

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–T37–6, 7(c), 8, 9(b)-(c), 10-12)**

The United States Postal Service hereby provides the responses of witness Kiefer to the following interrogatories of the Parcel Shippers Association, filed on June 8, 2005: PSA/USPS–T37–6, 7(c), 8, 9(b)-(c), 10-12.

Interrogatories PSA/USPS–T37–7(a), (b), and (d) and 9(a) were redirected to witness Page.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Scott L. Reiter

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2999, Fax -5402
scott.l.reiter@usps.gov
June 22, 2006

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

PSA/USPS-T37-6. Please refer to USPS-T-37, WP-PP-1 and WP-PP-27.

(a) Please confirm that, in FY 2005, 68.52% of DBMC parcels were barcoded. If not confirmed, please provide the correct figure.

(b) Please confirm that, in TYAR, you estimate that 100% of DBMC parcels will be barcoded. If not confirmed, please provide the correct figure.

(c) Please provide your best estimate of the TYAR cost savings that will result from the increase in the proportion of DBMC parcels that will be barcoded and provide your underlying calculations.

(d) Please confirm that the cost savings specified in subpart (c) of this interrogatory have not been incorporated into the TYAR costs for the Parcel Post subclass. If not confirmed, please explain your response fully.

(e) Assume that, in TYAR, the proportion of DBMC-entered parcels that are barcoded remains at 68.52%. How much higher would your estimate of TYAR Parcel Post revenue be? Please explain your calculations fully.

(f) Please confirm that the additional revenue specified in subpart (e) of this interrogatory has not been incorporated into the TYAR revenues for the Parcel Post subclass. If not confirmed, please explain your response fully.

(g) Please explain the basis of your assumption that, in TYAR, all Parcel Post pieces entered at the DBMC will be barcoded.

RESPONSE

- a. I can confirm that 68.52% of DBMC parcels received the barcode discount in FY 2005. While it is reasonable to assume that most DBMC barcoded pieces would claim the discount, we do not have data that specifically counts barcoded pieces as opposed to pieces claiming the discount.
- b. Not confirmed. In the TYAR I am assuming that all machinable pieces will be barcoded. Since a small percentage of DBMC pieces are nonmachinable the ratio of assumed barcoded pieces to total DBMC pieces is actually 93.6%.
- c. Raising the barcoded percentage from 68.5% to 93.6% of DBMC pieces would mean about 14 million more pieces would be barcoded in the TYAR: $(56,301,666 \text{ DBMC pieces} * (0.936 - 0.685))$. For the purposes of responding to this question I will assume that the additional barcoded pieces save three cents per piece, the cost savings estimated by witness

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

Miller. Using this figure the estimated cost savings is about \$424 thousand (14,131,666 * \$0.03).

- d. Confirmed.
- e. I do not know. The 14 million pieces in question would pay a range of Intra-BMC rates. I do not know how these pieces would be distributed among the various Intra-BMC rates.
- f. It can be confirmed that no additional revenue arising from pieces moving from DBMC to Intra-BMC rates because of failure to barcode is included in the TYAR revenue calculation. No such migration of these pieces is assumed.
- g. Please see my response to subparts (e) and (f). The assumption that no pieces would migrate was a simplifying assumption for revenue calculation purposes. My assumption is reasonable in light of two facts. First, I have no studies that indicate how many pieces would migrate from DBMC to Intra-BMC rate schedules as a result of failing to meet the barcoding requirement. Moreover, if that number were known, I do not have information that adequately describes what DBMC rates these pieces currently pay, and what Intra-BMC rates they would pay. Second, I believe it is reasonable to assume that few, if any, DBMC mailers would choose to pay higher Intra-BMC rates rather than affix barcodes to their parcels.

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

PSA/USPS-T37-7. Please refer to USPS-LR-L-59, Attachment 14A, "Shift Other Special Services Cost to Respective Subclass" and USPS-T-37, WP-PP-1.

(a) Please confirm that the Parcel Post Delivery Confirmation Final Adjustment increases TYAR Parcel Post costs by \$39.3 million. If not confirmed, please explain fully.

(b) Please confirm that the \$39.3 million was calculated by multiplying 267.83 million TYAR pieces by a unit cost of \$.1467 per piece. If not confirmed, please explain fully.

(c) In the test year, for how many TYAR Parcel Select pieces do you expect no-fee delivery confirmation to be used? Please explain your calculation.

(d) Taking into account your response to subpart (c) of this interrogatory, please provide your best estimate of how much the Parcel Post Delivery Confirmation Final Adjustment should increase TYAR Parcel Post costs. Please provide your underlying calculations.

RESPONSE

- a. Redirected to witness Page (USPS-T-23).
- b. Redirected to witness Page (USPS-T-23).
- c. 195,291,269 (= 80% * 244,114,086 (TYAR drop-shipped volume))
- d. Redirected to witness Page (USPS-T-23).

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

PSA/USPS-T37-8. Please refer to USPS-T-37, WP-PP-33, 34, 37, and 40. Please also refer to lines 4 through 8 on page 20 of your testimony where you state, "As discussed in Postal Service witness Scherer's (USPS-T-33) testimony, some Priority Mail pieces are expected to leave the subclass entirely to avoid dim-weighted pricing. He estimates that approximately 2.7 million Priority Mail pieces will migrate. Based on the mail characteristics of these pieces, I assume about a third of pieces leaving Priority Mail will migrate to Inter-BMC Parcel Post."

(a) Please confirm that you project that the Postal Service's Priority Mail Dim-Weight Pricing proposal will result in approximately 877 thousand pieces migrating from Priority Mail to Inter-BMC Parcel Post. If not confirmed, please explain fully.

(b) Please confirm that you project that the pieces specified in subpart (a) of this interrogatory will cost a total of \$17.3 million in the Test Year.

(c) Please confirm that you project that the pieces specified in subpart (a) of this interrogatory will generate approximately \$10 million in revenue.

(d) Please confirm that excluding the costs and revenues for "Dim-Wt Migrants" would increase the TYAR Parcel Post cost coverage from 115.2% to 116.0%. If not confirmed, please explain fully.

(e) Please explain why you assumed that one-third of the pieces leaving Priority Mail will migrate to Parcel Post.

(f) Please explain why you assumed that the pieces specified in your response to subpart (e) of this interrogatory will be mailed at Inter-BMC rates.

RESPONSE

a. Confirmed.

b. Confirmed.

c. Confirmed.

d. I can confirm that excluding \$17.3 million from Parcel Post TYAR costs and \$10.0 million from Parcel Post TYAR revenue yields a cost coverage ratio of 116.0%.

e. Witness Scherer (USPS-T-33) projected that approximately 2.7 million pieces currently paying Priority Mail rates would leave Priority Mail in the test year to avoid dimensional weight pricing. It is reasonable to assume that some fraction of those pieces would migrate to Parcel Post to avoid the higher pricing being proposed for Priority Mail. We do not know what the

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

actual fraction will be, so for net revenue calculation purposes, an assumption was made that it would be approximately one-third. We do not have any mail studies that support this assumption.

- f. It is my understanding that many of the pieces that would qualify for dimensional weight pricing are currently entered at retail, rather than in bulk. It is also my understanding that witness Scherer is proposing dimensional weight pricing only for pieces falling into Zones 5 through 8. Except for Zone 5, only Inter-BMC has retail rates that cover these distant zones.

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

PSA/USPS-T37-9. Please refer to USPS-LR-L-59, 'Summary of Final Adjustments by Cost Segment (\$000s).'

(a) Please confirm that witness Page estimates that a change in the Parcel Post mail mix between the Base Year and TYAR will increase Parcel Post costs by \$32 million. If not confirmed, please provide the correct figure.

(b) Please explain how Parcel Post mail mix will change between the Base Year and TYAR and why this change will occur.

(c) By how much did these same Parcel Post mail mix changes increase TYAR revenue?

RESPONSE

- a. Redirected to witness Page (USPS-T-23).
- b. Between the Base Year and the Test Year After Rates, Inter-BMC Parcel Post is expected to gain two percentage points in volume share and Parcel Select is expected to lose volume share (approximately one percentage point for each component of Parcel Select). Intra-BMC is expected to maintain its share. I understand from witness Thress that the principal driving factors in determining the different growth paths for Parcel Post rate categories between the Base Year and the Test Year After Rates are the own-price elasticities and changes in rates.
- c. I have not made such a calculation, since it was unnecessary for calculating TYAR revenues. The TYAR volume forecast already includes the mail mix changes.

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

PSA/USPS-T37-10. Please refer to your response to PSA/USPS-T37-1(a) where you estimate per piece “assigned costs” for Intra-BMC parcels of \$5.36 and calculate an average revenue per piece for Intra-BMC parcels of \$5.39.

(a) Please confirm that your best estimate of the TYAR average unit contribution of Intra-BMC parcels is 3 cents. If not confirmed, please provide the correct figure and provide all of your underlying calculations.

(b) Is the unit contribution figure specified in your response to subpart (a) of this interrogatory also your best estimate of the average TYAR unit contribution of RDU parcels if mailed as intra-BMC parcels? If not, please provide your best estimate of the TYAR unit contribution of RDU parcels if mailed as intra-BMC parcels and provide all of your underlying calculations.

(c) Is the unit contribution figure specified in your response to subpart (a) of this interrogatory also your best estimate of the average TYAR unit contribution of RBMC parcels if mailed as intra-BMC parcels? If not, please provide your best estimate of the TYAR unit contribution of RBMC parcels if mailed as intra-BMC parcels and provide all of your underlying calculations.

RESPONSE

a. Not confirmed. Please see my response to PSA/USPS-T37-1(a). In that response I pointed out that the Postal Service does not have costs by rate category (i.e. Intra-BMC Parcel Post). Rather, for the purposes of developing rates, I assign costs to various categories. I do not know whether these assigned unit costs can produce reliable estimates of “per-piece contribution” when subtracted from estimates of per-piece revenues. I have not made any estimates of TYAR average unit contributions for Intra-BMC Parcel Post.

b-c. Please see my response to subpart (a), which applies to RDU, RBMC and all other rate categories of Parcel Post as well.

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

PSA/USPS-T37-11. Please refer to WP-ParcelPost-R0601.xls, WP-PP-39. For the purpose of this interrogatory, please assume that WP-ParcelPost-R0601.xls accurately calculates all PRS cost savings.

Table 1. Per-Piece PRS Financial Summary

	Cost Savings	Revenue Reduction	Increase in Contribution
	[1]	[2]	[3]=[1]-[2]
RDU	\$4.23	\$2.47	\$1.76
RBMC	\$2.10	\$1.15	\$0.95

(a) Please confirm that Table 1 above accurately summarizes the TYAR per-piece financial impact of PRS. If not confirmed, please update Table 1 with the correct figures and provide your underlying calculations.

(b) Please confirm that the TYAR unit contribution of PRS parcels can be calculated by summing the unit contribution specified in your response to PSA/USPS-T37-10(a) and the figures in the "Increase in Contribution" column in Table 1. If not confirmed, please provide your best estimate of the TYAR unit contribution of RDU and RBMC parcels and your underlying calculations.

RESPONSE

- a. With the qualification that the PRS cost savings estimates in WP-ParcelPost-R0601.xls are assumed to be an accurate reflection of the actual savings, the numbers in the table can be confirmed.
- b. Not confirmed. Please see my responses to PSA/USPS-T37-1(a) and PSA/USPS-T37-10. I have not made any estimates of TYAR total average unit contributions for Intra-BMC, RDU or RBMC Parcel Post rate categories.

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

PSA/USPS-T37-12. Please refer to your response to PSA/USPS-T37-1(c). Please provide your best estimate of the extent to which the per-piece transportation cost savings figures in WP-PP-29 and WP-PP-30 may have been overstated and provide your underlying calculations.

RESPONSE

Please see my response to PSA/USPS-T37-1(c). In that response I attempted to make clear that I do not know whether the per-piece transportation cost savings in WP-PP-29 and WP-PP-30 are overstated or not. Since I do not know whether there is actual, or even highly probable, overstatement of unit costs, I have not attempted to measure the size of any potential overstatement. The thrust of my response was to point out that there was good reason for the Postal Service's cautious approach when pricing Parcel Return Service pieces.