

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MITCHUM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T40-29-35(e), 43-44, and 49-51)

The United States Postal Service hereby provides the responses of witness Drew Mitchum to the above-listed interrogatories of the Office of the Consumer Advocate: OCA/USPS-T40-20-28, filed on June 30, 2006. Interrogatories OCA/USPS-T40-35(f-h), 36-42, and 45-48 have been redirected to the Postal Service.

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

David H. Rubin
Attorney

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2986; Fax -6187
July 14, 2006

RESPONSE OF POSTAL SERVICE WITNESS MITCHUM
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T40-29. This interrogatory seeks information about the number of scans for Confirm service. Please refer to your response to OCA/USPS-T23-3(g). Please show all calculations, and provide citations to all sources, used to derive the 357,143 average estimated number of scans in a typical block of one million units.

RESPONSE:

I used an assumption that 55 percent of scans will be for First-Class Mail (FCM) and 45 percent will be for Standard Mail (SM) (MMA/USPS-T40-4(b)). The 357,143 (number of scans per block) is calculated as:

1,000,000 (number of units in a block)

$.45 \text{ (SM share of scans)} * 5 \text{ (units/scan)} + .55 \text{ (FCM share of scans)} * 1 \text{ (units/scan)}$

RESPONSE OF POSTAL SERVICE WITNESS MITCHUM
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T40-30. This interrogatory seeks to clarify the proposed pricing of Confirm service for First-Class Mail and Standard Mail. Please refer to your response to OCA/USPS-T40-13(a)-(b), where it states, “First-Class Mail and Standard Mail letters have significantly different unit revenue, cost coverages, and service standards.”

- a. For First-Class Mail and Standard Mail letters with “very similar mail piece characteristics (aside from markings and postage),” please confirm that differences in unit revenue, cost coverage and service standards for First-Class Mail and Standard Mail letters have no bearing on the passive *cost per scan* generated pursuant to the Confirm special service. If you do not confirm, please explain.
- b. Are there any circumstances under which the cost per scan to the Postal Service would be different for First-Class Mail and Standard Mail pieces with 1) very similar mailpiece characteristics (aside from markings and postage), and 2) different size, shape, weight, addressing quality, etc., characteristics (aside from markings and postage)? Please explain.

RESPONSE:

- a. Confirmed.
- b. 1) No. See the response cited in this interrogatory, OCA/USPS-T40-13(a)-(b).
2) No.

RESPONSE OF POSTAL SERVICE WITNESS MITCHUM
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T40-31. This interrogatory seeks to clarify the proposed pricing of Confirm service for First-Class Mail and Standard Mail. Please refer to your response to OCA/USPS-T40-14(e), where it states, “First-Class Mail has features that are different from Standard Mail, and it is my understanding that the pricing reflects these differences.”

- a. Please confirm that you are the “pricing” witness for Confirm service in this proceeding. If you do not confirm, please explain.
- b. Please provide quotes and page citations to your testimony that discuss and support your claim that the different service features of First-Class Mail and Standard Mail are reflected in the pricing of Confirm service.
- c. Please confirm that the different service features of First-Class Mail and Standard Mail, respectively, were not reflected in the pricing of Confirm service when the permanent mail classification for Confirm service was established pursuant to Docket No. MC2002-1. If you do not confirm, please provide quotes and page citations to the testimony of witness James F. Kiefer (USPS-T-5) in the above referenced docket that discusses and supports your claim that the different service features of First-Class Mail and Standard Mail are reflected in the pricing of Confirm service.
- d. With respect to your reference to the “long-standing practice of treating First-Class Mail and Standard Mail . . . differently,” (part e. of 14), please provide a complete set of examples where Special Services or ancillary services have been priced differently when they are associated with different classes or subclasses of mail. In this set of examples, state whether cost differences exist when providing the Special Service or ancillary service together with the underlying class of service.

RESPONSE:

- a. Confirmed.
- b. The common understanding that First-Class Mail and Standard Mail have different features was not explicitly discussed in my direct testimony, but its relationship to the pricing of Confirm service is addressed in my responses to OCA/USPS-T40-14(e) and OCA/USPS-T40-32.
- c. Confirmed.
- d. There are a multitude of cases where the availability of special services are restricted by the class of mail the mailpiece is shipped under, many of which involve distinctions between First-Class Mail and Standard Mail. Some examples are:

RESPONSE OF POSTAL SERVICE WITNESS MITCHUM
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T40-32, Page 2 of 2

- i. Delivery Confirmation is priced differently based on the underlying subclass, though the differences are based on costs and whether those costs are included in the base subclass.
- ii. Registered Mail is not available with Standard Mail.
- iii. Certified Mail is not available with Standard Mail.
- iv. Repositionable notes are priced differently depending on the class of mail they are used with.
- v. Insurance is not available for Standard Mail, except bulk insurance.
- vi. Certificates of Mailing are not available with Standard Mail.
- vii. Signature Confirmation is not available for Standard Mail.
- viii. COD is not available with Standard Mail.
- ix. Special Handling is not available with Standard Mail.
- x. Forwarding and return are part of First-Class Mail.

There are greater restrictions for the use of return receipt, return receipt for merchandise, and restricted delivery with Standard Mail, including the requirement that the residual shape surcharge be paid.

While I am not a costing witness, I am aware that the costs for providing Address Correction Service for different classes of mail are different. And it is difficult to determine if there would be cost differences where special services are restricted for one or more classes of mail, as I am unaware of any efforts by the Postal Service to estimate costs for special services for those classes of mail for which they are not eligible.

RESPONSE OF POSTAL SERVICE WITNESS MITCHUM
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T40-32. This interrogatory seeks to clarify the proposed pricing of Confirm service for First-Class Mail and Standard Mail. Please refer to your response to OCA/USPS-T40-14(e), where it states, “First-Class Mail has features that are different from Standard Mail, and it is my understanding that the pricing reflects these differences.”

- a. Please identify the service features of First-Class Mail and Standard Mail that should be reflected in the pricing of Confirm service, and explain your “understanding” as to how the different service features of First-Class Mail and Standard Mail should affect the pricing of Confirm service. Also, please explain and analyze the nine pricing criteria of section 3622(b) for Confirm service discussing the different service features of First-Class Mail and Standard Mail, respectively, that are relevant to the pricing of Confirm service.
- b. Please confirm that Confirm service is not a “bundled,” or included, service feature of First-Class Mail or Standard Mail. If you do not confirm, please explain.
- c. Please confirm that Confirm service is 1) a special service having a separate mail classification, 2) offered as an ancillary service to First-Class Mail and Standard Mail, and 3) separately priced based upon volume variable costs specific to Confirm service. If you do not confirm, please explain.

RESPONSE:

a. First-Class Mail has more features than Standard Mail, including free forwarding and return, priority handling, and the ability to use some special services which are not available with Standard Mail (see my response to OCA/USPS-T40-31(d) for more examples).

b. Confirmed.

c. 1) Confirmed.

2) Confirm is a separate service that allows monitoring of mail bearing PLANET Codes that is processed on the appropriate equipment. To become a subscriber, there is no requirement that any underlying service be purchased.

3) Confirmed. Confirm service is priced separately based on the incremental costs associated with the product, as well as the other statutory pricing factors. It is not the existence of the different features by subclass that requires different Confirm pricing.

RESPONSE OF POSTAL SERVICE WITNESS MITCHUM
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

RESPONSE OF POSTAL SERVICE WITNESS MITCHUM
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T40-33, Page 2 of 2

Instead, the existence of these different features shows that it is not unreasonable to treat the classes differently with respect to their ancillary services.

RESPONSE OF POSTAL SERVICE WITNESS MITCHUM
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T40-33. This interrogatory seeks to clarify the proposed pricing of Confirm service for First-Class Mail and Standard Mail. Please refer to your response to OCA/USPS-T40-15(e). For purposes of these questions, please answer the following without regard to the statutory pricing criteria of section 3622(b):

- a. Please provide a definition for “value pricing,” and give a citation to the source for your definition.
- b. In the case of Confirm, where the cost per passivescan is the same for First - Class Mail and Standard Mail pieces, the average cost per block of one million units is \$42.66, and the price per block of one million units is \$70 (for the 1st to 9th block), yet a subscriber that obtains scans for Standard Mail receives only 200,000 scans with the purchase of a block of one million units while a subscriber that obtains scans for First-Class Mail receives 1,000,000 scans with the purchase of a block of one million units. Please discuss your understanding of “value pricing” with respect to the proposed pricing of Confirm service in the TYAR.

RESPONSE:

- a. I am not aware of a universally accepted definition of “value pricing”.
- b. As noted in my responses to OCA/USPS-T40-15(e) and 32, I do not see my proposed pricing as an example of value pricing.

RESPONSE OF POSTAL SERVICE WITNESS MITCHUM
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T40-34. This interrogatory seeks to determine the impact of the proposed fee schedule on Confirm subscribers. Please refer to your response to OCA/USPS-T40-16, where it states, “this pricing structure is more fair and equitable than the three-tier system, and is less complicated.”

- a. Please confirm that with elimination of the three-tier subscription fee system, you are imposing a three-tier pricing system based upon blocks of one million units. If you do not confirm, please explain.
- b. Please confirm that with elimination of the three-tier subscription fee system, you are imposing a “unit-based” pricing system, which varies in terms of the number of scans provided per unit, based upon whether the subscriber receives scans of First-Class Mail pieces or Standard Mail pieces. If you do not confirm, please explain.

RESPONSE:

- a. Not confirmed. The declining block rates should not be considered tiers since they apply equally to all customers.
- b. Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS MITCHUM
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T40-35. This interrogatory seeks information on the uses of Confirm information by the Postal Service. Please refer to your response to OCA/USPS-T40-20(a)-(b), which asked about Postal Service Publication 197, the Confirm User Guide, at page 29, where it states “Preshipment notification enables the Postal Service to use Confirm information to measure, diagnose, monitor, and improve mail processing and delivery service performance.”

- a. Please confirm that a fair reading of your response is as follows: The operational failure of the preshipment notification has converted the utility of Confirm scans from a means to improve system performance to an ad hoc method of addressing specific mailer-identified problems and resolving them. If you do not confirm, please explain.
- b. Please explain how the Postal Service “originally expected to rely upon preshipment notifications as a tool to improve the utility of Confirm scans” to improve system performance, and how that “expectation was not borne out operationally” to permit the use of Confirm scans to improve system performance.
- c. What plans (if any) does the Postal Service have to replace the current preshipment notification process with another process to provide for an accurate, reliable and consistent “start the clock” entry scan? Please explain.
- d. What factors caused the Postal Service to conclude “that Confirm is ill-suited to evaluation of system performance?”
- e. Since the Postal Service has concluded “that Confirm is ill-suited to evaluation of system performance,” what alternative to Confirm service does the Postal Service intend to use to evaluate processing and delivery system performance? Please explain.
- f. Please explain how “seeding by the Postal Service of the mail with test pieces” serves “as an analytical tool today” to improve the utility of Confirm scans. For all instances involving seeding by the Postal Service, please provide a table that categorizes the issues identified by seeding, the frequency of the issues identified. Discuss actions taken (if any) by the Postal Service as a result of seeding to improve the utility of Confirm scans. Provide copies of any data, print-outs, spreadsheets, reports or other documents, electronic or otherwise, on seeding by the Postal Service used to improve the utility of Confirm scans.
- g. Where Confirm customers have presented the Postal Service with reports on system performance based upon the customers’ scan data, how has the Postal Service used the customer’s scan data, or data from its own seeding, to verify, monitor and improve system performance? Please explain.
- h. For Confirm customers that have presented the Postal Service with reports on system performance based upon the customers’ scan data, please provide a table that categorizes the system performance issues identified, and the frequency of the issues identified since Confirm was made a permanent service. Please describe the issues identified.

RESPONSE OF POSTAL SERVICE WITNESS MITCHUM
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T40-35, Page 2 of 2

RESPONSE:

- a. Not confirmed. While the Postal Service had originally intended to use customer scan data for process improvement on individual mailings, this has no bearing on the utility of Confirm service scans for the users of Confirm service. The purpose of Confirm service is to provide mailers with information about their mail. In particular it provides mailers with information about when a mailpiece passes through a machine where it is passively scanned. Confirm service itself was not and is not intended to be a performance measurement tool.
- b. See my response to OCA/USPS-T40-23(c).
- c. There are no plans to replace the pre-shipment notification.
- d. See my response to OCA/USPS-T40-23(c).
- e. The Postal Service does not view Confirm service as a tool for evaluating processing and delivery system performance, so it does not believe that an alternative to using Confirm for this purpose is needed.
- f-h. Redirected to the Postal Service.

RESPONSE OF POSTAL SERVICE WITNESS MITCHUM
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T40-43. This interrogatory seeks information on the uses of Confirm information by the Postal Service. Please refer to your response to OCA/USPS-T40-27(a) and (b).

- a. Refer to your response to part a. In what ways has the Postal Service compensated Confirm subscribers with respect to the failure to provide Confirm service as promised? Please explain.
- b. Refer to your response to part b. Please confirm that Confirm service is a premium special service offering of the Postal Service. If you do not confirm, please explain.
- c. Refer to your response to part b. Please describe the Postal Service's service standard or commitment to provide mailpiece scan records to Confirm subscribers on a timely basis. Does the Postal Service have any plans to compensate Confirm subscribers where the service standard or commitment is not met? Please explain.
- d. Refer to your response to part b. Please show all calculations, and provide citations to all sources, used to derive the average price of a scan of 6.1 thousandths of a cent.

RESPONSE:

a. As noted the lead in to interrogatory OCA/USPS-T40-27, Postal Service Publication 197, the Confirm User Guide, at page 46, states "the Postal Service cannot guarantee that every Confirm mailpiece with a PLANET Code will receive a scan." And in my response to the both part a of this interrogatory and to OCA/USPS-T40-27(b), the Postal Service, in an effort keep the fees to the customers and the costs to the Postal Service low, has no plans to offer compensation. Additionally, the Confirm Application Terms and Conditions on Refunds (p. 6) and the Disclaimer on page 10 of the Confirm User Guide both clearly state that refunds are not provided.

b. Without a definition of what the OCA perceives to be a "premium special service," I am unable to respond to this question.

c. The Postal Service does not have a service standard or commitment regarding the provision of mailpiece scan records to Confirm subscribers. There is no refund to

RESPONSE OF POSTAL SERVICE WITNESS MITCHUM
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T40-43, Page 2 of 2

customers as part of the service (see part a), and there is no intention to change this aspect of the service.

d. The average price per scan was calculated as:

$$P=R/S \quad \$0.000061 = \frac{\$617,295}{10,054,289,736}$$

where,

P = average price,

R (revenue from blocks of units) = (\$617,295 from LR-L-124 WP-4 Confirm, cell Y30),

S (number of scans) = 357,143 (average number of scans per block of units,

OCA/USPS-T40-29) * 28,152 (number of blocks of units in the test year, LR-L-124, WP-4 Confirm, cell Q30)

RESPONSE OF POSTAL SERVICE WITNESS MITCHUM
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T40-44. This interrogatory seeks information on the value of Confirm service for single-piece First-Class Mail. Please refer to your response to OCA/USPS-T40-28(d). Also, please refer to PRC Op. MC2002-1, at page 11, where it states, Paragraph 4 [of the Stipulation and Agreement] sets forth the Postal Service's undertaking to explore a consumer oriented product based on PLANET Code technology. As part of that undertaking, the Postal Service is to provide a status report to all participants within six to twelve months after implementation of confirm service concerning development of such a product and the likelihood it may be pursued.

Please provide a copy of the status report pursuant to the undertaking specified in Paragraph 4.

RESPONSE:

See the "Letter from Kenneth H. Hollies, United States Postal Service, to Steven W. Williams, Secretary, Postal Rate Commission, Regarding Exploration of Consumer Interest in Product Using PLANET Code Technology," filed July 2, 2004, which is included on the Commission's website, under "Letters" for Docket No. MC2002-1.

RESPONSE OF POSTAL SERVICE WITNESS MITCHUM
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T40-49. At page 19 of your testimony, you state that “demand for the product has not met the forecast used in MC2002-3.”

- a. Please present your step-by-step analysis that demonstrates that, all other things equal, the fee design you propose will stimulate a greater demand for the product than the fee design currently in place. Show all computations and provide all resource materials relied upon.
- b. Please confirm that the fee design currently in place could have been subject to subscription fee increases sufficient to generate the revenue that you set as a target in your current proposal. If you do not confirm, then explain fully.

RESPONSE:

- a. My testimony does not claim that we will see increased demand from the businesses and organizations that use Confirm as a result of the implementation of the new prices. Actually, as noted in my response to question 3 of the Presiding Officer’s Information Request No. 4, I expect a decrease in demand to result. However, my testimony does note that the new pricing structure should allow Confirm to cover its costs and therefore permit the Postal Service to continue offering the product to those businesses that find the service useful.
- b. Not confirmed. I believe continued use of the existing pricing structure would have required very large price increases to offset decreases in demand for Confirm. The resulting fees would have been high enough to discourage many potential users from subscribing. The proposed pricing structure reflects the Postal Service’s commitment to a Confirm service that facilitates use by customers of all sizes.

RESPONSE OF POSTAL SERVICE WITNESS MITCHUM
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T40-50. At page 21 of your testimony, you state that the requirement of prior electronic notice of entering mail was found burdensome by customers.

- a. Please provide all documentation in the possession of the Postal Service to support this statement.
- b. Please express the number of customers who complained about the burden as a percentage of the total number of customers. Show the calculation and provide the sources for the figures used.

RESPONSE:

a-b. No documentation is available, to my knowledge. However, verbal complaints by customers that use Confirm have been received. Given that preshipment notification is not a critical component in offering the Confirm service and that there have been complaints from the users of the product, the elimination of this hurdle seems logical.

RESPONSE OF POSTAL SERVICE WITNESS MITCHUM
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T40-51. At page 21 of your testimony, you state that the proposed classification change for Confirm is “fair and equitable.”

- a. Isn't it also true that the current fee design is fair and equitable? Explain in full any negative answer.
- b. Please confirm that in your testimony in Docket No. MC2002-1, USPS-T-5, at 16, you testified that with respect to the current fee design, “In sum, the proposal is fair and equitable (Criterion 1)?” If you do not confirm, then explain fully.
- c. Is it your testimony that the proposed fee design is more fair and equitable than the current fee design?
 - i. If so, why?
 - ii. If so, why have you changed your views so significantly since you testified in Docket No. MC2002-1?

RESPONSE:

- a. While I don't believe that the existing fee structure is unfair or inequitable, I do not believe that it is superlative in either fairness or equity and as such has room for improvement. Changes in pricing structures can improve fairness and equity, as in the case of the proposed pricing structure for Confirm service.
- b. Not confirmed. As noted in another interrogatory submitted by the OCA, OCA/USPS-T40-31, witness Kiefer was the pricing witness in Docket No. MC2002-1.
- c. Yes.
 - i. All Confirm users will face the same prices for a given set of units, which was not the case previously, and the service will cover its costs.
 - ii. See my responses to parts a and b of this interrogatory.