 percent of DBMC that is composed of mail volume that is

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF UNITED PARCEL SERVICE

11

3958

destinating at delivery units that are co-located with P&DCs, the smaller the difference
in average costs will be.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF UNITED PARCEL SERVICE

12

3959

USPS/USPS-T16-34. Please refer to Appendix III, page 7 of your testimony.

- (a) Please confirm that the formula for column [7] should read:

Column [7]: Local zone unit cost = [(local zone costs from column [5] / local zone cubic feet from column [1]) + row 5/total cubic feet]*1000

Non-local zone unit cost = [(Non-local zone costs from column [5] / non-local zone cubic feet from column [1]) + row 5/total cubic feet]*1000

If not confirmed, please provide the correct equation.

- (b) Please confirm that the formula for column [8] should read:

Column [8]: Local zone unit cost = [(Local zone costs from column [6] / local zone cubic feet from column [2]))*1000

Non-local zone unit cost = [(Non-local zone costs from column [6] / non-local zone cubic feet from column [2]))*1000

If not confirmed, please provide the correct equation.

- (c) Confirm that the formula for column [10] should read:

Column 9 * Appendix II, page 9, column 2 (intra-BMC cubic feet by zone).

If not confirmed, please provide the correct equation.

RESPONSE:

(a) Confirmed. Corrections to my testimony were filed on September 29th to correct the footnotes for columns 7, 8, and 10 in Appendix III, page 7 of USPS-T-16.

(b) Not confirmed. Although there is a mistake in the formula currently shown for column 8 on page 7 of USPS-T-16 Appendix III, the formula listed in this question also contains an error. The correct equation should be:

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF UNITED PARCEL SERVICE

13

3960

Column [8]: Local zone unit cost = local zone
costs from column 6 / local zone cubic feet
from column 1.

Non-local zone unit cost = non-local zone costs
from column 6 / non-local zone cubic feet from
column 1.

Corrections to my testimony were filed on September 29th to correct the footnotes for
columns 7, 8, and 10 in Appendix III, page 7 of USPS-T-16.

(c) Confirmed. Corrections to my testimony were filed on September 29th to
correct the footnotes for columns 7, 8, and 10 in Appendix III, page 7 of USPS-T-16.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF UNITED PARCEL SERVICE

3961

UPS/USPS-T16-35. Please refer to your interrogatory response to UPS/USPS-T16-13.

(a) Please confirm that using data from Library Reference LR-H-135, the average GCD for each of the postal zones can be calculated by dividing the total cubic foot miles in each zone by the total cubic feet in each zone. If not confirmed, please provide the correct methodology.

(b) Please confirm that by following the methodology outlined in (a) above, the following table is correct. If not confirmed, please explain.

Intra Zone	Cubic ft. miles	Cubic feet	Avg GCD
1-2	841,369,000	18,541,816	45.37684
3	529,488,250	2,353,286	224.9995
4	206,061,460	457,915	449.9994
5	17,915,540	22,394	800.0152

Inter zone	Cubic ft. miles	Cubic feet	Avg GCD
1-2	276,755,600	3,046,453	90.84519
3	1,543,791,760	6,861,300	224.9999
4	4,924,129,550	10,942,512	449.9999
5	7,849,611,410	9,812,010	800.0003

DBMC zone	Cubic ft. miles	Cubic feet	Avg GCD
1-2	3,243,988,990	58,694,589	55.26896
3	2,268,014,880	10,080,066	225
4	759,160,840	1,687,022	450.0006
5	5,724,540	7,155	800.0755

(c) If (b) is confirmed, please reconcile this with the numbers you list in your response to UPS/USPS-T16-13.

RESPONSE:

(a) Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF UNITED PARCEL SERVICE

15 3962

(b) Not confirmed. An errata was filed for LR-H-135 on August 11, 1997, which changed these figures. The results shown in my response to UPS/USPS-T-16-13 used the more recent figures, and this caused the discrepancy referred to in this question.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF UNITED PARCEL SERVICE

16

3963

UPS/USPS-T16-36. Please refer to page 12 of Appendix I of your testimony. In general terms, provide all reasons why you believe that highway service costs decrease 27% from the Base Year to the Test Year.

RESPONSE:

Redirected to witness Patelunas.

UPS/USPS-T16-37. Please refer to page 9 of Appendix III of your testimony.

(a) Please provide Intra-SCF costs by contract type for Parcel Post only, as opposed to all mail.

(b) If you are unable to provide the information requested in (a) above, please confirm that the Parcel Post percentage of Intra-SCF highway and POV costs avoided by DDU parcels could be different from the percentage of Intra-SCF highway and POV costs for all classes of mail. If confirmed, provide all reasons why you believe your use of non-Parcel Post figures is acceptable. If not confirmed, please explain.

RESPONSE:

(a) Data are not available on the breakdown of intra-SCF purchased highway transportation costs by class and subclass.

(b) Confirmed. Since data are not available on this breakdown, the data used in the analysis contained in my testimony are the best available estimate for the breakdown of Parcel Post intra-SCF purchased highway transportation costs. The breakdown of intra-SCF highway transportation is used in my testimony to estimate the percentage of local transportation that is not incurred moving mail between P&DCs and local offices. In Docket No. R90-1, witness Acheson used a similar estimate in his testimony (please see USPS-T-12G at 2). Like the one used in my testimony, the estimate used by Mr. Acheson also reflected all intra-SCF transportation costs and not just Parcel Post costs. The new method for calculating this estimate represents an update and an improvement over the existing figure of 67 percent that was developed in 1980 and is incorporated into the current destination entry discounts for Standard Mail (A).

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T16-38. In reference to your response to UPS/USPS-T-16-18, confirm that purchased transportation accounts for highway and rail empty equipment are restricted to contracts that move only empty equipment or containers and do not include the costs of moving empty containers between postal facilities in association with trips that also carry mail. Please explain any nonconfirmation.

RESPONSE:

Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF UNITED PARCEL SERVICE

19
3966

UPS/USPS-T16-39. In reference to your response to UPS/USPS-T-16-18 and Appendix I, page 11, of your testimony, confirm that the attributed costs for purchased highway empty equipment service constitute 0.31 percent of attributed Parcel Post highway service costs, and that the attributed costs for purchased railroad empty equipment service constitute 8.28 percent of attributed Parcel Post railroad service costs. Please explain any nonconfirmation.

RESPONSE:

Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF UNITED PARCEL SERVICE

20

3967

UPS/USPS-T16-40. In reference to your response to UPS/USPS-T-16-19, please indicate what portions of Alaska Parcel Post cubic feet or cubic foot/miles other than bypass Parcel Post are reflected in your calculations. In addition, please indicate whether or not Alaska non-pref air costs are exclusively associated with bypass Parcel Post volume, and if not, what other Parcel Post volumes are associated with Alaska non-pref service.

RESPONSE:

Any Parcel Post volume that originates and destines within Alaska that is not part of the Alaska bypass program is included in the analysis contained in my testimony. Alaska non-pref air costs are not exclusively associated with bypass Parcel Post volume. It is my understanding that Alaska non-pref air transportation is used primarily to transport Alaska bypass mail; however, it is possible that certain non-Alaska bypass volume travels on Alaska non-pref air transportation.

POIR No. 1, Question 1. c. (1)

c. Bound Printed Matter (BPM)

(1) Purchased Transportation Costs (Cost Segment XIV)

Witness Hatfield (USPS-T-16) presents a new treatment of purchased transportation costs in the development of parcel post rates. The major difference from the treatment in prior dockets is the identification of intermediate costs which are distributed on the basis of cubic feet (nondistance related) rather than cubic foot-miles (distance related). In contrast, these costs for BPM are distributed on the basis of pound-miles rather than pounds. The intermediate costs include Hawaiian air, Alaskan preferential air, Inter-SCF, Intra-BMC, Highway plant load, Alaskan highway, and off-shore water. (USPS-T-16, Appendix 1, page 11).

Please explain why these intermediate costs for BPM are not treated as nondistance related and distributed on the basis of pounds rather than pound-miles.

RESPONSE:

(1) While the analysis in my testimony concerning the development of Parcel Post unit transportation costs by zone does differ from prior dockets by identifying intermediate transportation costs for both intra-BMC and inter-BMC as non-distance related, my testimony continues to allocate DBMC intermediate transportation costs as distance related. As such, the treatment of intermediate transportation costs for DBMC in my testimony is consistent with the treatment of these same costs in Bound Printed Matter, i.e., they are treated as distance related. Though it is difficult to make generalizations about the transportation patterns of Bound Printed Matter, over three-quarters of bulk Bound Printed Matter volume is in the first three postal zones. This may indicate a significant amount of mailer "zone skipping" which is somewhat analogous to drop-shipping. In addition, bulk Bound Printed Matter has presorting requirements that are somewhat similar to the destination bulk mail center separations associated with DBMC Parcel Post. Consequently, there are some similarities between

Bound Printed Matter and DBMC Parcel Post. Given the uncertainty surrounding the transportation characteristics of Bound Printed Matter, combined with some worksharing similarities with DBMC Parcel Post, it is difficult to state that Bound Printed Matter intermediate transportation costs are non-distance related as is the case with the remaining Parcel Post rate categories.

In addition, the method used to allocate transportation costs to zones for Parcel Post may not be appropriate for Bound Printed Matter. Parcel Post has three rate categories based on varying transportation patterns, as well as cubic foot and cubic foot mile data for each category. These rate categories and the corresponding data make it possible to distinguish between Parcel Post transportation patterns and to allocate intermediate costs differently based on transportation pattern. However, similar information does not exist for Bound Printed Matter, and therefore, it is not possible to differentiate between volumes of BPM that follow different transportation patterns.

POIR No. 1, Question 1, d.

d. Air Taxi Transportation

Air taxi costs are distributed to subclasses based on the accumulated attributions of the other subservices. Workpaper B-14, Worksheet 14.2.1, shows the air taxi distribution to parcel post to be \$3,539,000. Witness Hatfield removes Intra-Alaskan nonpreferential air costs from the development of the pound rate elements of parcel post (USPS-T-16, Appendix 1, page 11). These costs represent 95.8 percent ($82,495,000/86,108,000$) of the total non-air taxi costs. Should the same proportion of air taxi costs also be removed? If not, please explain why.

RESPONSE:

d. No. Intra-Alaska nonpreferential air costs are not included in the development of unit transportation costs by rate category and zone contained in my testimony due to policy considerations. Specifically, if intra-Alaska nonpref air costs were included in the development of unit costs by rate category and zone, they would tend to increase the unit costs associated with intra-BMC Parcel Post dramatically. The burden of the intra-Alaska nonpref air costs would be borne by all intra-BMC Parcel Post users, including those users who do not ship Parcel Post in Alaska. It is my understanding that Ms. Mayes accounts for these costs separately in order not to excessively burden intra-BMC Parcel Post users. Since Parcel Post air taxi costs are incurred both in the lower 49 United States as well as in Alaska, the special consideration does not extend to Parcel Post air taxi costs.

1 CHAIRMAN GLEIMAN: On October 10, Witness Hatfield
2 provided written responses to Presiding Officer's
3 Information Request Number 4, question 7, 9 and 10, and I am
4 handing two copies of those responses to the reporter and
5 directing they be transcribed at this point and received
6 into evidence.

7 [Witness Hatfield's Responses to
8 Presiding Officer's Information
9 Request Number 4, Questions 7, 9
10 and 10 were received into evidence
11 and transcribed into the record.]
12
13
14
15
16
17
18
19
20
21
22
23
24
25

POIR No. 4, Question 7. Parcel Post

a. DSCF Entry Cubic Feet

The piece volume of DSCF parcels is 7.1071 percent of the piece volume of DBMC parcels excluding OMAS (USPS-T-37, Workpaper 1.F, page 3). These DSCF parcels are treated as zone 1/2 parcels (USPS-T-16, Appendix II, page 2). The cubic-foot volume of the DSCF parcels is developed on USPS-T-16, Appendix II, page 9, by multiplying the total DBMC cubic feet by 7.1071 percent.

Would it be more appropriate to develop the cubic-foot volume of DSCF parcels as follows:

- (1) Determine the piece volume of DSCF parcels by multiplying the piece volume of DBMC parcels by 7.1071 percent.
- (2) Express the piece volume of DSCF parcels as a proportion of the piece volume of zone 1/2 DBMC parcels.
- (3) Multiplying the proportion found in (2) by the cubic-foot volume of zone 1/2 DBMC parcels.

If not, please explain.

b. Local Zone Parcels

USPS-T-16, Appendix III, page 7, shows local-zone parcels incurring, on average, \$0.4788 of intermediate transportation costs. Basically, intermediate costs involve transporting parcels between BMCs and SCFs. The charge of \$0.4788 appears to be based on some local-zone parcels being transported from an SCF to a BMC and then to another SCF (within the same BMC area). Please explain the handling procedures that result in local-zone parcels receiving this transportation service. If the charge shown is not the correct one, please supply revised figures.

c. Air Transportation

- (1) Please confirm that Christmas network costs are included in the "loose sack and container rate" air costs (\$1,217) shown on USPS-T-16, Appendix I, page 11, the distance-related portion for these costs being shown in footnote 2 as 36.41 percent.

In Workpaper B-14, Worksheet 14.0.7a, the distance-related portions for "loose sack and container" and Christmas network are developed separately. Would it also be appropriate to identify and treat separately the "loose sack and container" and Christmas network on USPS-T-16, Appendix I, page 11? If not, please explain why not.

(2) Distribution of air costs

Air transportation costs are distributed to the subclasses of mail on the basis of pound-miles. Then within parcel post, the distance-related portion of air costs is distributed on the basis of cubic-foot-miles and the nondistance portion on the basis of cubic feet, as done in prior dockets. Please explain why the parcel post air costs should not be distributed on the basis of pound-miles and pounds.

RESPONSE:

a. The method currently used in my testimony to develop the number of total cubic feet of DSCF mail uses the average cubic feet per piece of all DBMC mail (0.727). The method suggested in this question assumes the average cubic feet per piece for only zone 1/2 DBMC mail (0.725). In order to determine which method is more appropriate, further study would be needed as to the weight and cube characteristics of mail that is entered at a destination P&DC.

In any case, the suggested change to the calculation of the total number of DSCF cubic feet would have an almost insignificant effect on the results produced in my testimony. Specifically, adopting this new method would only change one cost estimate, zone 1/2 DBMC, by one one-hundredth of a cent.

b. As stated in my response to part (b) of UPS/USPS-T16-3, local zone intra-BMC parcel post may receive transportation between the local office where it originates and the P&DC and between the P&DC and the BMC. In order for local zone intra-BMC parcel post not to receive any transportation beyond the office of origin, the local office must identify and separate local zone pieces from the rest of the originating parcel post. Often times this separation does not occur because of space and time considerations.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 4

Therefore, because local zone intra-BMC parcels will not always avoid transportation beyond the local office, only a portion of these costs were removed from the local zone transportation cost calculations.

In Docket No. R94-1, the local zone intra-BMC transportation cost was developed by determining the average transportation cost per cubic foot of all Parcel Post for surface non-distance related transportation costs. The majority of these costs were intra-SCF highway transportation. Using the framework described in my testimony, the previous methodology is equivalent to assigning two legs of local transportation to local zone intra-BMC parcels. If implemented in my testimony, the Docket No. R94-1 method for computing local zone intra-BMC transportation costs would result in approximately \$0.80 per cubic foot. However, this methodology does not reflect the actual transportation patterns of local zone intra-BMC Parcel Post. If these parcels are held out then they should not receive any transportation between a local office and a P&DC. On the other hand, if they are not held out, they should receive transportation from the local office through the P&DC to the BMC, then back from the BMC through the P&DC to the local office from which it originates.

The local zone intra-BMC local and intermediate transportation cost estimates contained in my testimony are developed using a 50 percent factor to reflect half of the local zone intra-BMC parcels being held out. Although no field study has been done to estimate the amount of local zone intra-BMC parcels that are actually held out, the methodology used to estimate the transportation costs associated with local zone parcels provides a more accurate framework from which to analyze these costs. The

\$0.4788 of intermediate transportation costs associated with local zone intra-BMC parcels is the correct figure and is developed using the methodology described above.

c. (1) Confirmed. Parcel Post Christmas network air transportation costs (\$20,000) are included in the 'loose sack container rate' air costs (\$1,217,000) shown in Appendix I, page 11, and a distance related factor of 36.41% is applied to the combined costs.

The distance related factor, 36.41%, represents a weighted average of the distance related factor for loose sack container rate air and Christmas network air. If weighted properly, combining the two types of air transportation costs into a single line would yield the same results as separating the two types of air transportation into separate line items. However, in responding to this question, I discovered that the distance-related percentages for loose sack container rate air and Christmas network air were weighted together using the transportation costs shown in Workpaper B-14, Worksheet 14.0.7a which reflects total transportation costs for all classes of mail. If represented on separate line items in my testimony, the distance related cost for two types of air transportation would be determined based on the relative amounts of volume variable Parcel Post transportation costs in the loose sack container rate and Christmas network air accounts.

By re-weighting the distance-related factor for both loose sack container rate air and Christmas network air using the relative proportions of volume variable Parcel Post transportation costs, the new factor is 35.21%. Using this new factor changes the unit transportation costs estimates for inter-BMC Parcel Post contained in my testimony;

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 4

3976

however, none of the total unit transportation cost estimates changes more than 0.05%. Corrections to my testimony reflecting the revised distance-related factor are being filed concurrently with these responses.

(2) In Docket No. R94-1, the Commission distributed all parcel post purchased transportation costs to zones on the basis of cubic feet and cubic foot-miles. That same practice was used in my testimony for three reasons. First, this methodology is consistent with the methodology used by the Commission in Docket No. R94-1. Second, the majority of Parcel Post transportation costs shown in my testimony on page 11 of Appendix I are distributed to the classes and subclasses of mail on the basis of cubic feet and cubic foot-miles. Third, cubic feet and cubic foot-miles were used for distribution of all Parcel Post transportation costs to zones in order to avoid introducing additional complexity to the cost distribution methodology. Because the Parcel Post air transportation costs shown on page 11 of Appendix I represent less than three percent of base year Parcel Post transportation costs, redistributing the costs using pounds and pound-miles would have a minimal effect on unit transportation cost estimates.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 4

3977

POIR No. 4, Question 9. USPS-T-16, Appendix I, page 13, shows that 4.48 percent of inter-BMC parcels are entered at an origin BMC. These parcels avoid one local transportation leg and one intermediate transportation leg. Please present any information available on the proportion of inter-BMC parcels that are entered at an origin SCF, which would thereby avoid one local transportation leg. If this proportion is unavailable, please discuss whether the proportion is likely to be negligible.

RESPONSE:

I am not aware of any information available on the amount of Parcel Post that is entered at an origin P&DC or whether this proportion is likely to be negligible. Within the framework of my analysis, however, it is unclear exactly what impact the addition of this proportion would have if it were available. As discussed in my response to UPS/USPS-T-16-29, it would not be accurate to account for a portion of Parcel Post volume that avoids a leg of transportation from a local office to an origin P&DC without also considering the volume that avoids a similar leg of transportation from the destination P&DC to the destination local office. To the extent that these two volumes are similar, the effect of including them in my analysis would be minimal.

RESPONSE OF U.S. POSTAL SERVICE WITNESS HATFIELD
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 4

3978

POIR No. 4, Question 10. USPS-T-16, Appendix I, page 13, shows that 7.11 percent of DBMC parcels are entered at a destination SCF. Please discuss the conditions under which and the extent to which these parcels would be permitted currently to pay (1) the DBMC rate or (2) the local rate.

In answering this question, please clarify the definition of local zone found in DMM G030.2.1, which appears to distinguish between post offices serving one 3-digit area from those serving more than one 3-digit area. For example, the Washington, D.C., post office appears to service ZIP Codes 202, 203, 204, and 205. Would a parcel for ZIP Code 203 brought to the Washington post office be eligible for the local rate? If not, is there some office other than the Destination Delivery Unit to which this parcel could be brought in order to qualify for the local rate?

RESPONSE:

It is my understanding that parcels deposited at a destination SCF are currently permitted to pay the DBMC rate when the conditions in DMM E652.4.0 are met. Based on DMM G030.2.1, only parcels deposited at a post office for delivery to addresses within the delivery area of that post office are eligible for the local zone rate.

It is my understanding that the local zone rate will apply to all mail that both originates and destines within the same 5-digit ZIP Code area or across multiple 5-digit ZIP Code areas provided they are part of the same post office. For post offices that service multiple 5-digit ZIP Code areas, the local zone rate will apply to all mail that originates and destines within any of the 5-digit ZIP Codes that are part of that post office. DMM G030.2.1 appears to be making a distinction between post offices serving one 5-digit ZIP Code from post offices serving more than one 5-digit ZIP Code and does not address situations where post offices serve multiple 3-digit ZIP Codes.

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross-examination for the witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: There doesn't appear to be any
5 so we will proceed with oral cross-examination.

6 Two parties have asked to cross-examine Witness
7 Hatfield wearing today's hat, Florida Gift Fruit Shippers
8 Association and United Parcel Service. Does any other
9 participant have oral cross-examination for the witness?

10 MR. MAY: Just one question.

11 CHAIRMAN GLEIMAN: Mr. May of the Parcel Shippers
12 Association indicated he had some cross-examination.

13 Let's go off the record briefly.

14 [Discussion off the record.]

15 CHAIRMAN GLEIMAN: Back on the record.

16 Mr. Wells, if you would like to begin?

17 MR. WELLS: Thank you, Mr. Chairman.

18 CROSS EXAMINATION

19 BY MR. WELLS:

20 Q I'm Maxwell Wells for the Florida Gift Fruit
21 Shippers Association. Good morning, Mr. Hatfield.

22 A Good morning.

23 Q Would you look at your response to Florida's
24 interrogatory number 9?

25 A I have it.

1 Q For the example that's cited there, you have two
2 identical parcels, both received and processed at the BMC on
3 the same day. Under what circumstances would those two
4 parcels not move on the same vehicle on the same day out of
5 the BMC?

6 A That question might be more appropriately answered
7 by someone who was very familiar with the handling
8 operations or what actually goes on on the dock of a BMC
9 when they are loading trucks. However, it is my
10 understanding that there could be situations where they do
11 get on the same truck or situations where they don't. My
12 best guess as to why is -- probably has to do with timing.
13 If certain parcels are available to leave the BMC in the
14 morning or certain parcels are available to leave in the
15 afternoon and depending on the dispatch times of the trucks,
16 they may well get on two separate trucks.

17 Q If they are on two -- if both parcels are
18 processed by the BMC on the same day, aren't they processed
19 through the -- as a machinable parcel through the
20 computer-generated parcel sorting equipment?

21 A Sorting procedures at BMCs are a little beyond the
22 scope of my testimony; I deal mainly with the
23 transportation. And I know that between a given BMC and an
24 SCF, there may be a number of trucks that leave throughout
25 the day. And so given that, I assume that at different

1 points throughout the day there are parcels that are ready
2 to leave the BMC. Therefore, it could be the case that
3 these parcels get on different trucks.

4 Q It is your understanding and belief that intra-BMC
5 transportation involves more than one trip from the BMC to
6 an SCF destination on a daily basis?

7 A I haven't studied the data to know enough about
8 when trucks leave particular BMCs and how often during the
9 day. And, again, that is a little beyond the scope of my
10 testimony.

11 However, I would submit that it's likely that that
12 could happen based on volumes. If a certain amount of
13 volume leaves the BMC enough to warrant more than one trip,
14 I am sure there are cases where that does happen.

15 Q Well, let's assume for the purposes of your
16 response to this interrogatory that both of these parcels
17 are processed together, they are loaded in the same
18 container and put on the same truck out of the BMC to the
19 SCF.

20 A Okay.

21 Q All right. Now, look at my question B. Will both
22 parcels receive the same highway transportation service from
23 the Jacksonville BMC to the Tampa SCF?

24 A I see that question.

25 Q And your response to that question?

1 A I responded to it here. It wasn't exactly clear
2 to me what you meant by "same highway transportation
3 service." I assumed for the purpose of my response that you
4 meant the same category of contract highway transportation,
5 in which case I would admit that given your assumption this
6 morning that it is the same truck then I would say, yes,
7 they would both be on intra-BMC transportation.

8 Q And with the assumption that I've given you this
9 morning, what will be your response to question C? And that
10 is, will the amount of highway transportation cost for the
11 intra-BMC be determined on the basis of cubic feet
12 regardless of this?

13 A With respect to my testimony, as I have said a
14 number of times, the methodology I have presented can't
15 calculate the transportation cost for a specific individual
16 parcel. It is designed to calculate the average
17 transportation costs in each zone for the average parcel and
18 so question C asks me about the transportation costs
19 specifically associated with this one parcel and I can't,
20 given the methodology I have presented, I can't tell you
21 about those costs.

22 Q Under your methodology, will a parcel moving in
23 intra-BMC transportation from the Jacksonville BMC to the
24 Tampa SCF be determined on the basis of cubic feet?

25 A I can say that the methodology presented in my

1 testimony will allocate the intra-BMC costs for intra-BMC
2 parcel post on the basis of cubic feet.

3 Q Regardless of distance?

4 A Well, the fact that it is on the basis of cubic
5 feet, no component of that distribution has distance
6 incorporated in it.

7 Q Under D, if the DBMC parcel that moved in the same
8 container and the same truck on the same day is determined
9 on the basis of cubic foot miles under your methodology; is
10 that right?

11 A If you're talking about a specific DBMC parcel,
12 again, I can't tell you about an individual parcel. I can
13 tell you in general for DBMC parcels, those intermediate or
14 ~~inter~~^{intra}-BMC transportation costs are distributed to the zones
15 based on the average cubic foot miles. One of the main
16 reasons that I do that, a very big difference which we
17 failed to recognize here between the two parcels is that the
18 intra-BMC parcel doesn't only receive transportation from
19 the BMC to the SCF. It's also receiving transportation to
20 that BMC and that makes for a very different situation
21 between those two types of parcels.

22 Q Well, Mr. Hatfield, let's assume for purposes of
23 this exchange here that both parcels were entered at the
24 Jacksonville BMC. One parcel was entered in bulk and
25 qualified for a DBMC rate. The other parcel didn't -- was

1 not entered in sufficient quantity to qualify for the DBMC
2 rate so it had an intra-BMC rate. So both parcels are
3 entered at the same place, at the BMC and one has an
4 intra-BMC rate and one has a DBMC rate and they both move in
5 the same vehicle in the same container on the same day.

6 Your methodology is that one of those parcels is
7 measured by cubic feet regardless of distance and the other
8 parcel is cubic foot miles; is that right?

9 A No. Again, your question is assuming that I
10 can -- my methodology goes in and for each and every one of
11 the parcels can determine a cost. That's not the case. My
12 testimony is dealing with the average transportation cost
13 within each zone. In that situation, your typical intra-BMC
14 parcel is going to receive more than just that leg from the
15 BMC to the SCF. And because your typical intra-BMC parcel
16 will receive more than that, I've treated the transportation
17 costs differently.

18 If for every BMC parcel it was true that it was
19 entered at a BMC and it traveled straight to an SCF, then I
20 would submit that those costs from the BMC to the SCF are
21 probably distance related. But that's not the case.

22 Q Are you telling us this morning that your
23 methodology cannot be applied to individual movements?

24 A I'm saying that if you provide me with a
25 hypothetical parcel and you lay out the transportation

1 pattern as you have done in a number of your
2 interrogatories, I can't simply take that information, plug
3 it into my testimony and tell you the cost of that parcel.
4 The methodology is not designed to do that. There are a lot
5 of factors that would vary between the average parcel in a
6 given zone and any number of hypothetical examples you could
7 present.

8 And so, for instance, you gave me a hypothetical
9 example of a parcel entered at a BMC and that paid the
10 intra-BMC rate. I would submit that that's most likely rare
11 and my testimony can't tell you the costs associated with
12 just that parcel. I can tell you the costs associated with
13 the average intra-BMC parcel.

14 Q My question to you was not what the cost was, but
15 how you determined the cost. A DBMC parcel you determine
16 costs on the basis of cubic-foot miles. Is that right?

17 A For the costs I've categorized as intermediate;
18 yes.

19 Q And you've categorized the cost of a DBMC parcel
20 as intermediate, and you measure that by cubic-foot miles;
21 is that right?

22 A I haven't categorized all the costs as
23 intermediate, just the portion between the BMC and the SCF.

24 Q The portion of the transportation cost from the
25 BMC to the SCF and for a DBMC parcel you categorize and

1 measure the cost by cubic-foot miles. Is that right?

2 A Yes, I allocate those costs to zone based on
3 cubic-foot miles. Don't necessarily measure their --

4 Q And if a parcel is intra-BMC as opposed to DBMC,
5 the transportation from the BMC to the destination SCF is
6 measured in terms of cubic feet regardless of distance. Is
7 that right, under your methodology?

8 A The transportation cost from the SCF to the BMC
9 and from the BMC to the SCF. I can't distinguish between
10 the two different portions. That cost in total is
11 distributed to the zones for intra-BMC Parcel Post on the
12 basis of cubic feet.

13 Q And if the two parcels, the DBMC parcel and the
14 intra-BMC parcel, both move over the same route on the same
15 day, your methodology determines cost for the DBMC parcel on
16 the basis of cubic-foot miles and for the intra-BMC on the
17 basis of cubic feet. Is that correct?

18 A Again, for the average -- for the average DBMC
19 parcel, my testimony allocates the cost between the BMC and
20 the SCF on the basis of cubic-foot miles, and for the
21 average intra-BMC parcel, my testimony allocates the cost
22 from the SCF to the BMC and from the BMC to the SCF on the
23 basis of cubic feet.

24 Q Look at your Figure 2-3 on page 10 of your
25 testimony.

1 A I have it here.

2 Q Am I correct that for intra-BMC parcels is that
3 your measurement is the measurement of the distance F in
4 each of the two illustrations?

5 A Can you repeat the question? My measurement of
6 what?

7 Q Transportation distance.

8 A F in both of those diagrams is meant to represent
9 the measurement of great-circle distance.

10 Q That's the distance that's used for the purpose of
11 determining the rate for that parcel, for each loaded
12 parcel.

13 A Yes. GCD is what is used to determine zone.

14 Q And it's also the distance that is used by you in
15 the allocation of cost, transportation cost.

16 A In certain circumstances; yes.

17 Q Well, under an intra-BMC under -- for parcel A
18 your transportation cost is calculated under cubic feet of
19 the parcel for the F transportation; is that right?

20 A No. As I said before, both F line segments
21 represent the GCD of the parcel. The GCD factors into my
22 calculations in the determination of cubic-foot miles. When
23 I use cubic feet to distribute transportation costs, the GCD
24 never comes into play in those calculations.

25 Q All right. Well, looking at this example for

1 parcel A, you would calculate the transportation cost for
2 this intra-BMC parcel to be the total of B plus D; is that
3 right?

4 A The methodology in my testimony is calculating
5 for -- if we're confined to the transportation cost between
6 BMCs and SCFs, the methodology in my testimony is going to
7 calculate the average cost within each zone, and for
8 intra-BMC parcels, for those costs, I've determined that
9 that average cost is the same for each zone.

10 Q All right. But under your methodology you add in
11 for the determination of the average the transportation cost
12 for B plus D.

13 A Essentially that's correct. The transportation
14 costs I've categorized as intermediate. One component of
15 those is intra-BMC purchased highway transportation, which
16 will play a big role in moving that parcel between the ^{P+DC}~~PMDC~~,
17 the BMC, and the destination ^{P+DC}~~PMDC~~. However, again you're --
18 it's difficult for me to speak towards what happens to the
19 cost of this one individual parcel, in that I'm dealing with
20 an average.

21 Q All right, the transportation service provided for
22 the intra-BMC for parcel A in your figure 2.3 covers the
23 distance of B plus D; is that right?

24 A Yes, that's right.

25 Q And if this was a DBMC parcel, the distance would

1 be from -- only for the component D and not B plus D; is
2 that right?

3 A Right. In fact, if you look on page 11, you will
4 see a diagram for a DBMC parcel that shows just that.

5 Q And similarly for parcel B under intra-BMC, the
6 transportation cost under your methodology is B1 plus D1; is
7 that right?

8 A Right. I meant them to be primes. B prime plus D
9 prime.

10 Q And under -- if this was a destination BMC or DBMC
11 parcel only D would be taken into account?

12 A Correct. D prime.

13 Q Under both examples, the DBMC parcel would have
14 less transportation but more cost under your methodology; is
15 that right?

16 A I don't agree with that statement.

17 Q Well, will the cost of B plus D be greater than
18 the cost of D?

19 A Yes.

20 Q Turn --

21 A Maybe I misunderstood that question. I thought
22 you said that the DBMC parcel would receive less
23 transportation and I would allocate more costs to it. Was
24 that the question?

25 Q That was the question.

1 A I don't agree that I would allocate more costs to
2 the DBMC parcel.

3 Q For an intra-BMC, you do not take into account the
4 mileage factor, do you?

5 A No, I do not.

6 Q And for a DBMC parcel, you do take in the mileage
7 factor?

8 A Yes, I do.

9 Q And cubic foot miles will necessarily result in
10 increased cost over pure cubic feet?

11 A No.

12 Q Give me an example when it would not.

13 A You need to understand what my
14 transportation -- what my methodology is doing. It's taking
15 the transportation costs for intra-BMC, this pool of
16 dollars, and distributing those dollars to zone based on
17 cubic feet. Okay? Likewise, in DBMC, I'm taking this pool
18 of dollars and distributing it to zone based on cubic foot
19 miles. All I use is the relative proportion of cubic foot
20 miles in each zone. For instance, if we turn to Appendix 2,
21 page 9 -- sorry, Appendix 3, page 8?

22 If you look at columns 1 and 2 of that page, those
23 are the numbers that I used to distribute costs to zone.
24 The first column represents the percentage of cubic feet in
25 each zone. The second column represents the percentage of

1 cubic foot miles.

2 I use these -- I used these factors in percentage
3 terms so by using cubic foot miles, I am not allocating more
4 cost; all I am doing is saying it is a different
5 distribution of costs among the zones. Therefore, the ~~one use~~
6 of cubic foot miles versus cubic feet makes no distinction
7 between amount of cost in total. What it does is it
8 distributes the cost to zones differently.

9 Q Turn to page 25 of your testimony, Table 3.3.

10 A I have it.

11 Q Now, you say that these are costs per cubic feet
12 in intra-BMC. For zones 1 through 5, the cost per cubic
13 foot is the same?

14 A Yes.

15 Q How can that be when zone 5 is more distance than
16 zone 2?

17 A Zone 5 -- again, zones are determined based on
18 greater circle distance.

19 Q Well, are zones determined on greater circle
20 distance for inter-BMC, intra-BMC and DBMC?

21 A Correct.

22 Q So they are all three determined on the same rate
23 circle distance model?

24 A Determination of zone is not specific to rate
25 category or even subclass.

1 Q Explain to me if zone 1 and 2 is less distance
2 than zone 5, how is it that the transportation cost per
3 cubic foot is the same for zone 1 and 2 as it is for zone 5?

4 A Bear with me. One of the things my testimony
5 does, one of the biggest changes from previous methodologies
6 to allocate transportation cost to zone is to look at the
7 relationship between actual distance traveled by a parcel
8 and the distance used in determining rates. That is GCD.
9 And what we found is that for certain transportation costs
10 that were traditionally categorized as distance related,
11 those costs actually were not related to GCD. Since the
12 only method that we have to incorporate distance into rates
13 is GCD, it is more relevant to look at our transportation
14 costs related or not related to GCD.

15 Now, what you see here, the fact that intra-BMC
16 average transportation cost per cubic foot are the same in
17 each of the zones does not reflect that those -- that the
18 actual distances traveled by those parcels may be different.
19 What it does reflect is that the GCD that's used to
20 determine the zone for those parcels is not related to the
21 actual distance those parcels travel through the
22 transportation network.

23 Q Will a parcel, intra-BMC that destines to zone 1
24 and 2 travel further than a parcel with a destination in
25 zone 5?

1 A It could.

2 Q Under every circumstance, won't it be greater?

3 A Excuse me? Could you repeat the question?

4 Q Explain to me how a zone 2 destination will be
5 less than or equal to a zone 5 destination.

6 A I take you back to the figure we were looking at
7 earlier on page 10 of my testimony, which depicts two
8 hypothetical intra-BMC parcels. That figure, if you look at
9 parcel A, the GCD of that parcel is determined by the dotted
10 line segment, F.

11 Q Right.

12 A Granted, in relation to the other distances on
13 that figure, that's a relatively short distance.

14 Let's say, for the sake of argument, that that
15 distance qualifies to put that parcel in zone 1-2. Okay?

16 Q All right.

17 A If you look at that parcel, the actual distance it
18 is traveling is quite large, the sum of line segments B and
19 D, let's say, between SCF and BMC. However, because the
20 method used to charge that parcel a rate is the GCD, the GCD
21 here is very small. Now, you could have a parcel like
22 parcel B. Let's say the dotted line segment F prime, which
23 represents GCD, is long enough to put that parcel in zone 5.
24 Now, you said earlier that there is less transportation in
25 parcel B than there is in A. So I have just given you an

1 example of parcel A has more transportation yet a lower zone
2 and parcel B has a higher zone with less transportation.

3 Q And on table 3 on page 25 your \$1.75 represents
4 what?

5 A That number represents the average transportation
6 cost per cubic foot for intra-BMC parcels.

7 Q And are you -- does this necessarily mean that the
8 average transportation distance in Zone 1 and 2 is the same
9 as the average transportation distance to Zone 5?

10 A I don't know actual transportation distances.
11 I've said in a number of interrogatory responses we don't
12 have data that would allow me to say for every parcel going
13 from point A to point B the path that it actually takes
14 through the network. Therefore, I don't have a means to
15 measure the actual miles traveled by those parcels.

16 In the absence of that information what we're left
17 with is GCD, the distance used to determine zone. And with
18 that information that's what's going into determining these
19 rates. So the answer to that question is I don't know how
20 the actual transportation distance changes with zone.

21 Q You do know that the GCD to Zone 1 and 2 is less
22 than the GCD for Zone 5?

23 A I'd agree that the GCD ranges used to determine
24 each zone do increase with zone, but I would also argue that
25 the GCD measured for intra-BMC parcels is not necessarily

1 related to its actual distance traveled, as we pointed out
2 in the example I gave you on page 10.

3 Q Let's compare the transportation provided for an
4 inter-BMC parcel with a DBMC parcel.

5 A Okay.

6 Q For the inter-BMC you have -- and for this purpose
7 let's ignore the local transportation -- you have for the
8 inter-BMC two intermediate movements; is that right?

9 A Yes --

10 Q From the origin SCF --

11 A The typical transportation --

12 Q To the origin --

13 A Transportation pattern.

14 Q From the origin SCF to the origin BMC and from the
15 destination BMC to the destination SCF, two intermediate
16 transportation segments.

17 A That's correct, for the typical parcel.

18 Q For the DBMC parcel you only have one such
19 segment; is that right?

20 A For the typical DBMC parcel; yes.

21 Q So the intermediate transportation is one-half for
22 the DBMC parcel?

23 A By half are you saying half the distance, half the
24 cost -- you need to be a little more specific to have me
25 agree with that.

1 Q You said that for the inter we have two
2 intermediate movements.

3 A Yes.

4 Q And for the DBMC parcel we have one intermediate
5 movement.

6 A Yes.

7 Q According to my rather elementary mathematics, one
8 is one-half of two.

9 A I would agree that the typical inter-BMC parcel
10 has twice as many intermediate legs as the typical DBMC
11 parcel; yes. Thank you for the clarification.

12 Q But you don't know the relative distance for those
13 two intermediate legs; is that right?

14 A I don't know the actual distance traveled; no. As
15 I said earlier, we don't have data that would tell us how
16 these things flow through -- how each piece flows through
17 the network that would allow the calculation of those
18 distances.

19 Q Well, for an inter-BMC you also have distance
20 transportation between the two BMCs.

21 A Distance-related transportation.

22 Q Distance-related transportation.

23 A Yes, that's correct.

24 Q For DBMC parcel, you do not have the
25 distance-related transportation between two BMCs, do you?

1 A No. DBMC parcels generally don't travel between
2 BMCs.

3 Q All right. So for the inter-BMC you have two
4 intermediate movements plus a distance-related movement.
5 Right?

6 A Yes.

7 Q And for the DBMC parcel, you only have one
8 intermediate movement and no distance-related movements.

9 A I wouldn't say DBMC doesn't have any
10 distance-related movements. It's true that DBMC generally
11 doesn't travel between BMCs, but I would argue that DBMC
12 does incur a distance-related movement, and that movement is
13 from the destination BMC towards the destination SCF.

14 Q Well, let me rephrase it. For the inter-BMC you
15 have two movements between and SCF and a BMC.

16 A Yes, for the typical parcel.

17 Q And a DBMC you only have one such movement.

18 A That's correct.

19 Q For the inter-BMC you have the transportation
20 between the BMCs.

21 A Yes.

22 Q And for a DBMC parcel you do not have that.

23 A That's correct.

24 Q And for Zones 1 and 1, Zone 3, Zone 4 the DBMC
25 cost, transportation cost per cubic foot are less for the

1 DBMC but for Zone 5 the transportation cost for the DBMC is
2 greater than the cost per cubic foot for an inter-BMC.

3 How do you explain that?

4 A Well, I can explain that in a number of ways and
5 this may take a few minutes so bear with me.

6 The first thing you have to look at is the way
7 those transportation costs are calculated and the difference
8 between inter-BMC and DBMC.

9 In inter-BMC that, the long distance movement, the
10 one between two BMCs, that movement is treated as
11 distance-related because it is the main determinant of the
12 GCD of that parcel.

13 Within DBMC, as we already said, it doesn't have
14 that long distance movement between BMCs. However, for DBMC
15 the movement between the destination BMC and the destination
16 SCF is treated as distance-related because for a DBMC parcel
17 that GCD distance is very related -- sorry, that actual
18 distance between BMC and SCF is very related to how the GCD
19 measurement is made.

20 That is, for a DMBC parcel, because it is entered
21 at a destination BMC, the GCD is the great circle distance
22 between the BMC and the three-digit area of its destination.

23 That is why you see the average transportation
24 cost in both inter-BMC and DBMC increasing as we move down
25 through zone.

1 Now your second question, which had to do with why
2 is it that DBMC has a lower average transportation cost per
3 cubic foot in Zones 1 through 4 and a higher average
4 transportation cost per cubic foot in Zone 5, that question
5 is probably best answered by going through the data. What
6 resulted in that calculation has to do with the number of
7 cubic feet of DBMC in Zone 5, the number of cubic foot miles
8 in DBMC Zone 5, the number of cubic feet in inter-BMC Zone
9 5, and the number of cubic foot miles in inter-BMC Zone 5.

10 But I would argue that one of the reasons that the
11 calculations might yield this result, and I don't know this
12 for a fact, but one possible explanation is that the
13 inter-BMC movement, since it is a relatively long distance
14 movement as opposed to the rest of highway transportation,
15 exhibits a lower cost per cubic foot mile than other highway
16 movements.

17 So for inter-BMC as you move to the outer zones, a
18 larger portion of your cost is based on that long-distance
19 movement. What that tends to do is bring the cost per cubic
20 foot mile on average down for inter-BMC, since it is
21 incurring so much long haul, whereas for DBMC it is not
22 getting that long haul transportation and so that is one
23 possible explanation why you might see that relationship as
24 you move down through zones.

25 Q Under your methodology, if you have an inter-BMC

1 parcel that the final destination is from the Jacksonville
2 BMC to Orlando, and you have a DBMC parcel that is entered
3 at the Jacksonville BMC and moves to Orlando, now both
4 parcels move over the same route from Jacksonville BMC to
5 the destination SCF in Orlando.

6 Under your methodology, the transportation
7 provided for the DBMC parcel is distance-related, is that
8 right?

9 A Again, for the average DBMC parcel, the
10 transportation from the destination BMC to the destination
11 SCF is distributed to zone on the basis of cubic foot miles,
12 because it is distance-related with respect to GCD.

13 Q And under your methodology, the inter-BMC parcel
14 that moves over the same transportation from the
15 Jacksonville BMC to the destination SCF is
16 non-distance-related, correct?

17 A For the average inter-BMC parcel, the
18 transportation costs incurred between the origin SCF and the
19 origin BMC in conjunction with the transportation cost
20 incurred between the destination BMC and the destination SCF
21 are treated as non-distance related, meaning they are
22 distributed to the zones based on cubic feet.

23 One thing your example fails to point out is that
24 the inter-BMC parcel incurs much more transportation than
25 the DMBC parcel. You are comparing one small portion of the

1 entire inter-BMC transportation routing with the DBMC
2 transportation routing.

3 When looking at how to develop average
4 transportation costs for inter-BMC you need to look at that
5 whole path.

6 To compare one segment on one to one segment on
7 another is not taking into account all the factors that are
8 going to play into determining transportation costs.

9 Q Mr. Hatfield, are you telling us that your
10 methodology cannot be applied logically to any specific
11 comparative movements?

12 A No. That is not what I said at all.

13 Q All right. How is it that you can -- under your
14 methodology the transportation cost of an inter-BMC from the
15 destination BMC to the destination SCF is not
16 distance-related but a parcel in DBMC that moves over the
17 same route and the same transportation you characterize as
18 distance-related.

19 I mean the same parcel moving in the same
20 transportation, one is distance-related and one is not. How
21 do you reconcile those two?

22 A It's quite simple. Let me walk you through it.

23 If we go back to those diagrams, they may help.
24 Let's take a look at the diagram of a typical transportation
25 pattern for an inter-BMC parcel. That is on page 6 of my

1 testimony.

2 If you look at that diagram, what will explain the
3 apparent discrepancy that you are talking about is how GCD
4 is calculated differently for those two parcels, okay?

5 Let's stick with the inter-BMC first.

6 GCD, because of the way it is determined for all
7 parcels, that is, it is based on the origin and the
8 destination of the mail, the fact that an inter-BMC parcel
9 receives both intermediate and what I call long-distance
10 transportation, the long-distance component is the main
11 determinant of GCD for that parcel, okay, because for an
12 inter-BMC parcel one way to view it is that the cost
13 incurred from SCF to BMC and BMC to SCF are more or less
14 network access costs.

15 The point of that transportation is to get that
16 parcel to a BMC such that it can be processed and then sent
17 a further distance towards its destination.

18 I would argue that the intermediate transportation
19 costs for inter-BMC are not related at all to the GCD.

20 Let's take for an example -- a very easy way to
21 illustrate this is an example that I presented in Figure
22 2.2.

23 You have got two parcels. One of them is going a
24 relatively short distance. We could use yours, which was --
25 I forgot the BMCs you mentioned -- Jacksonville --

1 The one I use is the Washington BMC and
2 Philadelphia. You compare that parcel to one that is going
3 from Washington to -- I think I said Los Angeles.

4 In each of those two cases I would argue that it
5 is likely that the actual distance travelled on the
6 intermediate transportation is relatively similar, within
7 the same ballpark. Getting those parcels from their origin
8 SCF to their origin BMC and likewise from their destination
9 BMC to their destination SCF.

10 However, what is going to vary extremely between
11 those two parcels is what I have called long distance
12 transportation. One is only going to get about 300 miles
13 and the other one is going to get about 3000, differing by a
14 factor of 10.

15 Now, if you were to say to me that the
16 intermediate transportation costs for inter-BMC parcels
17 should be distance related. What that means is that just
18 for the cost between SCF and BMCs, you're going to ^{give}~~get~~ 10
19 times as many dollars to that parcel from Washington to LA
20 even though the intermediate transportation is about the
21 same distance. That's the reason why I say those costs are
22 not related to GCD. I don't -- parcels going -- you know, I
23 would argue that the -- again, the main determinant of GCD
24 for an inter-BMC parcel is that long-distance leg, how far
25 it is going between BMCs and the costs^{of} getting that parcel

1 to and from the BMCs are unrelated to the GCD.

2 Now, on the other hand, you look at a DBMC parcel.
3 Sorry -- now, on the other hand, you look at a DBMC parcel.
4 For a DBMC parcel, it's a very different situation. Because
5 let's turn to page 11, figure 2.4. There I am showing a
6 typical transportation pattern of a DBMC parcel. Since the
7 parcels entered at the destination BMC, that's the origin
8 point for the GCD calculation. And if you look in this
9 diagram, the GCD mirrors D, which -- line segment D, which
10 is what I am referring to as the actual transportation
11 pattern. That is, for DBMC parcel, the parcel is going to
12 move from origin to destination on roughly the same line
13 along which GCD is calculated. Therefore, those two things
14 are related.

15 That is, as you move up in zone for DBMC from 2 to
16 5, your intermediate transportation distance and therefore
17 your intermediate transportation costs are also going to go
18 up.

19 Q Mr. Hatfield, the problem that some face is that
20 your methodology treats transportation over an individual
21 segment differently depending on the rate category that the
22 piece of mail moves under. And if the distance from A to B
23 is in one situation distance related but if that piece of
24 mail moves under a different rate category, suddenly it is
25 not distance related and distance is immaterial. And that

1 inconsistency and conflict where you got two pieces of mail
2 moving in the same vehicle on the same route over the same
3 distance and one is distance related and one is not, how do
4 you reconcile them?

5 A The rather long-winded explanation I just gave, I
6 think, speaks directly to that. And I think the reason, one
7 of the reasons that this situation exists is that parcel
8 post is a fairly unique subclass in that the rate category
9 distinctions, inter-BMC, intra-BMC and DBMC, are
10 predominantly based on differences in transportation
11 patterns. That doesn't happen many other places. So that
12 by rate category, I can actually infer information about how
13 those parcels will travel and that has allowed us to go in
14 and look at the determinants of rate, right? The main one
15 being GCD, how you put a given parcel into a zone, the
16 relationship to that distance and the relationship to the
17 transportation pattern.

18 What I've tried to do, and I don't know, if you
19 still don't understand maybe I haven't done a good job, but
20 I have tried to lay out why those things are different for
21 the different rate categories and indeed they are. And the
22 way we have treated them is the most accurate way.

23 Q Mr. Hatfield, is the purpose of your testimony to
24 determine the attributable cost for parcel post of
25 transportation?

1 A No.

2 Q All you are doing is allocating what someone else
3 determined to be attributable?

4 A I take as inputs to my testimony the
5 transportation, volume variable attributable transportation
6 costs for parcel post and I distribute those to rate
7 category and zone, yes.

8 Q All right. Your methodology is different from
9 that used in TRACS, isn't it?

10 A Well, TRACS does a very different thing.

11 Q Doesn't it allocate transportation costs to
12 classes of mail?

13 A Yes.

14 Q And that is what you are doing?

15 A No.

16 Q You are not allocating transportation?

17 A I am allocating parcel post volume variable
18 transportation costs to rate category and zone. I would
19 argue that is something substantially different than
20 allocating total volume variable transportation costs to
21 different classes and subclasses of mail.

22 Q When you say you are developing volume variable
23 transportation costs, all you are doing is developing the
24 allocation to the various rate category of parcel post?

25 A What I say in my testimony is that I develop unit

1 transportation cost estimates for the rate categories and by
2 zone in parcel post. That is, indeed, what I do. The way I
3 do that is I allocate those totals to rate category and
4 zone, as you pointed out.

5 MR. WELLS: Thank you, Mr. Hatfield.

6 No further questions, Mr. Chairman.

7 CHAIRMAN GLEIMAN: Mr. May, you indicated you had
8 one question. We won't hold you to exactly one.

9 MR. MAY: Thank you, Mr. Chairman.

10 CROSS EXAMINATION

11 BY MR. MAY:

12 Q Good morning.

13 A Good morning.

14 Q On page -- Exhibit 16-B, page 1 and 2 of that
15 exhibit, which is captioned A Summary of the Cube Weight
16 Relationships in Parcel Post, now on that exhibit, are those
17 tables plug numbers or are they what you estimate to be the
18 actual progression of cubic feet as a progression in pounds?

19 A What this table shows is the results of a
20 regression that was used to determine a relationship between
21 weight and cubic volume in parcel post. So what you are
22 seeing is the predicted values based on that regression.

23 Q So you didn't just plug them. You believe they
24 are reliable estimates of what is actually the case?

25 A Yes, these estimates represent a best fit line to

1 the actual data that exists on -- on the relationship
2 between weight and cubic volume in parcel post.

3 Q Now, they show a rather steady curvilinear
4 relationship for all three of these rate categories, don't
5 they? That is, is there not a rather straight curved line
6 progression of an increase in cube within each increase in
7 pound?

8 A I -- yes, I would agree that all three
9 relationships follow a relatively smooth curve.

10 Q Yeah, I think figure 11.5 on page 14 of your
11 testimony kind of shows that rather graphically.

12 A Yes, it does. That is a graphical representation
13 of the data presented in Exhibit B.

14 Q Would you expect that the correlative of this
15 relationship would also be true? That is, that there
16 is -- there would be a steady increase in cubic feet per
17 parcel when there is a fairly steady increase in weight?

18 A I think that is what these relationships are
19 showing. That is, as you increase in weight in a parcel,
20 which is the X axis, the bottom line of that figure you
21 referred to, the volume of that parcel also increases.

22 Q And the correlative is also true, you would
23 predict? That is, you increase in cube, you would expect to
24 see the same steady increase in weight?

25 A Well, I -- the relationship we determined is

1 how -- how cube depends on weight, okay? That is my -- what
2 you are talking about would involve performing another
3 analysis to see what that relationship looked like if we
4 were -- if we were to specify a different model and regress
5 that model.

6 Q Isn't it the case that if it were not to be true,
7 if the correlative were not to be true, the only explanation
8 would be that there is an exogenous factor, that there is a
9 factor other than either weight or cube at work?

10 A That could be a possible explanation.

11 Q Can you think of any other explanation why the
12 correlative wouldn't be true?

13 A Without having studied that model or that
14 relationship, I can't really speak to what other factors
15 might be involved.

16 Q Perhaps I can put it this way. If you look at
17 your first column there, you have so many cubic feet per
18 parcel, right? So if you were just to plot a curve of the
19 cubic feet, let us say, for inter-BMC, you will show a
20 smooth curvilinear gradually expanding arc, would you not?

21 A That's exactly what we were looking at on page 14.
22 Like I said, that's a plot of the data contained in Exhibit
23 B.

24 Q Well, but now did you get pounds first and plot
25 cube or did you get cube first and plot pounds?

1 A The way the model is specified is that the
2 dependent variable is cubic -- the average cubic feet per
3 piece within each weight increment of parcel post and then
4 the independent variables are the weight and a few
5 transformations of the weight. So the way the model is
6 specified is that cubic foot per piece depends on weight.

7 Q And so you don't know if you were to be given this
8 data of simply the cube and asked to derive what are the
9 corresponding weights as you plot the cube, how would you do
10 that?

11 A Well, I would approach it in much the same way we
12 approach this problem, although I haven't studied that.

13 Q The uh --

14 A The reason I'm -- maybe if I can expand a little
15 bit -- the reason that -- or one of the reasons that weight
16 is the independent variable, weight is what is used within
17 the rate structure of Parcel Post to determine how rates
18 vary, and what we were -- what we set out to estimate and
19 what has been estimated since as far back in dockets that I
20 have looked is the relationship as it's presented here.

21 Q Yes. What this relation shows is an absolutely
22 undeviating increase in cube as pounds increase. Is that
23 not the case?

24 A Depends on what you mean by undeviating.

25 Q Well, I mean, it never goes -- it's never less

1 than the previous cube in the previous -- the lower weight.

2 A That's correct, but it does -- the amount -- the
3 unit increase in cubic feet does decrease as you go up and
4 down.

5 Q Correct. But it never -- but it is still in every
6 case, 100 percent of the cases, is still a slight increase
7 over the amount of cube in the previous weight. Is that
8 correct?

9 A That's correct.

10 Q Now why would it not also logically follow that
11 this same curve is -- would apply, that as each increase in
12 cube occurs you would have a corresponding increase in
13 weight?

14 A I'm not arguing with you that that's not
15 logical --

16 Q What --

17 A I'm just saying I haven't studied it, so I can't
18 plot that relationship for you. I would expect were I to go
19 through that study and estimate that relationship that, yes,
20 as you increase by each increment of cubic feet, whatever
21 you say those are, I would expect to get an increase in
22 weight of some degree.

23 Q Thank you.

24 MR. MAY: That's all, Mr. Chairman.

25 CHAIRMAN GLEIMAN: Thank you, Mr. May, that was

1 one of the better 16-part single questions I've ever heard.

2 I think we'll take our 10-minute break now, come
3 back at 20 of the hour -- oh, excuse me. Mr. McKeever,
4 you're sending me signals.

5 MR. McKEEVER: Mr. Chairman, we have no questions
6 for Mr. Hatfield.

7 CHAIRMAN GLEIMAN: Well, let's move ahead to
8 followup then.

9 No followup. Questions from the bench?

10 Commissioner LeBlanc may have a question.

11 COMMISSIONER LeBLANC: Mr. Hatfield, just so I
12 understood what you just said with Mr. May, you agreed that
13 it was logical that as cube goes up, weight goes up, yet you
14 didn't look at that when you set your -- I mean, just -- am
15 I -- is that a good synopsis of what was said?

16 THE WITNESS: Yes, that's correct.

17 COMMISSIONER LeBLANC: In the 16-part, 1-minute
18 question or whatever, but --

19 THE WITNESS: Right. I -- based on what I know
20 about the relationship from the one that I estimated, I
21 agreed that what Mr. May proposed does sound logical to me.
22 However, I haven't studied that relationship. I can't
23 confirm that.

24 COMMISSIONER LeBLANC: Okay. Thank you very much.

25 THE WITNESS: You're welcome.

1 CHAIRMAN GLEIMAN: Followup questions from the
2 bench?

3 There are none.

4 That brings us to redirect. Would you like some
5 time? We're going to take a 10-minute break anyway, so
6 you've got it.

7 MS. REYNOLDS: Perhaps during our 10-minute break.

8 CHAIRMAN GLEIMAN: We'll be back at 20 of the
9 hour.

10 [Recess.]

11 CHAIRMAN GLEIMAN: Ms. Reynolds, are you prepared
12 to continue?

13 MS. REYNOLDS: We have no redirect. Thank you.

14 CHAIRMAN GLEIMAN: If there's no redirect, then,
15 Mr. Hatfield, let me thank you again for helping us out, for
16 your appearance here today and your contributions to the
17 record, and if there's nothing further, you're excused.

18 THE WITNESS: Thank you.

19 [Witness excused.]

20 CHAIRMAN GLEIMAN: We'll give folks a moment to
21 shuffle around in the room here, and when Mr. Reiter is
22 prepared, he can call his next witness.

23 MR. REITER: Mr. Chairman, our next witness is
24 Virginia Mayes.

25 Whereupon,

1 VIRGINIA J. MAYES,
2 a witness, was called for examination by counsel for the
3 United States Postal Service and, having been first duly
4 sworn, was examined and testified as follows:

5 CHAIRMAN GLEIMAN: Mr. Reiter.

6 DIRECT EXAMINATION

7 BY MR. REITER:

8 Q Ms. Mayes, I'm handing you two copies of a
9 document entitled Direct Testimony of Virginia J. Mayes on
10 Behalf of the United States Postal Service labeled
11 USPS-T-37.

12 Was this testimony prepared by you or under your
13 direction?

14 A Yes, it was?

15 Q And if you were to testify here orally today,
16 would your testimony be the same?

17 A Yes, it would, with one change. On page 18
18 there's a footnote that contains a typo. About halfway down
19 it says USP web site. It should say UPS. And I've changed
20 it on both of these copies.

21 MR. REITER: With that change, Mr. Chairman, I
22 will hand these two copies to the reporter and ask that they
23 be entered into evidence as the direct testimony of Virginia
24 Mayes.

25 CHAIRMAN GLEIMAN: Are there any objections?

1 Hearing none, Ms. Mayes' testimony and exhibits
2 are received into evidence, and I direct that they be
3 accepted into evidence. As is our practice, they will not
4 be transcribed.

5 [Direct Testimony and Exhibits of
6 Virginia J. Mayes, Exhibit No.
7 USPS-T-37 was marked for
8 identification and received into
9 evidence.]

10 CHAIRMAN GLEIMAN: Ms. Mayes, have you had an
11 opportunity to examine the packet of designated written
12 cross examination that was made available to you earlier
13 today?

14 THE WITNESS: Yes, I have.

15 CHAIRMAN GLEIMAN: If these questions were asked
16 of you today, would your answers be the same as those you
17 previously provided in writing?

18 THE WITNESS: Yes, with two exceptions. On the
19 response to UPS/USPS-T-37-56 there's a typo, and it should
20 say please refer to Library Reference H-172, and I've
21 inserted the word "to" on both of the copies.

22 In addition, my response to UPS/USPS-T-37-74 I
23 would like at the very end to add the sentence, "Please also
24 refer to the response of witness Alexandrovich to
25 UPS/USPS-T-5-21."

1 Both of those changes have been made to both sets
2 of the responses.

3 CHAIRMAN GLEIMAN: Mr. Reiter, if I could ask you
4 to give the two corrected copies to the reporter. I'll
5 direct that the designated written cross-examination of
6 Witness Mayes be accepted into evidence and transcribed into
7 the record at this point.

8 [Designation of Written
9 Cross-Examination of Virginia J.
10 Mayes was received into evidence
11 and transcribed into the record.]
12
13
14
15
16
17
18
19
20
21
22
23
24
25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS VIRGINIA J. MAYES
(USPS-T-37)

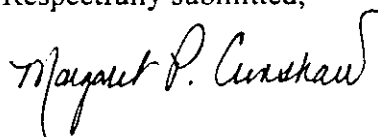
The parties listed below have designated answers to interrogatories directed to witness Mayes as written cross-examination.

<u>Party</u>	<u>Answer To Interrogatories</u>
CTC Distribution Services, L.L.C.	CTC\USPS: Interrogatories T37-1-7.
Florida Gift Fruit Shippers Association	FGFSA\USPS: Interrogatories T37-1-14 UPS\USPS: Interrogatories T37-29, 31 and 33-39.
Office of the Consumer Advocate	OCA\USPS: Interrogatories T37-4-17. CTC\USPS: Interrogatories T37-1-7. DBP\USPS: Interrogatories redirected from the Postal Service ; i.e., USPS 39.m.-q. and s.-aa., 43c., 44.b.-d., 48 and 49. FGFSA\USPS: Interrogatories T37-1-14. PSA\USPS: Interrogatories T37-1, 3-5 and 7-9. UPS\USPS: Interrogatories T37-1-13, 15-56, 59, 62-67, 74, 76-77 and 78a. and c. POIR: POIR No. 1, item 1a.2. and item 1c.2. POIR: POIR No. 3, items 10.a., 11, and 12.
Parcel Shippers Association	PSA\USPS: Interrogatories T37-1, 4 and 7-9. FGFSA\USPS: Interrogatories T37-1-14. OCA\USPS: Interrogatories T37-2, 5-6 and 14-16. POIR: POIR No. witness Mayes response to POIR No. 1-1(a)(2). UPS\USPS: Interrogatories T37-27, 29-30 34 and 66-67.

United Parcel Service

UPS\USPS: Interrogatories T37-1-3, 9-10
16, 23-24, 26-27, 29, 34, 36-37
46-47, 56, 62, 74 and 76.
DBP\USPS: Interrogatory 49.
FGFSA\USPS: Interrogatories T37-2, 5, 9-10 and
14.
PSA\USPS: Interrogatories T37-5 and 7.

Respectfully submitted,

A handwritten signature in black ink, reading "Margaret P. Crenshaw". The signature is written in a cursive style with a large, stylized initial "M".

Margaret P. Crenshaw
Secretary

CTC/USPS-T37-1. Please refer to your response to UPS/USPS-T37-24(c), in which you refer to "narrowly-defined cost savings," and to your response to UPS/USPS-T37-27, in which you refer to "narrowly-measured cost savings."

- a. Please explain what you mean by "narrowly-defined" and "narrowly-measured" cost savings in these responses.
- b. Are you aware of any examples of cost savings presented in any testimony in this docket that are not narrowly-defined or narrowly-measured? Please provide a citation to each example of which you are aware.

Response:

- a. By "narrowly-defined" and "narrowly-measured," I meant that the analyses of the cost differences focused on the points at which the two (or more) types of mail being compared clearly diverged in the mail processing models, and not on the full range of cost differences possible. There may be cost differences experienced prior to the functions measured in the costing models, or after such functions. In addition, there may be some differences in characteristics associated with the two (or more) types of mail for which costs are being compared that are not incorporated into the cost models.
- b. I am not familiar with all of the cost studies performed in preparation of this docket. One example of cost differences that are not as narrowly defined as in the past would be the treatment of transportation costs in determining the costs underlying the rates for inter-BMC, intra-BMC and DBMC. The cost approach used in the past for determining the differences between inter-BMC and intra-BMC costs and rates only included the mail processing cost differences. In this docket, the transportation costs have been independently

distributed for the two categories of mail. Similarly, the costing approach used for establishing the transportation cost difference between intra-BMC and DBMC in the past was more narrowly measured than in this docket in which the full range of transportation costs was examined.

CTC/USPS-T37-2. Witness Crum, at page 3 of his testimony (11. 3-6), concluded that DBMC dropshipment saves the Postal Service 46.9 cents per piece in mail processing plus window and acceptance costs, when compared with non-DBMC intra-BMC mail. Your proposed rates for zones 4 and 5 DBMC parcel post do not reflect any of this cost differential. Please explain your rationale for not recognizing any DBMC cost differentials in your rates for zones 4 and 5, in light of witness Crum's cost data.

Response:

Witness Crum's analysis examined mail processing and window acceptance costs, but did not include analysis of transportation costs. Witness Hatfield (USPS-T-16) studied the costs associated with transportation. His analysis showed that the costs for intra-BMC are not distance-related, whereas the DBMC costs are distance-related. The results of witness Hatfield's analysis include the conclusion that the DBMC transportation costs are higher than those for intra-BMC for parcels with Zone 4 and 5 origin/destination pairs. The preliminary rates shown at pages 1-6 of my workpaper WP I.K. incorporate both the transportation and nontransportation savings estimated for DBMC relative to intra-BMC. As can be seen, the unconstrained rates for Zones 4 and 5 for DBMC are higher than the unconstrained rates for intra-BMC at every weight increment. Had I not constrained rates, the rates for DBMC Zones 4 and 5 would have been higher than those for intra-BMC.

CTC/USPS-T37-3. Please refer to witness Bradley's response to UPS/USPS-T13-24, where he states that some purchased highway contracts include the cost of loading and unloading in the contract cost.

- a. In your opinion, is the time and cost of time spent waiting for loading and/or unloading a distance-related or non-distance related cost in such contracts? Please explain the basis for your answer.
- b. Has any effort been made to distinguish driving time costs from loading and unloading costs?
- c. Please explain why certain nondistance-related costs, such as time spent loading and unloading, are treated as distance-related costs in parcel post rate design.

Response:

- a. As I have not studied purchased highway contracts, I have little basis upon which to respond to this question. It is my understanding that the Postal Service is paying for a contract to transport mail for a given distance, and that should loading or unloading en route be required, the costs for such activities are implicit in the contract. It is reasonable to consider that the number of stops could increase with distance, in which case the costs associated with loading and unloading would increase. However, it is not clear that the distance traveled is directly related to the cost of loading and unloading.
- b. I am aware of no such effort. I am informed that in the majority of the highway contracts, such costs are not explicitly identified.
- c. First of all, I would note that there is not yet agreement that the costs in question are, in fact, non-distance related. Secondly, I would note that in the transportation cost analysis developed and presented by witness Hatfield

(USPS-T-16), the majority of highway transportation costs are classified as non-distance related. Thus, attempting to isolate the loading and unloading costs from the costs that have already been categorized as non-distance related would yield no change in result. For those highway contracts categorized by witness Hatfield as distance-related, it is reasonable to expect that the loading and unloading costs are a small portion of the total contract costs.

pounds, including the available alternative services and the prices of those services.

What may seem "counter-intuitive, or perhaps even ... anomalous" when viewed as a piece-by-piece shipping decision may very well be quite logical when viewed in the context of the decisions made regarding the transport of the full range of parcels shipped by that mailer given the market conditions facing the full range of parcel sizes and destinations.

- b. No. I do not believe that sufficient information has been produced to warrant such a change.

- [p] Yes.
- [q] Please refer to my workpapers WP I.L, pages 21 through 39, and WP I.M., pages 21 through 37.
- [s] Confirmed. Please refer to Library Reference H-187 for a complete listing of the rates for Priority Mail and Parcel Post.
- [t] Please refer to the Parcel Post Billing Determinants, provided in Library Reference H-145.
- [u] Please refer to the Priority Mail Billing Determinants, provided in Library Reference H-145.
- [v] Please refer to the Commission's Opinions and Recommended Decisions for Dockets No. R94-1 (para. [5360] on page V-119), R90-1 (para. [6414] on page V-334), and R87-1 (para. [5933] on page 712).
- [w] I cannot fully explain why any given mailer would choose to use a particular product rather than another. However, I can suggest that there are certain items which cannot be accepted by the Postal Service for transportation by air (See, for example, DMM sections C023.2.0 and C023.3.0). Such items may be sent via surface transportation as Parcel Post, but not as Priority Mail due to the use of air transportation for Priority Mail.
- [x] Confirmed.
- [y] Confirmed.
- [z] Confirmed.

[aa] A certain amount of rate averaging for items of differing characteristics takes place under virtually any rate schedule. The rates for Priority Mail do not distinguish whether the item is machinable or nonmachinable, whereas the rates for Parcel Post do. The mail processing environment, and associated costs, for Parcel Post can easily be divided into separate mailstreams for machinable and nonmachinable items. It is fair and equitable for the rates for Parcel Post to reflect the costs of the two different mailstreams. It is not clear that such demarcations in processing may be drawn for Priority Mail.

DBP/USPS-43. [c] Since the costs are the same for Zones 1 through 5, what is the justification for rates which are distance related, namely, they are based on the different zones?

Response:

[c] Please refer to my responses to FGfSA/USPS-T37-1 and 10, and UPS/USPS-T37-29 and 37. Given the necessity to develop rates that conformed to the directions provided by postal management as well as restrained the sizes of the rate changes from the existing structure, it was not possible to move to a rate structure that completely reflected the transportation cost analysis.

DBP/USPS-44. [b] Confirm, or explain if you are unable to do so, that the rates for Inter-BMC parcel post are based on the zone between the origin and destination of the parcel. [c] Confirm, or explain if you are unable to do so, that the zones that are utilized in parcel post rates are based on the distance between the three-digit prefixes of the origin and destination of the parcel. [d] Confirm, or explain if you are unable to do so, that the zones are not directly based on the distance between the origin and destination BMC.

Response:

[b] Confirmed.

[c] Confirmed.

[d] Confirmed. Please refer to the responses of witness Hatfield to your interrogatory DBP/USPS-46.

DBP/USPS-48. [a] Confirm that the proposed rates for Destination SCF and Destination Office parcel rates will be less than [sic] the proposed Local Intra-BMC parcel rates. [b] If not, explain and enumerate. [c] Confirm that Destination SCF mailings may require some sortation by the SCF and most will require transportation to the individual offices. [d] If not, explain. [e] Based on this, explain the justification and rationalization for having the two Destination rates less than the individual Local Intra-BMC rate.

Response:

[a] Confirmed.

[b] Not applicable.

[c] Not confirmed.

[d] In order for Parcel Post pieces to qualify for the DSCF rate, they must be presorted to the 5-digit level in order to avoid sortation at the destination P&DC. Further, when a delivery unit is co-located with a P&DC, no transportation is required beyond the destination P&DC.

[e] Please refer to my workpapers for the full development of the proposed Parcel Post rates. I note that the cost analysis contained in the testimony of witness Hatfield (USPS-T-16) shows lower unit transportation costs for DSCF and DDU Parcel Post than for local zone intra-BMC Parcel Post. For an explanation of this result, please see UPS/USPS-T-16-3. Furthermore, I refer you to the testimony of witness Crum for the development of the nontransportation cost savings associated with DSCF and DDU.

DBP/USPS-49. [a] Confirm that the ability to mail packages with a length plus girth of between 108 and 130 inches will not be extended to individual parcel mailers. [b] If so, why was this ability denied? [c] If not, how will the ten percent limit be satisfied?

Response:

[a] Confirmed.

[b] Please refer to my response to OCA/USPS-T37-5.

[c] The mail preparation and verification procedures have not been produced or finalized, but the proposed DMCS language regarding the oversized pieces indicates that such pieces may "constitute no more than 10 percent of the total number of Parcel Post pieces mailed as part of a single mailing."

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO FGFA INTERROGATORIES

FGFA/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.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO FGFSa INTERROGATORIES

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.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO FGSA INTERROGATORIES

- 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.

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.

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.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO FGSA INTERROGATORIES

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.

FGFA/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.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO FGFSa INTERROGATORIES

FGFSa/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.

FGFSa/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 FGFSa/USPS-T37-1 and FGFSa/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.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO FGFA INTERROGATORIES

FGFA/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.

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.

FGFSa/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.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO FGSA INTERROGATORIES

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

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO FGSA INTERROGATORIES

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

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO FGFSa INTERROGATORIES

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

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.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO FGFSa INTERROGATORIES

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.

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.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES

PSA/USPS-T37-1. Since the stop loss 70 pound rate will be applied to parcels exceeding 108 inches so as "to begin recovering the additional transportation and handling costs that these pieces will incur." Please explain why it is still necessary to limit the number of parcels exceeding 108 inches in any mailing to no more than 10% of the mailing.

Response:

As can be seen from the financial analyses associated with the parcels exceeding 108 inches in combined length and girth, even with the stop loss 70-pound rate, these oversized parcels will most likely be carried at rates less than their costs. Depending on the nature of the other 90 percent of the parcels tendered by the customer mailing 10 percent oversized parcels, there is at least an expectation that this 90 percent will yield a positive impact on postal finances. The Postal Service is not pursuing the oversize parcel market. Rather, as noted in my testimony at page 18, the desire is to make shipping more convenient for the customers already using the Postal Service who may have an occasional oversized piece.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES

PSA/USPS-T37-3. At the conclusion of your testimony you reproduce five tables indicating the proposed parcel post rates by each rate category and zone. For each table, please provide an estimate of the amount of volume the Postal Service anticipates will be realized for each rate cell in each table for the Test Year.

Response:

Please refer to my workpapers at WP II.A. and WP I.A.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES

PSA/USPS-T37-4. Directing your attention to your responses to UPS/USPS-T37-6 (a) and (b):

- (a) Please explain on what evidentiary basis you have confirmed the statements in those UPS questions?
- (b) Since you do not currently carry parcels exceeding 108 inches in combined length and girth, how do you know what the weight of such parcels will be; and, therefore, how do you know that the rates for these parcels will not cover the costs?
- (c) On what basis are you able to state that, in all events, for example, a 109 inch parcel in combined length and girth will not generate sufficient revenue at the 70 pound rate to cover the costs of that 109 inch parcel?

Response:

- (a) Please refer to my workpaper WP I.H., page 13 for the estimated cube for pieces exceeding 108 inches in combined length and girth, and to workpaper WP I.E., page 2 for the average cubes of pieces with combined length and girth less than 108 inches and weight of 70 pounds. The estimated cube for the pieces exceeding 108 inches in combined length and girth is more than twice the estimated cubes for the 70-pound pieces.
- (b) Given that the rates for the heaviest (70-pound) parcels with combined length and girth less than 108 inches are insufficient to cover the estimated costs of the pieces exceeding 108 inches in combined length and girth, and that the transportation costs and some other handling costs are directly related to the cube of the parcel, and not to its weight, the actual weights of the parcels exceeding 108 inches in combined length and girth do not seem particularly relevant.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES

(c) I cannot unequivocally state that any given parcel with combined length and girth of 109 inches will not have costs that are lower than the applicable 70-pound rate. On the other hand, I am not setting individual rates for individual parcels, I am setting rates that would be applicable to broad ranges of parcels. The aggregate data indicate that the parcel exceeding 108 inches in combined length and girth would not, on average, cover its costs at the applicable 70-pound rate.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES

PSA/USPS-T37-5. In your response to UPS/USPS-T37-11 (b) - (f), you there state that parcel post rates were developed by processes which included "recovering losses associated with various factors such as Alaska transportation costs...." Please explain what you mean by "recovering" these losses; and explain why Alaska transportation costs are characterized as a "loss."

Response:

By "losses," I meant that the rates charged to parcels traveling via Alaska Bypass air transportation are not compensatory. Because the costs associated with this mode of transportation are so much higher than are the costs associated with other modes of transportation, and the parcels using this mode are not paying sufficient revenue to cover these costs, the amount of this difference between cost and revenue must be made up through revenue from other mail.

PSA/USPS-T37-7. In your response to UPS/USPS-T37-34(a) in explaining why you used a markup methodology to recover revenues lost from the constraint of setting parcel post rates 5 cents less than comparable priority mail rates, you explained your preference for markups rather than surcharges as follows:

"I believe that the markup methodology is more fair than a per-piece surcharge because it ties to the cost and revenue base for each cell rather than the relatively more regressive per-piece surcharge approach that places relatively more burden on the low-cost, low-weight items."

- (a) Please explain why you did not apply this same preference and rationale to the recovery of the alleged cost difference between parcels and flats in Standard (A).
- (b) Would it not have been fairer, to use your terminology, to use a markup approach, rather than a surcharge that disproportionately affects "low-cost, low-weight items"?

Response:

- (a) I did not establish the methodology for the "recovery of the alleged cost differences between parcels and flats in Standard (A)" in this docket. The residual shape surcharge is presented in the testimony of witness Moeller (USPS-T-36). Please also refer to my response to part (b).
- (b) Not necessarily. I believe that you are comparing apples and oranges in these circumstances. I do not see a parallel between the efforts to recognize a distinct cost difference in Standard (A), and the recovery of the revenue lost from constraining rates in Parcel Post.

In Standard (A), there is a measurable cost difference between two types of mail. It is my understanding that the measured cost difference was in the

form of a per-piece difference and, therefore, in witness Moeller's testimony, a per-piece surcharge is applied to the pieces with higher costs

The Parcel Post situation is very different. In Parcel Post the total costs were distributed to the rate cells and unconstrained rates were developed for all cells. Some rates were then constrained to prevent them from conflicting with Priority Mail rates, or changing so much that the rate shock needed to be mitigated. (Please refer to my responses to UPS/USPS-T37-29(b) and UPS/USPS-T37-37.) The result of implementing these constraints is that the revenue recovered for the subclass with some rates constrained did not match the total revenue requirement for the subclass. In order to recover the revenue deficiency, I considered the use of either a per-piece surcharge (such as the Commission utilized for such purposes in Docket No. R90-1) or an additional markup (such as the Commission utilized for such purposes in Docket No. R94-1).

Because the revenue that needed to be recovered in Parcel Post was a result of the constraints, and not the result of an underlying cost characteristic associated with the mail being asked to recover this revenue, I did not believe that a per-piece surcharge was the appropriate means to recover this revenue. As the revenue required for a subclass, in general, is recovered by marking up its costs overall, I viewed the application of an

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES

additional markup factor to be the more appropriate manner of meeting the total revenue requirement for Parcel Post.

PSA/USPS-T37-8. In your response to POIR 1(a) (2) you state that the calculation of TYAR cost coverage as shown in your workpaper WP 11C. [sic] uses as its Base Year the total TYAR costs for parcel post with contingency, including intra-Alaska nonpreferential air costs. . . ." [sic] Please supply the total amount of Alaska nonpreferential air costs that are shown as a part of the TYAR costs for parcel post, and also supply for the record the TYBR intra-Alaska nonpreferential air costs charged to parcel post.

Response:

When I referred to the total TYAR costs for Parcel Post with contingency as the "base" for the calculation of the TYAR cost coverage, I did not mean "Base Year." Rather, the meaning I associated with "base" was its more generic meaning, as in a "starting point" for the calculation.

Please refer to the testimony of witness Hatfield (USPS-T-16) at Appendix I, page 12 where he reports "Test year Alaska non-pref air costs" of \$106,437(000). It is my understanding that these are the test year before rates costs. It is my further understanding that there is no separate TYAR or TYBR distribution key in the rollforward model for Alaska non-pref air costs, so the TYAR share of total Domestic Airmail costs that is Alaska non-pref air is the same as the TYBR share, which in turn comes from the base year share.

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.

(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

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.

UPS/USPS-T37-1. Refer to lines 10-15 on page 5 of USPS-T-37.

- (a) Confirm separately that some Parcel Post volume is already being entered (i) at origin BMCs and (ii) at destination SCFs. If confirmed, provide all reasons why you believe mailers are now entering parcels at origin BMCs and at destination SCFs in the absence of a rate discount.
- (b) Confirm that some Parcel Post volume is already being prebarcoded by mailers in the absence of a prebarcode discount. If confirmed, provide all reasons why some mailers are now prebarcoding their parcels in the absence of a rate discount.
- (c) Confirm that some Parcel Post volume is already being presorted to BMCs by mailers. If confirmed, provide all reasons why some mailers are already presorting parcels to BMCs.
- (d) Provide separately the volume of Parcel Post that is now (i.e., for the most recent year for which data is available):
 - (i) being entered by the mailer at the origin BMC;
 - (ii) being entered by the mailer at the destination SCF;
 - (iii) being prebarcoded by the mailer;
 - (iv) being presorted to BMCs by the mailer.

Response:

- (a) Confirmed. Please refer to my testimony at page 9, lines 8-11. I believe that the non-rate reasons given for use of DBMC would also apply to a greater or lesser extent to entry at the origin BMC and the destination SCF.
- (b) Confirmed. Some mailers who prebarcode their parcels have told me that they do so because they believe that the presence of a barcode allows for faster and more accurate processing of their parcels. They also believe that they are more likely to print an accurate barcode on their parcels, thus avoiding potential errors in keying by the postal employee.
- (c) Confirmed. It is my understanding that by presorting to the destination BMC, the mailer would expect this mail to be crossdocked at the origin BMC, rather

than sorted. This could save some time at the origin BMC, as well as minimize potential misrouting or damage, as these parcels would bypass the parcel sorting machine at the origin BMC. In addition, if the container is maintained intact through to the destination BMC, there would be a smaller window surrounding the delivery dates for the pieces contained therein. This could be important when a mailer is sending more than one parcel to the same addressee, or for some other reason, desires that the parcels be delivered within a narrow timeframe.

(d) Please refer to my workpaper WP I.F., page 1.

UPS/USPS-T37-2. Refer to page 10, lines 3-4, of USPS-T-37.

- (a) What percentage of Parcel Post parcels skip the destination SCF and go directly to the AO from the BMC?
- (b) Do you agree that parcels that otherwise would go directly to the AO from the BMC would, if dropshipped at the destination SCF, incur additional processing and transportation costs due to the additional handling at the SCF?

Response:

- (a) It is my understanding that 12 percent of Parcel Post parcels bypass the destination SCF and travel from the BMC directly to the AO. This figure is shown at USPS-T-28, Exhibit G, page 2.
- (b) I do not agree that this is necessarily true. All parcels entered at the DSCF rates must be presorted to the five-digit level. Depending on the mix of pieces and the relative locations of the facilities, additional processing or transportation costs might be incurred. Additionally, Witness Crum assumes in his testimony that DSCF will not be available at SCFs bypassed by direct transportation from the BMC to the AO. See USPS-T-28, page 5, lines 27-29.

UPS/USPS-T37-4. Refer to page 16, lines 15-17, of USPS-T-37. Provide all studies and analyses that support that Parcel post pieces weighing less than 15 pounds but measuring more than 84 inches in combined length and girth have costs that are equal or substantially equal to those of the typical 15-pound Parcel Post piece.

Response:

I am aware of no studies which show that the costs of pieces weighing less than 15 pounds but with combined length and girth exceeding 84 inches are equal to or substantially equal to the costs of the typical 15-pound pieces. In fact, the data available suggests that the costs of the typical 15-pound pieces may be lower than the costs associated with the pieces of combined length and girth over 84 inches but weighing less than 15 pounds. This may be confirmed by comparing the average cubic feet per piece for pieces under 15 pounds but with combined length and girth over 84 inches, calculated as described in my response to UPS/USPS-T38-8, to the average cubic feet for the 15-pound pieces as shown in my workpaper WP I.E., page 1 to determine the comparative cube utilization and thus, transportation costs, for any given zone.

UPS/USPS-T37-5. Refer to page 17, lines 16-19, through page 18, lines 1-2, of USPS-T-37. If the non-machinable surcharge is intended to cover cost differences in mail processing, why shouldn't there be a transportation cost surcharge for low density pieces based on the transportation costs derived by Witness Hatfield, instead of applying a balloon rate?

Response:

In essence, the balloon rate *is* a transportation cost surcharge, substituting the transportation costs associated with the cube of the referenced 15-pound rate rather than the average cube associated with the actual weight of the piece in the rate design. Refer to the footnotes to my workpaper WP I.G., pages 19-21. A transportation surcharge more directly targeting the cube of the individual piece would be a more accurate means by which to recover the transportation cost on a piece-by-piece basis, but would be difficult to administer. As noted on page 16 of my testimony, the Postal Service does not have a viable dimension-based pricing structure at this time.

UPS/USPS-T37-6. Refer to page 19, lines 8-17, of USPS-T-37.

- (a) Confirm that parcels exceeding 108 inches in combined length and girth will have greater cubic feet per piece on average than the average 70-pound Parcel Post piece.
- (b) Confirm that charging parcels which exceed 108 inches in combined length and girth the same rate as a 70-pound piece that does not exceed 108 inches in combined length and girth will not cover those costs of transporting these less dense pieces that exceed the cost of transporting a 70-pound piece that does not exceed 108 inches in length and girth combined. If confirmed, why isn't an additional surcharge above the 70-pound rate applied to these parcels? If not confirmed, explain in detail.

Response:

(a) Confirmed.

(b) To the extent that I understand your statement to say that the applicable rates for 70-pound parcels not exceeding 108 inches in combined length and girth will not cover the costs of transporting pieces with combined length and girth exceeding 108 inches, the statement is confirmed. The 70-pound rate was chosen as a compromise between rates that strictly mapped the estimated costs for such pieces and the need to satisfy customers' desires to have the Postal Service accept larger parcels (and to do so at a price that would not result in zero volume above 108 inches), so that data garnered from actual experience with such pieces would be available in the future to make further decisions on the appropriate charges for pieces over 108 inches in combined length and girth.

UPS/USPS-T37-7. Refer to page 20, lines 10-12, of USPS-T-37.

- (a) Why is the Postal Service not proposing a non-machinable surcharge for intra-BMC and DBMC "at this time"?
- (b) Is a non-machinable surcharge for intra-BMC and DBMC planned for some future time? Please explain.
- (c) Do you agree that non-machinable intra-BMC parcels are more expensive to process than machinable intra-BMC parcels?
- (d) Do you agree that non-machinable DBMC parcels are more expensive to process than machinable DBMC parcels?
- (e) Do you agree that non-machinable DSCF parcels are more expensive to process than machinable DSCF parcels?

Response:

- (a) It is my understanding that postal management did not believe that such surcharges were warranted at this time, given the lack of support among Parcel Post customers, the Commission's reluctance to institute a nonmachinable surcharge on intra-BMC parcels in Docket No. R80-1, and the already substantial increases imposed on many intra-BMC and DBMC rate cells before the institution of such a surcharge.
- (b) I am unaware of any plans on the part of the Postal Service to propose surcharges for nonmachinable intra-BMC and DBMC pieces.
- (c) Yes, for those that are processed at bulk mail centers. Please refer to the testimony of Postal Service witness Daniel, USPS-T-29, particularly Tables 2 and 3 at pages 18 and 19, and Exhibit 29E, and Appendix V.
- (d) Yes. Please refer to the testimony of Postal Service witness Daniel, USPS-T-29, particularly at Appendix V, pages 11 and 12.

(e) DSCF parcels will be required to be sorted to the 5-digit level. There may be some additional costs associated with cube utilization in containers due to a piece having characteristics associated with nonmachinable parcels, but as parcels are not generally sorted on parcel sorters at the DSCF, it is not likely that there will be a cost differential between machinable DSCF and nonmachinable DSCF pieces comparable to that found between parcels in BMCs where parcel sorting equipment is utilized.

UPS/USPS-T37-8. What is the average cubic feet per piece for those Parcel Post pieces for which a balloon charge is proposed? Provide for Inter-BMC, Intra-BMC and DBMC separately, and separately for each one pound weight increment from 2 to 14 pounds.

Response:

The figures you have requested may be calculated by referring to Library Reference H-135, Attachment V. Divide the total cubic feet by weight increment as shown at pages 31, 37, and 43 for intra-BMC, inter-BMC and DBMC, respectively, by the total pieces by weight increment as shown at pages 7, 13 and 19 for intra-BMC, inter-BMC, and DBMC, respectively.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-9. Refer to page 22 of USPS-T-37. Would the proposed prebarcode discount apply to the following categories of Parcel Post:

- (a) Machinable inter-BMC;
- (b) Nonmachinable inter-BMC;
- (c) Presorted Machinable inter-BMC;
- (d) Presorted non-machinable inter-BMC;
- (e) Machinable inter-BMC eligible for the OBMC discount;
- (f) Non-machinable inter-BMC eligible for the OBMC discount;
- (g) Machinable intra-BMC;
- (h) Nonmachinable intra-BMC;
- (i) Machinable DBMC;
- (j) Nonmachinable DBMC?

Response:

(a) Yes.

(b) No.

(c) Yes.

(d) No.

(e) Yes.

(f) No.

(g) Yes.

(h) No.

(i) Yes.

(j) No.

UPS/USPS-T37-10. Please refer to pages 7-8 of USPS-T-37.

- (a) Confirm that both machinable and non-machinable parcels are eligible for the OBMC discount.
- (b) Confirm that both machinable and non-machinable parcels eligible for the OBMC discount receive the same 57 cents per piece discount from the inter-BMC rates.
- (c) Confirm that non-machinable parcels that qualify for the OBMC discount will be assessed the non-machinable surcharge. If not confirmed, explain.
- (d) Confirm that there is a greater discount for non-machinable BMC Presort pieces than for machinable BMC Presort pieces.
- (e) Confirm that the Postal Service is proposing more than a 100% passthrough of the costs avoided by machinable OBMC parcels. If not confirmed, explain.
- (f) Explain why the Postal Service did not propose separate discounts for non-machinable and machinable OBMC pieces.

Response:

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed.
- (d) Not confirmed.
- (e) Not confirmed. Please refer to Exhibit E of USPS-T-28.
- (f) Separate OBMC entry discounts were not proposed for machinable and nonmachinable parcels because the difference in the avoided costs was so small that the administrative costs of keeping track of two discounts seemed to outweigh the difference in the mail processing costs, particularly as such discounts are being introduced for the first time.

UPS/USPS-T37-11. Under the proposed rates, what total dollar contribution to institutional cost recovery in the test year after rates will be made by:

- (a) Parcel Post as a whole;
- (b) Parcel Post mail that qualifies for the BMC presort discount;
- (c) Parcel Post mail that qualifies for the origin BMC entry discount;
- (d) Parcel Post mail that qualifies for the DSCF entry discount;
- (e) Parcel Post mail that qualifies for the DDU entry discount;
- (f) Parcel Post mail that does not meet the qualifications for any of the discounts mentioned in parts (b), (c), (d), and (e) above?

Response:

(a) Please refer to page 3 of workpaper WP II.C.

(b) - (f) The Postal Service is required to develop estimates of contribution on a subclass level, and many of the costs are measured only at that level. The rates for Parcel Post were developed by allocating to rate cells certain categories of costs, such as transportation and mail processing costs, that were developed at a subclass level, then applying a markup factor designed to produce a target cost coverage after recovering losses associated with various factors such as Alaska transportation costs, revenue leakages resulting from the introduction of new worksharing discounts, and rate increase constraints designed to limit the impact of large cost increases, as well as incorporating the impacts of the new initiatives.

Therefore, I have not calculated contribution separately by the categories listed, nor am I convinced that it would be possible to do so in the absence of

further information such as the distribution of OBMC-entered or BMC-presorted volume by weight and zone. Depending on the distribution of the volume, the applicable rate cells may be those that were constrained to not decrease (as in Zones 5 through 8), or those that were constrained to not increase more than 30 percent (as in the lower zones).

UPS/USPS-T37-12. On page 23 of your testimony you discuss the impact of a new service, "Packaging Service," on the volume of Parcel Post. Please provide a complete description of Packaging Service, including its costs, volumes, rates, operational description, and any surveys supporting the proposal.

Response:

Please refer to the testimony and documents filed by the Postal Service in support of Docket No. MC97-5.

UPS/USPS-T37-13. Please refer to lines 7 to 15 on page 23 of your testimony.

- (a) Will packaging service be available only in the case of packages shipped as Parcel Post? If not, please list all classes and subclasses in which packaging service will be available and state separately for each such class and subclass the estimated volume of the packages in the class or subclass that will also make use of packaging service.
- (b) Please refer especially to lines 11 to 12 on page 23. Do you expect the availability of packaging service for Priority Mail to cause "a larger portion of Parcel Post [to] convert to Priority Mail?" If so, state why and provide the estimated volume, and the associated revenue and cost of that volume, that you expect to migrate from parcel Post to Priority Mail because of the availability of packaging service for Priority Mail.

Response:

- (a) Please refer to the testimony of Postal Service witness Plunkett, USPS-T-3, in Docket No. MC97-5.
- (b) Please refer to the testimony of Postal Service witness Plunkett, USPS-T-3, in Docket No. MC97-5, particularly Exhibit 3C. For the estimated net impact on Parcel Post volume, revenue and cost, please refer to my workpaper USPS-T-37, WP II.C., at pages 1, 3, and 4. For the impact on Priority Mail, please refer to the testimony of Postal Service witness Sharkey, USPS-T-33, Table 6.

UPS/USPS-T37-15. Please provide a complete description of the following parcel shipper requirements to qualify for the DBMC discount:

- (a) Parcel volumes;
- (b) Parcel types (e.g., machinable, non-machinable, etc.);
- (c) Containerization and type;
- (d) Sortation;
- (e) Qualification and authorization;
- (f) Transportation equipment;
- (g) USPS entry facility;
- (h) Scheduling/notification of shipment delivery at entry facility;
- (i) Payment for mailing.

Response:

- (a) Please refer to DMM section E652.1.6
- (b) Please refer to DMM section C600.1.2
- (c) Please refer to DMM sections E652, especially E652.2, M045.8, and M630.1.2.
- (d) Please refer to DMM sections E652.2, E652.3, M630.1.2, and M045.8.
- (e) Please refer to DMM sections E652.3, E620.2.4.d, E652.1.4, and E613.2.2
- (f) Please refer to DMM section E652.2.0.
- (g) Please refer to DMM sections E652.3.2 and E652.4.
- (h) Please refer to DMM section E652.3.
- (i) Please refer to DMM sections E620.2.6, E652.1.4, E613.2.2, and D600.

UPS/USPS-T37-16. Referring to interrogatory UPS/USPS-T37-16, please provide a complete description of (a) through (i) for each of the following for a shipper to qualify for each of the following parcel post shipment discounts:

- (i) OBMC entry;
- (ii) BMC presort;
- (iii) DSCF dropship;
- (iv) DDU dropship.

Response:

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.

UPS/USPS-T37-17. Referring to page 2, line 23, page 8, lines 6 and 21, and page 10, line 9, of your testimony, please provide a detailed definition of "properly prepared" as used at each of these references.

Response:

Please refer to my responses to UPS/USPS-T37-15 and 16.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-18. Referring to page 10, lines 13 to 23, of your testimony, what will be the "properly prepared" requirements for DDU dropship mailings?

Response:

Please refer to my response to UPS/USPS-T37-16.

UPS/USPS-T37-19. Referring to page 8, lines 22 and 23, of your testimony, please provide copies of all current publications and documentation defining machinable and non-machinable parcels.

Response:

Please refer to DMM sections 620.2.5 and C050.

UPS/USPS-T37-20. Referring to pages 7-10 of your testimony,

- (a) Please provide a detailed description of the rules for assigning and determining the originating 5-digit zip code for each of the following:
 - (i) DBMC;
 - (ii) OBMC entry;
 - (iii) BMC presort;
 - (iv) DSCF dropship;
 - (v) DDU dropship.
- (b) Please provide an example of each of these rules using actual postal facilities and zip codes for (a) (i)-(v).

Response:

- (a) I was unable to identify any data system in Postal Service headquarters that makes use of an originating 5-digit ZIP Code for DBMC. I have been informed by coordinators and managers of several data systems that the originating 3-digit ZIP Code is used to determine the zone associated with the parcel. Thus, I am unable to provide the information requested.
- (b) Not applicable.

UPS/USPS-T37-21. Referring to page 18, lines 4-5, of your testimony, please provide a detailed explanation and copies of all analyses and documentation supporting the determination of the 108 inch maximum combined length and girth for parcel post pieces.

Response:

Please refer to Docket No. MC83-1, Uniform Parcel Size and Weight Limitations.

UPS/USPS-T37-22. Referring to page 18, line 13, of your testimony, please provide a detailed explanation and copies of all analyses and documentation supporting the determination of the 130 inch maximum combined length and girth for parcel post pieces.

Response:

I am aware of no analyses or documentation supporting the determination of 130 inches as the proposed maximum combined length and girth. It is my understanding that, similar to the reasons put forth in Docket No. MC83-1 for changing the maximum combined length and girth to 108 inches, the determination of the proposed maximum of 130 inches was based on the repeated requests of parcel mailers, with reference to the limit currently applied by United Parcel Service.

UPS/USPS-T37-23. Referring to page 1, lines 14 and 15, of your testimony, please provide a legible copy of the most recent map of the National Bulk Mail System showing the designated geographical boundaries of all BMCs and ASFs. Note all changes to make the map current.

Response:

A copy of the most recent map of the National Bulk Mail Center Network is being filed as Library Reference H-233. The ZIP Code areas served by each of the BMCs and ASFs shown on the map are provided in DMM section E620 in Exhibit 2.4.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

- UPS/USPS-T37-24. (a) Confirm that the Postal Service is proposing to pass through 100% or very close to 100% (see USPS-T-37, WP I.I., page 1 of 3) of the Postal Service's estimated cost savings for the rate categories for which a new discount is proposed (OBMC, DSCF, DDU, BMC presort, and prebarcoding). If not confirmed, explain in detail.
- (b) Confirm that providing a worksharing rate discount to mailers who already perform worksharing in the absence of a discount leads to a decline in the net contribution to institutional costs for the volume tendered by those mailers. If not confirmed, explain in detail.
- (c) Confirm that new parcel post volume (i.e., volume not now being handled by the Postal Service) generated by the proposed new rate discounts (OBMC, DSCF, DDU, BMC presort, and prebarcoding) will not yield any additional contribution to institutional costs. If not confirmed, explain in detail.
- (d) Confirm that current Priority Mail volume that will be sent via Parcel Post because of the proposed worksharing discounts for Parcel Post will yield less contribution to institutional costs than that same mail now yields when sent by Priority Mail. If not confirmed, explain in detail.
- (e) Confirm that, despite the adjustments to prevent revenue leakage, any new volume not currently handled by the Postal Service that is attracted to Parcel Post by the proposed new discounts for OBMC, DSCF, DDU, and prebarcoding will yield a negative contribution to institutional costs (i.e., will be carried below cost) if the estimated cost savings have been overstated by even a small amount (i.e., by 2% or more). If not confirmed, explain in detail.
- (f) Do you agree that the possibility that estimated worksharing cost savings may be overstated creates a greater danger of yielding rates below attributable cost in the case of subclasses or rate categories with very low cost coverages (e.g., cost coverages of 102% or less) than for subclasses or rate categories with relatively higher cost coverages? Explain your answer.
- (g) Do you agree that passing through a smaller percentage of estimated cost savings is one way to compensate for the risk of overstating estimated cost savings? Explain your answer.

Response:

- (a) Not confirmed. The passthroughs associated with the nontransportation elements of each of the new worksharing discounts for Parcel Post are calculated on page 1 of workpaper WP I.I. The passthroughs range from

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

89.55 percent to 100 percent. The measured transportation cost savings were passed through at 100 percent, with some small variations due to rounding to whole cent increments.

(b) This statement cannot be confirmed without additional information such as the volume response of "mailers who already perform worksharing in the absence of a discount." However, I can confirm that for the volume that would be tendered regardless of the discounts and is already being prepared in accordance with the requirements for new worksharing discounts, there is a unit revenue or contribution loss for that volume that is equal to the applicable discount or discounts.

(c) *Not confirmed.* This statement cannot be confirmed without additional information regarding, at minimum, the weight and zone distribution of the new volume. Please refer to my response to UPS/USPS-T37-11. Furthermore, the passthroughs associated with the discounts are 100 percent or less of the narrowly-defined cost savings. I have no means by which to verify that the new volume generated by the proposed discounts will have a lower or higher effective contribution to institutional costs than existing Parcel Post at the proposed rates, either with or without participation in the worksharing programs.

(d) Not confirmed. I have not analyzed the contribution associated with any given piece of Priority Mail or the contribution associated with the same shape, weight and zone combination if sent as Parcel Post. As noted in my response to UPS/USPS-T37-11, the rates for many Parcel Post cells were

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

constrained to not decrease, and thus, will be higher than otherwise suggested by the rate design and cost distribution to those cells. Moreover, although I did not design the proposed Priority Mail rates, I would believe that decisions to retain the unzoned rates could affect the contributions for given Priority Mail items.

(e) Not confirmed. The discounts associated with the worksharing activities are, in most cases, only a small part of the total cost or rate. The relationship between the total cost and the rate for any particular piece of mail would have to be considered. In addition, not all of the discounts are offered at a 100 percent passthrough. As indicated in my responses to parts (c) and (d) above, I do not have sufficient information regarding the specific rate cells in which this new volume would fall.

(f) I agree that in subclasses with very low cost coverages, there is a smaller margin for error in the measurement of any element required to assess revenues or costs. At the same time, I would be wary of any pricing scheme that mechanistically relates passthroughs to subclass cost coverages. Please see my response to part (g).

(g) Passing through a smaller percentage of estimated cost savings is one way to ensure a conservative approach to introducing new worksharing discounts. On the other hand, if the cost savings were narrowly defined and conservatively estimated in the first place, there may be no reason to pass through less than 100 percent of the cost savings identified using such conservative means.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-25. Witness Hatfield states (USPS-T-16, Appendix I, page 11 of 13, footnote 3) that the costs associated with Intra-Alaska non-preferential air was accounted for in your testimony. Confirm that your handling of these costs was to adjust the "Markup Factor" (e.g., on WP I.I, page 2 of 3) that is applied to the per piece cost and to the transportation cost in each rate cell in each rate category of Parcel Post (including Inter-BMC, Intra-BMC, DBMC, DSCF, and DDU). If not confirmed, explain.

Response:

Please refer to my response to Presiding Officer's Information Request Number 1, Question 1.a.(2).

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-26. Refer to spreadsheet H197-1.xls, underlying the Intra-BMC Zone 5 rate cells in your testimony.

- (a) Confirm that there is a hard-coded value for the fourth iteration of the rates for Intra-BMC, Zone 5, pound 2. If not confirmed, explain.
- (b) Confirm that the hard-coded value is not the same as the value that would result if the equations used for the other rate cells were applied to these cells. If not confirmed, explain.
- (c) Explain why this value is hard-coded and not developed from the equations used for the other rate cells.

Response:

(a) Confirmed.

(b) Confirmed.

(c) The rate for two-pound intra-BMC pieces sent to Zone 5 was set slightly higher than the rate that would have resulted from application of the equations used for the other rate cells. This value was "hard-coded" to be the same as the rate for two-pound pieces in Zones 1&2 through 4 so as to prevent discontinuity in the rate chart.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-27. Are 100% cost passthroughs consistent with the Postal Service's past policy with respect to the passthrough of worksharing cost savings? Explain.

Response:

Passing through 100 percent of narrowly-measured cost savings in the form of discounts is not inconsistent with the approaches to rate design used by previous Postal Service rate design witnesses. Please also refer to the responses of Postal Service witness Fronk to NDMS/USPS-T32-5 and NDMS/USPS-T32-6. In my opinion, "passthroughs" should be considered in light of the resulting rates and their relationships, and the signals those rates send to mailers regarding the value of mailer participation in worksharing programs.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-28. Refer to USPS-T-37, WP II.C. and WP I.H. Why is the amount of "Over 108 Inches" volume unaffected by the change in volume from before rates to after rates? Please explain.

Response:

No volume over 108 inches in combined length and girth would be permissible in the test year before rates.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-29. Refer to lines 1-3 on page 5 of your testimony.

- (a) Confirm that the equations used to generate the proposed Parcel Post rates were constructed so that the maximum allowed rate increase for any particular weight and zone combination of inter-BMC machinable Parcel Post would not exceed 30%. If not confirmed, provide the correct figure.
- (b) Why was any limitation chosen? Why was the specific limitation of 30% chosen? Cite all supporting Commission decisions.
- (c) Confirm that the equations used to generate the proposed Parcel Post rates were constructed so that the maximum allowed rate decrease for any particular weight and zone combination of inter-BMC machinable Parcel Post would not be greater than 15%. If not confirmed, provide the correct figure.
- (d) Why was any limitation chosen? Why was the specific limitation of 15% chosen, and why is this figure different from the limitation on rate increases? Cite all supporting Commission decisions.
- (e) Confirm that the proposed rates for some weight and zone combinations of BMC Presort, OBMC, DSCF, and DDU Parcel Post would, if adopted, result in rate decreases of more than 15% from current rates. If confirmed, why weren't these decreases constrained, as in the case of inter-BMC machinable Parcel Post? If not confirmed, explain.

Response:

(a) Confirmed.

(b) The upper limit of 30% was chosen so as to moderate the impact on mailers of the changes in rates for any particular rate and zone combination. The choice of 30 percent as the maximum increase in the basic rates resulted from exchanges between postal management and myself intended to balance rate design and policy concerns, with reference to precedent in constraining rate cells.

I cannot cite all supporting Commission decisions, but I can refer you to several Commission decisions which incorporate limits on the changes in

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

rates. For example, please refer to PRC Opinion and Recommended Decision for Docket No. R87-1 at page 750, [6030], wherein the Commission states that they capped Express Mail rate changes at "30 percent increase over current rates." Please also refer to page 14 of the Commission's workpapers for the design of Express Mail rates in Docket No. R90-1 wherein the rates are constrained to be at least twice the applicable Priority Mail rates "but do not allow rate to increase more than a certain percent over existing rate," with the "Maximum % increase: 30.00."

In its R80-1 Opinion and Recommended Decision, the Commission stated that it was "recommending moderate constraints on the rate schedule to avoid a disruption in the market that could be detrimental to users of both parcel post and alternative service, as well as competitors and the Postal Service." at page 484, [1037]. In the same Recommended Decision, the Commission stated that "Because the process of bringing the parcel post schedule into conformity with cost incurrence is still continuing, we have likewise continued to apply constraints to guard against market disruption." Pages 485-6, [1039].

In the Commission's Recommended Decision in Docket No. R80-1 (See page 486, at [1040]), it described the constraints it applied in Docket No. R77-1, and the rationale for those constraints. In Docket No. R77-1, the Commission imposed constraints such that the rate for no cell could increase more than 50 percent, and the rate for no cell could decrease below the existing rate. Similarly, in R80-1, the Commission chose to restrict rates

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

such that they did not decrease below current rates and didn't increase more than 20 percent unless a higher rate was required to cover the costs assigned to that cell. In its R84-1 Opinion, the Commission stated that in the two previous cases (R77-1 and R80-1) "an abrupt move from the tradition [sic] rate structure to a cost-based rate structure would have caused too much disruption in the market." Page 542 at [5521].

It was my opinion that the shift from the previous approach to transportation costing in Parcel Post to the results implied by the work of witness Hatfield (USPS-T-16) constituted circumstances that similarly represented shifts from an existing structure to a more cost-based structure.

(c) Confirmed.

(d) Since it was necessary for the rate levels for Parcel Post to increase overall, the decision was made to mitigate the full impact of any rate decreases implied by the changes in the costs for Parcel Post. A rate decrease of 15 percent was viewed as a reasonable limit to associate with decreases resulting not from changes in mailer behavior but primarily from changes in postal costing methodological approaches. This approach was viewed as permitting the newer, more accurate cost data to be reflected in the resultant rates, while somewhat limiting the impact on the Parcel Post rates which must reflect, not only the general cost increase, but also the increase in costs due to the refined methodology. Please refer to my response to part (b) above. In R77-1 and R80-1, the Commission established a constraint that no Parcel Post rates be allowed to decrease below the current rates.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

(e) Confirmed. Unlike the changes reflected in the rate design for the basic underlying rates for machinable inter-BMC Parcel Post, the changes in the rates resulting from the offering of new worksharing discounts were intended to send pricing signals and deaverage rates for mailers capable of and willing to perform worksharing activities. The rates facing the mailers eligible for worksharing discounts, in some instances, would have represented even larger decreases from current rates had the basic rates not been constrained. As stated in my response to part (d) above, the basic rates were constrained to not reflect the full impact of changes in postal costing methodology. The discounted rates reflect both the changes in the costing methodology as well as the introduction of deaveraged rates intended to encourage and reward mailer participation in worksharing programs.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-30.

- (a) Confirm that the revenue gained in the Test Year After Rates from the "Over 108 Inches" Parcel Post volume is \$12,822,340 minus \$180,180, or \$12,642,160. See your Workpaper II.C., page 1, lines 13 and 15. If not confirmed, please provide the correct figure.
- (b) Confirm that the costs incurred in the Test Year After Rates from the "Over 108 Inches" Parcel Post volume is \$19,080,130 minus \$145,578, or \$18,934,552. See your Workpaper II.C., page 3, lines 2 and 4. If not confirmed, please provide the correct figure.
- (c) Confirm that in the Test Year After Rates, the "Over 108 Inches" Parcel Post volume does not cover its attributable costs. If not confirmed, please explain.
- (d) Confirm that any underestimate of the "Over 108 Inches" Parcel Post volume would yield a lower cost coverage for Parcel Post in the Test Year After Rates.

Response:

- (a) Confirmed.
- (b) Confirmed.
- (c) As calculated, the revenue derived from the additional volume with combined length and girth exceeding 108 inches does not cover the costs associated therewith.
- (d) Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-31. In calculating the TYAR volumes, the 1996 distribution of volume among zone and weight cells is used to divide the TYAR total volume among rate cells. Please provide an explanation and any evidence you have to confirm that the volume distribution is static. If you cannot confirm or provide any evidence or analysis to support a static volume distribution, please discuss and explain how your calculation of total revenue and cost coverage would be affected by shifts in volume distribution.

Response:

Prior to this case, I prepared rate design and revenue estimation workpapers for use in three omnibus rate cases, as well as examined the Commission's workpapers from the same cases, and have observed that, in the subclasses with which I am familiar, the distribution of both TYBR and TYAR volumes to individual rate cells for revenue estimation purposes is performed with reference to the volume distribution that existed in the base year. In other words, it is my understanding that in the approved and generally accepted methodology for distributing test year volumes to rate cells for revenue estimation purposes, the base year volume distributions to cell are multiplied by a volume adjustment factor representing the ratio of the TYBR or TYAR total volume to the base year volume. The exceptions to such practice occur when there is additional information, such as from market research, that allows for more precise adjustments.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

Volume forecasting is the focus of neither my testimony in this case, nor my work in prior proceedings. However, it seems to me to be 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, Intra-BMC and DBMC separately. 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.

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.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-32. Confirm separately that WP II.C., p.3, footnote 12, should read, "WP II C page 1 line 24 over (1)," for TYBR cost coverage but that the coverage for TYBR is as the footnote reads. If you cannot confirm, please explain the TYBR cost coverage of 96.88% resulting from the calculation described in the footnote as stated and provide any relevant sources.

Response:

I am not sure that I understand the question as written. However, I can confirm that the footnote associated with line (12) for TYBR should read "WP II.C., page 1, line (24) over (1)" as there is no line (11) for TYBR on page 2 of WP II.C. As lines (12) and (24) on page 1 of WP II.C. are identical for TYBR, so would be lines (1) and (11) on page 2. Since there is no line (11) for TYBR on page 2, I cannot trace or confirm the 96.88% figure you have cited.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-33.

- (a) Please confirm that in the 3rd iteration, any 2nd iteration rate that is unaffected by the 30 percent rate increase constraint is marked up by 4% (WP I.L., p.39, line 8).
- (b) Confirm that the rates resulting from this additional markup become the 3rd iteration rates as long as they do not crossover with Priority Mail rates.
- (c) Similarly confirm that in the 4th iteration, any 3rd iteration rate that is still unaffected by the 30 percent rate increase constraint is marked up an additional 0.36% (WP I.M., p.37, line 8).

If you are unable to provide unqualified confirmation of any of the above, please explain why you cannot confirm.

Response:

- (a) Not confirmed. The 30 percent constraint is not the only constraint applied.

In the local and Zones 1&2, if the 2nd iteration rate multiplied by the additional markup from WP I.L. would result in a rate higher than the applicable Priority Mail rate less a nickel, then the rate was constrained to be the applicable Priority Mail rate less a nickel. In Zones 3 through 8, if the 2nd iteration rate multiplied by the additional markup from WP I.L. would result in a rate lower than the current rate, then the current rate applied.

- (b) Not confirmed. Please refer to part (a) above.
- (c) Not confirmed. Please refer to part (a) above.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

the same. However, the cost methodology used in those dockets assumed that the transportation costs underlying intra-BMC and inter-BMC for the same zones and weights were the same. As witness Hatfield's (USPS-T-16) testimony demonstrates, the transportation costs underlying intra-BMC, inter-BMC and DBMC are not the same for any given combination of weight and zone.

- (d) It would be possible to assess a per-piece surcharge on top of the estimated transportation costs and per-piece costs, excluding markup, for any given zone and weight combination for DBMC, intra-BMC and inter-BMC.
- (e) Because of the relative importance of transportation costs to Parcel Post, I considered it more appropriate to tie the per-piece contribution to the estimated total costs of the providing service to that piece, rather than set the contribution per piece such that it tied only to the transportation costs for inter-BMC. Please also refer to my response to UPS/USPS-T37-34(a).

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-37. Please refer your second iteration for all weights in zones Local, 1 and 2, for the Intra-BMC, Inter-BMC and DBMC categories.

- (a) Confirm that this is the only place in your analysis that constrains rates from decreasing by more than 15%. If not confirmed, please explain.
- (b) Explain why you use the constraint referred to in (a) above in these areas only and not anywhere else in the analysis.
- (c) Explain your reasons for using 15% as a constraint and not some other percentage.
- (d) Confirm that your analysis has no other constraint on the amount by which a rate cell can decrease. If not confirmed, please explain.
- (e) Confirm that no rates are decreased by more than 15%. If not confirmed, please explain.

Response:

- (a) Confirmed. The rates in Zones 3 through 8 were constrained such that they not decrease at all.
- (b) As noted in my response to part (a) above, a managerial decision was made to constrain the rates in Zones 3 through 8 from decreasing. However, given the desire to encourage dropshipping, the downward rate change constraint was relaxed somewhat for the Local zone and Zones 1&2.
- (c) Please refer to my response to UPS/USPS-T37-29(d).
- (d) Not confirmed. Please refer to my responses to parts (a) and (b) above.
- (e) None of the basic underlying rates for intra-BMC, inter-BMC or DBMC service decreased more than 15 percent. Please refer to my workpaper WP I.N., pages 7 through 12.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-38. Confirm that the Springfield, MA BMC and SCF are located in the same building.

- (a) What SCFs are served by the Springfield, MA BMC?
- (b) Will all Springfield, MA DBMC Parcel Post destinating to the Springfield, MA SCF receive the DSCF discount?
- (c) If in a DBMC shipment to the Springfield, MA BMC there are some parcels destinating to the Springfield, MA SCF and some parcels that destinate to other SCFs, how will the DSCF discount be applied? Explain, particularly with respect to minimum volume requirements.
- (d) Did you take into account in your rate design the loss in revenue from Springfield, MA DBMC Parcel Post becoming automatically eligible for the DSCF discount? Explain.
- (e) Will all inter-BMC presort parcels brought to the Springfield, MA BMC/SCF building receive the OBMC discount? Explain.
- (f) Did you take into account in your rate design the loss in revenue from presorted Springfield, MA Inter-BMC Parcel Post receiving the OBMC discount, rather than the inter-BMC presort discount? Explain.

Response:

Confirmed.

(a) Please refer to DMM sections L005 and L602.

(b) No. DSCF parcels must be presorted to the five-digit ZIP Code level, a requirement not currently imposed on DBMC mailings.

(c) It will depend on how the mailer had prepared and entered the mailing.

Please refer to my response to UPS/USPS-T37-16

(d) Please refer to my response to part (b) above. I deny that Springfield, MA

DBMC Parcel Post volume will automatically be eligible for the DSCF

discount. Some portion of that mail may qualify for DSCF rates. Please refer

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

to my workpapers, particularly WP I.F., for the estimated DSCF volume before and after the introduction of the DSCF discount. I did not have separate analyses for each BMC, and have not developed estimates of mailer adoption of discounts and resulting impacts on revenue on a BMC-specific basis.

(e) I assume that you are referring to the BMC presorted mail. It is my understanding that if the BMC presorted mail otherwise met the requirements for OBMC entry and was dropped at the Springfield SCF/BMC in accordance with postal guidelines, it would qualify as OBMC mail.

(f) Please refer to my workpapers, particularly WP I.F., for the estimated OBMC volume before and after the introduction of the OBMC discount. I did not have separate analyses for each BMC, and have not developed estimates of mailer adoption of discounts and resulting impacts on revenue on a BMC-specific basis.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-39. For each BMC and ASF, provide the parcel post Government Fiscal Year 1996 volume for each category below:

- (i) Intra-BMC
- (ii) Inter-BMC
 - (a) Originating
 - (b) Destinating
- (iii) Destination BMC
 - (a) Entered at BMC
 - (b) Entered at P&DC

Response:

- (i) Please refer to the attached charts at pages 9 and 10.
- (ii) Please refer to the attached charts at pages 1 through 8.
- (iii) Please refer to Attachment S of Library Reference H-135. Statistics are not available separately for volume entered at the BMC and at P&DCs.

ORIG_BMC	DEST_BMC								
	ASF 01	ASF 02	ASF 03	ASF 04	ASF 05	ASF 06	ASF 07	ASF 08	ASF 09
	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL
	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME
ASF 01	0	342	0	0	0	120	0	0	744
ASF 02	0	0	1498	32625	507	2806	4530	5429	360
ASF 03	0	1415	0	2571	13467	6405	12143	1608	5397
ASF 04	0	3432	262	0	719	26580	65	19609	743
ASF 05	0	0	221	0	0	738	4284	2678	938
ASF 06	1054	719	12582	9628	4824	0	52159	8077	1037
ASF 07	0	0	4732	0	2748	17432	0	6266	846
ASF 08	0	309	2057	4419	330	2065	0	0	0
ASF 09	565	340	180	2158	2508	72	1206	2206	0
ASF 10	0	0	240	0	1593	311	0	1847	739
ASF 11	313	36	4156	893	7640	17399	38751	23618	87
BMC 01	18264	1622	84245	6709	40504	19044	24000	30328	141428
BMC 02	5406	4519	53127	7719	5904	19548	29322	10265	136932
BMC 03	25109	1033	58236	6815	41061	12969	16682	7561	130362
BMC 04	2006	4740	51541	10120	16053	5036	18331	2014	12679
BMC 05	5205	1414	116458	1837	20631	5282	7754	2843	1169
BMC 06	12886	4275	55664	5666	27987	5955	44877	23489	53339
BMC 07	17115	2014	37122	12965	32510	12271	31273	27437	79108
BMC 08	10817	1038	91898	15378	59596	14497	44817	15818	128746
BMC 09	8845	2857	168811	10307	17273	49270	317771	11459	13604
BMC 10	781	6490	110458	13157	44966	115207	133629	63014	86935
BMC 11	2942	1218	46928	6820	7217	8497	28897	2961	12220

(CONTINUED)

ORIG_BMC	DEST_BMC								
	ASF 01	ASF 02	ASF 03	ASF 04	ASF 05	ASF 06	ASF 07	ASF 08	ASF 09
	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL
	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME
BMC 12	1977	580	18481	7736	15670	9210	38544	8254	8858
BMC 13	3762	3357	53618	5659	23640	22620	33960	10400	82238
BMC 14	2838	9276	32891	10246	26389	30312	90492	66398	4889
BMC 15	15199	9636	52251	188737	41864	13478	40274	44529	26892
BMC 16	1218	1046	22684	8877	94582	7420	20715	108171	7295
BMC 17	5958	934	39327	7169	20773	2841	18073	4103	41570
BMC 18	15854	340	26492	1433	13108	12287	7973	7871	94378
BMC 19	1277	492	11744	2275	42115	19871	34973	20167	8400
BMC 20	8503	2637	34314	6087	20109	10307	15909	10336	85341
BMC 21	1502	521	19359	2072	7549	9183	12794	4088	10724
ALL	169394	66644	1211577	390078	653839	479032	1124197	552845	1178079

(CONTINUED)

ORIG_BMC	DEST_BMC								
	ASF 10	ASF 11	BMC 01	BMC 02	BMC 03	BMC 04	BMC 05	BMC 06	BMC 07
	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL
	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME
ASF 01	0	0	8666	2464	2955	5627	159	3537	24557
ASF 02	0	373	5648	8417	346	13022	1139	30985	765
ASF 03	415	5175	25316	12704	8656	16715	11696	11353	14328
ASF 04	0	2862	759	5714	344	4333	4655	14475	21564
ASF 05	69	1029	4363	400	494	12246	0	180	4295
ASF 06	324	11405	24429	12232	15025	16565	11361	19673	31384
ASF 07	0	551	204	7275	2228	1512	3623	2260	4183
ASF 08	192	1938	1073	6515	1488	6519	2485	1329	831
ASF 09	463	1276	150709	96270	129772	16089	15146	32560	196374
ASF 10	0	288	214	8764	3949	6284	21	384	2109
ASF 11	98	0	4403	8637	5212	12916	3372	12753	6565
BMC 01	8437	30460	0	530042	606461	50367	113671	184081	1320261
BMC 02	0	27826	380310	0	236991	55552	57884	119173	372316
BMC 03	6759	11431	575820	383510	0	38068	259305	102465	773980
BMC 04	7932	5149	85579	83169	75097	0	48907	117923	142080
BMC 05	5094	15111	52139	92111	45254	35431	0	64835	102183
BMC 06	12208	31748	159396	165854	87586	87789	108248	0	243418
BMC 07	12846	12911	657760	161786	506804	62786	128205	161714	0
BMC 08	9990	30160	365061	587046	240935	107857	317418	224196	466497
BMC 09	5348	19269	148768	108327	81648	68100	228587	86220	139784
BMC 10	6809	111395	276921	34415	161103	27834	144551	75674	158042
BMC 11	2597	1206	74447	41992	22221	46195	39072	61663	54087

(CONTINUED)

GFY-1996 VOLUMES BY ORIG-DEST BMC COMBINA

S FOR ZONE-RATED PARCEL POST -- INTER-BMC

09:07 Friday, August 15, 1997 4

ORIG_BMC	DEST_BMC								
	ASF 10	ASF 11	BMC 01	BMC 02	BMC 03	BMC 04	BMC 05	BMC 06	BMC 07
	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL
	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME
BMC 12	3553	16357	92266	95589	92621	51131	37284	177645	148727
BMC 13	14427	22542	648250	246286	404173	57904	156953	289383	906029
BMC 14	4663	58832	99319	43259	46988	61573	34613	58190	57626
BMC 15	4882	18016	127241	164010	63513	140132	74715	370934	227412
BMC 16	5904	153551	43895	8961	28375	31065	28896	20833	87973
BMC 17	4138	4594	135995	168968	94290	50614	355992	94454	166760
BMC 18	1877	3688	213414	210576	162408	24753	83589	129063	347801
BMC 19	4194	31131	20316	9913	19872	27637	14884	22118	45159
BMC 20	1782	10596	367515	167200	229213	25536	55868	148340	351587
BMC 21	5855	5525	97288	166581	105126	38455	54153	151101	102113
ALL	130856	646397	4047485	3638986	3569147	1200605	2396452	2789495	6520791

(CONTINUED)

ORIG_BMC	DEST_BMC								
	BMC 08	BMC 09	BMC 10	BMC 11	BMC 12	BMC 13	BMC 14	BMC 15	BMC 16
	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL
	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME
ASF 01	2959	30	2890	15715	145	1641	204	0	7480
ASF 02	1086	16935	9304	5838	2605	5249	10312	48297	324
ASF 03	15275	151610	14749	57968	11545	6316	13451	13851	1624
ASF 04	9818	1672	5921	1789	540	835	4048	82617	12992
ASF 05	1534	15508	7162	14224	290	710	168	6411	73462
ASF 06	17291	86665	169882	29091	13676	19046	42085	27664	32353
ASF 07	24313	70441	40472	13514	1544	1917	17240	3844	7903
ASF 08	3336	1560	13385	6316	0	907	12854	12127	63342
ASF 09	43615	21251	22525	7943	9219	265925	2090	31175	5128
ASF 10	994	835	6877	8385	0	164	1101	4943	1518
ASF 11	5064	19594	81142	3485	18739	4348	52095	37525	106469
BMC 01	234147	201560	248123	85966	122236	427680	45092	243447	106577
BMC 02	670597	108354	51148	64290	153448	151614	18412	232804	51914
BMC 03	161357	146472	101799	74519	95474	220908	15266	158046	75505
BMC 04	66044	54314	52477	84185	137978	233101	24518	163843	70668
BMC 05	142390	301409	60269	93661	28696	41757	14200	59782	20248
BMC 06	178842	128538	80896	78469	132657	85330	53559	206858	55310
BMC 07	170921	165185	140802	92133	66734	203623	20463	97914	56353
BMC 08	0	317775	132206	151040	248552	231105	57749	300171	294578
BMC 09	113371	0	217662	185348	126426	77800	69640	157781	74794
BMC 10	82539	162475	0	41304	180980	103538	63395	262553	188270
BMC 11	52206	117358	43627	0	49225	13773	23000	50460	22846

(CONTINUED)

	DEST_BMC									
	BMC 08	BMC 09	BMC 10	BMC 11	BMC 12	BMC 13	BMC 14	BMC 15	BMC 16	
	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL	
	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME	
ORIG_BMC										
BMC 12	169410	79096	53417	112970	0	41342	66744	123730	41730	
BMC 13	294240	276286	200550	75083	70260	0	71719	86911	132762	
BMC 14	49243	112276	119075	86204	23946	29525	0	80012	59204	
BMC 15	119745	142063	81663	112761	112160	55855	44050	0	92169	
BMC 16	27414	53240	140188	21148	30122	22387	31484	36861	0	
BMC 17	129968	115913	37079	64587	90624	108695	19732	78205	25714	
BMC 18	272651	141904	50311	37447	43636	129442	16459	84162	20864	
BMC 19	17052	65732	546002	20894	6596	14426	39553	7868	168365	
BMC 20	257891	152472	96756	90584	37649	154508	11733	98849	32318	
BMC 21	157435	46409	23441	25014	64488	43301	6653	69196	18203	
ALL	3492752	3274934	2859801	1761874	1880191	2696769	869069	2867908	1920989	

(CONTINUED)

ORIG_BMC	DEST_BMC					ALL
	BMC 17	BMC 18	BMC 19	BMC 20	BMC 21	
	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL	
	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME	
ASF 01	2798	30106	136	6616	344	120236
ASF 02	1941	937	408	3117	6473	221276
ASF 03	23863	18478	17942	9979	19085	525100
ASF 04	436	903	4427	135	11563	243813
ASF 05	455	799	14618	0	783	168063
ASF 06	24469	17894	120400	10507	18584	862095
ASF 07	24	1489	15112	2901	2358	256935
ASF 08	5470	5896	15298	560	0	172609
ASF 09	26994	91497	16225	27908	29045	1248435
ASF 10	174	2849	12208	2430	1130	70351
ASF 11	5447	10038	73045	681	1187	565709
BMC 01	216699	160030	201028	338351	157112	5997973
BMC 02	162170	100376	67689	136111	115798	3607517
BMC 03	121418	173233	147677	164037	232695	4339570
BMC 04	55138	49609	43290	29587	28309	1781415
BMC 05	265122	82049	51670	97687	95999	1929689
BMC 06	142008	70754	59053	130365	143828	2676850
BMC 07	187184	186655	139630	222274	122573	3829071
BMC 08	339362	146218	219396	217039	397982	5792938
BMC 09	168142	95370	136714	91423	54926	3055646
BMC 10	65012	81146	613664	39820	41422	3497499
BMC 11	65069	31307	55620	23284	34333	1043287

(CONTINUED)

ORIG_BMC	DEST_BMC					ALL
	BMC 17	BMC 18	BMC 19	BMC 20	BMC 21	
	EST_VOL	EST_VOL	EST_VOL	EST_VOL	EST_VOL	
	VOLUME	VOLUME	VOLUME	VOLUME	VOLUME	
BMC 12	82408	58977	57445	37497	66787	1816036
BMC 13	176386	182986	222696	399088	179514	5433683
BMC 14	105532	33143	82530	57456	51647	1628588
BMC 15	71392	42460	62560	122298	126392	2809284
BMC 16	11608	9073	254760	23630	11230	1362607
BMC 17	0	370419	69334	149471	75993	2552288
BMC 18	306576	0	112173	150568	82475	2805583
BMC 19	10860	16535	0	17094	24838	1292434
BMC 20	238310	203564	61497	0	104630	3091940
BMC 21	79477	41589	35735	54534	0	1459462
ALL	2961951	2316376	2983987	2566449	2239034	66257981

OBS	BMC/ASF	GFY-96 VOLUME	PERCENT TOTAL VOLUME
1	ASF 01	52,043	0.11
2	ASF 02	287,743	0.63
3	ASF 03	699,271	1.52
4	ASF 04	688,761	1.50
5	ASF 05	146,591	0.32
6	ASF 06	514,679	1.12
7	ASF 07	272,200	0.59
8	ASF 08	332,611	0.72
9	ASF 09	14,029	0.03
10	ASF 10	222,329	0.48
11	ASF 11	446,338	0.97
12	BMC 01	2,342,292	5.09
13	BMC 02	881,028	1.92
14	BMC 03	1,529,953	3.33
15	BMC 04	2,413,119	5.25
16	BMC 05	756,393	1.64
17	BMC 06	5,089,008	11.06
18	BMC 07	1,074,899	2.34
19	BMC 08	2,524,710	5.49
20	BMC 09	1,301,725	2.83
21	BMC 10	1,098,786	2.39
22	BMC 11	2,236,990	4.86
23	BMC 12	1,751,213	3.81
24	BMC 13	2,725,714	5.93
25	BMC 14	1,785,886	3.88
26	BMC 15	4,245,369	9.23
27	BMC 16	1,993,452	4.33

OBS	BMC/ASF	GFY-96 VOLUME	PERCENT TOTAL VOLUME
28	BMC 17	1,774,855	3.86
29	BMC 18	2,010,513	4.37
30	BMC 19	2,166,373	4.71
31	BMC 20	1,102,743	2.40
32	BMC 21	1,514,664	3.29
33	ALL	45,996,280	100.00

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-40. For each BMC and ASF, provide the estimated test year before rates Parcel Post volume for each category below:

- (i) Intra-BMC
- (ii) Inter-BMC
 - (a) Originating
 - (b) Destinating
- (iii) Destination BMC
- (iv) Destination SCF
- (v) Destination Delivery Unit

Response:

Aside from applying an inflation factor representing the ratios of TYBR total volumes from WP I.A. to the FY 1996 volumes for each of these categories as provided in the response to UPS/USPS-T37-39, I have no estimates of volume by BMC or ASF for the test year.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-41. In reference to pages 7-8 of your testimony, please describe in detail the process by which OBMC mailers will provide gaylords, pallets, or other containers for their presorted parcels, including all contemplated rules and specifications for such containers. Under what conditions will mailers be provided with Postal Service containers for such purposes? Under what conditions will the gaylords, pallets, or other containers be returned to the mailers?

Response:

It is my expectation that the processes that will face Parcel Post mailers requiring containers for purposes of participating in the new presort and dropship worksharing programs would not differ substantially from those facing mailers of other subclasses currently utilizing containers for mail preparation. Please refer to the Postal Operations Manual, Chapter 57, and Handbook PO-502, Container Methods, especially at 214.6 and 266. Handbook PO-502 was filed as Library Reference H-133.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-42. In reference to pages 8-9 of your testimony, please describe in detail the process by which DBMC or OBMC presort mailers will provide gaylords, pallets, or other containers for their presorted parcels, including all contemplated rules and specifications for such containers. Under what conditions will mailers be provided with Postal Service containers for such purposes? Under what conditions will the gaylords, pallets, or other containers be returned to the mailers?

Response:

Please refer to my response to UPS/USPS-T37-41.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-43. In reference to pages 9-10 of your testimony, please describe in detail the process by which DSCF parcel mailers will provide gaylords, pallets, or other containers for their presorted parcels, including all contemplated rules and specifications for such containers. Under what conditions will mailers be provided with Postal Service containers for such purposes? Under what conditions will the gaylords, pallets, pallets, [sic] or other containers be returned to mailers?

Response:

Please refer to my response to UPS/USPS-T37-41.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-44. In reference to page 10 of your testimony, please describe in detail the process by which DDU parcel mailers will provide gaylords, pallets, or other containers for their parcels, including all contemplated rules and specifications for such containers. Under what conditions will mailers be provided Postal Service containers for such purposes? Under what conditions will the gaylords, pallets, or other containers be returned to the mailers?

Response:

Please refer to my response to UPS/USPS-T37-41.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-45. For each BMC and ASF, provide the estimated test year after rates Parcel Post volume for each category below:

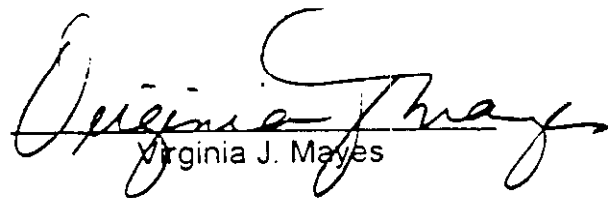
- (I) Intra-BMC
- (II) Inter-BMC
 - (a) Originating
 - (b) Destinating
- (III) Destination BMC
- (IV) Destination SCF
- (V) Destination Delivery Unit

Response:

Please refer to my response to UPS/USPS-T37-40. I do not have estimates of test year after rates volumes by BMC and ASF.

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: 9-2-97

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-46. Refer to WP I.F., page 1 of 1, of USPS-T-37.

- (a) Confirm that the market study shows that of the Parcel Post volume that will be prebarcoded after a rate discount is implemented, 96% is already being prebarcoded. If not confirmed, provide the correct figure.
- (b) Confirm that the market study shows that of the Parcel Post volume that will receive the BMC presort discount after a rate discount is implemented, 95% is already being presorted by BMC. If not confirmed, provide the correct figure.
- (c) Confirm that the market study shows that of the Parcel Post volume that will be dropshipped to the OBMC after a rate discount is implemented, 28% is already being dropshipped in the OBMC. If not confirmed, provide the correct figure.
- (d) Confirm that the market study shows that of the Parcel Post volume that will be dropshipped to the DSCF after a rate discount is implemented, 59% is already being dropshipped to the DSCF. If not confirmed, provide the correct figure.
- (e) Why is there no market study information listed for the amount of Parcel Post volume dropshipped to the DDU either currently, or after implementation of a discount?
- (f) With respect to the 1996 Parcel Post Volume of 214,578,737 listed at the top of the page, provide the respective volumes for machinable Inter-BMC, non-machinable Inter-BMC, and DBMC.
- (g) Confirm that the survey results contained in LR H-163 for "Parcel Post That The Organization Owns" were used as the source of the market study data in WP I.F. If not confirmed, explain.
- (h) Confirm that the survey results contained in LR H-163 for "Parcel Post That The Organization Prepared and Deposits for Some Other Organization" were not used in your rate design. If confirmed,
 - (i) Explain why these survey results were not used;
 - (ii) Describe in general terms the impact on your Parcel Post rate design analysis if these survey results had been used.
 If not confirmed, explain.
- (i) With respect to the "Volume Represented in Survey" of 114,984,817, confirm that this is the Parcel Post volume of the mailers who responded to the survey, not the Parcel Post volume of all of the mailers attempted to be contacted during the survey.
- (j) Explain the reasons why there would be "Lost Volume" resulting from the "Change in Size Limit to 130 inches."
- (k) Confirm that the market study data contained in WP I.F. and LR H-163 was not obtained in such a way that the impact on worksharing volumes of simultaneously offering a number of new discounts (e.g., BMC presort, OBMC, and DSCF) could be derived. If not confirmed, explain in detail.
- (l) Confirm that the market study data contained in WP I.F. and LR H-163 is on a "summary anecdotal" basis. If confirmed, why are you comfortable using this data in your rate design analysis? If not confirmed, explain.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

Response:

(a) Confirmed.

(b) Confirmed

(c) Confirmed

(d) Confirmed

(e) The DDU concept was added to the list of proposed changes to the Parcel

Post rate structure for Docket No. MC97-2 after the market survey was designed and begun. Thus, the market survey contains no questions regarding the DDU concept. Furthermore, the time period between the closing of the MC97-2 docket and the filing of the R97-1 rate case was insufficient to permit repeating or replacing the market survey provided as Library Reference H-163 in this case.

(f) Please refer to page 2 of workpaper WP I.F. The split of inter-BMC into machinable and nonmachinable inter-BMC was not available.

(g) Confirmed.

(h) Confirmed.

(i) I did not use the results associated with companies who only deposit mail for other companies because I wanted to avoid potential double-counting of the volume. Several of the firms who responded as survey participants owning volume were known to send some of their volume via one or more of the firms who responded as survey participants who deposit mail for others. Thus, some of the volume could have been

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

double-counted in the absence of asking the survey participants who deposit mail for others to break out their volume by category separately for each customer for whom they deposit mail, a task that seemed too burdensome to ask of survey participants. In addition, it seemed more appropriate to rely on the responses of those customers actually owning the mail, on the ground that they held the ultimate control over the disposition of the mail. The results from the participants who deposit mail for others serve as confirmation that some of our largest customers, including firms who own no mail themselves, would be interested in the additional worksharing options and service features proposed.

- (ii) I have performed no analysis of the impact of substituting the responses of mailers who deposit mail for the responses of mailers who owned mail, so I cannot comment on the impact, if any, that the substitution of the results would have had on the rate design. Both the owners and depositors of parcels indicated interest in the proposed worksharing discounts and service feature changes.

The depositors indicated that they would ship more than twice as much volume over 108 inches than did the owners of mail, which would represent a greater negative impact on Parcel Post contribution.

However, the volumes reported to be currently BMC presorted, prebarcoded, OBMC entered, or DSCF entered by the depositors were much smaller than were the volumes reported by the owners of mail. As these volumes would receive discounts for worksharing already being

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

performed, and thus result in a negative impact on Parcel Post contribution, the smaller volumes indicated by depositors as currently meeting the mail preparation criteria would result in less lost revenue to be recovered.

The responses of the depositors, in terms of additional volume participating in worksharing programs, varied. The additional volume to be barcoded by depositors was nearly 7 times the response indicated by owners, and the additional volume to be DSCF entered by depositors was more than 3 times the response indicated by owners, but the depositors indicated smaller volumes responding to the discounts for OBMC entry and BMC presort.

- (i) Confirmed.
- (j) I don't know why the respondents to the survey indicated, in some instances, that they would ship fewer pieces with the Postal Service after the change in the maximum combined length and girth. Although the respondents were not explicitly asked to explain their responses, the survey did include additional questions for respondents who indicated that their volume would decrease, in order to verify that the report of decreased volume was intentional. See the Parcel Post Questionnaire, Question 11, provided in Library Reference H-163. It is possible, for example, that some consolidation of parcels would have occurred under the new maximum size limit. Regardless of why some respondents indicated a decrease in volume, there was no reason to suspect that the responses were not valid.

(k) Confirmed. At the time that the survey was conducted, it was not certain that all of the possible worksharing options would be proposed.

(l) I am not certain that I understand the meaning of the term "summary anecdotal." I used the results of the market survey because they represented the best available data at the time. The point of the survey was to establish that some of the Postal Service's largest customers -- those most likely to be in a position to participate in worksharing programs -- would respond favorably to the offering of new worksharing discounts within Parcel Post, and to provide broad estimates of the impact on postal volumes and net revenues.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-47. Refer to WP II.C., pages 1 to 4.

- (a) Confirm that the revenue lost in the Test Year After Rates from the barcode discount in Parcel Post is \$3,924,069. If not confirmed, please provide the correct figure.
- (b) Confirm that the costs saved in the Test Year After Rates from the barcode discount in Parcel Post is \$160,399. If not confirmed, please provide the correct figure.
- (c) Confirm that in the Test Year After Rates, the barcode discount in Parcel Post yields more revenue loss than cost savings, and thus, through adjustments for revenue leakage, results in increased rates for single-piece Parcel Post.
- (d) Confirm that the revenue lost in the Test Year After Rates from the BMC Presort discount in Parcel Post is \$1,422,912. If not confirmed, please provide the correct figure.
- (e) Confirm that the costs saved in the Test Year After Rates from the BMC Presort discount in Parcel Post is \$87,577. If not confirmed, please provide the correct figure.
- (f) Confirm that in the Test Year After Rates, the BMC Presort discount in Parcel Post yields more revenue loss than cost savings, and thus, through adjustments for revenue leakage, results in increased rates for single-piece Parcel Post.
- (g) Confirm that the revenue lost in the Test Year After Rates from the OBMC Entry discount in Parcel Post is \$6,023,903. If not confirmed, please provide the correct figure.
- (h) Confirm that the costs saved in the Test Year After Rates from the OBMC Entry discount in Parcel Post is \$4,416,057. If not confirmed, please provide the correct figure.
- (i) Confirm that in the Test Year After Rates, the OBMC Entry discount in Parcel Post yields more revenue loss than cost savings, and thus, through adjustments for revenue leakage, results in increased rates for single-piece Parcel Post.
- (j) Confirm that the revenue lost in the Test Year After Rates from the DSCF discount in Parcel Post is \$7,401,580. If not confirmed, please provide the correct figure.
- (k) Confirm that the costs saved in the Test Year After Rates from the DSCF discount in Parcel Post is \$3,162,176. If not confirmed, please provide the correct figure.
- (l) Confirm that in the Test Year After Rates, the DSCF discount in Parcel Post yields more revenue loss than cost savings, and thus, through adjustments for revenue leakage, results in increased rates for single-piece Parcel Post.
- (m) Why is there no data regarding the impact of the DDU discount on costs in the Test Year After Rates in WP II.C? Please explain.
- (n) Confirm that, to the extent the amount of Parcel Post volume currently participating in prebarcode, BMC Presort, OBMC Entry, and DSCF worksharing programs has been understated, there would be even more

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

revenue loss than cost savings for these programs in the Test Year After Rates. If not confirmed, explain.

- (o) Confirm that the market study data in WP I.F. and LR H-163 identifies current worksharing only for the volume of the 39 Parcel Post mailers that responded to the survey, and that to the extent any additional Parcel Post mailers are already participating in prebarcode, BMC Presort, OBMC Entry, and DSCF worksharing, the cost coverage for Parcel Post in the Test Year After Rates would decline. If not confirmed, explain.

Response:

(a) Confirmed.

(b) Confirmed.

(c) Confirmed. In the process of deaveraging rates, and having the rates paid by a given set of customers more closely reflect the costs associated with handling their parcels, it is not a surprising result to find that adjustments to the rates of other mailers must also be made. The mailers of single-piece Parcel Post, or even bulk-entered Parcel Post that is not prebarcoded, have benefited in the form of slightly lower costs and rates by virtue of the fact that the mailers performing the prebarcoding were not paying rates that reflected the relatively lower cost of their mail. In addition, I would note that in many cases when new worksharing discounts are introduced, there are some customers who already perform such worksharing activities.

(d) Confirmed.

(e) Confirmed.

(f) Confirmed. Please also see the response to part (c) above.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

- (g) Confirmed.
- (h) Confirmed.
- (i) Confirmed. Please also see the response to part (c) above.
- (j) Confirmed.
- (k) Confirmed.
- (l) Confirmed. Please also see the response to part (c) above.
- (m) The TYBR DDU volume from page 23 of workpaper WP I.A. was adjusted by the ratio of intra-BMC TYAR volume to TYBR volume for purposes of calculating the revenue impact of the DDU discount in workpaper WP II.C.
There is no cost impact because I have no estimate of the additional volume that would switch to DDU and result in additional cost savings for the Postal Service. Please also see my response to UPS/USPS-T37-46(e).
- (n) Confirmed, although I would clarify that there currently are no prebarcode, BMC Presort, OBMC Entry or DSCF worksharing programs for Parcel Post. Thus, although mailers may be reporting that they are currently performing such activities in the absence of a discount for doing so, there is no quality control process to ensure that this mail meets the standards that would apply once a formal worksharing program is instituted. It is also worth noting that there exists the possibility of understatement of the intentions of mailers not currently performing these worksharing activities to do so once discounts are introduced.
- (o) I do not have sufficient information to confirm this statement. It is possible that the participants in the survey have overstated their current participation.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

It is also possible that other mailers could have different profiles in terms of both their current participation as well as their intentions to participate. There also exists the possibility that no other firms would find the proposed worksharing options attractive enough to cause them to change their behavior. This is of particular note given the nature of the market survey, which focused on only the largest customers, the ones most likely to be in a position to adopt worksharing programs.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-48. Please refer to your response to interrogatory OCA/USPS-T-13-5(b) in Docket No. MC97-2. In your response, you state, "Additionally, the nonmachinable volume that will be OBMC entered should not appear in the numerator."

- (a) Please confirm that the number you are speaking of is found in cell B35 of WP I.F. in H197-4.XLS in your testimony submitted in Docket No. R97-1.
- (b) If you confirm part (a), above, explain why the "correct" formula you give in your testimony submitted in Docket No. R97-1 for cell K31 of WP I.I. in H197-2.XLS is

$$=+D43*(((+[H197-4.XLS]WP\ I.F.\ 'D14+[H197-4.XLS]WP\ I.F.\ 'D15)*([H197-4.XLS]WP\ I.F.\ 'B35)/([WP\ II.A.\ 'D13*D5*WP\ I.F.\ '$B9/WP\ II.A.\ 'D17))+([H197-4.XLS]WP\ I.F.\ 'B42)+([H197-4.XLS]WP\ I.F.\ 'B35))*WP\ II.A.\ 'D29/[H197-4.XLS]WP\ I.F.\ 'B9)$$
- (c) Should this cell reference be for cell B42, the machinable volume that will be OBMC entered, instead?

Response:

- (a) Confirmed. The statement should have referred to the "machinable volume that will be OBMC entered," rather than the "nonmachinable volume that will be OBMC entered." Please also refer to my response to part (c) below.
- (b) The formula you have reproduced above is not the formula found in cell K31 of WP I.I. in H197-2.XLS. The formula found in cell K31 of WP I.I. in H197-2.XLS matches the corrected formula as provided in my response to OCA/USPS-T13-5(b) in Docket No. MC97-2.
- (c) My statement that the "nonmachinable volume that will be OBMC entered should not appear in the numerator" should have referred to the "machinable volume that will be OBMC entered." Thus, as shown in the revised formula provided in Docket No. MC97-2, and in cell K31 of WP I.I. in H197-2.XLS, cell B42 does not appear in the numerator.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-49. Please confirm that one of the objectives of the Postal Service's rate proposal is to make a modest contribution to the financial goals of the Postal Service, including restoration of equity. If not confirmed, please explain.

- (a) Confirm that the worksharing discounts proposed for Parcel Post would pass through essentially 100% of the estimated cost savings. If not confirmed, explain.
- (b) Confirm that if a new worksharing discount is offered to a Postal Service user that is already engaging in the applicable worksharing activities, the new discount results in a loss of contribution to the restoration of equity. If not confirmed, explain.
- (c) Does the Postal Service have any analyses or studies for any of the proposed new discounts which indicate or discuss whether the gain in contribution from new users will more than offset the loss in contribution from mailers already engaging in the applicable worksharing activities? If yes, please provide copies of any and all such studies or analyses.

Response:

Confirmed.

- (a) Please refer to my response to UPS/USPS-T37-24(a).
- (b) Please refer to my response to UPS/USPS-T37-24(b).
- (c) Other than the financial analyses provided in my workpaper WP II.C., I am aware of no such studies. I would note, however, that even in the absence of an immediate positive impact on the contribution of the subclass, it may be in the interest of the Postal Service's long-term financial health to offer rates that more closely reflect the costs of providing service, and thus send more accurate price signals to the market. In addition, please refer to my response to UPS/USPS-T37-24(c).

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T37-50. Refer to your Direct Testimony on page 4, line 3. Please confirm that "additional worksharing opportunities for parcel shippers," will likely be of interest only to business firms that have large volumes of parcels to ship. If not confirmed, please explain.

Response:

It is most likely that business firms that have large volumes of parcels to ship would be in a better position to take advantage of the worksharing options.

However, I would suggest that some of the options, such as the DSCF discount, for example, might be of use to a mailer of smaller size that happens to have a narrow geographic range of distribution. Similarly, a small firm may be able to avail itself of the prebarcode discount. In addition, I am aware that the shipping industry includes consolidators who may be able to assist smaller shippers in gaining access to worksharing programs by merging their mail with that of other firms.

UPS/USPS-T37-52. Please explain how offering the packaging service leads to a net loss in Parcel Post volume due to a shift towards Priority Mail.

Response:

Please refer to Docket No. MC97-5, Exhibit USPS-3D, at page 2.

UPS/USPS-T37-53. Referring to WP I.A., page 23, and WP I.F., please confirm that you assume that no additional volume will be DDU entered as a result of the proposed DDU discount. Please explain your answer in detail.

Response:

The market study did not include questions regarding the DDU discount. Please see my responses to UPS/USPS-T37-46(e), UPS/USPS-T37-47(m), and UPS/USPS-T37-56(b).

UPS/USPS-T37-54. Referring to WP II.C., page 1, lines 13 - 23:

- (a) Please confirm that these numbers are changes in revenues, not actual revenues.
- (b) Please provide the TYAR revenues, as well as the TYBR and TYAR rates volumes for these categories.

Response:

- (a) The numbers represented in lines 13 through 23 of workpaper WP II.C., page 1 are the adjustments to the baseline TYAR revenues. The baseline revenues, shown in lines 1 through 12, were calculated by multiplying the unadjusted TYAR forecasted Parcel Post volumes by the proposed rates, and making adjustments for such things as pickup fees, but not making adjustments for new discounts or surcharges or service features. The revenue figures shown in lines 13 through 17 are changes to Parcel Post revenues caused by the addition or departure of volumes that were not included in the unadjusted TYAR volume forecast. The figures at lines 13 through 17 represent the total revenue associated with the volumes in question. The revenue figures shown in lines 18 through 23 represent only the changes to the revenues for pieces that will receive discounts or surcharges that are not currently available for worksharing activities they are already performing, but do not represent the full revenue associated with such pieces.
- (b) For line 13, please refer to workpaper WP I.H., pages 1 through 6 for the test year volumes and pages 14 through 19 for the test year revenues. For line

14, please refer to workpaper WP I.F., page 1, cell B58 for the test year volume. The revenue is calculated by deriving an average revenue per piece for all Parcel Post excluding the volume associated with line 14. The volumes associated with line 15 are derived from cells B17, C17, and D17 of page 1 of workpaper WP I.F. The revenue was derived by multiplying these volumes by the appropriate average intra-BMC, inter-BMC and DBMC revenue per piece estimates which were developed by dividing the revenue figures in lines 1 through 3 by the volume estimates on page 1 of workpaper WP II.A. The volume underlying line 16 comes from WP II.C., page 4, cell G21. To estimate revenue, this figure was split into intra-BMC and inter-BMC based on the shares of each from workpaper II.A., page 1, then multiplied by the average intra-BMC and inter-BMC revenue per piece figures estimated as described above in the derivation of line 15. The volume and revenue figures underlying line 17 are derived on page 4 of workpaper WP I.O.

In TYBR, the volume barcoded could be developed by multiplying the calendar year volume from cell B24 of page 1 of WP I.F., the "currently barcoded" volume, by the ratio of total TYBR Parcel Post volume from cell D29 of workpaper WP II.A. to the calendar year total volume from cell B9 of page 1 of workpaper WP I.F. The TYAR volume was estimated by multiplying cell B25 from WP I.F., page 1 by the ratio of total TYBR Parcel Post volume from cell D29 of workpaper WP II.A. to the calendar year total volume from cell B9 of page 1 of workpaper WP I.F., then splitting the volume

into the shares associated with machinable intra-BMC, machinable inter-BMC and machinable DBMC and multiplying these shares by the ratios of non-Alaska, non-OMAS intra-BMC, inter-BMC and DBMC TYAR volume to TYBR volumes as shown at page 1 of WP II.A. The TYBR BMC presorted volume could be derived by multiplying the sum of cells B31 and B38 on page 1 of workpaper WP I.F. by the ratio of the total TYBR Parcel Post volume from page 1 of WP II.A. to the calendar year Parcel Post volume from cell B9 of page 1 of WP I.F. The TYAR volume figure underlying line 19 can be derived by dividing the sum of cells K25 and K27 from page 2 of WP I.I. by the BMC presort discount provided at page 1 of WP I.I., then multiplying by the ratio of TYAR inter-BMC volume to TYBR inter-BMC volume as shown at page 1 of WP II.A. The TYBR OBMC entered volume could be derived by multiplying the sum of cells B41 and B34 of page 1 of WP I.F. by the ratio of the total TYBR Parcel Post volume from page 1 of WP II.A. to the calendar year Parcel Post volume shown at cell B9 of page 1 of WP I.F. The TYAR volume figure underlying line 20 can be derived by dividing cell K31 on page 2 of WP I.I. by cell D43 of page 1 of WP I.I., then multiplying by the ratio of TYAR inter-BMC volume to TYBR inter-BMC volume as shown at page 1 of WP II.A.

The TYAR volume underlying line 21 is derived by multiplying the volume figure shown at page 14 of WP I.A. by the ratio of DBMC TYAR volume to TYBR volume, as shown at page 1 of WP II.A. As no DSCF discount would be available in TYBR, the TYBR volume could be developed by multiplying

cell B48 of workpaper WP I.F. by the ratio of total TYBR Parcel Post as shown at WP II.A., page 1, to the calendar year volume shown at cell B9 on page 1 of WP I.F. The TYAR volume underlying line 22 is developed by multiplying the TYBR volume shown at page 23 of WP I.A. by the ratio of TYAR to TYBR intra-BMC volumes as shown at page 1 of WP II.A. The TYAR volume underlying line 23 is developed by taking the three total TYBR volume figures from pages 13-18 of WP I.G., and adjusting them to TYAR by multiplying by the ratio of TYAR to TYBR intra-BMC, inter-BMC and DBMC volumes as shown at page 1 of WP II.A.

As described in my response to part (a) above, the revenue figures shown at lines 18 - 23 represent changes to revenue and not the total revenue for the pieces in question. As the volumes in lines 18 through 23 are already incorporated into the TYAR volume forecast, the revenues associated with those pieces, excluding the loss or gain due to application of new discounts or surcharges for existing characteristics, are subsumed in the revenue figures shown at lines 1 through 12. I have not estimated separate total revenue figures for the volumes associated with lines 18 through 23.

UPS/USPS-T37-55. Referring to WP II.C., page 3, lines 2 - 10, please confirm that these numbers are changes in cost, not actual cost.

Response:

The numbers represented in lines 2 through 10 of workpaper WP II.C., page 3 are the adjustments to the unadjusted rollforward TYAR cost. The rollforward cost, shown in line 1, was tied to the unadjusted TYAR volume forecast and did not make any adjustments for adoption of new discounts or surcharges or service features, or for volume adjustments that were not incorporated into the unadjusted TYAR volume forecast.

The cost figures shown in lines 2 through 6 are changes to Parcel Post costs caused by the addition or departure of volumes that were not incorporated into the unadjusted TYAR volume forecast. These figures represent the total cost associated with the volumes in question. The cost figures shown in lines 7 through 10 represent only the changes to the costs for pieces that will be performing the worksharing activities and did not do so in the absence of the discounts, but do not represent the full costs associated with such pieces.

UPS/USPS-T37-56. 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, please explain.
- (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, please explain.

Response:

(a) Confirmed.

(b) It is my understanding that because the TYAR fixed weight index for intra-BMC Parcel Post shows a small impact due to the availability of the DDU discount for the volume that is currently DDU entered, there was some small increase in the total volume of intra-BMC Parcel Post. Please refer ^{To} Library _^ Reference H-172 at rows 563 through 631 of worksheet STBA96A.WK4, and page 5 of the documentation. I did not separately identify additional volume that would have been DDU entered. Please also refer to my response to UPS/USPS-T37-53.

UPS/USPS-T37-59. Please refer to your response to UPS/USPS-T37-15, and to DMM section E652. Please provide a copy of the zone chart for each Parent Post Office listed in Exhibit 1.5 to DMM section E652 (BMC/ASF Parent Post Offices), and identify the Parent Post Office and zone chart number if not already identified.

Response:

The requested zone charts are being filed as Library Reference H-276.

UPS/USPS-T37-62. Please specify the areas in your Workpapers where DSCF rates are identified or calculated.

Response:

I do not believe that the DSCF rates are explicitly calculated in my workpapers.

However, they may be calculated by referring to the DBMC rates for Zones 1&2

as found at page 5 and 6 of workpaper WP I.N., subtracting the

nontransportation DSCF rate differential found at line (20) of page 1 of

workpaper WP I.I., and subtracting the appropriate transportation discount per

piece from workpaper WP I.E., pages 9 and 10 (Column AF of worksheet "WP

I.E., pages 3-12" of workbook H197-1.XLS of Library Reference H-197).

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

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
----------------------------	-------------------------

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.

- (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.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

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.

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.

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.,

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

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.

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

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

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

UPS/USPS-T37-78. Refer to your response to interrogatory UPS/USPS-T37-39

- (a) Please confirm that the ASF and BMC number reference, i.e., BMC 06, are the same for each BMC and ASF in charts 9 and 10, 1 through 8, and Attachment S of Library Reference H-135.
- (b) If not confirmed, provide compatible reference numbers for each BMC and ASF.
- (c) Explain why there are only 8 ASFs and not 11 ASFs shown for DBMC in Attachment S of Library Reference H-135.

Response:

(a) Not confirmed.

(b) Objection filed.

(c) Alaska, Hawaii, and Puerto Rico are included as ASFs for mail mapping purposes in charts 9 and 10. Mail traveling within those three areas is not eligible for DBMC rates, so they were not included as ASFs in the DBMC listing in Attachment S of Library Reference H-135.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

OCA/USPS-T37-4. In Docket No. MC97-2, OCA submitted a number of interrogatories to you concerning discounts. These included interrogatories 12, 35, 36, and 37. Please indicate whether it is the position of the Postal Service that the responses you gave to interrogatories 12, 35, 36, and 37 in Docket No. MC97-2 are still valid. If not, please explain.

Response:

Redirected in part to the Postal Service.

If you are requesting that I verify that the responses given to the interrogatories in question would remain unchanged, then I can verify that the responses to 37 would remain the same. The responses to 12 would remain the same with the exception that the response to part 12c would refer to the testimony of witness Crum (USPS-T-28), and not witness Daniel (USPS-T-29). The responses to 35 would remain the same with the following changes: 35a would be amended to refer to the responses of witness Crum to interrogatories UPS/USPS-T28-16b and UPS/USPS-T28-7, and 35g would be amended to refer to witness Daniel's Appendix V, page 17. In addition, the average cubic feet per machinable parcel has changed from 0.54 to 0.547, and the average number of parcels per container changed from 106 to 104.5. The responses to 36 would remain the same with the following changes: the response to 36a currently refers only to the efficient use of transportation space, but the mail processing costs per piece for such functions as moving, unloading and dumping containers would also vary with the number of pieces per container. The response to 36b should be changed to refer to witness Daniel's Appendix V, page 17, and not to Exhibit

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

USPS-8H. The response to 36c should be changed to refer to Library Reference H-135, and not PCR-35. The response to 36d should be truncated such that only the first sentence of the original answer remains.

OCA/USPS-T37-5. In Docket No. MC97-2, you responded to OCA/USPS-T13-2(c) (regarding the ten percent restriction) as follows: "The Postal Service is not especially interested in garnering volume that is oversized, but rather, wanted to make it easier for our customers to do business with us. As shown in my workpapers, even at the applicable 70-pound rate, the oversized parcels are not expected to be associated with revenues sufficient to cover the costs of providing service to those parcels."

- a. Why would the Postal Service not want to make it easier for all its customers (including small businesses and households that may not have sufficient parcel volume to overcome the restriction) to do business with it? Please explain fully.
- b. In this docket, are the oversized parcels "not expected to be associated with revenues sufficient to cover the costs of providing service to those parcels?" Please provide a quantitative answer, showing the derivation of the quantification process. Further, please show and explain whether your quantitative process would have changed since Docket No. MC97-2 because of different costing methodologies employed in the two cases.

Response:

- a. Simply because there may be a perceived desire for a particular type of service in the market for package delivery 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. Some unspecified number of customers may wish to ship such items, but the Postal Service does not carry such items. The reasons for such refusal to serve some markets may include legal restrictions or the determination by the Postal Service that providing such service would not be in the best interest of either the Postal Service or its employees. Provision of some services could be expected to result in negative impact on either the Postal Service's finances or the safety and health of its employees.

As well noted in my testimony, UPS provides delivery service for both business and household mailers of items exceeding 108 inches in combined length and girth. The Postal Service intends to make it easier for mailers who have occasional oversized items, not necessarily those mailers for whom such oversized items are representative of their regular mailing habits.

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. This restriction will also prevent businesses predominantly shipping oversized items from using the Postal Service for such purposes.

- b. That is correct. Please refer to my response to PSA/USPS-T37-4. The process of comparing the cubic feet per piece of the oversized parcels to the estimated cubic feet per piece figures for 70-pound parcels is no different in this docket from the process used in Docket No. MC97-2. As noted in my response to OCA/USPS-T37-10, the estimated cube figures differ between the two dockets due to the change in base year.

In addition, please refer to lines (25) and (26) of my workpaper WP I.I., page 1 for the estimated additional mail processing costs associated with these oversized pieces, as compared to the additional mail processing costs shown at line (9) of the same workpaper, estimated to be associated with other nonmachinable inter-BMC items. It is my understanding that the estimation

REVISED RESPONSE OF POSTAL SERVICE WITNESS MAYES
TO OCA INTERROGATORIES

Revised
10/10/97
4179

of the additional mail processing costs at lines (25) and (26) was affected by the change in costing methodology. Please refer to the testimony of witness Daniel (USPS-T-29) in this docket and to her testimony in Docket No. MC97-

2.

OCA/USPS-T37-6. In Docket No. MC97-2, OCA submitted the following interrogatory as OCA/USPS-T13-28(c): "Please confirm that the customer that generally mails parcels one at a time (and is forbidden from mailing single oversized parcels) is at least partially subsidizing the mailers that would be allowed to mail oversized parcels at a loss. If you do not confirm, please explain." You responded in part by stating that you "do not have sufficient information to confirm or deny this statement." Please redirect this question to someone in the Postal Service who does, or to the Postal Service for an institutional response.

- a. The witness responding (or the Postal Service) should provide a quantitative answer, showing the derivation of the quantification process.
- b. Further, the witness (or the Postal Service) should show and explain whether his/her quantitative process would have changed since Docket No. MC97-2 because of different costing methodologies employed in the two cases.

Response:

When I responded that I did not have sufficient information to confirm or deny the statement, I did not mean to imply that there was another individual who *did* have the information necessary to make such an assessment. Rather, I meant to communicate that the answer to that question would depend on a number of different variables, such as the zone and weight distributions, the cubes and densities, and the actual origins and destinations of the items in question and the facilities through which such items would pass, which were not provided in your comparative example. As a rather extreme example, consider that the customer mailing parcels one at a time might well have been shipping perishable, nonmachinable items to a relative in a remote area in Alaska, whereas the mailers sending some oversized parcels might have been shipping prebarcoded or presorted bulk-entered items, or items dropshipped for local delivery. (Please refer to my response to UPS/USPS-T37-11.) The response to

your question could be very different, had different sets of assumptions been used with regard to the characteristics listed above.

In addition, there are analyses, such as the measurement of the avoided window costs and the costs of bulk acceptance of parcels provided in the testimony of witness Crum (USPS-T-28), that may provide some guidance regarding the difference in narrowly defined segments of costs for bulk-entered and single-piece items.

OCA/USPS-T37-7. In response to OCA/USPS-T13-29(a) in Docket No. MC97-2, you stated: "I am aware of no time at which the Postal Service has considered raising the weight limit above 70 pounds. Each time of which I am aware that the question was raised, it was immediately dismissed. I am aware of no documents discussing such decisions."

- a. You state that "[e]ach time of which I am aware that the question was raised, it was immediately dismissed." Who dismissed it and on what occasions? Provide positions of persons involved in such decisions, dates (or approximate dates), and contextual circumstances (e.g., why the issue was being discussed).
- b. Submit all documents related to the inquiry in (a) above.
- c. Your original response stated a conditional description about your knowledge ("I am aware") suggesting that others may have more knowledge about this subject. Please redirect the question in OCA/USPS T13-29(a) to the person in the Postal Service most familiar with this issue, or to the Postal Service for an institutional response.
- d. In your answers to OCA/USPS-T13-29(b), (c), (d) and (g) in Docket No. MC97-2, you stated a lack of familiarity with the issues. Please redirect these questions to the person in the Postal Service most qualified to respond to the questions indicated herein, or to the Postal Service for an institutional response.

Response:

- a. I cannot provide specific examples, dates, names or positions of the individuals who dismissed the idea of raising the weight limit because such details were not documented. I can, however, relate the contextual circumstances in which such dismissals have been made. In meetings relating to parcel services, someone new to these issues invariably raises questions as to why the Postal Service does not match the offerings of UPS. At that point, individuals – sometimes managers, sometimes staff – with more experience will bring up safety, operational, financial and collective

bargaining issues such as those I listed in the responses to your previous questions regarding the idea of raising the weight limit above 70 pounds.

- b. After consultation with individuals – both staff and management level – who have had experience with parcel issues over the past two decades, I have been able to locate no such documents, nor am I aware of the existence of such documents.
- c. When I responded to your interrogatory with the conditional phrase “I am aware,” I did not mean to imply that I was ignorant of the information you requested. Rather, I meant to communicate that after checking with individuals of greater authority and experience, I was unable to find anyone who could recollect an instance in which the Postal Service seriously considered changing the weight limit. As an expert witness, I qualified my response out of the concern that the OCA or some other party to these proceedings might have knowledge of some isolated instance in which the possibility of increasing the weight limit above 70 pounds was indeed discussed. I did not qualify my response to your question with the intention of not providing a full response. I transmitted your question to every previous parcel services manager still employed with the Postal Service headquarters, and received responses indicating that not one of them seriously entertained the idea of raising the weight limit. In addition, I might add that I have worked on parcel-related issues myself for ten years, but rather than rely on only my own experience, I researched your question and at the conclusion of this

exercise, remain *"aware of no time at which the Postal Service has considered raising the weight limit above 70 pounds."*

d. Redirected to the Postal Service.

OCA/USPS-T37-8. As a Postal Service economist in this case, please answer OCA/USPS-T13-31(a) and (b) in Docket No. MC97-2 as originally asked. "Other things being equal" is a condition frequently used by economists and is understood to mean *all* other things being equal (the *all* is redundant). (Note: sometimes the Latin phrase "ceteris paribus" is used.)

Response:

I am familiar with the phrase "ceteris paribus," but have usually encountered its use under circumstances in which the baseline conditions are described. In other words, some set of baseline conditions are established, with only one change examined in isolation. In attempting to answer your questions, I could not determine if you were asking me to consider the changes in the context of some theoretical market or in the context of the existing market for parcel delivery services, the latter of which would be the more appropriate context for discussion of the issues raised in my testimony. Thus, I found it difficult to respond to your questions if I was to assume that *all* other things are equal, such as the height of entry barriers as your question specified, when I knew such assumptions to be contrary to reality. I find your clarification of the phrasing of this interrogatory to be less than useful.

- a. With reference to the qualifications cited in my response to OCA/USPS-T13-31(a) in Docket No. MC97-2, I would agree that if *all* things are equal and the market is not yet a perfectly competitive market in long-run equilibrium, additional firms entering the industry could move the market toward such an equilibrium situation.
- b. With *all* other things being equal, and a market that is not yet a perfectly competitive market in long-run equilibrium, a larger number of firms entering the industry is expected to reduce economic profits.

OCA/USPS-T37-9. In response to OCA/USPS-T13-31(c) in Docket No. MC97-2, you stated in part that you were not sure you understood "what is being asked." In order to aid your understanding, please refer to the widely available text "Industrial Market Structure and Economic Performance," by F.M. Scherer (2d. Edition), at page 199, where the phraseology is used. After referral, please supply a response to OCA/USPS-T31(c).[sic]

Response:

As I stated in my original response to your interrogatory OCA/USPS-T13-31(c) in Docket No. MC97-2:

"If I am interpreting the statement correctly, it is implying that, as market share for any particular firm decreases, the firm will behave as if its pricing and output decisions do not affect competitors' behavior or the market prices. I would agree that the firm may not perceive that its behavior has an effect on competitors or the market as a whole, but I am not sure what type of behavior would follow from such a perception."

In fact, the paragraph of the Scherer text in which this statement appears continues by stating that such an effect may appear when the number of firms exceeds 10 or 12 "if evenly matched firms supply homogeneous products in a well-defined market." As noted in my response to OCA/USPS-T37-8, I could not tell if your question was to be responded to in the context of some theoretical market in which "evenly matched firms supply homogeneous products" or the existing market for package delivery services. 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

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

highly skewed," such as, I suggest, is the condition of the current market for ground service delivery.

OCA/USPS-T37-10. The Postal Service testimony in this case indicates in various places that it has altered costing methodologies since Docket No. MC97-2. The testimony you provide herein as to standard parcel post appears to be substantially similar to the testimony offered in Docket No. MC97-2. Nonetheless, there appear to be some substantive differences regarding rate proposals. Thus, the proposed discount for OBMC Entry has been increased to 57 cents (up from 49 cents) per piece. In the instant case, the proposed BMC Presort discount is 12 cents per piece. In Docket No. MC97-2, the proposed discount for BMC presorted machinable parcels was 16 cents, and 21 cents per piece for nonmachinable parcels. In the instant case, you state in your direct testimony at page 19 that "[t]he cubic feet per piece figures associated with the 70-pound rate cells that result from the three cube/weight relationships are 2.64, 2.52, and 3.54 for intra-BMC, inter-BMC and DBMC, respectively." In Docket No. MC97-2, you stated in your direct testimony at page 27 that the figures were 2.32, 2.69, and 3.02 respectively. In the instant case, you state in your direct testimony at page 20 that the Postal Service proposes to reduce the nonmachinable inter-BMC parcel post surcharge to \$1.35 from its current \$1.75, a surcharge that would apply "to the approximately 8.7 percent of inter-BMC parcels categorized as nonmachinable" In Docket No. MC97-2, you noted in your direct testimony at page 28 the proposal to drop the surcharge to \$1.25, which would apply "to the approximately 9.5 percent of inter-BMC parcels categorized as nonmachinable" Your testimony on delivery confirmation in this docket reflects a proposed fee for manual delivery confirmation that is now 60 cents per piece, rather than the 50 cents per piece proposed in Docket No. MC97-2. In your testimony in this proceeding, you also discuss the proposed increase in the pickup fee for parcel post (from the current \$4.95 to a proposed \$8.25). How have each of the above rate proposals been affected by the change in methodologies? Please show what each of these proposed rates would be if the Postal Service used the methodology it employed in Docket No. MC97-2.

Response:

The changes in the cubic feet per piece figures associated with the 70-pound rate cells from 2.32, 2.69, and 3.02 to 2.64, 2.52, and 3.54, respectively result from the change in base year from FY 1995 in Docket No. MC97-2 to FY 1996 in the instant docket, and do not result from any change in methodology. Similarly, the change in the percent of inter-BMC parcels categorized as nonmachinable

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

from 9.5 percent in Docket No. MC97-2 to 8.7 percent in this docket is the result of a change in the base year from FY 1995 to FY 1996, and not the result of any change in methodology.

The changes in the proposed discounts for OBMC entry and BMC presort, and the change in the proposed surcharge for nonmachinable inter-BMC parcels all tie directly to the measured cost differences which are described in the testimony of witnesses Crum (USPS-T-28) and Daniel (USPS-T-29). Please refer to the testimony of witness Plunkett (USPS-T-40) for discussion of the justification of the 60 cent fee for manual delivery confirmation, and to the testimony of witness Sharkey (USPS-T-33) for discussion of the justification of the pickup fee.

I am unaware that any of the witnesses listed above have calculated the cost differences in question using both the current approaches and those used in the development of such estimates in Docket No. MC97-2 in combination with the base year and test year data for this case. Even were such comparisons available, I cannot say what the effect of using the methodological approaches from Docket No. MC97-2 with the new data would have been on my rate design as I would have to reconsider the rate design as a whole, including such things as the passthroughs and rate relationships.

OCA/USPS-T37-11. Please refer to your response in this docket to UPS/USPS-T37-21 and 22, which in turn refers the reader to Docket No. MC83-1 as the "documentation supporting the determination of the 108 inch maximum combined length and girth for parcel post pieces." Please comment on each segment of the testimony of Postal Service witness Wargo, USPS-T-1, cited immediately below in relation to the instant proceeding. If the Postal Service's current position with regard to uniformity in package length and girth is different now than it was during the pendency of Docket No. MC83-1, please explain what these differences are and why there has been a change in position. We request comments on the following testimony:

- a. At page 3 of the Wargo testimony, he notes that the Postal Service was proposing "to enlarge its parcel size limitations to equal those used by other major providers of small parcel service." He states at page 4: "My testimony will show the unfairness and inconvenience caused by non-uniform parcel post size and weight limits and size limitations for Postal Service parcel services that are smaller than those for other parcel delivery services." On that same page he states: "Enlarging parcel size limits will bring more standardization to parcel delivery service, thus reducing confusion and inefficiency." At page 10 he states that since two of the largest non-postal small parcel delivery services already had a common size limitation of 108 inches in length and girth combined, "[I]f the Postal Service adopted this same size limit for all its parcel services, a great step would be made toward establishing a uniform size limitation for the parcel delivery industry."
- b. At page 10 he noted the problem of mailers having to "sort out parcels larger than 100 inches in length and girth combined from shipments otherwise to be tendered to the Postal Service." At page 12 he stated: "As I described above, uniform parcel size and weight limits will eliminate the need for mailers to perform extra sortations."
- c. Further, he observed at pages 10-11 that "the enlarged size limits will offer better service to the public. This improved service is particularly significant for *household mailers* who often find their local post office the most convenient place to bring parcels they wish delivered." [Emphasis added.]
- d. He also noted on page 11 that package designers often produced package cartons that measured up to 108 inches.

Response:

- a. It is my understanding that Mr. Wargo's testimony was intended to not only increase the size limits to 108 inches and 70 pounds, but also to standardize

those limits *across all post offices*. As such, I would assert that there has been no change in the position of the Postal Service that the size limits should be the same at every post office. Mr. Wargo's testimony regarding the desirability of adopting a common size limitation across the parcel delivery industry would lend support to the Postal Service's current proposal to permit some portion of parcels to meet the size limit of 130 inches currently used by the dominant parcel delivery company. However, I would note that there is potentially a large difference in size between a parcel of combined length and girth of 108 inches and the size of one with combined length and girth of 130 inches. Thus, I cannot be certain that the Postal Service would have been in favor of adopting a standardized size limit of 130 inches in Docket MC83-1 had UPS used a limit of 130 inches at that time.

- b. It is important to recognize that Mr. Wargo was testifying not only to expand the size limits from 84 or 100 inches to 108 inches, but also to standardize them *across all post offices*. Current customers do not have the difficulty of sorting parcels by size limits that differ by post office. Otherwise, Mr. Wargo's statement is consistent with my testimony at page 18 with regard to the stated inconvenience of mailers in sorting out the few pieces that do not match the existing postal limit on combined length and girth. Mr. Wargo also mentions weight limits. Again, it is important to note that he was testifying to standardize the weight limit for parcel post *across all post offices*. Current customers do not have to sort parcels by weight limits that vary by post office. As noted in my response to OCA/USPS-T37-5, as well as elsewhere, despite

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

the possible inconvenience to customers of sorting out parcels that exceed the postal weight limit, it is not the current position of the Postal Service that increasing its current weight limit of 70 pounds would be in the best interest of the Postal Service or its employees.

- c. As noted in my response to part b above, Mr. Wargo was not only proposing to expand the size limits but also standardize them across all post offices. I would expect that such a change would have been significant to the household mailer who would be less likely than a business mailer to have the wherewithal to seek out postal facilities with the higher size limits in order to facilitate the delivery of a larger parcel. As a result of Mr. Wargo's efforts, the size and weight limits were standardized, and the current household mailer does not face the same confusion in trying to mail parcels; the size and weight limits for parcels are the same at any postal facility.

- d. I fail to see particular relevance of this statement to the current situation.

The existence of a market supply of cartons up to 108 inches neither argues for nor against the acceptance of occasional items exceeding 108 inches in combined length and girth. The Postal Service will continue to accept parcels not exceeding 108 inches in combined length and girth from any postal customer. For such customers, the existence of a supply of cartons that measure up to 108 inches will be convenient. The statement to which you refer does not imply or reject the possibility of the existence of cartons exceeding 108 inches in combined length and girth.

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

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.

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

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.

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

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

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.

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

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 mainstream 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

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

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

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

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.

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

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.

1. Purchased Transportation

a. Alaskan Nonpriority Air Adjustment

(2) Alaskan Air Adjustment

For Test Year 1998 BR, witness Patelunas shows \$115,665,000 of air costs attributed to parcel post (USPS-T-15, WP-E, p. 203). These costs include Alaska nonpreferential air costs and do not reflect an adjustment similar to the one made by the Commission in R94-1 and MC96-3 (see Docket No. MC96-3, PRC-LR-5, Part 2, Segment 14, page 37, for development of the adjustment using FY 1995 data).

Witness Hatfield develops transportation costs per cubic foot for the parcel post rate categories (USPS-T-16, Exhibit USPS-16A). These costs are developed without inclusion of any intra-Alaskan nonpreferential air costs (USPS-T-16, Appendix I, page 11). He states that "the Alaskan nonpreferential air costs have not been included because they are accounted for separately in witness Mayes' testimony (USPS-T-37)." (USPS-T-16, Appendix I, page 11, footnote 3).

Witness Mayes develops preliminary rates (USPS-T-37, Workpaper 1.K, pages 1-6) using transportation costs (USPS-T-37, Workpaper 1.E, pages 3-8) developed from the costs of witness Hatfield.

Please explain where and how witness Mayes has accounted for the intra-Alaskan nonpreferential air costs in her rate development.

RESPONSE:

Parcel Post rates were designed to recover all Parcel Post costs, whether or not they were included in the transportation cost estimates contained in Exhibit USPS-6A. The costs used as the basis for the rate development, as shown at line (1) on page 2 of workpaper WP I.I., match the total TYBR costs for Parcel Post with contingency, including intra-Alaska nonpreferential air costs, reported by Postal Service witness Patelunas at USPS-T-15, WP-E, Table E. The markup factor shown at line (8) of page 2 of WP I.I., as applied to the per-piece

costs and to the transportation costs assigned to each rate cell on pages 3-8 of workpaper WP I.E., was set so as to permit recovery of the Alaska air costs, and result in an appropriate cost coverage for Parcel Post. The calculation of the TYAR cost coverage, as shown at page 3 of workpaper WP II.C., uses as its base the total TYAR costs for Parcel Post with contingency, including intra-Alaska nonpreferential air costs, reported by witness Patelunas at USPS-T-15, WP-G, Table E.

1. Purchased Transportation

c. Bound Printed Matter (BPM)

(2) Vehicle Service Driver Costs (Cost Segment VIII)

In the development of parcel post rates, the vehicle service driver costs have been treated as local purchased transportation costs (USPS-T-16, Appendix 1, page 12) and distributed on the basis of cubic feet rather than being included in the per piece rate element (USPS-T-37, Workpaper 1.1, shows the exclusion of these costs from those used to develop the piece rate element). In contrast, for BPM these costs are included in the development of the per piece rate element.

Please explain why the \$15,755,000 of BPM (Patelunas WP E, Table D) cost segment VIII costs should not be treated the same way these costs are treated when developing parcel post rates.

Response:

Historically, the cost coverage for Parcel Post has not performed as well as should have been expected, indicating the possibility that the distribution of costs within the subclass and the rates resulting from reference thereto were not as accurate at reflecting the true pattern of cost incurrence as they should have been. Because of this historically poor cost coverage performance, the Postal Service undertook to study the patterns of transportation costs for Parcel Post, the results of which are detailed in the testimony of Postal Service witness Hatfield, USPS-T-16. Bound Printed Matter, on the other hand, has historically demonstrated a healthy cost coverage, suggesting a lower priority in its review.

As was noted in the response to POIR No. 1, Question 1.c.(1), there is additional data available for Parcel Post in the form of cubic feet and the relationship of cubic feet to weight by weight increment. Within Parcel Post, the vehicle service driver costs are first distributed on a cubic feet basis, which is then translated into a cost per pound by weight increment by use of the cube/weight relationship. Such a distribution is not possible for Bound Printed Matter because similar information on the relationship of cubic feet to weight is not available. Similarly, the transportation patterns for Parcel Post have been studied in greater detail than have those of Bound Printed Matter. While Bound Printed Matter may have similar characteristics in terms of intra-SCF movements to those of Parcel Post, we are not certain at this point.

Response of Witness Mayes to Presiding Officer's Information Request No. 3

10. Bulk Bound Printed Matter

- a. The total revenue for FY 1996, before adjustment, is shown to be \$393,163,080 both in Workpaper BPM5 of USPS-T-38 and in the Billing Determinants, page H-2. However, the same revenue is shown to be \$394,316,597 in Library Reference H-172, STBBP96A (\$394,463,133 with the included adjustment factor of 1.00037162 removed).
- (1) Please explain this discrepancy, and make any necessary corrections.
 - (2) Using the correct revenue, please show the development of the correct adjustment factor.

Response:

a.(1) The development of the Bound Printed Matter billing determinants uses several different data sources, including the Domestic Probability System and the PERMIT system. The Domestic Probability System is used to obtain the weight and zone distribution of stamped and metered mail, whereas the distributions by zone of volume, revenue and weight of bulk mail entered as permit imprint are extracted from the PERMIT system. The distributions for stamped and metered and permit imprint Bound Printed Matter are merged and then tied to the RPW fiscal year figures to create the billing determinants.

The volume and weight figures presented in Workpaper BPM5 of USPS-T-38, the billing determinants for FY 1996 at page H-2, and Library Reference H-172 are consistent. The revenue estimates differ. In the development of revenue estimates in Library Reference H-172, the stamped and metered and permit imprint volumes were merged together, and the rate elements were applied to those combined volume figures to calculate the combined revenues. In the development of the billing determinants, the rate elements were applied to the stamped and metered volumes to obtain the calculated revenue associated with that volume. The calculated stamped and metered revenue was then added to the permit imprint revenue figure obtained from the RPW revenue adjustment reports. Thus, the permit imprint revenue had an effective revenue adjustment factor of 1.00, but was merged with the calculated revenue for stamped and metered mail that had an effective revenue adjustment factor that was not 1.0. The result was that the revenue figure reported in the billing determinants was a hybrid of two different approaches to reporting revenue.

Response of Witness Mayes to Presiding Officer's Information Request No. 3

The method of revenue estimation used in Library Reference H-172 maintains an internally consistent approach to revenue calculation. This would be appropriate for applications in which the volumes and weights – regardless of source – are used in combination with a given set of rate elements. The results of the adoption of this method may be obtained in the billing determinants or in Workpaper BPM5 of USPS-T-38 by applying the rate elements to the combined volumes and weights by zone as reported, and yields the same total unadjusted revenue figure as developed in Library Reference H-172. The new revenue adjustment factor is then 0.997445174. This would be appropriate for application in which the combined volumes and weights are used with the rate elements.

a.(2) The revenue adjustment factor is calculated by deriving a revenue figure by multiplying the rate elements by the appropriate volumes or weights, as shown in Library Reference H-172, and then dividing that calculated revenue into the reported total bulk Bound Printed Matter RPW revenue. The correct revenue adjustment factor for bulk Bound Printed Matter in FY 1996 is 0.997445174.

Response of Witness Mayes to Presiding Officer's Information Request No. 3

11. Please reconcile the parcel post volume distributions shown in the FY 1996 Billing Determinants (and used in USPS-T-37, Workpaper 1.A, pages 2 to 7) with those shown in USPS LR-H-172 STBA96A, STBR96A, and STBD96A.

	<u>FY 96 Billing Determinants</u>	<u>LR-H-172</u>
Intra-BMC	46,007,028	45,995,137
Inter-BMC	66,223,149	66,256,008
DBMC	<u>96,406,682</u>	<u>96,378,414</u>
	208,636,859	208,629,559

Response:

As Docket No. R97-1 was being prepared, it became necessary to revise the billing determinants for Parcel Post. These final distributions were completed in time to be incorporated into the rate design workpapers, but not in time to be provided to the volume forecasters for incorporation into the development of the TYBR forecast. Thus, the figures shown in LR H-172 were the preliminary billing determinants available prior to the revision. The volume distributions provided in the FY 96 Billing Determinants and at pages 2 through 7 of workpaper WP I.A. of USPS-T-37 are the final volume distributions.

Response of Witness Mayes to Presiding Officer's Information Request No. 3

12. Please reconcile the revenue adjustment factors shown on USPS-T-37, Workpaper 1.D, page 7, with those shown in USPS-LR-H-172, STBA96A, STBR96A, and STBD96A.

	<u>USPS-T-37</u>	<u>LR-H-172</u>
Intra-BMC	1.0197236	1.019987
Inter-BMC	0.9828643	0.982376
DBMC	1.00066296	1.000956

Response:

As was described in the response to question 11 of the Presiding Officer's Information Request No. 3 above, the billing determinants for Parcel Post were revised subsequent to the inclusion of the preliminary billing determinants into the volume forecasting spreadsheets. The revenue adjustment figures shown in Library Reference H-172 were appropriate for use with the volume distribution figures used there. However, when the revised billing determinants are substituted for the preliminary billing determinants, the revenue adjustment factors shown at page 7 of workpaper WP 1.D. of USPS-T-37 should be used.

1 MS. DREIFUSS: Mr. Chairman, I do have a question
2 about that packet. Witness Mayes I believe revised her
3 answer to OCA Interrogatory T-37-5. We saw the revision on
4 October 10. And I wondered if that was the answer that went
5 into the packet.

6 MR. REITER: Yes, it was. We made sure that that
7 was switched.

8 MS. DREIFUSS: Okay. Thank you.

9 CHAIRMAN GLEIMAN: On October 10 Witness Mayes
10 provided a written response to Presiding Officer Information
11 Request No. 4, question 8(b). I'm handing two copies of
12 that response to the reporter, and I direct that they be
13 transcribed at this point and received into evidence.

14 [Witness Mayes' Response to
15 Presiding Officer's Information
16 Request No. 4, Question 8(b), was
17 received into evidence and
18 transcribed into the record.]

19
20
21
22
23
24
25

8. Alaskan Bypass Mail

b. Pickup Volumes

- (1) In the development of the parcel post revenue adjustment factors (USPS-T-37, Workpaper 1.D, page 7), a portion of the pickup fee revenue is subtracted from the Intra-BMC RPW revenue with the remainder from the Inter-BMC RPW revenue. Are DBMC and Alaska Bypass eligible for pickup services? Please confirm that DBMC and Alaska Bypass revenues are not adjusted for any portion of the pickup revenues.
- (2) The TYBR pickup volumes are developed (USPS-T-37, Workpaper 1.1, page 1) using the ratio of total TYBR parcel volume to total BY parcel post volume. Should the DBMC and Alaskan Bypass volumes be excluded in development of the parcel post pickup volumes? If not, please explain.

Response:

- b. (1) Neither DBMC nor Alaska Bypass Parcel Post is eligible for pickup service. In the calculation of the revenue adjustment factors for Parcel Post, neither Alaska Bypass nor DBMC revenues were adjusted for pickup revenue.
- (2) Estimation of the test year pickup volumes could be performed by reference to the ratio of test year volume to base year volume, excluding DBMC and Alaska Bypass volumes. If this adjustment were made, the formula that develops the pickup volume should be changed such that the new volume over 108 inches is limited to the new oversized intra-BMC and inter-BMC volume. The result would be a decrease in the test year pickup volumes and costs, relative to the figures shown in my workpaper WP I.I., at page 1. If such adjustments were made, it would no longer be valid to assume that the test year pickup revenues remained a constant share of total Parcel Post revenue (See page 1 of my workpaper WP I.O.).

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross examination for Witness Mayes?

3 If there is none, then we can proceed with oral
4 cross examination. I have three parties listed for oral
5 cross examination: CTC Distribution Services, Florida Gift
6 Fruit Shippers Association, and United Parcel Service.

7 Mr. May --

8 MR. MAY: I did designate --

9 CHAIRMAN GLEIMAN: There was some question in my
10 mind. I thought I did see a request. So we'll just put you
11 right in there in the list where you belong.

12 MR. MAY: Thank you.

13 CHAIRMAN GLEIMAN: Hopefully I'll get the alphabet
14 right, but that's not a sure bet these days.

15 Any other party have oral cross examination for
16 witness ^{Mayes} ~~Mays~~?

17 If there is none, then CTC Distribution, Mr.
18 Miles.

19 MR. MILES: Mr. Chairman, John Miles, on behalf of
20 CTC Distribution Services.

21 We have no questions at this time of Ms. ^{Mayes} ~~Mays~~, but
22 would like to reserve for possible followup.

23 CHAIRMAN GLEIMAN: Certainly.

24 MR. MILES: Thank you.

25 CHAIRMAN GLEIMAN: Florida Gift Fruit Shippers.

1 Mr. Wells.

2 MR. WELLS: Thank you, Mr. Chairman, Maxwell Wells
3 for the Florida Gift Fruit Shippers Association.

4 CROSS EXAMINATION

5 BY MR. WELLS:

6 Q Ms. ^{Mayes} ~~Mays~~, turn if you will please to your response
7 to our Interrogatory No. 2.

8 A Yes, sir.

9 Q You use the term in (a) "adequately fill." What
10 does that mean?

11 A When I referred to adequately fill, I meant to
12 refer back to -- this is not going to be exactly a
13 clarifying statement -- but to the substantially full
14 containers that were utilized in the calculations of Witness
15 Crum and Witness Daniel in calculating the discounts, the
16 cost savings associated with the discounts.

17 Q To qualify for origin BMC rate a container has to
18 be substantially full?

19 A Yes, sir.

20 Q What is an appropriate container?

21 A The appropriate container --

22 CHAIRMAN GLEIMAN: Ms. Mayes, pull the mike a
23 little bit closer to you.

24 THE WITNESS: The appropriate containers I believe
25 are referred to in the testimony of Witness Crum, but I

1 would also add that we filed several responses to
2 interrogatories indicating that the final regulations have
3 not been developed for the implementation of all of these
4 discounts.

5 BY MR. WELLS:

6 Q So there's no way that a mailer can determine what
7 is necessary at this time?

8 A I don't have a copy of Witness Crum's testimony
9 with me, but I believe he's referring to Gaylords for
10 machineable parcels and pallets for nonmachineable parcels.

11 Q In B you refer to sufficiency full and I
12 understand you now to mean substantially full.

13 A We have a lot of adjectives. They're all
14 referring to the same thing.

15 Q Your proposed rate structure includes an element
16 of 2 cents per pound for nontransportation weight-related
17 handling costs. I asked you in our Interrogatory 5 to
18 identify the costs which are included as weight-related
19 nontransportation costs, and you say that any transportation
20 costs that are positively correlated with the weight of the
21 piece of mail.

22 Would you now please identify any
23 nontransportation cost that is positively correlated with
24 weight?

25 A As I said in my response to part (d) of that

1 question, I cannot. If I were able to identify specifically
2 what costs were tied to the weight of the piece, I think
3 we'd be a long way toward measuring the costs associated
4 with the weight of the piece. In the absence of such an
5 analysis, I adopted the Commission's precedent of using the
6 two-cent-per-pound nontransportation-weight-related handling
7 cost.

8 Q And your two cents per pound applies linearly to
9 each weight category; is that right?

10 A Yes, it does.

11 Q What is the reason that you do not relate the two
12 cents per pound on the curvilinear methodology that Witness
13 Hatfield has identified and has been used to allocate
14 transportation costs?

15 A Because there is a difference, the transportation
16 costs are incurred on the basis of cube, the cube that is
17 utilized in the truck or rail van and we are attempting to
18 translate costs that are incurred on the basis of cube into
19 a weight relationship for purposes of rate administration.

20 On the other hand, the two cent per pound is
21 explicitly understood to be associated with the weight of
22 the piece and not the cube of the piece. If, for instance,
23 we did an analysis and discovered that in fact there are no
24 costs that are incurred outside of transportation that are
25 weight related and that in fact all of these costs are cube

1 related, I think it would be appropriate to do that
2 translation from cube to weight.

3 But, for the moment, our understanding is that
4 there are some costs by Commission precedent that are weight
5 related and therefore we are using the weight
6 relationship -- we are not using the cube weight
7 relationship, we are tying them explicitly to the weight of
8 the piece.

9 Q Ms. Mayes, can you identify any nontransportation
10 cost that is weight related?

11 A No, sir, I can't. But I also haven't studied the
12 issue.

13 Q Can you identify any cube-related cost?

14 A Yes, sir. I believe if we examined the models
15 used by Witnesses Crum and Daniel you will find that certain
16 of the costs associated with moving or dumping containers
17 translate to a higher per piece cost if there are fewer
18 pieces in those containers.

19 Q And other than the containerization and the
20 loading and handling and emptying of containers, which are
21 cube related and not weight related; is that right?

22 A Right.

23 Q You cannot identify other nontransportation costs
24 that are either cube related or weight related?

25 A I haven't studied this issue.

1 Q Well, if you haven't studied it and you don't know
2 what it proposes to cover, why are you suggesting two cents
3 per pound?

4 A In keeping with Commission precedent, sir.

5 Q So two cents per pound is for some costs that you
6 can't identify, you haven't studied and you don't know what
7 they are?

8 A I believe you've put it well.

9 Q And the only costs that this two cents per pound
10 that you've identified is a cube-related cost and not a
11 weight-related cost; is that right?

12 A No, sir, I don't -- I don't think I've said that.
13 I am not expressing that the two cent per pound is intended
14 to proxy for a cube-related cost. In the absence of a study
15 that indicates explicitly which costs are cube related and
16 which costs are weight-related, I have adopted the
17 Commission's precedent of the two cent per pound.

18 Q The only costs that are to be covered by this two
19 cents that you can identify or have identified up to this
20 point are cube related costs; is that right?

21 A I'm not positioning the two cent per pound as
22 being a cube-related cost.

23 Q The cost that you intend for the two cents per
24 pound to cover are either weight related or cube related; is
25 that right?

1 A My understanding is that the two cents is supposed
2 to be a weight-related cost.

3 Q When I asked you to identify any cost that is
4 weight related, you said you have not studied that and
5 cannot identify any specific item of cost that is weight
6 related?

7 A That's right.

8 Q And when I asked you to identify any cube-related
9 cost, you identified the containerization matter that
10 Witnesses Crum and Daniel referred to and apart from that
11 type of costs which are cube related, you have not
12 identified any costs that are to be covered by this two
13 cents per pound?

14 A I believe that's correct.

15 Q And if the only cost you have identified is cube
16 related, then why isn't the cube/weight relationship used to
17 allocate this two cents per pound?

18 A Again, I reiterate my answer that the two cent per
19 pound is explicitly tied to the weight of the piece and if
20 we were to measure an attempt to trace cube-related costs
21 into the weight-oriented rate relationships then it would
22 probably be appropriate to do so, to use the cube/weight
23 relationship.

24 Q You think it would be appropriate to do if the
25 nontransportation costs that are affected by weight have a

1 relationship to cube?

2 A I don't know that I would translate it backwards
3 like that because, at this point, we don't have a
4 dimension-based pricing structure, we have a weight-based
5 pricing structure. I don't see any reason why I would want
6 to take weight-related costs and translate them into a cube
7 relationship that I then couldn't put into the
8 weight-oriented rate structure.

9 Q Doesn't the rate structure include an element to
10 cover transportation costs which are determined on a weight
11 basis and a curvilinear structure based on cube?

12 A No, I think actually quite the opposite, that the
13 costs are incurred on a cube basis and are translated into a
14 weight structure.

15 Q So if you computed -- determined it on a cube
16 basis, you can translate it into a weight basis on a
17 curvilinear method, can't you?

18 A Oh, if these costs are incurred on the basis of
19 cube. I'm sorry, I thought you said they were incurred on
20 the basis of weight. No, if they were incurred on the basis
21 of cube, we could translate them into --

22 Q But the only costs that you've identified are
23 incurred on a cube basis?

24 A Well, as I said, I haven't measured any of them.

25 Q But you haven't identified any costs that are

1 there because of weight?

2 A Right, I haven't measured that.

3 Q And you have identified some costs on the basis of
4 cube?

5 A Some. There could be many, there could be few; I
6 don't know.

7 Q You just don't know?

8 A That's right.

9 Q But the only ones you've identified are based on
10 cube?

11 A The ones that we have explicitly discussed are
12 incurred on the basis of cube.

13 Q And those are the only ones that you have
14 explicitly identified?

15 A Yes. Again, I haven't studied it.

16 Q If the only thus-far identified additional costs
17 are based on cube, then would not the cube/weight
18 relationship be a proper basis for apportioning that cost
19 among the several parcels, weight categories?

20 A If those costs were measured explicitly on the
21 basis of cube and we wished to translate them into the rate
22 structure for parcel post, it probably would be necessary to
23 do so on the basis of weight, yes.

24 Q Very good.

25 You, in your answer to number 9, say that you

1 constrain the increases to mitigate against the rate shock.
2 At what level does rate shock come into play for a parcel
3 mailer?

4 A When I said "rate shock," I did not mean to refer
5 to any explicit understanding of what a particular mailer
6 would find to be too high of an increase.

7 Q For other classes or subclasses of mail, the range
8 of 8 to 10 percent has been referred to as being the top
9 level to avoid rate shock but you did not make such a
10 determination; is that right?

11 A That's right.

12 Q Because your rates are a 30 percent increase?

13 A That's right.

14 Q And you don't think 30 percent creates rate shock
15 to mailers of parcels?

16 A When compared to 10 percent, yes, 30 percent would
17 be high. But I would like to remind you of several things.
18 The subclasses to which you refer which have an 8 to 10
19 percent maximum increase associated with their rates are
20 probably subclasses that were involved in the
21 reclassification case in which their rate structures were
22 reexamined and rates were shuffled around. I wouldn't
23 expect so soon after the reclass case that those classes of
24 mail would require a major restructuring.

25 On the other hand, parcel post was not part of

1 that reclassification case. Therefore, a lot of the
2 restructuring you found in the reclass case for those other
3 classes of mail was not experienced by parcel post. So, in
4 essence, I am trying to do two things at once in this case,
5 since we missed our chance on the reclass case.

6 In addition, as you have probably noticed, the
7 transportation analysis by Witness Hatfield indicates that
8 there may be some major changes to the costs required as a
9 result of that analysis and when I looked at the size, the
10 nature of those changes, I determined that 30 percent was
11 not exorbitant considering that some of the cells should
12 have changed 60 to 80 percent.

13 I would also note that in this docket parcel post,
14 because of its historical inability to cover costs, required
15 about a 10 percent, slightly more than 10 percent increase
16 in order to achieve the cost coverage goals of Witness
17 O'Hara. In order to do that, I would not expect that since
18 the average increase was 10 percent that I would find all of
19 my rate increases to be below the average.

20 Q But in any event, your determination is that a 30
21 percent increase does not result in rate shock to the
22 mailers of parcels?

23 A My determination is that a mailer will not be
24 happy with a 30 percent increase but he would be much
25 happier with a 30 percent increase than a 60 percent

1 increase, sir.

2 Q You mentioned in your earlier response that parcel
3 post has not covered its cost. What is the foundation for
4 that statement?

5 A The Postal Service's cost and revenue analysis
6 reports.

7 Q And does that cost and revenue report make the
8 Alaska Bypass adjustment that this Commission has mandated
9 in the press?

10 A No, sir. The Postal Service considers Alaska
11 Bypass costs to be volume variable and associated with
12 parcel post.

13 Q Regardless of what the Commission feels, the
14 Postal Service feels it's going to do its own thing?

15 A I don't know that I would phrase it quite that way
16 but, yes.

17 Q If you made the Alaska Bypass adjustment, does
18 parcel post still see a loss?

19 A I have not -- well, first of all, I don't do
20 costing. Secondly, I am not aware that the Postal Service
21 has done or if they have done I have not seen a Commission
22 version of the costs for parcel post.

23 Q You haven't seen it, in any event?

24 A No. I don't know if it has been done.

25 Q But if the Alaska Bypass adjustment was the same

1 as it was in the last case then Parcel Post does not show a
2 deficit, does it?

3 A Are you speaking of before rates or after rates,
4 sir?

5 Q Either.

6 A Either? Without seeing the numbers, I would
7 hesitate to answer but again I would reiterate that as far
8 as the Postal Service is concerned, those costs are part of
9 ~~Postal Service~~ *Parcel Post* costs.

10 Q When you say that you constrain some rates so as
11 to not decrease, how did you determine when that constraint
12 of no decrease would be applied and when it would be
13 abandoned?

14 A Basically I believe -- I might have responded to
15 this in an interrogatory --

16 Q Well, looking at work paper N, page 11, does that
17 reflect the only rate decreases or DBMC Zones 1 and 2 for
18 two and three pound?

19 A I'm sorry you said 1 and --

20 COMMISSIONER LeBLANC: Mr. Wells, can you speak up
21 just a little bit. I am having trouble. Thank you.

22 BY MR. WELLS:

23 Q Work paper I.1.N, page 11.

24 A Page 11.

25 Q Shows a decrease in Zones 1 and 2 for parcels two

1 and three pounds. Are there any other rate decreases?

2 MR. McKEEVER: Mr. Chairman, may I ask Mr. Wells
3 for a clarification of the question? I take it that he is,
4 when he asked that question he does not have in mind the new
5 work sharing discounts such as DSCF that the Postal Service
6 is proposing?

7 MR. WELLS: Those are not reductions of current
8 rates. Those are additional discounts.

9 CHAIRMAN GLEIMAN: Does that clarify the question
10 for you?

11 MR. McKEEVER: Sufficiently yes, thank you.

12 THE WITNESS: You're right. On work paper 1.N the
13 two cells that you have cited on page 11 are the only two
14 that have decreases.

15 To your earlier question, I was guided by postal
16 management to not produce rates in Zones 3 through 8 that
17 experienced a rate decrease.

18 MR. WELLS: Very well. That's all the questions I
19 have, Mr. Chairman.

20 CHAIRMAN GLEIMAN: Thank you, Mr. Wells.

21 Mr. May?

22 CROSS EXAMINATION

23 BY MR. MAY:

24 Q Ms. Mayes, to follow up on one of Mr. Wells'
25 questions concerning the two cent per pound weight related

1 on transportation handling costs, in response to their
2 Question 5(e), you go on there to say that the use of -- you
3 say, "Even if the costs represented by the two cents per
4 pound are more closely related to the cube of the parcel and
5 not the weight, the use of weight as a proxy for cube is not
6 unreasonable given the generally positive correlation
7 between the two."

8 Would the correlative of that be true, that is,
9 that it would not be unusual to use cube as a proxy for
10 weight if there is a generally positive correlation between
11 the two?

12 A I don't know, because as Witness Hatfield
13 indicated, we haven't studied the opposite direction of this
14 relationship and as I also said to Mr. Wells, since my rate
15 structure is based on the weight of the piece and not the
16 cube of the piece, I don't quite understand why I would want
17 to do a translation from weight to cube.

18 Q Well, this is one where you would be using cube as
19 a proxy for weight. That was my question -- whether you
20 could use cube as a proxy for weight.

21 A If I could measure some costs that were
22 cube-related, I could translate them into a weight
23 relationship, yes.

24 Q Now if you will look at your answer to PSA-9(a),
25 you confirmed in that answer that your 10 cent surcharge on

1 Standard A parcels does disproportionately affect "low cost,
2 low weight item" but you also state that such a result may
3 not necessarily be unfair "particularly when the measured
4 cost difference between the flat shaped and residual shaped
5 items was measured on a per piece basis and is significantly
6 higher than the proposed surcharge."

7 Now in brief, does that not mean that because the
8 surcharge is significantly less than the average cost
9 differential between a flat and a parcel it is not unfair to
10 charge 10 cents to a parcel that is not the average but a
11 parcel that in fact has less than 10 cents cost difference
12 with a flat because there are other parcels that have a cost
13 differential that is considerably more than the 10 cents, is
14 that your answer?

15 Is that what you mean in that answer?

16 A I don't know that I would have gone on quite that
17 far, Mr. May.

18 First of all, I would note that I didn't establish
19 the parcel surcharge in this docket. That was Witness
20 Moeller and perhaps this question would be better addressed
21 to Witness Moeller.

22 The fairness issues that we are discussing in the
23 context of this interrogatory I believe was contrasting the
24 parcel surcharge with my application of the additional
25 markups to make up for the lost revenue due to the rate

1 constraints in Parcel Post.

2 Q I know that, but you did answer the question
3 though and you did say --

4 A My mistake, sir --

5 Q -- so I am simply trying to ask you, let us
6 assume, as has been speculated, that there indeed are some
7 parcels that cost no more than flats.

8 Your answer here suggests that in the case of
9 those parcels it is not unfair to hit them with a 10 cent
10 surcharge even though they don't cost any more, because
11 there's a lot of other parcels that do cost a lot more than
12 10 cents.

13 Isn't that what this answer means?

14 A I don't think I had intended to go into such
15 analysis.

16 My response was meant to indicate that it was my
17 basic understanding that Witness Crum had measured a cost
18 difference and that Witness Moeller had not passed through
19 that full cost difference and that furthermore the cost
20 difference as measured by Witness Crum was done on a per
21 piece basis.

22 Q Nevertheless, the question asked you whether or
23 not this surcharge, did it not disproportionately affect low
24 cost, low weight items and you said yes, it does, but you
25 don't think it's unfair.

1 Isn't that what you said?

2 A I don't know that I would phrase it quite that
3 way, but I would agree that if by "disproportionately
4 affect" you mean that a per piece surcharge would represent
5 a higher percentage for lower rate, lower cost items, then
6 yes, it would be a higher percentage for those.

7 Q And my question was -- but you go on to say that
8 you don't think that is unfair because there are so many
9 parcels that indeed have a cost differential that is more
10 than the surcharge.

11 A Again, I am not that familiar with the analysis,
12 and my intention was not to point out the difference between
13 a particular parcel and the average parcel but rather to
14 indicate that the cost difference as measured by Witness
15 Crum was in my understanding not fully passed through by
16 Witness Moeller.

17 Q But nevertheless that doesn't cause you to be
18 concerned about the low cost, low weight item that may have
19 no cost difference, did it?

20 A I am not aware of any low cost items. I am not
21 aware of an analysis that demonstrates a difference in cost
22 by weight.

23 Q By weight?

24 A Well, I am saying by weight but you are indicating
25 low cost and in your previous phraseology you had put low

1 cost, low weight together.

2 Q I did, yes, and that is the question you answered.

3 A Yes.

4 Q But you are not aware that there is any such item
5 as a low cost, low weight parcel?

6 A I haven't studied the costs of parcels in Standard
7 A.

8 Q No, but are you aware whether anyone else in the
9 Postal Service has?

10 A I would have to refer you back to Witness Crum. I
11 don't know.

12 Q But you don't know whether there is such a study?

13 A Other than Witness Crum's testimony, I don't know
14 of any.

15 Q Well, assume that there is a study that shows that
16 indeed there are some low cost, low weight parcels. Assume
17 that that is the case.

18 My question then is if that is the case, is it not
19 unfair to charge such parcels with this 10 cent surcharge?

20 MR. REITER: Mr. Chairman, I think we are getting
21 very, very far afield here.

22 As Witness Mayes has indicated, Mr. May is cross
23 examining her concerning a surcharge proposed by Witness
24 Moeller based on a cost study by Witness Crum.

25 The reason she answered this question was because

1 Mr. May's interrogatory asked her to contrast that approach
2 to one she actually used. That is the only reason she got
3 into this.

4 I think that was a fair question. She was able to
5 do that, but this testimony here today is about Standard B
6 rates and not Standard A.

7 MR. MAY: Mr. Chairman, her testimony is what it
8 is. It is in the record now. She answered the question.
9 The answer was put into evidence and I am asking her about
10 her sworn testimony.

11 MR. REITER: I think ^{that} ~~that~~ what she has indicated
12 was that she is not familiar enough with the details of that
13 to get to the level that Mr. May is now approaching, not
14 that she can't explain her answer.

15 She has explained her answer based on her own
16 knowledge.

17 CHAIRMAN GLEIMAN: Well, I am going to allow the
18 line of questions to continue and if the witness feels that
19 she cannot answer the questions for one reason or another,
20 then she can state the particular reason that she is either
21 uncomfortable with the question or unable to answer it, so
22 we will allow Mr. May to go on.

23 BY MR. MAY:

24 Q If you can't answer, do you want to withdraw you
25 statement that you don't think it is unfair, which is what

1 your testimony was.

2 You said you don't think it is unfair.

3 A I don't think it is unfair.

4 Q And that is what I want you to explain to us, why
5 you don't think it is unfair to charge a parcel a 10 cent
6 surcharge when that particular parcel in the hypothetical
7 doesn't cost any more than a flat.

8 A I believe, Mr. May, that we are both operating in
9 an environment in which we wish we had more information. If
10 there were a cost study that could track costs in more
11 detail, then I think the Postal Service would be interested
12 in considering a different approach to costing and pricing
13 such items. We don't have, to my knowledge, such a study.
14 In the absence of such a study, we have Witness Crum's
15 analysis and Witness Moeller's rate design approach both of
16 which, to my knowledge, indicate that there are cost
17 differences that are incurred on a per piece basis.

18 In such circumstances, I don't believe that it is
19 unfair to incur a surcharge on the basis of -- on a per
20 piece basis as opposed to differentiating it.

21 Q Can you reconcile or at least rationalize why in
22 the case of another -- in another case where you don't have
23 any studies and that has led you to impose a two cents per
24 pound surcharge on the basis of weight why, in this case,
25 where you likewise don't have any study of the effects of

1 shape or cost as such, it has led you to impose not a weight
2 charge but a piece charge? Why is there a different
3 standard between the two parcels, standard A parcels and
4 standard B parcels?

5 A At this point, I would have to refer you to the
6 testimony of Witness Crum.

7 Q Well, but the question is -- isn't the cost
8 question. The question is why have you chosen to elect to
9 have different kinds of charges? In the one case, standard
10 B which Mr. Wells asked you about, you chose in the place of
11 no studies, in the absence of any studies, you chose to
12 inflict the charge on a weight basis and, in this case, in
13 standard B, you choose not to do it on the weight basis but
14 rather on a piece basis. Why the inconsistent treatment of
15 fixing a charge or covering a cost in the -- where you in
16 both cases have an absence of studies? Why have you done it
17 differently?

18 A I would not indicate that there was an absence of
19 study in the case of the surcharge on residual shaped items
20 in standard A. We have the testimony of Witness Crum.

21 As to why the two cent per pound, weight related,
22 nontransportation handling cost is assigned on a weight
23 basis, I would refer to the name of the surcharge itself, in
24 that it is explicitly understood to be tied to the weight of
25 the piece. In the case of the residual shaped surcharge, my

1 understanding is that it is a continuation of the
2 shape-based rate design and shape-based costing as opposed
3 to an extension of the weight-related nontransportation
4 handling costs.

5 Q In your response to Mr. Wells, you stated there
6 that in the case of standard B parcels this
7 nontransportation cost were in fact cube related. In other
8 words, piece related. That's not a problem because you have
9 used weight as a proxy for cube and my question is why
10 didn't you use weight as a proxy for cube in standard A
11 where cube or space seems to be the cost driving factor?

12 A I may have to ask you to repeat your question
13 because I got distracted by your assertion that cube was
14 related to piece. And I would say that that's not the case,
15 that a cost incurred on a per piece basis is not the same as
16 a cost incurred on a cubic feet basis.

17 Now, I will have to ask you to repeat your
18 question because, as I said, I got distracted by the
19 assertion.

20 Q You said in your answer to the Fruit Shippers,
21 5-E, that even if the costs represented by the two cents per
22 pound are more closely related to the cube shape of the
23 parcel and not the weight, the shape, the shape of the
24 parcel, and not the weight, the use of weight as a proxy for
25 cube is not unreasonable.

1 Now, as I understand Mr. Crum's testimony, he is
2 saying the cost in standard A parcels are shape related; is
3 that not true? That's the name, as you pointed out, that's
4 the name of the surcharge.

5 A My understanding is that Witness Crum is pointing
6 to shape. I am not familiar enough with his work to be able
7 to say that shape is a proxy for cube in those
8 circumstances, though.

9 Q Do you think there is a difference between shape
10 and cube?

11 A Yes, sir.

12 Q And the -- and do you think there has been any
13 attempt to measure that difference between shape and cube?

14 A Again, I'm not aware of the details and the
15 natures of studies that have been done to track costs on the
16 basis of cube.

17 Q The question I had asked, though, was why if
18 weight is a sufficient proxy for cube-driven costs, they are
19 not a sufficient -- it is not a sufficient proxy in standard
20 A to tax cube-driven costs?

21 A I don't know without much more examination of
22 Witness Crum's testimony. I couldn't represent that it is a
23 measure of cost by cube.

24 Q Because you are making a distinction between cube
25 and space.

1 A Cube and shape.

2 Q Cube and shape, rather.

3 A Right.

4 Q And to your knowledge is there anyone else at the
5 Postal Service who has ever made that distinction?

6 A I would argue that every rate witness who has
7 testified on parcel post rates in the past has made that
8 distinction.

9 Q Between shape and cube?

10 A Yes, sir, because presumably most if not
11 all -- now, there may be some exceptions in terms of tubes
12 or jiffy bags or some such unusual items in parcel post, but
13 predominantly parcel post is parcel shaped and yet we have a
14 very wide range of cube within that category.

15 Q One final thing and that's with respect to your
16 answer to Parcel Shippers' question 7-B. In that case, you
17 state that for parcel post, total costs were distributed to
18 the rate cells and then some of the resulting rates were
19 constrained to prevent them from conflicting with Priority
20 Mail rates or charging so much that the rate shock needed to
21 be mitigated. Mr. Wells asked you about that, you will
22 recall.

23 You go on to say that a result of implementing
24 these constraints was that the revenue required from the
25 subclass with these constrained rates did not match the

1 total revenue requirement for the subclass. You then state
2 that in order to recover the resultant revenue deficiency,
3 you applied an "additional markup factor" to parcel post in
4 order to meet the revenue requirement.

5 First of all, could you explain who determined the
6 revenue requirement and whether that is something distinct
7 from cost coverage or whether they are meant to be the same?

8 A Well, the revenue requirement would be tied to the
9 cost coverage. The revenue requirement is basically the
10 cost coverage applied to your test year costs.

11 Q And who determined that?

12 A Dr. O'Hara determined the cost coverage.

13 Q He is the one who determined what it should be,
14 right?

15 A Right.

16 Q And so he gave you that number and then you
17 did -- went through these manipulations. You say, well,
18 we're short.

19 A That's right.

20 Q And so we've got to have an additional markup
21 factor to meet this coverage; is that what happened?

22 A That's right.

23 Q What percentage was the initial markup factor?

24 A In the first round it was in the neighborhood of 4
25 percent and in the second round, after further constraining

1 the rates -- after applying the 4 percent additional markup,
2 some additional rates had to be constrained because they
3 crossed the threshold and a subsequent markup of 0.36
4 percent had to be applied.

5 Q So we end up in the final iteration with, what,
6 4.36 percent additional markup?

7 A Applied to the rates that were not constrained.

8 Q Okay. Now, would it be correct to say if parcel
9 post rates after you had done all these distributions,
10 including the constraints that were needed, if at that point
11 parcel post had met its revenue requirement, is it safe to
12 say that you would have proposed no additional markup?

13 A That's right.

14 MR. MAY: That's all, Mr. Chairman.

15 CHAIRMAN GLEIMAN: Mr. McKeever?

16 CROSS EXAMINATION

17 BY MR. McKEEVER:

18 Q Ms. Mayes, in your colloquy with Mr. Wells, you
19 identified, I believe, two rate cells, DBMC rate cells,
20 where the proposed rates represent decreases from the
21 current rates; is that correct?

22 A Right.

23 Q And those rate cells are two and three pound
24 parcels that move to zones 1 and 2?

25 A That's right.

1 Q DBMC accounts -- the DBMC rate category accounts
2 for about 59 percent of the total volume of parcel post in
3 the test year after rates; is that correct?

4 A I would have to do the math but it is certainly
5 more than half, yes.

6 Q Okay, if you look at your Workpaper 1-A, please?

7 A Right.

8 Q There you show in the test year after rates the
9 volume distribution among the different rate categories?

10 A That's right.

11 Q And total parcel post volume in the test year
12 after rates is about 229.9 million pieces?

13 A That's right.

14 Q And for DBMC it's 136.4 million pieces?

15 A Right.

16 Q So, as you say, it's well more than half of total
17 parcel post volume?

18 A Right.

19 Q Now could you turn to your work paper 1(a) at page
20 12, please.

21 A Yes, sir.

22 Q There you show test year before rates volume for
23 the different rate cells?

24 A Right.

25 Q And this is DBMC now we are talking about, right?

1 A Right.

2 Q And there for two and three pound parcels in Zones
3 1 and 2, if you add those volumes up you get about 55.5
4 million parcels, is that correct?

5 A Yes, sir.

6 Q That is about 41 percent of total DBMC volume?

7 A Oh, you are taxing my math brain right now --
8 subject to check.

9 Q Yes. What I have done is I have taken the 55.5
10 million and divided it by the total shown on the next page,
11 page 13, of 136.7 million parcels.

12 A Right.

13 Q That is the right calculation?

14 A Right.

15 Q And my numbers come out to about 41 percent of
16 DBMC volume is in those two rate cells.

17 A It certainly dominates the category, yes, sir.

18 Q Okay. Now can I move to your work paper is it a
19 one, by the way, or an "i" --

20 A I have taken more grief ^{over my workpaper numbering} ~~my~~ convention. It is
21 meant to be a roman one.

22 Q Roman one.

23 A Roman one, that's right.

24 Q Well, good, that's how I take it, so let's talk
25 about it as a one.

1 Can we go to your work paper I(n) at page 5.

2 A Yes, sir.

3 Q That shows your final proposed rates for DBMC, is
4 that correct?

5 A That's right.

6 Q And if you take a look at the rate for a four
7 pound parcel to Zone 1 and 2, the proposed rate is \$2.26?

8 Excuse me, two dollars --

9 A -- and 34 cents?

10 Q \$2.34, yes.

11 A Right.

12 Q And if I wanted to compare that to the current
13 rate, I would go to work paper I(c)?

14 A Yes.

15 Q And there the current rate for a destination BMC
16 four pound parcel going to Zone 1 and 2 is \$2.33?

17 A That's right.

18 Q So you are proposing a one cent increase in the
19 rate for that rate cell?

20 A That's right.

21 Q And according to your work paper I(a) at page 12
22 there are approximately 17.7 million parcels in the test
23 year before rates in that rate cell?

24 A Right. 17.7.

25 Q And similarly, if we take a look a two pound

1 parcels sent to Zone 3 and compared the proposed rate in
2 work paper I(n), page 5, to the current rate in work paper
3 I(c) at page 7, we would find that the proposed rates
4 represent a one cent increase for parcels in that rate cell,
5 is that correct?

6 A That's right.

7 Q And your work paper I(a) at page 12 shows that
8 there are about 4,160,000 parcels in that rate cell.

9 A That's right.

10 Q Now if I add up the 55.5 million parcels that get
11 a rate decrease with the parcels that get a one cent
12 increase, that is 55.5 million plus 17.735 plus 4.160.

13 I get about 77.4 million parcels.

14 A Yes sir.

15 Q And that represents about 57 percent of total DBMC
16 volume in the test year before rates, is that correct --
17 77.4 divided by --

18 A The 136.7?

19 Q Right.

20 A Right. Subject to check it sounds right.

21 Q Okay, and in fact if I compare that to the total
22 volume for Parcel Post it comes out to a little bit over 33
23 percent -- 33.7 percent, dividing 77.4 million by the total
24 Parcel Post volume of 229.9 million.

25 A I think your logic is correct, but I am a little

1 bit worried that we are mixing up test year before rates and
2 test year after rates volumes here.

3 Q Okay.

4 A Because I think the volumes that you were
5 referring to at ^{I.A.} ~~I(a)~~ were the test year before rates
6 volumes, and on the first page -- the 229 figure is an after
7 rates number.

8 Q Okay. Well, your proportions stay the same,
9 before rates and after rates, right?

10 A The proportions stay the same, but if you are
11 dividing a test year before rates volume by a test year
12 after rates total, you are going to get a different result,
13 but the direction is correct.

14 Q Okay. Actually, without mixing it up then, the
15 correct calculation would be the 77.4 divided by 241.6
16 million?

17 A Right.

18 Q Okay, and it is in the neighborhood of 30 percent
19 of total Parcel Post parcels?

20 A That is about right.

21 Q ^{Are} ~~or~~ in those rate cells where there would be a rate
22 decrease or a one cent increase?

23 A Right.

24 Q Okay. Now the proposed DSCF rates are discounts
25 off the DBMC rates, is that correct?

1 A That is how I have calculated them, yes.

2 Q Okay. Have you calculated the average rate
3 decrease measured by average revenue per piece for DSCF
4 parcels?

5 A If I have, I'm not sure I have it with me.

6 I don't think I have that calculation.

7 Q Okay. We did do that calculation and we got a
8 rate decrease of about 17.3 percent or that the BSCF rates
9 are about 17.3 percent lower than the DBMC rates on average.

10 Does that sound familiar to you, or does that
11 sound right?

12 A Are you calculating this off of the DBMC Zone 1
13 and 2 rates?

14 Q We are using average revenues per piece for the
15 category.

16 A Average revenue per piece for DBMC as a whole and
17 average revenue --

18 Q No. What we are doing is we are calculating the
19 average revenue per piece for parcels that now get the DBMC
20 rates but are entered at the DSCF compared to what those
21 same parcels now entered at the DSCF, compared to the rates
22 they will pay when the DSCF discount is put into effect.

23 The rate change for those parcels that are already
24 entered at the DSCF, that is the calculation I am talking
25 about -- average revenue per piece.

1 A I'm not sure whether that would be the appropriate
2 calculation.

3 Q Well, if you wanted to measure --

4 A Well, in the absence of further information as to
5 the zones that these are being entered as -- currently as
6 DBMC parcels as opposed to how they would be entered as DSCF
7 parcels.

8 Q Well, you assume the same zonal mix, test year
9 before rates and test year after rates, don't you?

10 A For DBMC, but the DSCF parcels I believe by
11 definition would be Zone 1 and 2.

12 Q Yes, but we are comparing parcels that are now
13 entered at a destination sectional center facility and the
14 rates they now pay compared to the rates that those same
15 parcels would pay with no change -- they are still entered
16 at the destination SCF.

17 A In which case though I would suggest that you
18 probably should be using the DBMC Zone 1 and 2 rates, a
19 weighted average of the DBMC Zone 1 and 2 volumes to do your
20 calculation, and I am not sure what those numbers would end
21 up to be.

22 Q Okay, well, we can make the calculation. I won't
23 ask you to do it here today.

24 A Okay, thank you.

25 Q You would follow the same procedure for

1 destination delivery unit parcels?

2 A No, sir.

3 Q How would you do that?

4 A Destination delivery parcels I would tie to the
5 local rate -- the intra-BMC local rate.

6 Q Okay, and I think you mentioned that in one of
7 your interrogatory responses.

8 A Yes.

9 Q Okay. Now individual and smaller parcel mailers
10 pay the inter-BMC and intra-BMC rates, is that correct?

11 A Yes, sir.

12 Q Did you check what the rate increase for those
13 users would be? That is, the rate increases for inter-BMC
14 and intra-BMC rates?

15 A I'm not sure I understand the question.

16 The same constraints as far as 30 percent up and
17 either zero and 15 percent down applied to all the rate
18 structures.

19 Q Well, I understand that. What I am asking you is
20 did you compare your proposed inter-BMC rates with the
21 current inter-BMC rates?

22 Now the proposed rates after all the constraints
23 are done, did you compare those --

24 A Oh, absolutely.

25 Q -- did you compare those proposed inter-BMC rates

1 with the current inter-BMC rates to get an average rate
2 increase for inter-BMC?

3 A Oh, to get an average rate increase for inter-BMC?
4 I don't know that I did. If I did, I don't have a
5 calculation with me.

6 Q Okay. That wasn't a matter of concern to you, the
7 size of that rate increase?

8 A No. After applying the constraints on a cell by
9 cell basis, no.

10 Q Okay. Now we did do the calculation and we came
11 up with a rate increase based on average revenue per piece
12 of about 21.5 percent.

13 Does that sound familiar or right to you?

14 A I don't know how you did your calculation.

15 Q You don't know? Okay.

16 Excuse me. We came up with 16.5 percent for
17 inter-BMC. We came up with 21.5 percent for intra-BMC,
18 okay?

19 Now you are proposing discounts of course for DSCF
20 and DDU, but you are also proposing some other discounts,
21 the OBMC or Origin BMC entry discount, a pre-bar code
22 discount, and a BMC presort discount, is that correct?

23 A Yes, sir.

24 Q Now suppose a drop shipper brings 100 pre-barcoded
25 machinable parcels to a BMC. If 50 of them are to be

1 delivered in that BMC's service area, he'd get the DBMC
2 rate, is that correct?

3 A Yes, sir.

4 Q And since they are pre-barcoded he would also get
5 a pre-barcode discount of 4 cents apiece on those parcels?

6 A Yes, sir.

7 Q And the other 50 parcels, the ones that are not
8 DBMC parcels, they would also get the pre-bar code discount
9 of four cents per piece?

10 A Did we establish that these were all machineable?

11 Q Yes.

12 A Yes. Then they would.

13 Q Okay. And they'd also get the OBMC discount of 57
14 cents per piece?

15 A That would depend on how they were prepared.

16 Q Well, let me refer you to your answer to UPS
17 Interrogatory 9(e).

18 Excuse me, that deals with the pre-bar code
19 discount. What is it about them that would require
20 preparation in order to get the OBMC discount? They would
21 have to be sorted to destination BMC?

22 A Right.

23 Q Okay. As long as the mailer sorted those 50
24 parcels to destination BMC, he would get the OBMC discount
25 of 57 cents per piece.

1 A Assuming that you have somehow cut those 50
2 parcels up among the destination BMCs such that you have
3 sufficiently full containers.

4 Q Okay. So if say the 50 were going to two
5 different BMC areas and you'd had say like an equal split,
6 then he would get them; right? Twenty-five parcels going to
7 each BMC area?

8 A I think then we're venturing into the
9 nonmachineable area. Those would have to be mighty large
10 parcels. But theoretically if you had --

11 Q Why would they have to be large parcels. I don't
12 understand.

13 A To sufficiently fill a Gaylord.

14 Q Okay.

15 A Twenty-five parcels -- my recollection is that the
16 numbers used by Witnesses Crum and Daniel were much larger
17 than that.

18 Q To fill a Gaylord.

19 A If these theoretical 25 parcels that were
20 machineable were also large enough to fill a Gaylord, then
21 yes.

22 Q Then I could just change the numbers to him
23 bringing a thousand parcels, for example.

24 A That would make --

25 Q Okay.

1 A That would make it easier. Yes.

2 Q Fine. I was trying to keep the numbers simpler,
3 but that's okay.

4 Now if a drop shipper brings 50 pre-bar coded
5 parcels to an SCF and 30 were to be delivered in that SCF
6 service area, those 30 parcels would get the DSCF discount;
7 right?

8 A If they were presorted to five digits.

9 Q Right. Right. And if the other 20 were to be
10 delivered in the same BMC area, they'd get the intra-BMC
11 rates.

12 A I believe so.

13 Q And they'd -- if they were machineable and pre-bar
14 coded, they'd also get on top of that the pre-bar code
15 discount of four cents per piece; is that right?

16 A I've got 20 machineable pre-bar coded pieces being
17 entered at --

18 Q At an SCF.

19 A At an SCF.

20 Q And staying in the same service area of the BMC
21 that services that SCF.

22 A I don't know the answer to that, because I'm not
23 sure whether those parcels would go back to the BMC, which
24 would be the only location where you would have bar code
25 readers. I'm not sure.

1 Q So you don't know whether machineable pre-bar
2 coded parcels entered at an SCF that stay in the intra-BMC
3 area serviced by that SCF would get the discount or not?

4 A I think you just changed the conditions. If
5 they're staying in the intra-BMC service area, then I would
6 expect they would get the discount.

7 Q That's what I meant to stipulate earlier.

8 A Oh. Because earlier you said they were staying in
9 the same SCF service area.

10 Q No, I meant to say the same BMC service area.

11 A Oh, if it's --

12 Q If I said same SCF, I apologize.

13 A Okay. No, if it's the same BMC service area, but
14 not necessarily the same SCF service area, then I would
15 expect they would also get the discount.

16 Q Okay. Could you turn to your Work Paper 1-I
17 please, at page 1.

18 A Yes, sir.

19 Q Now there you show -- and the term you use is the
20 effective passthrough for each of the discounts that are
21 proposed; is that correct?

22 A Yes.

23 Q And for the estimated DBMC nontransportation cost
24 savings, the passthrough is more than 98 percent; is that
25 correct?

1 A Slightly more; yes, sir.

2 Q For the pre-bar code cost savings, the passthrough
3 is 100 percent?

4 A Yes, sir.

5 Q And the passthrough for the nonmachineable BMC
6 presort cost savings is 97.56 percent?

7 A Yes.

8 Q And it's 89.55 percent for the machineable presort
9 cost savings?

10 A Yes.

11 Q And for the estimated DSCF nontransportation cost
12 savings, the passthrough is more than 99 percent; is that
13 correct?

14 A Slightly more; yes.

15 Q And it's 99.7, 99.65 percent for the OBMC
16 discount?

17 A Yes.

18 Q It's 98.47 percent for the DDU discount?

19 A Yes.

20 Q And I believe you answered in your response to
21 Interrogatory, UPS Interrogatory 24-A that the calculated
22 transportation cost saving passthroughs are 100 percent. Is
23 that correct, with some slight variation due to rounding?

24 A Right. I took the transportation -- unit
25 transportation costs from Witness Hatfield and applied them

1 to the cube-weight relationships and carried them through;
2 yes.

3 Q And in your answer to Interrogatory UPS 24-A you
4 say that those passthroughs are 100 percent.

5 A Except for rounding; yes.

6 Q Right. Okay. Could you turn to your answer to
7 UPS Interrogatory 47, please?

8 A Yes.

9 Q Now, there you confirm in your answer to part A
10 that in the test year after rates the revenue loss due to
11 the prebarcode discount is a little more than 3.9 million,
12 correct?

13 A Right.

14 Q And the costs saved in the test year after rates
15 would be \$160,399?

16 A Right.

17 Q For the BMC presort discount the revenue lost in
18 the test year after rates would be \$1,422,912?

19 A Right.

20 Q And the costs saved would be \$87,577?

21 A Right.

22 I would like to clarify that we are talking about
23 additional costs saved.

24 Q Over and above -- that's because we are talking
25 about those mailers who are now doing these?

1 A Exactly.

2 Q Now, as a result of implementing the OBMC
3 discount, the revenue lost in the test year after rates
4 would be more than 6 million?

5 A Yes.

6 Q And the costs saved would be about 4.4 million?

7 A Yes.

8 Q And one more. The revenue lost as a result of the
9 DSCF discount in the test year after rates would be about
10 7.4 million?

11 A Yes.

12 Q And the additional costs saved would be 3 million?

13 A Yes.

14 Q Ms. Mayes, the costs subject to the Alaska Bypass
15 adjustment are incurred to handle mail that moves as parcel
16 post; is that correct?

17 A That's right.

18 Q You stated earlier that, and I don't recall
19 whether it was in response to a question from Mr. Wells or
20 Mr. Mayes, that management said that you should not decrease
21 the rates in zones 3 to 8. Did I hear you correctly?

22 A Yes.

23 Q Do you know why you were given that direction?

24 A There were several reasons. One is that in zones
25 3 through 8, because of the distance involved, the belief

1 was that our service is perhaps not as good in terms of days
2 to delivery as in the shorter haul, that we seem to do a
3 better job of getting shorter haul parcels delivered within
4 their service standard.

5 The second reason was that we wanted to encourage
6 drop shipping and the third reason was that basically, given
7 the circumstances that the class, subclass as a whole
8 required a 10 percent increase, decreases -- substantial
9 decreases in those zones would not have been quite as
10 appropriate.

11 Q Well, one of those reasons was that it is the
12 policy of the Postal Service to encourage drop shipping?

13 A The intention was not to discourage drop shipping,
14 yes.

15 Q Is it to encourage drop shipping?

16 A I believe I stated that.

17 Q Okay.

18 Standard A parcels all weigh under one pound; is
19 that correct?

20 A Yes.

21 Q So the weight range there is from one ounce to 16
22 ounces?

23 A Correct.

24 Q Standard B parcels weigh from 2 pounds to 70
25 pounds; is that correct?

1 A Yes.

2 MR. McKEEVER: Okay, that's all I have,
3 Mr. Chairman.

4 CHAIRMAN GLEIMAN: Thank you, Mr. McKeever.

5 Is there any followup?

6 [No response.]

7 CHAIRMAN GLEIMAN: Questions from the Bench?

8 I have a couple.

9 You have a number of constraints that you employ
10 and I am not sure I have a complete list of them. No rate
11 increase greater than 30 percent, no decrease greater than
12 15 percent, no rate to exceed Priority Mail by less than 5
13 percent, intra-BMC no rates in zones 3 to 5, drop ship below
14 existing rates, inter-BMC no rates in zones 3 to 8, drop
15 ship below existing rates.

16 Are there other constraints that you employed that
17 aren't in that list?

18 THE WITNESS: I believe I also constrained zones 4
19 and 5 of DBMC to not exceed the intra-BMC rates. I would
20 have to look at the formulas in my workpapers, I believe K,
21 L and M, perhaps.

22 CHAIRMAN GLEIMAN: I take it that these
23 constraints are more important from your perspective than
24 the Ramsey pricing that was offered up by Witness Bernstein?
25 Or did you consider Witness Bernstein's Ramsey prices for

1 Standard B?

2 THE WITNESS: Well, I'm not sure that -- I'm not
3 intimately familiar with Witness Bernstein's testimony
4 except my understanding was that he wasn't providing Ramsey
5 prices for every cell, that his pricing comparisons were
6 more related to the average revenue.

7 CHAIRMAN GLEIMAN: So it was Dr. O'Hara that
8 probably dismissed Witness Bernstein's Ramsey prices when
9 Dr. O'Hara set the markups or the contributions?

10 THE WITNESS: I don't know whether I would phrase
11 it that way but --

12 CHAIRMAN GLEIMAN: How would you phrase it?

13 THE WITNESS: I think Dr. O'Hara established the
14 cost coverage target for parcel post and whether he did that
15 in conjunction with ^{Mr.}Dr. Bernstein's work or not, I'm not
16 aware.

17 CHAIRMAN GLEIMAN: Okay.

18 Maybe you can help me out a little bit because I
19 am confused in a certain area. You've decided, the Postal
20 Service has decided to accept parcels that exceed 108 inches
21 in total measurements up to 130 inches. But also, there are
22 some restrictions in the manner in which they will accept
23 those parcels.

24 As I recall, and things get muddled for me at
25 about this point, but only 10 percent of a particular

1 mailing can be parcels that are over the 108 inches?

2 THE WITNESS: That's right, that's the proposal.

3 CHAIRMAN GLEIMAN: Can you explain to me why that
4 is?

5 THE WITNESS: For years, our customers have been
6 requesting that the Postal Service expand its maximum
7 combined length and girth to match that of our major
8 competitor, UPS. And it was the belief that we should
9 extend such a convenience to such customers.

10 On the other hand, the calculations that I
11 performed indicated that the rates in our existing rate
12 structures would not be compensatory for such parcels. In
13 the absence of a cost analysis that looked explicitly at
14 such parcels, which would be difficult for us to do since we
15 don't accept them currently, we struck a compromise and I
16 believe in one of my interrogatory responses I used exactly
17 that word, that we would accept a small portion of oversized
18 parcels but we did not intend to pursue the oversized parcel
19 market and once we have gained more experience with such
20 oversized parcels, we might be in a position to reexamine
21 this proposal.

22 CHAIRMAN GLEIMAN: So you decided that you would
23 basically rate average the oversized, underpriced parcels?

24 THE WITNESS: The net revenue loss associated with
25 those parcels is incorporated into the parcel post rate

1 design, yes.

2 CHAIRMAN GLEIMAN: Maybe we ought to have a
3 standard B residual surcharge. Then Mr. May could ask
4 questions about that and there wouldn't be any objections.

5 All kidding aside, though, you know, I happen to
6 be one of your customers when I am not here in the hearing
7 room. Frequently on my lunch break, although I must admit
8 that I haven't lugged any 108-inch parcels up to the Post
9 Office or Down to the Post Office on Pennsylvania Avenue, as
10 the case may be. I do mail parcels and do I understand
11 correctly that I can't take one of these oversize parcels
12 that I might want to mail to one of my kids into a Post
13 Office? I have to take 10 parcels, one of which be
14 oversized?

15 THE WITNESS: I was going to suggest that you be
16 very generous and send 10, yes.

17 [Laughter.]

18 CHAIRMAN GLEIMAN: So as long as the individual
19 nonbusiness customer has 10 parcels, he or she can partake
20 of the Postal Service's experiment, shall we say, in this
21 area along with larger business customers who may have
22 piqued the Service's interest in this area?

23 THE WITNESS: Yes, sir.

24 CHAIRMAN GLEIMAN: Do you have a sense of how many
25 oversize parcels you are likely to get?

1 THE WITNESS: I believe in my workpaper ^{1.f.} ~~1-F~~, page
2 1, I've got a volume figure.

3 CHAIRMAN GLEIMAN: That's good enough. Thank you.

4 And one last question is, and I don't know whether
5 you will be able to answer this one or not, but how do you
6 go about deciding which PRC precedents to endorse and
7 incorporate into your activities, your analyses and which to
8 disregard or reject? I mean, you know, we've heard you
9 endorsed and incorporated the two cent per pound while on
10 the other hand it appears that you rejected another
11 precedent which involved the Commission's treatment of
12 Alaska air costs.

13 I'm not suggesting that I feel strongly positively
14 or negatively about one or the other of those. I'm just
15 kind of curious as to what standards the Postal Service
16 employs or that you personally employed in your analysis?

17 THE WITNESS: Well, I personally don't assign
18 costs to parcel post. That would be Witness Patelunas.

19 CHAIRMAN GLEIMAN: So we will have to ask Witness
20 Patelunas how he went about accepting or rejecting that
21 particular precedent.

22 THE WITNESS: Yes, sir.

23 CHAIRMAN GLEIMAN: With respect to the other
24 precedent which has been the subject of cross-examination,
25 the two cent per pound?

1 THE WITNESS: If I had an analysis that indicated
2 that the two cents were inaccurate, I would much prefer to
3 use such an analysis. In the absence of further
4 information, I felt it was appropriate to tie to Commission
5 precedent.

6 CHAIRMAN GLEIMAN: And the Postal Service has seen
7 no need over these many years that that precedent has
8 existed to analyze it to determine whether it was accurate?
9 You just accepted it?

10 I mean, there's got to be some reason, for
11 example, that someone decides to study in some areas but not
12 other areas.

13 THE WITNESS: Well, I would argue that one reason
14 we might decide to study in some areas than other areas is
15 that the -- my understanding is that the measurement of the
16 nontransportation costs with respect to weight is a very
17 difficult issue.

18 CHAIRMAN GLEIMAN: So if it's difficult we might
19 not be inclined to study it.

20 THE WITNESS: We might not be in a position to
21 study it successfully.

22 CHAIRMAN GLEIMAN: Gotcha.

23 All right. Well, I don't have any further
24 questions, and unless some of my colleagues do, that would
25 bring us to followup as a consequence of questions from the

1 bench.

2 There don't appear to be any, which brings us to
3 redirect. Mr. Reiter, would you like a bit of time?

4 MR. REITER: Just a short time.

5 CHAIRMAN GLEIMAN: If we say 5 minutes, and then
6 once we finish with this witness, we can break for lunch.

7 MR. REITER: All right.

8 [Recess.]

9 MR. REITER: There will be no redirect, Mr.
10 Chairman.

11 CHAIRMAN GLEIMAN: If there is no redirect, then
12 there can be no recross. Let me make sure I have everything
13 in order here.

14 That brings us to the end of your appearance here
15 today, Ms. Mayes. I want to thank you. We appreciate your
16 contributions to the record. And if there's nothing further
17 that you would like to offer, you're excused.

18 THE WITNESS: Thank you.

19 [Witness excused.]

20 CHAIRMAN GLEIMAN: And since we finished a tad
21 early, let's come back at 1:30 from lunch, and at that point
22 hopefully we will finish up in short order this afternoon
23 and folks can go listen to the ballgame.

24 [Whereupon, at 12:08 p.m., the hearing was
25 recessed, to reconvene at 1:30 p.m., this same day.]

1 AFTERNOON SESSION

2 [1:30 p.m.]

3 CHAIRMAN GLEIMAN: Counselor, whenever you're
4 ready.

5 MR. REITER: Yes, Mr. Chairman. Our next witness
6 is Mohammed Adra.
7 Whereupon,

8 MOHAMMED A. ADRA,
9 a witness, was called for examination by counsel for the
10 United States Postal Service and, having been first duly
11 sworn, was examined and testified as follows:

12 DIRECT EXAMINATION

13 BY MR. REITER:

14 Q Mr. Adra, I am handing you two copies of a
15 document entitled Direct Testimony of Mohammed A. Adra on
16 behalf of United States Postal Service labeled USPS-T-38.
17 Was this testimony prepared by you or under your direction?

18 A Yes, it was.

19 Q And if you were to testify orally today, would
20 your testimony be the same?

21 A It would be.

22 MR. REITER: Mr. Chairman, I will hand these two
23 copies to the reporter and ask that they be entered into
24 evidence as the direct testimony of Mohammed Adra.

25 CHAIRMAN GLEIMAN: Are there any objections?

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 [No response.]

2 CHAIRMAN GLEIMAN: Hearing none, Mr. Adra's
3 testimony and exhibits are received into evidence. I direct
4 that they be accepted into evidence. As is our practice,
5 they will not be transcribed into the record.

6 [Direct Testimony and Exhibits of
7 Mohammad A. Adra, Exhibit No.
8 USPS-T-38 was marked for
9 identification and received into
10 evidence.]

11 CHAIRMAN GLEIMAN: Mr. Adra, have you had an
12 opportunity to review the packet of designated written
13 cross-examination that was made available earlier today?

14 THE WITNESS: Yes, I have.

15 CHAIRMAN GLEIMAN: And if these questions were
16 asked of you today, would your answers be the same as those
17 you previously provided in writing?

18 THE WITNESS: They would be.

19 CHAIRMAN GLEIMAN: No changes in this package,
20 okay.

21 That being the case, I am going to provide two
22 copies of the designated written cross-examination to the
23 court reporter and direct that they be accepted into
24 evidence and transcribed into the record at this point.

25 [Designation of Written

1 Cross-Examination of Mohammed A.
2 Adra was received into evidence and
3 transcribed into the record.]
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

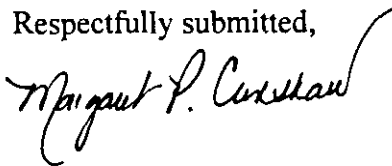
Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS MOHAMMAD A. ADRA
(USPS-T-38)

The parties listed below have designated answers to interrogatories directed to witness Adra as written cross-examination.

American Library Association	ALA\USPS: Interrogatories ALA\USPS-1 and 4-5; OCA\USPS-T12-41 and 42.
Florida Gift Fruit Shippers Association	FGFSA\USPS: Interrogatories T38-1
Mail Order Association of America	MOAA\USPS: Interrogatories T38-1-4.
Office of the Consumer Advocate	<p>OCA\USPS: Interrogatories redirected from witness Degen, i.e., OCA\USPS-T12-41 and 42.</p> <p>ALA\USPS: Interrogatories redirected from the Postal Service, i.e., ALA\USPS-1, and 4-5.</p> <p>DBP\USPS: Interrogatory redirected from the Postal Service, i.e., DBP\USPS-22.</p> <p>FGFSA\USPS: Interrogatory T38-1.</p> <p>MOAA\USPS: Interrogatories T338-1-4.</p> <p>NAA\USPS: Interrogatories T38-1-5.</p> <p>UPS\USPS: Interrogatories T38-1.</p> <p>POIR: POIR No. 1, question 2.</p> <p>POIR: POIR No. 2, question 4.</p>

Respectfully submitted,



Margaret P. Crenshaw
Secretary

**RESPONSE OF U.S. POSTAL SERVICE WITNESS ADRA TO INTERROGATORIES
OF AMERICAN LIBRARY ASSOCIATION**

ALA/USPS-1. Please confirm each of the following statements. Please explain fully any failure to give an unqualified confirmation.

- (a) The Postal Service is proposing increased rates averaging 4.5 percent across all types of domestic mail.
- (b) For the Library rate, the proposed increase is 28.6 percent for the first pound, 27.3 percent for a 2-lb. Package, and 24.6 percent for an 8-lb. Package.
- (c) In Docket No. R94-1, the Postal Service proposed a 73.7 percent average increase for the library rate.
- (d) In Docket No. R94-1, the average rate increase for library rate implemented by the Postal Service was 69.9 percent.
- (e) If the Postal Service's current rate request is implemented, the library rate for a three-pound piece would be \$2.48, a 117.5 percent increase in 3 years.

Response:

- (a) Confirmed.
- (b) Confirmed conditionally, that is, if the comparison refers to step 6 rates for both current and proposed rates. Please note that step 6 rates are not effective until FY 1999.
- (c) Confirmed. Please note, however, that in Docket R90-1, the average rate increase was 1.9 percent.
- (d) Confirmed.
- (e) Confirmed conditionally, that is, if the comparison refers to step 6 proposed rates (\$2.48) and pre R94-1 rates (\$1.14). As such, the 117.5% increase would be within a 4-year period, not a 3-year period. Please note that step 6 rates are not effective until FY 1999.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS ADRA TO INTERROGATORIES
OF AMERICAN LIBRARY ASSOCIATION**

ALA/USPS-4. Please confirm that the following table shows the existing and proposed rates for special standard (book rate) and library rate mail. Explain fully any failure to confirm unconditionally:

<i>Special Standard mail (book rate)</i>	<i>current (cents)</i>	<i>proposed (cents)</i>
First pound, not presorted	124	124
Each additional lb. Through 7 lbs.	50	51
Each additional lb. Over 7 lbs.	31	21

<i>Library rate</i>	<i>current (cents)</i>	<i>proposed (cents)</i>
First pound	112	144
Each additional lb. Through 7 lbs.	42	52
Each additional lb. Over 7 lbs.	22	25

Response:

Confirmed for the Special Standard Mail table. However, I can only confirm conditionally the Library rate table, that is, if the comparison refers to step 6 rates for both current and proposed rates. Please note that step 6 rates are not effective until FY 1999.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS ADRA TO INTERROGATORIES
OF AMERICAN LIBRARY ASSOCIATION**

ALA/USPS-5. Please explain how the library rate, a preferred rate, can exceed the book rate for a piece of the same weight. Identify all studies, analyses, reports, compilations of data, and other documents that support your response, and produce all identified documents that are not publicly available.

Response:

The rate structure for Library and Special Standard mail is identical. The proposed library rates were designed in accordance with statutory requirements that they cover their costs and that their markup is half of that of Special Standard. The development of the proposed rates are explained in my testimony and workpapers. For cost data, please refer to Exhibit 15G, page 2 and Exhibit 15J, page 2.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS ADRA TO INTERROGATORIES
OF DAVID POPKIN
REDIRECTED FROM THE POSTAL SERVICE**

DBP/USPS-22 With respect to the rate being proposed for Library mail, [a] confirm, or explain if you are unable to do so, that the first pound rate and the two additional pound rates are all greater than the corresponding rates for Special Standard mail. [b] Confirm, or explain if you are unable to do so, that the proposed rate for a parcel sent as Library mail will always be greater than the proposed rate for a Special Standard mail parcel of the same weight and destination. [c] Confirm, or explain if you are unable to do so, that up until the rates proposed in Docket R97-1, the rate for Library mail [or its predecessor designation] has always been less than the rate for Special Standard mail [or its predecessor designation]. [d] Confirm, or explain if you are unable to do so, that the contents which may be mailed at Special Standard and Library mail are virtually the same. [e] If you are unable to confirm subpart d, what percentage of the parcels mailed at the Library mail rate have contents which would be eligible to mail at the Special Standard mail rate? [f] Confirm, or explain if you are unable to do so, that the distinction between Library and Special Standard mail is based on the qualification of the sender and/or addressee. [g] Confirm, or explain if you are unable to do so, that all categories of mailers who are eligible to utilize the Library mail rate would also be able to utilize the Special Standard mail rate. [h] Provide and explain any reasons for reversing the price comparison between Library and Special Standard mail starting with this Docket. [i] List any reasons why a knowledgeable mailer would utilize the Library mail rate rather than the Special Standard mail rate.

Response:

- a. Confirmed conditionally, that is, if you are comparing the proposed full rate elements (i.e., step 6) of Library mail with those of Special Standard. Please note, however, that the rate element for the additional pound for the 2nd to 7th pound weight increments for step 5 Library mail at \$0.47 is smaller than the corresponding proposed rate element for Special Standard at \$0.51. Please see Table 4, page 15 and Table 7, page 22 of my testimony, USPS-T-38 for more details.
- b. Confirmed conditionally, that is, if you are comparing the proposed full library rates (i.e., step 6) with those of Special Standard. Please note, however, that the proposed step 5 library rates for 6,7,and 8 pound pieces are *less than or equal to* the corresponding rates for Special Standard mail.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS ADRA TO INTERROGATORIES
OF DAVID POPKIN
REDIRECTED FROM THE POSTAL SERVICE**

Response to DBP/USPS-22 (continued)

- c. Confirmed conditionally, at least from 1949 on. It appears that prior and up to 1928, they were the same. Moreover, between 1938 and 1942, library rates were higher. Please see attached pages for more details.
- d. Not Confirmed. The content eligibility for Special Standard and Library Mail are not the same. Please see DMM52, E620.4.0 and E620.5.0 for more details. For example, mathematical kits will be eligible for Library rate mail but not Special Standard.
- e. Please see USPS-T-38, page 22.
- f. Not confirmed. Mail content distinguishes also Library and Special Standard mail. See answer to part d.
- g. Not confirmed. See answer to part d.
- h. The reasons behind the proposed rates are explained in my testimony, USPS-T-38, pages 14-17, and 20-22. The cost-based proposed rates do change the traditional relationship between Library and Special Standard rates. The proposed library rates were designed in accordance with statutory requirements that they cover their costs and that their markup is half of that of Special Standard.
- i. It is reasonable to assume that knowledgeable mailers who have library mailings that are eligible to be sent at the lower Special Standard rates, will send such mailings at Special Standard rates. However, as I indicated in my answer to part d, not all library mailings are eligible to be sent at the Special Standard mail rates.

Attachment to Response to DBP/USPS-22, part c.

Table FC 3

Fourth-Class Mail
 Special Rate Category
Postal Rate History
 (in cents)

<u>Effective Date</u>	<u>Per pound</u>	<u>First pound</u>	<u>Each additional pound</u>
November 1, 1938 ^{1/}	1.5	--	--
July 1, 1942	3	--	--
March 26, 1944	<u>2/</u>	--	--
January 1, 1949	--	8	4
August 1, 1958	--	9	5
January 7, 1963	--	9.5	5
January 1, 1964	--	10	5
January 7, 1968	--	12	6
May 16, 1971	--	14	7
September 9, 1973	--	16	8
March 2, 1974	--	18	8

^{1/} Prior to November 1, 1938, parcel post zone rates were applicable.

^{2/} Increase of 3 percent, with minimum of 1 cent per piece. Fractions under 1/2 cent disregarded; 1/2 cent or over considered 1 cent.

10/8/74

.. Attachment to Response to DBP/USPS-22, part c.

Table FC 4

Fourth-Class Mail
Library Rate 1/
Postal Rate History
(in cents)

<u>Effective Date</u>	<u>First pound</u>	<u>Each additional pound</u>
May 29, 1928 <u>2/</u> <u>3/</u>	3	1
March 26, 1944 <u>3/</u>	<u>4/</u>	<u>4/</u>
January 1, 1949 <u>3/</u>	4	1
January 7, 1968	5	2
May 16, 1971	6	2
September 9, 1973	6	3

1/ Or regular third- or fourth-class rate, if lower.

2/ Prior to May 29, 1928, parcel post zone rates were applicable.

3/ Applicable to mailing addressed for local, first, second, or third zones or within the State in which mailed. This restriction eliminated, effective August 1, 1958, P.L. 85-426.

4/ Increase of 3 percent, with minimum of 1 cent per piece. Fractions under 1/2 cent disregarded; 1/2 cent or over considered 1 cent.

10/8/74

Attachment to Response to DBP/USPS-22 post c.

Effective date	Rate
January 7, 1968	5
May 16, 1971	6
September 9, 1973	6
July 6, 1975	7
December 31, 1975	8
July 6, 1976	9
July 6, 1977	11
May 29, 1978	11
July 6, 1978	14
July 6, 1979	17
July 6, 1980	19
March 22, 1981	21
July 6, 1981	25
November 1, 1981	24
January 10, 1982	32
July 6, 1982	35
July 28, 1982	32
January 9, 1983	35
February 17, 1985	40
January 1, 1986	50
March 9, 1986	55
April 20, 1986	54
April 3, 1988	64
February 3, 1991	65
November 21, 1993	66
January 1, 1995	112
October 1, 1995	112
October 6, 1996	112

First pound	(cents)
5	2
6	2
6	3
7	3
8	4
9	4
11	4
11	4
14	5
17	5
19	6
21	7
25	8
24	9
32	9
35	11
35	12
32	11
32	12
35	17
40	19
50	24
54	24
64	24
65	24
66	24
112	41
112	41
112	41

FOURTH-CLASS MAIL
LIBRARY RATE
Rate History

Each additional pound or fraction	Through	Over	1st pound	(cents)
Over	7 pounds	7 pounds	2	2
Over	7 pounds	7 pounds	2	2
Over	7 pounds	7 pounds	3	3
Over	7 pounds	7 pounds	3	3
Over	7 pounds	7 pounds	4	4
Over	7 pounds	7 pounds	4	4
Over	7 pounds	7 pounds	5	5
Over	7 pounds	7 pounds	5	5
Over	7 pounds	7 pounds	6	6
Over	7 pounds	7 pounds	7	7
Over	7 pounds	7 pounds	8	8
Over	7 pounds	7 pounds	9	9
Over	7 pounds	7 pounds	11	11
Over	7 pounds	7 pounds	12	12
Over	7 pounds	7 pounds	11	11
Over	7 pounds	7 pounds	12	12
Over	7 pounds	7 pounds	14	14
Over	7 pounds	7 pounds	17	17
Over	7 pounds	7 pounds	19	19
Over	7 pounds	7 pounds	19	19
Over	7 pounds	7 pounds	23	23
Over	7 pounds	7 pounds	24	24
Over	7 pounds	7 pounds	24	24
Over	7 pounds	7 pounds	41	41
Over	7 pounds	7 pounds	41	41
Over	7 pounds	7 pounds	41	41
Over	7 pounds	7 pounds	22	22

Attachment to Response to DBP/USPS-22, part c.

FOURTH-CLASS MAIL: SPECIAL RATE
Rate History

Effective Date	Single Piece (cents)	First Pound PRESORT Level A* Level B** (cents)	Each additional pound or fraction through 7 pounds (cents)	Each additional pound or fraction (cents)
January 7, 1968	12.0	---	---	6.0
May 16, 1971	14.0	---	---	7.0
September 9, 1973	16.0	---	---	8.0
March 2, 1974	18.0	---	---	8.0
July 6, 1975	19.0	---	---	8.0
September 14, 1975	20.0	---	---	9.0
December 31, 1975	21.0	---	---	8.0
July 6, 1976	25.0	23.9	10.0	8.0
July 6, 1977	30.0	27.9	11.0	8.0
May 29, 1978	36.0	33.3	14.0	10.0
July 6, 1978	48.0	42.6	18.0	11.0
July 6, 1979	59.0	52.0	22.0	13.0
March 22, 1981	63.0	46.0	23.0	14.0
February 17, 1985	69.0	47.0	25.0	15.0
April 3, 1988	90.0	65.0	35.0	20.0
February 3, 1991	105.0	59.0	43.0	25.0
January 1, 1995	124.0	70.0	50.0	31.0

* Level A = Presorted to 5-digit
** Level B = Presorted to BMC

**RESPONSE OF U.S. POSTAL SERVICE WITNESS ADRA TO
INTERROGATORIES OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION**

FGFSA/USPS-T-38-1.

In your proposed rate design for the classes of mail covered by your testimony you propose an add-on of 2 cents per pound "to recover weight-related non-transportation costs".

- a) Identify the specific costs which are included as "weight-related non-transportation costs".
- b) Identify any study which specifies and quantifies "weight-related non-transportation costs".
- c) Provide a complete explanation of the method you used to determine that 2 cents per pound is the proper amount to cover such costs.
- d) Provide a statement as to the amount of each costs for which the 2 cents per pound is designed to cover.
- e) Explain why the add-on is different for the several rate categories of Bound Printed Matter, as shown on page 8 of your testimony.

Response:

- a) Please see my answer to NAA/USPS-T38-1.
- b) I am not aware of any study that quantifies "weight-related non-transportation costs". The 2-cent per-pound add-on was first set by the Commission in Docket No. R84-1 (see PRC Op. at 581-582).
- c) I used the 2-cent per-pound add-on in accordance with PRC precedent. I had no rationale to deviate from it.
- d) Please refer to my workpaper USPS-T-38, WP-BPM14. This workpaper shows the amount of add-on costs that are intended to recover the weight-related non-transportation costs.
- e) Please see my answer to UPS/USPS-T38-1(a).

**RESPONSE OF U.S. POSTAL SERVICE WITNESS ADRA TO
INTERROGATORIES OF THE MAIL ORDER ASSOCIATION OF AMERICA**

MOAA/USPS-T-38-1. Please refer to USPS-T-38 WP BPM15

- a. Please confirm that "Nondistance-Related Transportation Costs" are distributed to each zone based on the distribution of the number of pounds of mail in the respective zone.
- b. If part a is not confirmed, please explain the basis for the distribution of "Nondistance-Related Transportation Costs".
- c. If you confirm part a, please provide all source(s) supporting the relationship between non-distance related transportation costs and pounds.

Response:

- a. Confirmed.
- b. Not applicable.
- c. The relationship between non-distance related transportation costs and pounds for BPM has long been established in the records of past rate cases. It has been used by the Postal Service and recommended by the PRC at least since Docket No. R87-1.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS ADRA TO
INTERROGATORIES OF THE MAIL ORDER ASSOCIATION OF AMERICA**

MOAA/USPS-T-38-2

Please refer to USPS-T-38 WP's BPM23, 24 and 25.

- a. Please confirm that the price changes (disregarding any barcoding discount) in these three tables have the following ranges across zones and weight.

<u>Source</u> (1)	<u>Range of Price Changes</u>	
	<u>Low</u> (2)	<u>High</u> (3)
1. Single Piece USPS-T-38 BPM 23	-6.57%	19.51%
2. Bulk: Basic USPS-T-38 BPM 24	-15.39	22.89
3. Bulk: Basic USPS-T-38 BPM 25	-17.36	23.15

- b. Did you analyze the impact that price changes would have on migration within the Standard (B) Bound Printed Matter subclass?
- c. If your answer to part b is affirmative, please provide copies of any analyzes that you performed or relied on.
- d. Please confirm that Dr. Tolley's volume forecast for Standard (B) Bound Printed matter is based on the average price for the subclass.
- e. If the answer to part d is confirmed, did you analyze the impact on forecasts of volume of the deviations from the average rate that occur in many of the rate cells of Standard (B) BPM.
- f. If your answer to part e is affirmative, please provide copies of any analyzes.

Response:

- a. Confirmed. Please note, however, that USPS-T-38 BPM 25 refer to Carrier Route Bulk Rate and not Basic Bulk Rate as indicated in row 3 of your table.
- b. No. In the absence of any measure of price elasticity and/or market research of mailers' mailing needs and practices at the rate cell level (i.e., by zone and weight), it is hard to analyze and study mailers behavior and reaction to these price ranges at that level of detail. To the extent that these prices changes may encourage migration to close-in zones (i.e., dropshipping), mailers would be reacting to the price signals that those cost-based rates are sending.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS ADRA TO
INTERROGATORIES OF THE MAIL ORDER ASSOCIATION OF AMERICA**

Response To MOAA/USPS-T-38-2 (continued)

- c. Not applicable.
- d. Confirmed. Please refer to Dr. Tolley's testimony, USPS-T6, for any further elaboration.
- e. No, as information is not available to do so. Please see witness Mayes response to CTC/USPS-T37-4 (f) on this subject.
- f. Not applicable.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS ADRA TO
INTERROGATORIES OF THE MAIL ORDER ASSOCIATION OF AMERICA**

MOAA/USPS-T-38-3. Please refer to USPS-T-38 WP BPM 26

- a. Please confirm the TYAR forecasted volumes and weight are distributed to each zone based on the distributions of volumes and weights that occurred in FY 1996.
- b. Did you perform or rely upon any sensitivity analyses to test the impact on your methodology of temporal instability of these distributions?
- c. If your answer to part b is affirmative, please provide copies of any analyses that you performed.

Response:

- a. Confirmed.
- b. No. The methodology employed has long been used and approved.
- c. Not applicable.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS ADRA TO
INTERROGATORIES OF THE MAIL ORDER ASSOCIATION OF AMERICA**

MOAA/USPS-T-38-4. On page 7 of your testimony, you refer to a market survey (LR-H-163) and state: "The survey showed no growth for BPM. Thus, there should be no volume or revenue change to impact the financial analysis." (footnote omitted).

- a. Please confirm that this statement refers only to the impact of the new Delivery Confirmation Service.
- b. If you cannot confirm, please explain the adjustments to the TYAR volumes.

Response:

- a. Confirmed.
- b. Not applicable.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS ADRA TO INTERROGATORIES
OF NEWSPAPER ASSOCIATION OF AMERICA**

NAA/USPS-T38-1. Please refer to page 8, lines 2 through 10 of your testimony. Please describe what "weight-related non-transportation costs" the BPM per-pound rate element is intended to recover.

Response:

The "weight-related non-transportation costs" intended to be recovered by the per-pound add-on include any nontransportation costs that are positively correlated with the weight of the piece of mail.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS ADRA TO INTERROGATORIES
OF NEWSPAPER ASSOCIATION OF AMERICA**

NAA/USPS-T38-2. Please refer to page 8, lines 12 through 20 of your testimony. Please describe the different categories of "non-transportation costs" that the BPM per-piece rate element is intended to recover?

Response:

The per-piece rate element is intended to recover nontransportation costs which are not affected by weight. This amounts to total costs with the exception of transportation costs (cost segment 14), and the add-on costs (i.e., weight-related nontransportation costs) that are accounted for by the per-pound charge. For a full description of Postal Service various cost segments, please see USPS-T-15E.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS ADRA TO INTERROGATORIES
OF NEWSPAPER ASSOCIATION OF AMERICA**

NAA/USPS-T38-3. Please refer to page 8, lines 15-20 of your testimony.

- a. Please explain why the BPM per-piece charge is the same for all nonlocal zones.
- b. Please identify and explain the reasons why the BPM single-piece, per-piece charge is twice the bulk, per-piece charge.
- c. Please identify and explain the reasons why the BPM local per-piece charge is 75 percent of the non-local per-piece charge.

Response:

- a. The per-piece charge is constant for zones 1 through 8 as it is intended to recover nontransportation costs (i.e., handling costs) which do not vary by nonlocal zones or by weight.
- b. The BPM per-piece charge recognizes the lower cost of handling bulk pieces as opposed to single pieces. In Docket No. R84-1, Postal Service witness Madison, USPS-T-16, conducted a study which examined the nontransportation unit cost relationship between single piece and bulk rate BPM. The results of this study reconfirmed the single piece to bulk piece handling cost relationship of 2 to 1 which has been used since Docket No. R77-1.
- c. The BPM local per-piece charge is 75 percent of the non-local per-piece charge to reflect the cost savings associated with local mailings which do not incur bulk mail center (BMC) processing costs. This cost relationship is consistent with Commission precedent.

4290

**RESPONSE OF U.S. POSTAL SERVICE WITNESS ADRA TO INTERROGATORIES
OF NEWSPAPER ASSOCIATION OF AMERICA**

NAA/USPS-T38-4. Please refer to your testimony at page 14, lines 5 through 12. Please identify and explain the reasons why the Special Standard Mail rate structure has three-tiers.

Response:

As I mentioned in my testimony, the existing rate structure is in essence a per-piece and per-pound rate construction which is manifested in a three-tier rate structure. Such a structure was first introduced by the Postal Service and recommended by the Commission in Docket No. R76-1. The Commission's Opinion at 252-260, and Postal Service witness McCaffrey's testimony in that docket provide the reasons behind such a proposal.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS ADRA TO INTERROGATORIES
OF NEWSPAPER ASSOCIATION OF AMERICA**

NAA/USPS-T38-5. Please refer to page 14, lines 5 through 12. Please identify separately the theoretical purposes of the first pound rate and the separate lower pound rate for additional weight up to 7 pounds.

Response:

The first pound rate is a reflection of the cost-based per-piece and per-pound construction that underlies this rate structure. In other words, the first pound rate has two components: a per-piece and a per-pound charge. The theoretical purpose of such a construction is that there are costs incurred which are the same for every piece, regardless of the weight of the piece. Thus, the per-piece charge reflects these costs which are shared by all mailing pieces regardless of weight. The lower pound rate for additional weight up to 7 pounds reflects only the per-pound component. The theoretical purpose of a tiered-structure is to recognize the notion of rate degression with respect to weight, that is, to recognize that costs do not increase proportionately with weight.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS ADRA TO INTERROGATORIES
OF THE OFFICE OF THE CONSUMER ADVOCATE
(REDIRECTED FROM WITNESS DEGEN)**

4292

OCA/USPS-T12-41. Describe the overall composition of Library rate mail.

- a. Include in your description the types of individuals and organizations that send Library rate mail.
- b. Include in your description the types of individuals and organizations that receive Library rate mail.
- c. Who are the predominant senders of Library rate mail?
- d. Who are the predominant recipients of Library rate mail?
- e. Are the mail pieces carried in the Library rate mail stream almost exclusively books? Please explain. Estimate what percentage of the mail stream consists of books.
- f. What other types of items (e.g., compact discs or tapes) comprise a significant percentage of the Library rate mail stream. Please estimate this percentage (or percentages).
- g. Do library rate mailings tend, primarily, to be transported over short distances, e.g., from one branch of a library system to another or between a library branch and its local patrons? Please explain in detail.
- h. Is it correct that publishers are no longer permitted to mail books purchase by libraries as Library rate mail? If this is not correct, please explain. If this is correct, when and how was this change effected?

RESPONSE:

- a. Please see DMM52, E620.5.2,5.4.
- b. See answer to part a.
- c. According to a 1986 PRC report titled " Report to the Congress: Preferred Rate Study", the predominant senders of Library rate mail (measured as a percent of pieces) are: Publisher/Distributor (44.5%), Educational Organizations (22.6%), Other Organizations (14.2%), Libraries (8.1%), Religious Organizations (4.5%), Unknown (4.1%), and Individuals (1.9%). For more details see, Appendix F, Tables 1-3 of the aforementioned report. To get a more recent information, albeit not as comprehensive, on who is using Library mail, see LR H-163, page 163-164. These

**RESPONSE OF U.S. POSTAL SERVICE WITNESS ADRA TO INTERROGATORIES ⁴²⁹³
OF THE OFFICE OF THE CONSUMER ADVOCATE
(REDIRECTED FROM WITNESS DEGEN)**

Response to OCA/USPS-T12-41 (continued)

latter pages provide a list of the Postal Fiscal Year 1995 100 largest Library rate mailers according to the USPS Corporate Business Customer Information System (CBCIS). Please note that the CBCIS captures only mailers who are using permit accounts. Moreover, the volume of the 100 listed mailers comprise approximately 9% of total Library rate mail volume for that year. Nonetheless, I think the list is still useful in providing some indication of who are the senders of Library rate mail.

- d. According to the same PRC report aforementioned in part (c), the predominant recipients of Library mail are: Educational Organizations (44.5%), Publisher/Distributor (14.7%), Other Organizations (14.4%), Libraries (13.7%), Individuals (7.0%), Unknown (3.2%), and Religious Organizations (2.4%).
- e. I am not aware of any specific study that provides a reliable percentage estimate of the content composition of the Library rate mailstream. However, I would guess that the most significant percentage of Library rate mail is comprised of books.
- f. In addition to books, I believe that sound and video recordings constitute the second largest percentage after books.
- g. I have no information (nor am I aware that such information exists within the Postal Service) that would allow me to answer this question conclusively. However, given that publishers are the predominant senders (see answer to part c) and that educational organizations are the predominant recipients (see answer to part d), I would speculate that library rate mailings are being transported all over.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS ADRA TO INTERROGATORIES 4294
OF THE OFFICE OF THE CONSUMER ADVOCATE
(REDIRECTED FROM WITNESS DEGEN)**

Response to OCA/USPS-T12-41 (continued)

- h. It is my understanding that publishers are permitted to mail books purchased by libraries as Library rate mail. However, free samples sent by publishers to libraries are not permitted to be mailed as Library rate mail.**

**RESPONSE OF U.S. POSTAL SERVICE WITNESS ADRA TO INTERROGATORIES
OF THE OFFICE OF THE CONSUMER ADVOCATE
(REDIRECTED FROM WITNESS DEGEN)**

4295

OCA/USPS-T12-42. Describe the overall composition of Special rate mail.

- a. Include in your description the types of individuals and organizations that send Special rate mail.
- b. Include in your description the types of individuals and organizations that receive Special rate mail.
- c. Who are the predominant senders of Special rate mail?
- d. Who are the predominant recipients of Special rate mail?
- e. Are the mail pieces carried in the Special rate mail stream mostly compact discs and tapes? Please explain. Please estimate what percentage of the mail stream consists of compact discs and tapes.
- f. What other types of items (e.g., books) comprise a significant percentage of the Special rate mail stream. Please estimate this percentage (or percentages).
- g. Do single-piece Special rate mailings tend to exhibit nationwide mailing patterns, i.e., individuals who do not wish to purchase compact discs, tapes, books etc., return them to publishers, record clubs, etc. via Special rate fourth class? Further, is there any reason to believe that customers returning tapes, compact discs, books, etc. are necessarily located in the same region as distributors? Please explain in detail.
- h. Please contrast the kind of mail typically sent as single-piece Special rate with that sent as bulk-rate Special rate. Include in your description the typical senders and recipients of each.

RESPONSE:

- a. Any individual and/or organization that needs to send the materials specified in DMM 52, E620.4.0 may be users of this subclass.
- b. Any individual and/or organization can conceivably receive Special Standard mail.

For example, Table 7-9 of The Household Diary Study Fiscal Year 1995, Volume II, show that households sent 52.8% of their Special Standard mailings to friends or relatives, and 47.2% to businesses.
- c. See answer to part a. To get an indication of who is sending Special Standard mail, See LR H-166, page 99 and 100. These latter pages provide a list of the Postal

RESPONSE OF U.S. POSTAL SERVICE WITNESS ADRA TO INTERROGATORIES⁴²⁹⁶
OF THE OFFICE OF THE CONSUMER ADVOCATE
(REDIRECTED FROM WITNESS DEGEN)

Response to OCA/USPS-T12-42 (continued).

Fiscal Year 1995 100 largest Special Standard mailers according to the USPS's Corporate Business Customer Information System (CBCIS). Please note that the CBCIS captures only mailers who are using permit accounts. Moreover, the volume of the 100 listed mailers comprise approximately 25% of total Special Standard mail volume for that year. Nonetheless, I think the list is still useful in providing some indication of who are the senders of Special Standard mail.

- d. See answer to part b.
- e. I am not aware of any specific study that provides a reliable percentage estimate of the content composition of the Special Standard mailstream. However, I would guess that books, sound and video recordings comprise the most significant percentages of Library rate mail.
- f. See answer to part e.
- g. I have no information (nor am I aware that such information exists within the Postal Service) that would allow me to answer this question conclusively. My guess is that there is no nationwide discernible mailing pattern for single-piece Special Standard mailings. This subclass could conceivably be used by individual mailers for outgoing mail as well as return mail.
- h. I have no information (nor am I aware that such information exists within the Postal Service) that would allow me to answer this question conclusively. I would guess that the bulk-rate mailings tend to be relatively more homogeneous due to the use of this rate category by bulk mailers such as book and CD clubs.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS ADRA TO
INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-T38-1. Please refer to page 8, lines 7-9, of your testimony, where you state that the weight-related non-transportation costs for Bound Printed Matter ("BPM") are 2 cents per pound for single piece nonlocal; 1.5 cents per pound for single-piece local; 1 cent per pound for bulk non-local; and 0.75 cents per pound for bulk local.

(a) Please explain your understanding of the historical rationale used to create different weight-related non-transportation adders for each of the four BPM categories.

(b) Do you agree with this historical rationale? Please explain your answer.

Response:

(a) The "weight-related non-transportation costs" intended to be recovered by the per-pound add-on include any nontransportation costs that are positively correlated with the weight of the piece of mail. The 2-cent per-pound charge for single-piece nonlocal BPM was first set by the Commission in Docket No. R84-1 (see PRC Op. at 581-582). The other charges are introduced to reflect the following cost relationships: 1) single-piece nontransportation costs are twice those of bulk pieces, and 2) local nontransportation costs are 75 percent of those of nonlocal. These relationships have been used since Docket No. R77-1.

(b) Yes. These cost relationships are consistent with PRC precedent, and moreover, there is no empirical evidence to refute their validity.

2. BPM Revenue Adjustment Factor

- a. The total FY 1996 BPM single piece revenue is shown as \$54,940,121 in USPS-T-38, WP-BPM5. The summation of single piece revenue is \$54,872,431 in Library Reference H-171, STBBP96.WK4. Please reconcile the differences which appear in zones 1/2 and zone 7.
- b. The FY 1996 RPW revenue for single piece is shown as \$54,726,175 in USPS-T-38, WP-BPM3. Please confirm that this is the correct revenue or provide the appropriate revenue.
- c. The FY 1996 Billing Determinants in H-3 state that the revenue adjustment factor is 99.610582 percent. This appears to have been derived by dividing the RPW revenue (\$54,726,175) by the revenue shown in WP-BPM5 (\$54,940,121). If the revenue in LR H-171 (\$54,872,431) is used, the factor would be 99.7335 percent.

Please provide the correct revenue adjustment factor showing the details behind its development.

RESPONSE:

- a. The rates applied to the billing determinant volumes for single-piece Bound Printed Matter in Library Reference H-171, STBBP96.WK4 were correct, whereas there were data entry errors in the rates applied to the billing determinant volume in Zone 1/2 at 8 pounds and to the estimated volumes in Zone 7 from 3.5 pounds to 10 pounds. These errors resulted in a slight overstatement of the revenue derived from postage as developed for purposes of calculating the revenue adjustment factor reported in table H-3 of the FY 1996 Billing Determinants and in the revenue figures reported in USPS-T-38, WP-BPM5. The revenues which result from applying the correct rates to the billing determinant volumes are \$27,266,624 in Zone 1/2 and \$2,568,109 in Zone 7.

- b. Confirmed.
- c. The correct revenue adjustment factor for single-piece Bound Printed Matter in FY 1996 should be 99.7335 percent, calculated by dividing the RPW revenue for single-piece Bound Printed Matter by the sum of the products derived by multiplying the billing determinant volumes by the correct single-piece rates.

**Response of United States Postal Service Witness Adra
to Presiding Officer's Information Request No. 2**

4. In Docket No. MC96-2, the Postal Service suggested a temporary means of ameliorating the impact of variations in reported unit costs for a small volume subclass (Classroom mail) in order to make cost estimates more reliable over time. Was any consideration given to exploring the justification for a similar proposal for library rate mail? If so, please describe the factors considered.

RESPONSE:

4. In preparation for R97-1, I did give consideration to the impact that the reported costs for Library mail had on the proposed rates, as they changed the traditional relationship between Library and Special Standard rates. However, I felt that the impact could be mitigated for most mailers, since they will be able to migrate to Special Standard and pay the relatively lower rates. I did not adopt a "Classroom-type" solution for two reasons. First, the markup for Library is required to be half of the markup for Special Standard. This is in contrast to the situation in Classroom where I understand that one preferred rate schedule could be adopted for both Classroom and Non-profit. Second, Classroom mailers were faced with much larger rate increases than most Library mail customers would be, since they will be able to use the Special Standard rates and thereby mitigate the effective increase from current Library rates.

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross-examination?

3 [No response.]

4 CHAIRMAN GLEIMAN: There doesn't appear to be any.

5 Four participants requested oral
6 cross-examination, although there may have been someone else
7 who did also. I don't know, we'll find out.

8 They are the American Library Association, Florida
9 Gift Fruit Shippers Association, the Office of the Consumer
10 Advocate and United Parcel Service.

11 Did I miss anyone and/or does anyone else have
12 oral cross-examination for this witness?

13 [No response.]

14 CHAIRMAN GLEIMAN: There doesn't appear to be
15 anyone else who has written cross-examination for this
16 witness.

17 We will start off with the Library Association.
18 Is there anyone here from the Library Association.

19 [No response.]

20 CHAIRMAN GLEIMAN: There doesn't appear to be
21 anyone here. We will pick up with them if they do happen to
22 show up before we finish for the day.

23 That brings us to Florida Gift Fruit Shippers,
24 Mr. Wells.

25 MR. WELLS: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. WELLS:

Q Maxwell Wells for the Florida Gift Fruit Shippers.

Mr. Adra, I want to ask you about your response to Florida Gift Fruit Shippers' interrogatory number 1.

A Yes, sir.

Q Can you -- have you identified any specific costs that are weight-related nontransportation costs?

A As I indicated in part B of my interrogatory, my answer to your interrogatory, I have not.

Q You say in part B you are not aware of any study. My question is, have you identified any costs, nontransportation costs, that have a direct relationship to weight.

A I have not. I have not studied this issue and, as such, I have not identified the components of that cost. I know it relates to nontransportation handling costs that are correlated with weight.

Q If there is no study to identify any weight-related nontransportation costs and you don't know of any weight-related nontransportation costs, why do you have a two cents per pound rate element to cover unidentified, unknown weight-related nontransportation costs?

A I have two cents of weight related non-transportation costs in my rate design to recognize the

1 notion that there are weight related non-transportation
2 costs and also to be consistent with past Commission
3 ~~precedent~~ practice.

4 It was the Commission in R84 which introduced the
5 two cents to the bound printed matter rate design.

6 I saw no evidence for me to deviate from this past
7 practice.

8 Q And you found no evidence to support it? Is that
9 right?

10 A No empirical evidence to support it, right, but no
11 evidence also to lead me to deviate from it. It has been
12 litigated^{before}, approved, and used.

13 Q So all you are doing is just perpetuating the
14 errors of the past then?

15 A I wouldn't characterize the good work of the
16 Commission and the past witnesses as error.

17 Q Oh. The unsupported nontransportation weight
18 element, you are just perpetuating that, is that right?

19 A I am adopting what has been consistent with past
20 practices.

21 MR. WELLS: Very well. Thank you. No further
22 questions, Mr. Chairman.

23 CHAIRMAN GLEIMAN: That brings us to the Office of
24 the Consumer Advocate.

25 I just want to admonish anybody who is going to

1 ask tough questions of this witness after his testimony just
2 gave up.

3 Ms. Dreifuss.

4 CROSS EXAMINATION

5 BY MS. DREIFUSS:

6 Q Mr. Adra, have you stopped beating your wife?

7 [Laughter.]

8 BY MS. DREIFUSS:

9 Q I wanted to ask you about, start by asking you
10 about Presiding Officer Information Request Number 2.

11 A Okay.

12 Q There were several questions posed there to the
13 Postal Service by the Commission -- or I should say by the
14 Presiding Officer.

15 Witness Degen answered most of them and I believe
16 you answered one of them.

17 A Yes. I did answer Question Number 4.

18 Q Are you somewhat familiar with the answers that
19 Witness Degen gave?

20 A In general terms, yes.

21 Q Are you at all familiar with his Attachment 1 to
22 Question 1? There he breaks down the various cost segments
23 into their unit costs for both special rate and library
24 rate.

25 Do you remember seeing something like that?

1 A I remember, yes, that he had some attachment. I
2 am not quite sure if I have it with me.

3 Q Okay. I wanted to just refresh your memory about
4 it. You can check on what I am telling you.

5 A Okay.

6 Q If you don't have it with you, you can check
7 later.

8 He determined that the total unit cost for FY 1996
9 for library rate was \$1.73 and the Segment 3 unit cost that
10 he determined was 69 cents, and I found that the unit cost
11 for Segment 3 was roughly 40 percent of the total unit cost
12 for library rate.

13 Does that sound about right?

14 A Subject to check, yes. I'll take that.

15 Q And about those costs in response to Question 1 of
16 that information request, he said that library rate costs,
17 like classroom, suffer from some instability due to the small
18 volume and the nature of the IOCS sampling procedure.

19 Do you recall an answer like that?

20 A Yes. In general terms, yes.

21 Q And you don't disagree with that conclusion, do
22 you?

23 A I did not have any studies, nor was involved in
24 any studies that would lead me to deviate from this
25 assessment.

1 Q So you would accept that there appears to be some
2 instability due to the small volume and nature of the IOCS
3 sampling procedure? You would accept that from Witness
4 Degen, is that correct?

5 A My position is that I haven't studied it, but I
6 don't have any evidence that would lead me to question it.

7 Q Okay. The second largest unit cost for library
8 rate, which I found in that same Attachment 1 to Witness
9 Degen's answer to Question 1, was for Segment 14
10 transportation costs and I saw that the unit cost for
11 Segment 14 was 39 cents for library rate and that appeared
12 to be about 22.5 percent of the total unit cost of \$1.73.

13 Does that sound about right?

14 A Subject to check, right, 39 out of \$1.73 you said.

15 Q Yesterday I asked Witness Nieto some questions
16 about whether she would be able to assess the variance of
17 transportation costs for library rate, and she was able to
18 give me an assessment.

19 This was for highway transportation. I only asked
20 her about highway transportation, and that consisted of four
21 accounts -- and again you can -- I will ask you to accept
22 what I am telling you about her testimony, and if you do
23 want to check on that it appears in Volume 7 and it runs
24 from about page 3,523 to about 3,529.

25 She testified that the coefficients of variation

1 for library rate in those four highway accounts ranged from
2 about equal between library rate and special rate fourth.

3 In other words, the coefficients of variation for
4 one of the transportation accounts was about equal between
5 library rate and special rate. For a second account, the
6 coefficient of variation was about 75 percent higher for
7 library rate than special rate. For a third account it was
8 about 1.5 times higher for library rate than special rate.
9 For the fourth account it was about twice as high.

10 A Okay.

11 Q Are you familiar with the concept of the
12 coefficients of variation?

13 A In general terms, yes.

14 Q So generally speaking, the coefficients of
15 variation seemed to be better on the whole for special rate
16 than they were for library rate based on my description?

17 A From the numbers -- right. From the numbers ~~she~~ *you*
18 provided to me.

19 Q Now in Presiding Officer's information request
20 number 2, Question 4, which you wound up answering --

21 A Yes.

22 Q -- the Presiding Officer basically asked whether
23 there was a way of, a temporary means of ameliorating the
24 impact of variations in reported unit costs for ^asmall volume
25 subclass, and they were referring to library rate mail.

1 Does that sound right?

2 A Yes. That is the Question 4 of POIR Number 2.

3 Q Right, and what all this is leading up to is did
4 you ever consider choosing a cost proxy for library rate
5 mail, in particular for Segments 3 and 14, in lieu of using
6 the reported costs for library rate mail?

7 A The short answer is no.

8 I really didn't see any evidence that led me to
9 question the validity of using library costs for ratemaking.

10 Q Were you concerned at all about the variations
11 that -- well, the variation that Witness Degen talked about?

12 A No, I wasn't. I wasn't familiar with these
13 coefficient of variations numbers till ^{now}~~you know~~

14 Q Right. The coefficients of variation came from
15 Witness Nieto --

16 A I understand that.

17 Q That was on Segment 14. Witness ^{Degen}~~Degan~~ I believe
18 testified about Segment 3. Were you concerned -- and in
19 fact as we went over just a few minutes ago, Segment 3 costs
20 are about 40 percent of the total unit cost, which would
21 underlie the library rate. And Witness ^{Degen}~~Degan~~ did say in
22 response to the Presiding Officer's information request that
23 he concluded that there was some instability in that cost.

24 A Yes.

25 Q Were you concerned about that?

1 A First of all, I think timing is important and
2 relevant to your question. Witness Degan did this analysis
3 in the discovery period, not during when we were working
4 with rates and designing the rates. And the second point, I
5 believe when I looked at the answers Witness Degan provided,
6 he also mentioned in Question 2 that he did not find it to
7 be unreasonable, this discerned difference, and I think
8 that's in his answer in Question 2. So given I let the cost
9 experts evaluate their work, and he did not come in his
10 assessment that there was anything in his analysis or
11 assessment that led him to believe that the average observed
12 difference was unreasonable. And that's what I meant. I
13 really didn't find evidence after the inquiry and the
14 probing to lead me to search and probe for a proxy for
15 library cost.

16 Q I am having trouble with one part of your answer.
17 I have read over Witness Degen's response to Question 1.
18 Now I don't see anywhere that he did say --

19 A I'm sorry. I might have misspoken. I meant
20 Question 2, and toward the end of his answer he said no
21 studies have been undertaken to quantify, but the average
22 observed difference is not unreasonable. And that would be
23 his answer to Question 2 of POIR No. 2.

24 In essence what I'm saying is the costs, the
25 library costs, we were asked to look into them and the

1 appropriate witness did, and I looked at that and I didn't
2 discern from his assessment that they were concerned that
3 we -- I ought to look and search for a proxy cost as you
4 suggested, I believe.

5 Q If you could turn back the clock and take into
6 account your awareness now that there is variance in the
7 Segment 3 cost which underlies the library rate and there
8 appears at least to be higher variance in Segment 14,
9 highway transportation, higher for library rate than special
10 rate, do you think you might consider using a cost proxy
11 instead of the reported cost for library rate?

12 A If I can turn back the clock and if I have also
13 more time, I would definitely look into it. Now what would
14 I do? It's hard for me today to answer conclusively. I'd
15 like to point out, though, that just from a rate design
16 perspective, the transportation is not the key driver. The
17 per-piece, the handling costs, tend to be the dominating
18 driver in that rate design.

19 Q The Segment 3 costs. Is that what you mean?

20 A Right.

21 Q Well, given what you know about Segment 3 costs,
22 do you think you might consider a cost proxy even for the
23 Segment 3 portion or perhaps a cost proxy for the entire
24 unit cost?

25 A I suppose if I had the luxury of time and if -- I

1 would like to look into it and consider it. Now what would
2 I have done? I cannot answer that conclusively today.

3 Q Since special rate is the commercial counterpart
4 for library rate, do you think that that might be one of the
5 cost proxies you would look at? If you were to think that
6 it might be worthwhile to explore cost proxies, would you
7 look at special rate?

8 A If I deemed it appropriate to look for a proxy,
9 it's a possibility.

10 Q Okay.

11 MS. DREIFUSS: I have no further questions.

12 CHAIRMAN GLEIMAN: United Parcel Service.

13 MR. McKEEVER: Mr. Chairman, we have no questions.

14 CHAIRMAN GLEIMAN: Is there any followup?

15 There's no followup. That brings us to questions
16 from the bench. Are there any questions from the bench?

17 I have just a couple of questions.

18 A number of other witnesses have had restrictions
19 imposed on them when they took the costing witnesses'
20 figures and proceeded to do their ratemaking. For example,
21 we heard from Witness Moeller that he had to deal with a
22 restriction on rate increases on the order of 10 percent,
23 and as a consequence -- and also he developed some
24 self-imposed restrictions about the extent to which he would
25 cut existing discounts, something on the order of 80

1 percent. He would not go below 80 percent of an existing
2 discount. And as a consequence he wound up with some
3 significant cost passthroughs in some other areas.

4 This morning we heard from Witness Mayes, and
5 Witness Mayes had a substantial list of ratemaking
6 constraints that I understood to be self-imposed, no
7 increases of more than 30 percent, and, you know, there were
8 a number of others.

9 Did you consider -- first off, were you given any
10 outside limits with respect to library rates as was Witness
11 Moeller with respect to the rates that he was dealing with?

12 THE WITNESS: No. Not specifically; no.

13 CHAIRMAN GLEIMAN: So the policymakers at the
14 Postal Service who hand these things down didn't feel that
15 it was necessary to impose constraints on how high library
16 rates would go?

17 THE WITNESS: I did not receive specific
18 instructions on the resulting rates that I proposed to
19 change them in one way or another.

20 CHAIRMAN GLEIMAN: You didn't yourself come up
21 with a set of self-imposed constraints then with respect to
22 library rates, you just let the numbers flow?

23 THE WITNESS: Well, not on -- I did as my
24 testimony and my work papers indicate. On the library rate
25 I did mitigate some of the rate shocks, and I -- but that's

1 something that I did just to ensure that the rates -- the
2 resulting rates were reasonable and percent changes within
3 reasonable -- that I deem a reasonable range. But I did not
4 have specific ceilings as I understood your question that
5 was not to pass.

6 CHAIRMAN GLEIMAN: Looking at ALA-USPS-1, they
7 asked you to confirm some figures, and you I believe
8 confirmed the answer to Question (c) or Subpart (c), which
9 was the extent to which rates increased over a three-year
10 period, and they had a 117-percent figure in there. And you
11 also noted in the answer that in R-90 the average rate
12 increase was 1.9 percent.

13 THE WITNESS: Yes.

14 CHAIRMAN GLEIMAN: Did you study -- I know that
15 you're not the costing witness, but did you look at costs
16 over the years to see what types of swings there might have
17 been? For example, the base year for the R-94 case
18 indicated that costs had risen substantially. But in fact
19 in '95 as I recall, fiscal year '95, the costs seemed to
20 have dropped somewhat. And then apparently in the base year
21 for this case, which is '96, they've gone back up.

22 Did you happen to look at costs other than the
23 base year costs for this case?

24 THE WITNESS: I did, in the framework that Witness
25 Degen was asked in part number 2 to provide this time series

1 and I think he went from 1990 to 1996. So within that
2 framework I looked at the costs by cost components. So the
3 answer is, yes, and it's in the record.

4 CHAIRMAN GLEIMAN: All right, I don't have any
5 further questions.

6 Is there any followup as a consequence of
7 questions from the Bench?

8 [No response.]

9 CHAIRMAN GLEIMAN: If there's not, that brings us
10 to redirect.

11 MR. REITER: May we have a short time?

12 CHAIRMAN GLEIMAN: How short is short? Do you
13 want five minutes?

14 MR. REITER: Yes.

15 CHAIRMAN GLEIMAN: Five minutes it is.

16 [Recess.]

17 CHAIRMAN GLEIMAN: Mr. Reiter.

18 MR. REITER: I have just one question,
19 Mr. Chairman, prompted by your question.

20 REDIRECT EXAMINATION

21 BY MR. REITER:

22 Q Mr. Adra, if you had been given a restraint of any
23 size by management on the amount of the library rate
24 increase, would you have been able to accommodate such a
25 restraint consistent with the legal requirements that you

1 needed to follow in your ratemaking?

2 A No, I would not have been able to because, as my
3 workpapers and my testimony indicated, I proposed the
4 minimum first pound rate element to cover costs and to meet
5 the legal requirements of the Revenue ^{Jorgone}~~for Government~~ Reform
6 Act. So if I had specific constraint, I would not have been
7 able to accommodate it because I did the minimum given the
8 low flexibility I had with the legal requirements and to
9 cover costs.

10 MR. REITER: That's all I have, Mr. Chairman.

11 CHAIRMAN GLEIMAN: Recross?

12 MS. DREIFUSS: I do have a question prompted by
13 redirect.

14 RECROSS EXAMINATION

15 BY MS. DREIFUSS:

16 Q Once having chosen a cost basis for the rate, I
17 gathered that you were bound by legal requirements not to
18 propose a different cost coverage than the one you did
19 propose; is that correct?

20 A That's correct. The markup has to be half of the
21 special standard and I had to cover costs so I had to deal
22 with these two constraints.

23 Q You might have had some freedom, though, and some
24 flexibility to choose a different cost basis than the one
25 you did choose; is that correct? Let me add one more thing.

1 You were not bound by legal requirements to choose the cost
2 basis that you wound up using for library rates; is that
3 correct?

4 A I think I've addressed that in the series of
5 questions you asked and I have to reiterate that seems
6 natural to me to use the library cost for proposing rates
7 for library subclass. And I found no evidence or there were
8 no studies or analysis that led me to deviate from this
9 rationale and this rationale to use library costs for
10 library rates.

11 Q At the very least, though, you were not bound by
12 any legal requirements to follow -- to follow the route that
13 you did choose in determining the cost for library rate, or
14 in determining a cost basis for library rate?

15 A I'll have to give you a qualified answer because I
16 am not a legal expert. My understanding of the pricing
17 criteria is that the subclass has to cover its costs. So
18 that's my interpretation. Though I stand to be corrected,
19 that's my legal interpretation of criterion three.

20 Q If you were to conclude that the costs for library
21 rate as presented to you by other witnesses were subject to
22 variations so great that you concluded that they might not
23 be a reliable cost basis for the rate, then as far as you
24 know you did have the freedom legally to look at another
25 cost basis; is that correct?

1 MR. REITER: Mr. Chairman, I think the witness
2 already expressed his reluctance to answer the question on
3 those terms, and I do also believe that he answered that
4 whole line very thoroughly with Ms. Dreifuss earlier and
5 ended up agreeing with her.

6 CHAIRMAN GLEIMAN: Ms. Dreifuss, are you --

7 MS. DREIFUSS: Well, I am not sure that he did. I
8 am very pleased to hear it, if that is the case.

9 Well, let me just explain, the reason we are
10 talking about legal requirements is because that was the
11 question posed to you on redirect. I guess I would still
12 like to have an answer to my last question, and I don't know
13 that I need to ask this very many more times.

14 MR. REITER: I think my quibble here also, Mr.
15 Chairman, is that the witnesses can be expected -- this
16 witness can be expected to be generally familiar with the
17 legal requirements for the pricing exercise that he is
18 doing.

19 I think Ms. Dreifuss is actually asking him
20 something very different.

21 CHAIRMAN GLEIMAN: Let's see if the witness can
22 provide an answer one more time to a question that you say
23 he has already responded to but now he apparently can't
24 respond to because he is not familiar with the legal
25 niceties of other than the specific area.

1 If he was familiar with them enough to answer it
2 before, allegedly to her satisfaction, then maybe he can do
3 the same thing all over again, so let's just try it one more
4 time and wrap it up.

5 THE WITNESS: I'm sorry, would you be kind enough
6 to repeat the question? I just want to make sure I --

7 BY MS. DREIFUSS:

8 Q Certainly. There have been several statements and
9 questions since I last posed it.

10 A I want to make sure I answer what you are asking.

11 Q If you had reached the conclusion that the cost
12 basis given you by other witnesses, the cost witnesses, was
13 so unreliable as to raise questions about the wisdom of
14 using that as a basis for library rates, and you decided
15 that it might be better to explore other cost bases, perhaps
16 using a cost proxy, are you aware of any legal requirements
17 that would have prevented you from doing so?

18 A I don't know the exact answer to that.

19 What I would have done in that hypothetical
20 situation perhaps is to go and find out what are the legal
21 requirements, because as I stated in my answer before, it is
22 my interpretation and my understanding, and I stand to be
23 corrected, that the legal requirement would be that what is
24 natural to me is to use the library.

25 So if I were faced with that situation, I would

1 have to consult and probe into the legal requirements.

2 Truly, the answer is I don't know.

3 I would have to look into it, but I didn't face
4 that situation, as I stated earlier in my answers to your
5 questions.

6 MS. DREIFUSS: I don't have any further questions.

7 CHAIRMAN GLEIMAN: I have just maybe one, I hope.

8 Are you familiar with the classroom
9 reclassification decision?

10 THE WITNESS: I am in general terms, not
11 specifically. I am not well-versed into the specific
12 details of that proposal.

13 CHAIRMAN GLEIMAN: Are you aware that in that case
14 a proxy was used for classroom costs?

15 THE WITNESS: Yes, I am.

16 CHAIRMAN GLEIMAN: Thank you.

17 Is there anything further?

18 MR. REITER: No, Mr. Chairman.

19 CHAIRMAN GLEIMAN: If there is nothing further,
20 Mr. Adra, I want to thank you both for your appearance today
21 and your contributions to our record, and your endorsement
22 of past Commission pronouncements.

23 If only we could get all of the Postal Service to
24 do that, life would be so much easier for some of us.

25 If there is nothing further, you are excused.

1 THE WITNESS: Thank you.

2 [Witness excused.]

3 CHAIRMAN GLEIMAN: That concludes today's hearing.

4 We will reconvene tomorrow, Thursday, the 16th,
5 when we are scheduled to receive testimony from Postal
6 Service Witnesses Pafford, Tayman, Macdonald, Panzar and
7 Takis.

8 Glad we can get out early today. I know everybody
9 is going to go back and work until the end of the day.
10 Those who get off a little early, enjoy the ballgame and be
11 careful driving home this evening.

12 [Whereupon, at 2:04 p.m., the hearing was
13 recessed, to reconvene at 9:30 a.m., Thursday, October 16,
14 1997.]

15

16

17

18

19

20

21

22

23

24

25