

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

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PREMIUM FORWARDING SERVICE

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Docket No. MC2007-3

**NOTICE OF THE UNITED STATES POSTAL SERVICE  
OF FILING WITNESS DAWSON'S RESPONSES TO INTERROGATORIES  
FROM THE OFFICE OF THE CONSUMER ADVOCATE  
OCA/USPS-T3-1-6  
(August 24, 2007)**

The United States Postal Service hereby provides the responses of witness Gregory Dawson to the following interrogatories of the Postal Regulatory Commission's Office of the Consumer Advocate (OCA): OCA/USPS-T3-1-6, filed on August 13, 2007.

Each interrogatory is stated verbatim and followed by the response:

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

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Kenneth N. Hollies  
Attorney

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-3083; Fax -3084  
[khollies@usps.gov](mailto:khollies@usps.gov)

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DAWSON  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

**OCA/USPS-T3-1.** Please confirm that the existing Premium Forwarding Service (PFS) weekly reshipment fee is \$2.85 plus the Priority Mail fee of \$9.10 which is equal to the postage for a 3 pound, zone 6 Priority Mail parcel, or a total of \$11.95. If you are unable to confirm, please explain.

**RESPONSE:**

Confirmed, although I would characterize the Priority Mail component as a "rate".

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**OCA/USPS-T3-2.** Please confirm that your proposal for a PFS weekly reshipment fee of \$11.95 is the same as the fee currently charged a PFS customer. If you are unable to confirm, please explain.

**RESPONSE:**

Confirmed that the proposed reshipment fee is the same amount as the fee plus postage charged currently.

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**OCA/USPS-T3-3.** Attachment 1 to your testimony indicates that the average weight of a PFS parcel for FY 2006 was 5.301 pounds.

- a. Please confirm that for mailing purposes, 5.301 pounds would qualify for the 6 pound Priority Mail rate.
- b. Please confirm that the Experimental PFS rate proposal recommended in Docket No. MC2005-1 was based upon the estimated average weight and zone of a PFS parcel of 3 pounds mailed to zone 6. If you are unable to confirm, please show the derivation of all calculated values and cite all sources relied upon.
- c. Please confirm that using the former Experimental PFS pricing methodology and applying the FY 2006 average parcel weight, of 5.301 pounds destinating at zone 6, would result in a Priority Mail parcel rate of \$13.10. If you are unable to confirm, please show the derivation of all calculated values and cite all sources relied upon.
- d. Please confirm that if you added the \$13.10 fee referenced in part c of this interrogatory to the current flat PFS weekly Priority Mail postage reshipment fee of \$2.85, the result would be a total fee of \$15.95. If you are unable to confirm, please show the derivation of all calculated values and cite all sources relied upon.

**RESPONSE:**

- a. Confirmed that a 5.301-pound parcel entered as Priority Mail would pay the 6-pound rate. But see my response to OCA/USPS-T3-4.
- b. Confirmed, but see my response to OCA/USPS-T3-4.
- c. Not confirmed. The experimental PFS pricing methodology ties the price of a PFS shipment to the 3-pound, Zone 6 Priority Mail rate, regardless of the actual weight of the piece. I can confirm that the Priority Mail rate for a 6-pound, Zone 6 piece is \$13.10. Please also see my response to OCA/USPS-T3-4.
- d. Confirmed, but see my response to OCA/USPS-T3-4.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DAWSON  
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**OCA/USPS-T3-4.** Please explain why you believe that your pricing rationale that does not rely upon the expected weight of reshipped parcels for the Premium Forwarding Service (PFS) is superior to that presented by USPS witness Koroma in the USPS Docket No. R2005-1 [sic] proposal.

**RESPONSE:**

As I explain in Section IV(A)(1) of my testimony, my pricing relies not only on the expected weight of PFS parcels, but also on the expected PFS-specific values of other cost drivers, including zone distribution and cubic volume. In terms of these other cost drivers, PFS pieces (which comprise equal proportions of Tyvek envelopes and parcels) are quite different from the average Priority Mail parcel of a similar weight. For instance, the average 6-pound, Zone 6 Priority Mail parcel has a volume of 0.90 cubic feet (PRC-LR-18, Attachments.xls, sheet TYAR, cell EX12), whereas the average PFS piece has a volume of 0.26 cubic feet (see Attachment 1 of my testimony). Therefore, the “cubic-volume-related” cost of a typical 6-pound, Zone 6 Priority Mail parcel is approximately \$7.41<sup>1</sup>, while the average for a PFS piece is about \$1.74<sup>2</sup>. Incorporating all of the cost drivers, the average cost of a 6-pound, Zone 6 Priority Mail parcel is \$10.26 (PRC-LR-18, Attachments.xls, sheet Rate Calc., cell F16), while the average cost of a PFS piece is \$4.57 (USPS-T-3, Attachment 1). Thus, the 6-pound, Zone 6 Priority Mail rate cell is a poor proxy for PFS.

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<sup>1</sup> 0.90 cubic feet × \$8.198 cost per cubic foot in Zone 6 (PRC-LR-18, Attachments.xls, sheet Rate Calc., cell F6).

<sup>2</sup> 0.26 cubic feet × cost per cubic foot by zone (PRC-LR-18, Attachments.xls, sheet Rate Calc., cells B6-H6), weighted by PFS zone distribution (USPS-T-3, Attachment 1).

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**OCA/USPS-T3-5.** The following interrogatory refers to your testimony, Attachment 1.

- a. Please confirm that in footnote 12 you applied the Priority Mail Cost Coverage of 149.98 percent (rounded) to the “average cost per parcel” of \$4.575 to calculate a PFS marked up average cost per parcel rate which you then divided by the per piece parcel cost. If you are unable to confirm, please show the derivation of all calculated values and cite all sources relied upon.
- b. Please explain why you did not apply the same cost coverage, 149.98 percent (rounded), to the “per shipment cost” of \$4.076, to calculate a PFS per-shipment rate.

**RESPONSE:**

- a. Confirmed.
- b. In my analysis, I look at the overall cost coverage for a PFS shipment, 136 percent (see page 6 of my testimony). I show separate cost coverages for the labor and shipping components of the per-shipment fee primarily for illustrative purposes, and to demonstrate that the prices take into account the implicit value of the Priority Mail reshipment. Nonetheless, I do not think the Priority Mail cost coverage is the best proxy for the per-shipment cost calculated by witness Abdirahman, since that cost relates to items that are distinct from the typical Priority Mail cost components.

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**OCA/USPS-T3-6.** On page 3 of Attachment 3 of your testimony, you provide survey results for Premium Forwarding Service.

- a. You indicate that 126 offices were surveyed. For the time period associated with the survey of the 126 offices, please indicate the total number of offices offering PFS and whether a selection of a total number of 126 offices provides a statistically accurate survey result in terms of the total number of offices surveyed. Please provide calculations and statistical backup, as appropriate.
- b. You indicate that a total of 421 PFS customers were surveyed. For the time period associated with the survey of the 421 customers, please provide the total number of customers that used PFS and whether the survey of 421 customers provides a statistically accurate survey result in terms of the total number of customers surveyed. Please provide calculations and statistical backup, as appropriate.

**RESPONSE:**

I used these survey data to estimate the instance of additional PFS pieces (see Section IV(A)(1) of my testimony). The accuracy of this estimate is independent of the population of either customers or offices. Because the survey samples offices, the accuracy of the estimate will depend on the number of offices sampled, the expected variance of the variable being measured, and the desired confidence interval of the estimate. Assuming a five percent variance in the number of pieces per customer per week, and with a desired confidence interval of .01 pieces (a range of .02 pieces) at a 95 percent confidence level, the necessary sample size would be 97<sup>1</sup>. Thus, a sample of 126 offices is more than adequate to provide a reliable estimate.

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<sup>1</sup>  $(z\text{-score for a 95 percent confidence level in a two-sided test})^2 \times (\text{variance})^2 \div (\text{maximum allowable deviation})^2 = (1.96)^2 \times (.05)^2 \div (.01)^2$  (rounded up).