

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KIEFER
TO INTERROGATORY OF PARCEL SHIPPERS ASSOCIATION
(PSA/USPS-T36-8)

The United States Postal Service hereby files the response of witness Kiefer to above-listed interrogatory, filed on July 14, 2006.

The interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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July 28, 2006

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PSA/USPS- T36-8. Please refer to your response to PSA/USPS- T37 -2 where you confirmed 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." Do you believe that dividing the total revenue difference between Standard Mail Regular parcels and Standard Mail Regular flats by the corresponding total cost difference is a reasonable way to calculate the effective passthrough of the Standard Mail Regular flat-parcel cost difference? Please explain your response fully.

RESPONSE

Please see my response to VP/USPS-T36-18(a) and POIR5, question 3(a). In those responses I indicated my belief that the key rate relationships—and therefore, the key passthrough relationships—were those between presort levels within the same mail category, that is, those relationships that were essentially different levels of worksharing for similar mail pieces. In this interrogatory, the first example (PRS vs. Intra-BMC parcels) fits within this category, while the second example (Standard Mail Regular parcels vs. Standard Mail Regular flats) does not. In the first example, identical parcels could be tendered as either Intra-BMC parcels or as PRS parcels. It is the worksharing performed by the PRS customer that is the prime factor in differentiating the cost, and using this cost difference to calculate a passthrough of costs into rates is reasonable. The second example is quite different. A parcel might have to be substantially reconfigured in shape to be mailed as a flat. This reconfiguration is not an avoidance of work that the Postal Service might otherwise perform, although the work that is performed is less costly. Moreover, the two mail pieces (flats and parcels) are processed and delivered in substantially different ways and have substantially different mail characteristics, so that the costs of flats and parcels would reflect many different factors, including, for example, different presort and entry profiles. All of the foregoing leads me to believe that while it is possible to calculate a ratio of shape-based rate differences to shape-based cost differences and express this as a percentage, as suggested in the question, this “passthrough” might not have the same meaning or

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significance as a passthrough of a worksharing cost. Nonetheless, rate design should always consider rate relationships between rate cells, including consideration of underlying cost differences. Whether this is achieved through a mechanical rate design with the percentage as an input, or through a conscious selection of rate differences by the rate designer is, ultimately, immaterial.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

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