

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

**RESPONSES OF POSTAL SERVICE WITNESS KIEFER
TO INTERROGATORIES OF THE PARCEL SHIPPERS ASSOCIATION
(PSA/USPS-T37-1-5)**

The United States Postal Service hereby provides the responses of witness Kiefer to the following interrogatories of the Parcel Shippers Association, filed on May 22, 2005: PSA/USPS-T37-1-5.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF POSTAL SERVICE WITNESS KIEFER TO
INTERROGATORIES OF THE PARCEL SHIPPERS ASSOCIATION

PSA/USPS-T37-1. Please refer to WP-PP-29, WP-PP-30, and lines 8 through 13 on page 13 of your testimony where you state, “However, it is necessary to be cautious in selecting the level of passthroughs for two reasons. First, the benchmark Intra-BMC rates are already heavily constrained. And, second, the average weight of a typical PRS piece is less than the average weight of a typical Intra-BMC (benchmark) piece. As a result, moderated passthroughs are appropriate to guard against potential overstatement of cost savings in PRS discounts.”

- (a) Please provide the average cost per piece and average revenue per piece for intra-BMC parcels and your underlying calculations.
- (b) Please provide the average weight of a “typical PRS piece” and a “typical intra-BMC (benchmark) piece.”
- (c) Do you believe that the transportation cost savings figures shown in WP-PP-29 and WPPP-30 are potentially overstated? If so, please explain why the transportation cost savings figures are potentially overstated and the extent to which you believe they may be overstated.
- (d) Do you believe that the nontransportation cost savings figures shown in WP-PP-29 and WP-PP-30 are potentially overstated? If so, please explain why the transportation cost savings figures are potentially overstated and the extent to which you believe they may be overstated.
- (e) Please explain the meaning of the “adjustment factor” shown on WP-PP-29 and how it was developed.

RESPONSE

(a) The Postal Service does not develop costs for Parcel Post by rate category. As part of the rate development process, certain costs are assigned to individual rate categories and rate cells for recovery. The preliminary rates for rate cells and rate categories are developed using these assigned costs and these preliminary rates are subsequently adjusted as needed to achieve rate design goals such as rate change mitigation. The best one can do is to estimate these assigned costs by rate category. My per-piece estimate for these assigned costs for Intra-BMC parcels is \$5.36. This figure was calculated as follows:

- The per-piece element is calculated by taking the sum of Standard Size Parcels Non-weight-related Costs (\$761,671,513), plus Leakages (\$644,462,674), less Surcharges and Other Revenue (\$87,049,775) and dividing this sum by the Number of TYBR Pieces (419,250,650). All quantities are from the Per Piece Costs and Charges worksheet (in

RESPONSE OF POSTAL SERVICE WITNESS KIEFER TO INTERROGATORIES OF THE PARCEL SHIPPERS ASSOCIATION

workbook WP-ParcelPost.XLS). The result (\$3.146) is shown at the upper left of the attached workbook PSA-USPS-T37-Rnd1.XLS.

- The per-piece rate element is added to the weight- and zone-related assigned cost element, then the Inter-BMC/Intra-BMC cost differential (from the Inputs worksheet in workbook WP-ParcelPost.XLS) is subtracted, and the sum is multiplied by the relevant volume from the TYAR Volumes worksheet (in workbook WP-ParcelPost.XLS). The results of these cell by cell calculations are shown in the Intra-BMC portion of the attached workbook PSA-USPS-T37-Rnd1.XLS.
- The weight- and zone-related elements are calculated by dividing the preliminary pound charges by weight and zone (from the Preliminary Pound Charges worksheet in workbook WP-ParcelPost.XLS) by the Gross Markup Factor (from the Per Piece Costs and Charges worksheet in workbook WP-ParcelPost.XLS).
- The assigned costs by weight and zone are summed up as shown in the attached workbook PSA-USPS-T37-Rnd1.XLS and are reported in the summary table Adjusted TYAR Assigned Costs And Revenues in cell R11. These costs are then adjusted for Intra-BMC barcode savings and costs of nonmachinable parcels to obtain Intra-BMC Non-Alaska Assigned Costs, shown in cell S15.
- The assigned costs total are divided by the non-Alaska TYAR volume (from the Inputs sheet in workbook WP-ParcelPost.XLS) to produce the per-piece assigned costs, \$5.36.

I do not know how close these per-piece assigned costs are to Intra-BMC unit costs.

Average revenue per piece is calculated by dividing the Intra-BMC Adjusted Revenue for non-Alaska bypass pieces from worksheet TYAR Revenue Summary (in workbook WP-ParcelPost.XLS), cell F14, by the

RESPONSE OF POSTAL SERVICE WITNESS KIEFER TO
INTERROGATORIES OF THE PARCEL SHIPPERS ASSOCIATION

TYAR volume. The value, \$5.39, is shown in workbook PSA-USPS-T37-Rnd1.XLS at cell S19.

- b. The average weight for a PRS piece is 2.6 pounds. This is obtained by summing up the postage pounds (weight times volume) in the PRS Billing Det. Worksheet (in workbook WP-ParcelPost.XLS) and dividing by the total non-balloon, non-oversized volume. The comparable average weight for an Intra-BMC piece obtained from the Intra-BMC Billing Det. worksheet (in workbook WP-ParcelPost.XLS) is 4.4 pounds.

- c. I have no reason to believe that the figures for transportation cost savings per cubic foot in worksheets WP-PP-29 and WP-PP-30 are overstated. The concern expressed in my testimony that was referred to in the preamble to this question focused on the application of these cost savings numbers in developing appropriate discounts. As can be seen in WP-PP-29 and WP-PP-30, the transportation cost savings per cubic foot are multiplied by average cubic feet per piece figures to obtain average transportation savings. The average cubic feet per piece figures were obtained from witness Miller (USPS-T-21) and represent the average cubic feet per piece for all Parcel Post. Using this figure for both the benchmark (Intra-BMC parcels) and for PRS should pose no problems of overstating transportation cost savings if there were convincing evidence that (on average) Intra-BMC parcels and PRS parcels had the same cubic feet per piece. I do not know of any studies that have compared the average cubic feet per piece for Intra-BMC and PRS parcels, so I cannot say definitively that PRS pieces are smaller in cubic volume than Intra-BMC pieces. If that were so, it would be reasonable to expect that the transportation cost savings would be smaller than what I have calculated using the average Parcel Post figure. The average Parcel Post cubic feet per piece for machinable parcels (the great majority of Intra-BMC parcels fit into this category) is 0.541 cubic feet per

RESPONSE OF POSTAL SERVICE WITNESS KIEFER TO
INTERROGATORIES OF THE PARCEL SHIPPERS ASSOCIATION

piece. From worksheet WP-PP-8 (Parcel Post Cube-Weight Relationships), it can be seen that a piece having this cubic volume would be expected to weigh between four and five pounds. This comports well with the average weight for Intra-BMC pieces reported in my response to subpart (b) of this question. At the same time, the average PRS parcel weighs only 2.6 pounds. If both PRS and Intra-BMC parcels have the same density, one could reasonably conclude that PRS parcels had smaller cubic feet per piece and that the calculation of transportation cost savings per piece in worksheets WP-PP-29 and WP-PP-30 was overstated. It might possibly be true that PRS parcels are much less dense on average than Intra-BMC parcels and the actual PRS savings might be comparable to the savings estimate shown in my workpapers, despite the smaller average weight, but I have no evidence to support this conclusion. For this reason I consider it prudent to pass through only a portion of the calculated transportation cost savings per piece, in case the PRS and Intra-BMC pieces have comparable densities and the calculated transportation savings per piece overstate the actual savings.

- d. For the purposes of answering this question, I am assuming that the word “transportation” in the second sentence of subpart (d) was intended to be “nontransportation,” as in the first sentence. While I cannot rule out that the non-transportation cost savings in WP-PP-29 and WP-PP-30 are potentially overstated, I have no basis to believe that they, in fact, are overstated.
- e. The adjustment factor is used to adjust the amount of the calculated cost savings per piece that is passed through in developing the proposed rate for RDU parcels. It was developed judgmentally to balance the needs for increased revenue from Parcel Post with pricing policy goals, including increasing the share of savings that is reflected in the discounted price,

RESPONSE OF POSTAL SERVICE WITNESS KIEFER TO
INTERROGATORIES OF THE PARCEL SHIPPERS ASSOCIATION

guarding against potential overstatement of savings, and maintaining reasonable rate relationships.

Per Piece Assigned Cost 3.146							
TYAR Assigned Costs Calculation							
Assigned Costs--Before Surcharges							
Weight (Pounds)	Local	Zones 1 & 2	Zone 3	Zone 4	Zone 5	Intra-BMC Total	DDU
1	1,462,158	15,206,653	1,922,169	252,922	20,611	18,864,512	7,722,095
2	3,106,548	32,262,354	4,706,145	1,253,061	87,867	41,415,976	49,890,278
3	1,568,393	19,276,628	3,669,574	654,172	43,619	25,212,386	36,885,172
4	685,883	12,094,803	2,319,440	500,885	23,351	15,624,362	24,298,294
5	432,673	8,047,701	1,591,664	388,640	19,505	10,480,184	16,835,536
6	379,166	5,377,666	1,000,431	222,148	9,417	6,988,828	12,882,411
7	259,975	4,352,883	974,597	229,776	10,729	5,827,959	11,158,236
8	149,940	3,138,143	655,215	101,131	9,077	4,053,506	8,040,498
9	90,852	2,322,078	410,113	148,512	16,952	2,988,507	6,625,352
10	71,713	2,024,266	529,204	73,170	1,669	2,700,022	5,531,876
11	98,044	1,522,996	336,220	153,499	7,595	2,118,355	4,447,403
12	81,404	1,437,002	253,941	54,942	1,217	1,828,506	3,793,039
13	18,396	1,083,065	290,154	93,559	12,971	1,498,145	3,107,125
14	95,458	762,050	283,607	127,767	664	1,269,546	2,449,796
15	18,775	913,476	198,733	76,999	6,773	1,214,756	2,680,240
16	33,109	889,663	166,811	45,390	810	1,135,784	1,976,552
17	28,851	709,473	178,078	46,648	581	963,631	1,703,726
18	20,005	616,462	196,405	43,500	10,780	887,151	1,558,615
19	35,736	1,000,039	163,358	74,982	6,786	1,280,901	1,768,638
20	24,951	612,063	209,729	34,075	2,742	883,560	1,098,978
21	16,844	533,379	114,671	83,360	12,597	760,852	1,197,406
22	44,485	460,982	122,959	11,712	10,982	651,119	1,187,303
23	14,577	384,866	80,643	6,479	330	486,895	1,024,725
24	7,935	350,109	130,198	30,712	9,522	528,475	851,919
25	8,957	324,124	79,965	19,030	17,986	450,063	682,172
26	9,075	358,976	102,287	2,387	22,925	495,651	628,376
27	563	324,875	100,623	29,573	264	455,898	578,038
28	3,259	294,710	92,328	471	10,141	400,908	526,570
29	18,544	344,584	155,650	8,947	109	527,835	444,397
30	624	433,607	41,455	626	4,228	480,539	1,345,342
31	2,299	280,266	70,462	438	2,006	355,472	522,423
32	10,384	239,495	66,187	45,583	143	361,793	358,497
33	620	203,721	100,630	28,951	291	334,214	451,608
34	20,258	149,177	34,454	1,285	15	205,190	314,821
35	241	123,950	58,417	31,913	60	214,580	289,377
36	3,079	193,000	87,950	1,504	30	285,562	272,066
37	89	260,072	55,877	1,662	15	317,716	276,334
38	9,954	194,173	27,683	234	7,965	240,010	231,844
39	101	202,481	89,885	805	-	293,272	208,226
40	763	111,512	87,068	7,812	16	207,172	243,600
41	165	173,961	156,049	1,406	16	331,598	212,900
42	187	99,706	21,783	147	49	121,872	240,534
43	4,395	118,876	53,054	1,505	33	177,863	235,314
44	116	88,217	39,142	117	50	127,643	212,384
45	86	79,144	38,093	30,404	17	147,744	171,903
46	2,254	210,092	62,693	1,383	17	276,440	136,985
47	185	62,094	9,213	138	-	71,630	102,550
48	231	75,386	57,350	1,568	17	134,552	108,399
49	111	107,942	113,889	88	2,270	224,300	77,985
50	22	60,121	42,212	18	18	102,391	95,813
51	68	112,009	16,552	36	18	128,683	71,113
52	136	197,303	49,480	109	36	247,064	51,046
53	240	121,983	105,365	201	18	227,807	33,081
54	46	88,370	57,127	55	-	145,598	34,330
55	-	53,849	29,526	-	-	83,374	38,697
56	-	37,365	78,384	-	-	115,750	30,299
57	59	58,517	15,153	57	19	73,805	27,011
58	12	63,547	17,258	19	-	80,836	29,505
59	-	29,397	28,495	-	-	57,892	25,881
60	-	44,549	851	1,335	-	46,735	31,063
61	-	16,128	9,049	-	-	25,176	30,985
62	-	36,017	4,342	-	-	40,359	50,893
63	-	39,789	-	-	-	39,789	17,331
64	-	30,469	33,739	-	-	64,208	17,681
65	25	21,269	8,495	20	-	29,809	33,403
66	-	71,781	6,189	-	-	77,970	8,296
67	-	16,517	4,501	-	-	21,018	5,162
68	-	18,988	-	-	-	18,988	4,109
69	-	15,421	-	-	-	15,421	3,041
70	-	3,013	17,580	-	-	20,593	3,120
Balloon	10,672	728,319	109,213	17,464	1,226	866,895	702,846
Oversized	6,185	1,258,043	491,530	3,461	1,115	1,760,333	13,504
Total	8,859,874	123,555,706	23,431,291	4,948,793	398,264	161,193,928	218,946,067

Note: Calculations exclude Alaska Bypass pieces.

Adjusted TYAR Assigned Costs And Revenues		
Cost Item/Adjustment	Subtotals	Totals
Calculated Intra-BMC Assigned Costs	161,193,928	
Less: Intra-BMC Barcode Savings	(50,032)	
Plus: Intra-BMC Non-machinable Costs	15,233,010	
Intra-BMC Revenue Adjustment Factor		0.99148843
Intra-BMC Non-Alaska Adjusted Assigned Costs		174,875,661
Intra-BMC Non-Alaska Volume		32,639,237
Intra-BMC Non-Alaska Per-Piece Assigned Costs		5.36
Intra-BMC Non-Alaska Revenue		175,815,561
Intra-BMC Non-Alaska Per-Piece Revenue		5.39
Calculated DDU Assigned Costs	218,946,067	
Parcel Select Revenue Adjustment Factor		1.01299204
DDU Adjusted Assigned Costs		221,790,623
DDU Volume		186,080,909
DDU Per-Piece Assigned Costs		1.19
DDU Calculated Revenue		312,195,543
DDU Adjusted Revenue		316,251,599
DDU Per-Piece Revenue		1.70
<p>Note: Pickup Fees, Combination Revenue and Other Fees are not included in revenues. Contingency is not included in costs.</p>		

RESPONSE OF POSTAL SERVICE WITNESS KIEFER TO
INTERROGATORIES OF THE PARCEL SHIPPERS ASSOCIATION

PSA/USPS-T37-2. Please refer to WP-PP-39, which calculates the financial impact of PRS. Please confirm that the Savings Passthrough shown in this workpaper is calculated by dividing the total revenue difference between PRS parcels and those parcels if mailed as intra-BMC parcels by the corresponding total cost difference. If not confirmed, please explain fully.

RESPONSE

Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS KIEFER TO
INTERROGATORIES OF THE PARCEL SHIPPERS ASSOCIATION

PSA/USPS-T37-3. Please provide the TYAR average revenue per piece and TYAR cost per piece for Parcel Select - DDU parcels and explain how these figures were developed.

RESPONSE

See the response to PSA/USPS-T37-1a. As described in that response, cost per piece estimates for Parcel Post rate categories do not exist. Nevertheless, assigned costs per piece can be estimated for DDU parcels as follows:

- The per-piece element is calculated by taking the sum of Standard Size Parcels Non-weight-related Costs (\$761,671,513), plus Leakages (\$644,462,674), less Surcharges and Other Revenue (\$87,049,775) and dividing this sum by the Number of TYBR Pieces (419,250,650). All quantities are from the Per Piece Costs and Charges worksheet (in workbook WP-ParcelPost.XLS). The result (\$3.146) is shown at the upper left of the attached workbook PSA-USPS-T37-Rnd1.XLS.
- The per-piece rate element is added to the weight-related assigned cost element, then the Inter-BMC/Intra-BMC, Intra-BMC/DBMC and DBMC/DDU cost differentials (from the Inputs worksheet in workbook WP-ParcelPost.XLS) are subtracted, and the usage-adjusted Delivery Confirmation unit cost estimate is added. The sum is then multiplied by the relevant volume from the TYAR Volumes worksheet (in workbook WP-ParcelPost.XLS). The results of these cell by cell calculations are shown in the DDU portion of the attached workbook PSA-USPS-T37-Rnd1.XLS.
- The weight-related elements are calculated by dividing the preliminary pound charges by weight (from the Preliminary Pound Charges worksheet in workbook WP-ParcelPost.XLS) by the Gross Markup Factor (from the Per Piece Costs and Charges worksheet in workbook WP-ParcelPost.XLS).
- The assigned costs by weight are summed up as shown in the attached workbook PSA-USPS-T37-Rnd1.XLS and are reported in the

RESPONSE OF POSTAL SERVICE WITNESS KIEFER TO
INTERROGATORIES OF THE PARCEL SHIPPERS ASSOCIATION

summary table Adjusted TYAR Assigned Costs And Revenues in cell R21. These costs are then adjusted using the Parcel Select Revenue Adjustment Factor (from the Inputs sheet in workbook WP-ParcelPost.XLS) and the adjusted figure is reported in cell S23.

- The assigned costs total are divided by the DDU TYAR volume (from the Inputs sheet in workbook WP-ParcelPost.XLS) to produce the per-piece assigned costs, \$1.19.

I do not know how close these per-piece assigned costs are to DDU unit costs.

Average revenue per piece is calculated by multiplying the calculated DDU revenue from the worksheet TYAR Calculated Revenue, cell S86 (in workbook WP-ParcelPost.XLS) by the Parcel Select revenue adjustment factor (from the Inputs sheet in workbook WP-ParcelPost.XLS) and dividing the adjusted revenue by the TYAR DDU volume. The value, \$1.70, is shown in workbook PSA-USPS-T37-Rnd1.XLS at cell S28.

RESPONSE OF POSTAL SERVICE WITNESS KIEFER TO
INTERROGATORIES OF THE PARCEL SHIPPERS ASSOCIATION

PSA/USPS-T37-4. Please refer to WP-PP-24, WP-PP-27, and lines 19 through 22 on page 7 of your testimony where you state, "All Parcel Select DBMC machinable parcels will be required to be barcoded. The cost savings from barcoding will be reflected in the rates instead of being separately stated."

- (a) Please confirm that the percentage rate changes shown for DBMC parcels in WP-PP-24 and WP-PP-27 compare the preliminary rates and constrained rates for barcoded DBMC parcels with the current rates for nonbarcoded DBMC parcels. If not confirmed, please explain fully.
- (b) Please confirm that the percentage difference between the preliminary and constrained rates and the current rate for barcoded DBMC parcels is larger than shown in WP-PP-24 and WP-PP-27. If not confirmed, please explain fully.
- (c) When you were designing Parcel Post rates, were you aware that the average rate increase for barcoded DBMC parcels was larger than estimated in your rate design spreadsheet?

RESPONSE

- (a) Since, in my proposal, eligibility for DBMC rates will require barcoding, all DBMC pieces are assumed to be barcoded, and the savings for barcoding of machinable parcels were subtracted when the rates in WP-PP-24 and WP-PP-27 were developed. The current rates used for comparison did not have the barcode discount in them, so the statement can be confirmed.
- (b) It can be confirmed that if a piece paying my proposed DBMC rates were compared with a machinable piece with a barcode paying current DBMC rates, the percentage change for that piece would be larger than those shown in WP-PP-24 and WP-PP-27.
- (c) The proposed percentage rate changes were developed in a way that compared base DBMC pieces before and after rates. Currently, the base DBMC piece does not require a barcode. Under my proposals, DBMC pieces will be required to have a barcode or pay Intra-BMC rates, so the relevant base piece must bear a barcode. No explicit account was taken of the fact that currently-barcoded DBMC pieces would experience higher percentage increases than shown in WP-PP-27 which contains my proposed rates. It should be noted that the difference between the increases experienced by a currently barcoded piece and a currently non-

RESPONSE OF POSTAL SERVICE WITNESS KIEFER TO
INTERROGATORIES OF THE PARCEL SHIPPERS ASSOCIATION

barcoded piece (what is shown in WP-PP-27) would be 1.6 percentage points or less. This difference is rather small compared to the rate adjustments proposed between the preliminary DBMC rates and my proposed constrained DBMC rates.

RESPONSE OF POSTAL SERVICE WITNESS KIEFER TO
INTERROGATORIES OF THE PARCEL SHIPPERS ASSOCIATION

PSA/USPS-T37-5. Please refer to lines 24 through 25 on page 4 of your testimony where you state, "over 50 percent of Parcel Select is DDU-entered," WP-PP-1 and WP-PP-6.

- (a) Please confirm that, in FY 2005, 75 percent of Parcel Select volume was DDU-entered. If not confirmed, please provide the correct figure.
- (b) Please confirm that you estimate that, in the Test Year Before Rates, 75 percent of Parcel Select (excluding PRS) will be DDU-entered. If not confirmed, please provide the correct figure.
- (c) Please confirm that you estimate that, in the Test Year After Rates, 76 percent of Parcel Select (excluding PRS) will be DDU-entered. If not confirmed, please provide the correct figure.

RESPONSE

- (a) Confirmed, if PRS volumes are excluded. If PRS volumes are included in Parcel Select, DDU's share was approximately 73%.
- (b) Confirmed.
- (c) Confirmed.