

Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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U.S. POSTAL SERVICE
OFFICE OF THE ATTORNEY GENERAL

Postal Rate and Fee Changes

Docket No. R2000-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE
WITNESS ROBINSON TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL USERS
(APMU/USPS-T34-16-19, 21-25, 28, 30-32)

The United States Postal Service hereby provides the response of witness Robinson to the following interrogatories of the Association of Priority Mail Users: APMU/USPS-T34-4-16-19, 21-25, 28, 30-32, filed on March 2, 2000. Interrogatories 20 and 26 were redirected to the Postal Service. Interrogatories 27 and 29 were redirected to witness Mayo.

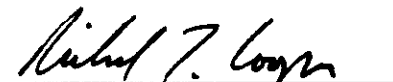
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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APMU/USPS-T34-16

Please refer to Attachment C, page 2 (Test Year Before Rates Volume (One pound pieces reallocated)) and Attachment D, page 1 (Test Year After Rates Volume with One Pound Rate) to your testimony.

a. Please confirm the following data:

Priority Mail	Current rate	Proposed rate	Percent Increase
One-pound	\$3.20	\$3.45	7.81 percent
Flat-rate	\$3.20	\$3.85	20.31 percent
Two-pound	\$3.20	\$3.85	20.31 percent

Priority Mail	TYBR volume	TYAR volume	Percent Decrease
One-pound	500,703,317	461,227,583	8.56 percent
Flat-rate	35,985,441	33,148,328	8.56 percent
Two-pound	493,746,619	454,819,354	8.56 percent

- b. Why do you anticipate that a 7.81 percent increase in rates will have the same effect on the TYAR volume of one-pound pieces as a 20.31 percent increase in rates will have on flat-rate and two-pound pieces?
- c. Priority Mail's own-price elasticity has been identified as -0.819 (see, e.g., USPS-T-32, p.26). (i) Why doesn't the 20.31 percent increase in rates suggest a 16.63 percent decrease in the volume of two-pound and flat-rate Priority Mail? (ii) With a combined TYBR volume of 529,732,060, this would reflect a loss of more than 88 million pieces of Priority Mail volume at the two-pound and flat rate, substantially more than the 41.8 million pieces which you project, would it not?

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RESPONSE:

- a. Confirmed that the first table with columns titled "Current rate," "Proposed rate," and "Percent Increase" are correct. Not confirmed that the second table is correct: The second table should read:

Priority Mail	TYBR volume (a)	TYAR volume (b)	Percent Decrease (c) = [(a) - (b)] / (a)
One-pound	500,703,317	461,227,583	7.88 percent
Flat-rate	35,985,441	33,148,328	7.88 percent
Two-pound	493,746,619	454,819,354	7.88 percent

- b. Consistent with Postal Rate Commission precedent (see Docket No. R97-1, PRC-Lib-Ref 12 at 9) and established Postal Service rate design methodology (see Docket No. R97-1, Exhibit USPS-33M), I have allocated test-year-after-rates Priority Mail volume to the individual rate cells using the test-year-before-rates, rate-cell volume distribution as adjusted for the one-pound rate. I have no study that would support the use of any other methodology.
- c. (i) - (ii) It is my understanding that the Priority Mail own-price elasticity of -0.819 is estimated for the Priority Mail subclass as a whole (see USPS-T8). This question implies that the Priority Mail own-price elasticity for the entire class can be appropriately applied to the individual rate cells. I do not have separate elasticities or forecasting models for individual weight and zone combinations and I am unaware

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of any study that supports this assertion. Therefore, I am unable to determine what the volume change for any individual rate cell would be in response to a change in the rate for that rate cell.

First, the amount of data needed to estimate elasticities at the rate cell level would be extremely large. Specific market research would be required to evaluate the demand characteristics of customers in each rate cell, and to estimate the demand for Priority Mail by rate cell. Even if this data were available, as discussed below, it is unclear whether forecasting elasticity at the rate cell would be appropriate.

Second, the type of market research suggested above assumes that the sole change in a customer's mailing pattern is based on the changes in individual rates. It is not unreasonable to assume that, for many mailers especially those involved in mail-order or internet-order fulfillment, mailing patterns are more likely to be driven by the demand of these mailers' customers for their product than to be driven by the change in individual Priority Mail rate cells. For example, if due to marketing or a change in tastes, a mailer's customers are ordering heavier items (e. g., five-pound packages instead of four-pound packages), I would expect the average weight of the mailer's pieces to increase. Even if it could be identified, associating this type of demand-driven change in package weight with any concurrent price change for

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individual Priority Mail rate cells would be likely to bias any rate-cell elasticity estimates.

Third, customers' evaluations of the best vendor for their shipping requirements do not solely depend on the change in Priority Mail rates for specific rate cells. For example, a customer may opt to use a vendor other than the Postal Service because that vendor offers a more attractive overall "rate package." That is, the non-Postal Service vendor may offer an array of rates for pieces that would otherwise be mailed not only as Priority Mail but also as Standard Mail (B), or Express Mail. Even if the customer's shipping decision is solely based on rates, the relevant cost measure may be the expected cost to mail a collection of different mail pieces (the change in a range of rate cells possibly across rate classes) NOT the cost to mail any one piece (the change in an individual rate cell.) To the extent that a customer's choice of vendors also involves the evaluation of other service-related characteristics (e.g., guarantees), the relationship between changes in individual rate cell prices and the volume shipped at those rates becomes even more unclear.

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APMU/USPS-T34-17.

Please provide all data in possession or control of the Postal Service showing Priority Mail's share of the expedited delivery market in which it competes, i.e., the 2-day to 3-day market.

- a. Please provide base year 1998 data as well as the most current data available on the market for second day delivery, showing the Postal Service's share of that market in terms of pieces and in terms of revenues.
- b. If available, provide the market share data for available weight ranges (e.g., up to two pounds, more than two and less than five pounds, and over five pounds).

RESPONSE:

- a. This data is available on a calendar year basis.

Time Period	Priority Mail Market Share Two- to Three-Day Market	
	Market Share (pieces)	Market Share (revenue)
Calendar Year 1998	62.4%	44.7%
Calendar Year 1999 (thru Quarter 3)	61.3%	45.0%

- b. I am unaware of any analysis of market share by weight.

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APMU/USPS-T34-18.

- a. Please provide copies of all published rates of competitors (such as FedEx, UPS, TNT, DHL, and Airborne) in the possession of the Postal Service for delivery services that compete with Priority Mail. Please include rates for UPS guaranteed three-day service if available, and Airborne's new Airborne@Home Service.
- b. When you decided to propose a higher-than-average increase for Priority Mail, what consideration did you give to the published two-day and three-day rates charged by FedEx, UPS and other competitors?
- c. To the best of your knowledge, information, and belief, what is the range of discounts from published rates offered by FedEx, UPS, and other competitors?
- d. What consideration did you give to discounts or negotiated or unpublished rates that competitors are known to give to shippers who regularly use their respective two-day services?
- e. What consideration did you give to the market share of Priority Mail by weight segment?
- f. Prior to finalizing your proposed rate design for Priority Mail, did you assess the competitive situation in consultation with persons assigned responsibility for marketing Priority Mail?

RESPONSE:

- a. It is my understanding that the Postal Service does not maintain a database of competitors' published rates. For some competitors, this information can be obtained from the companies' web sites. See, for example, www.ups.com and www.fedex.com.
- b. While I am generally aware of the published two-day and three-day rates charged by FedEx and UPS, as described in my testimony, the proposed Priority Mail rates were designed to meet the cost coverage proposed by witness Mayes. I did not design

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Priority Mail rates with a goal of establishing predetermined relationships between those rates and the published two-day and three-day rates of any competitor.

- c. It is my understanding that some competitors such as FedEx and UPS offer discounts to their published rates. However, I am unaware of the size and conditions under which these discounts are offered.
- d. As I am unaware of the size and conditions under which competitors offer discounts, I did not consider these discounts in my rate design.
- e. The proposed Priority Mail rates were designed to meet the cost coverage proposed by witness Mayes. I did not consider the market share of Priority Mail by weight.
- f. Yes.

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APMU/USPS-T34-19.

- a. Please confirm that your proposed rates for Priority Mail include a full markup and contingency on all distance-related transportation costs. If you do not confirm, please explain how distance-related transportation costs are treated with respect to markup.
- b. When designing Priority Mail rates, please explain why distance-related transportation costs should be subject to a full passthrough plus a full markup and contingency, while dropship discounts in the Standard A subclass reflect only a partial passthrough of distance-related transportation costs.

RESPONSE:

- a. Confirmed.
- b. This question appears to be based on the incorrect premise that distance-related transportation costs are treated differently at the subclass level of rate design. While distance-related, transportation costs are not separately identified in the rate design for Standard Mail (A), like Priority Mail, a markup and contingency are applied to all transportation costs including distance-related transportation costs.

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APMU/USPS-T34-21.

Please refer to your Attachment F, line m, to your testimony.

- a. Why is a Priority Mail Target Cost Coverage of 184.0 percent used for your Non Transportation Cost Per Piece Development, when the Postal Service is proposing a cost coverage for Priority Mail of 180.9 percent (see USPS-T-32, p. 25)?
- b. Please consult Attachment F, and confirm that, if the cost coverage of 180.9 is used to calculate the net nontransportation cost per Piece Rate Element, instead of 184.0 percent, that element becomes \$3.02450, instead of \$3.100746. If you do not confirm, please explain.
- c. Please refer to Attachment G, p.3, to your testimony. Please confirm the following Per Pound Rate Element calculations. Column (1) was taken from attachment G, p.3; column (4) is calculated here. If you do not confirm, please explain.

Zone	(1) Cost Coverage Applied	(2) Per Pound Rate Element	(3) Cost Coverage Applied	(4) Per Pound Rate Element
L, 1, 2, 3	184.0%	\$0.415064	180.9%	\$0.408070
4	184.0%	\$0.658035	180.9%	\$0.646949
5	184.0%	\$0.675071	180.9%	\$0.663697
6	184.0%	\$0.769444	180.9%	\$0.756480
7	184.0%	\$0.963873	180.9%	\$0.947634
8	184.0%	\$1.270998	180.9%	\$1.249585

- d. Please confirm that such a correction in the cost coverage would support a reduction in Priority Mail rates. If you do not confirm, please explain.

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RESPONSE:

- a. See response to UPS/USPS-T34-14.
- b. Not confirmed that the calculation is correct or that the cost coverage of 180.9% is appropriate (see response to UPS/USPS-T34-14). See below for the revised calculation.

(a) USPS T34 Att F(k)	Nontransportation Costs Including Contingency	\$2,286,319
(b) Assumed	Cost Coverage	180.9%
(c) = (a) * (b)	Net Nontransportation Costs including markup and contingency	\$4,135,951
(d) USPS T34 Att F(n)	Test Year Before Rates Priority Mail Volume	1,356,715
(e) = (a) / (d)	Net Nontransportation Cost per Piece including Contingency	\$1.685188
(f) = (c) / (d)	Net Nontransportation per Piece Rate Element	\$3.048505

- c. Confirmed that [Total Cost per Pound Including Contingency (USPS-T34, Attachment G, p. 3, (m))] * 184.0% = Column (2) above. Confirmed that [Total Cost per Pound Including Contingency (USPS-T34, Attachment G, p. 3, (m))] * 180.9% = Column (4) above. Not confirmed that Column (4) above is an appropriate calculation of the Per Pound Rate Element. See response to UPS/USPS-T34-14.
- d. Not confirmed that 180.9% is an appropriate "target cost coverage" given witness Mayes' testimony proposing the required test-year-after-rates Priority Mail cost coverage of 180.9%. See response to UPS/USPS-T34-14.

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APMU/USPS-T34-22.

Do distance-related air transportation costs shown in Attachment G to your testimony reflect the full amount of such costs, or only some fraction thereof? Please explain.

RESPONSE:

Yes, the distance-related air transportation costs shown in USPS-T34, Attachment G reflect the full amount of these costs. See USPS-T19 at 4.

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APMU/USPS-T34-23.

- a. What percentage of the base year volume of the Postal Service's proposed one-pound Priority Mail classification is believed to be subject to the Postal Service's statutory monopoly?
- b. What percentage of base year two-pound Priority Mail is believed to be subject to the Postal Service's statutory monopoly?
- c. What percentage of base year three-pound, four-pound and five-pound Priority Mail is believed to be subject to the Postal Service's statutory monopoly?
- d. What percent of base year zone-related Priority Mail is believed to be subject to the Postal Service's statutory monopoly?

RESPONSE:

(a) - (d) I am unaware of any study evaluating the percentage of Priority Mail by weight that is subject to the Postal Service's statutory monopoly.

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APMU/USPS-T34-24.

How does the Postal Service identify distance- and nondistance-related transportation costs for:

- a. the Eagle Network?
- b. C-Net?
- c. Western Air?

RESPONSE:

(a) - (c) I understand that, for Priority Mail, only linehaul-related costs are treated as distance-related. For the calculation, please see page 4 of the testimony of witness Pickett (USPS-T-19) and USPS Library Reference I-60.

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APMU/USPS-T34-25.

In your opinion, does Priority Mail represent anything more than heavyweight (over 13 ounce) First-Class Mail? Unless your answer is an unqualified negative, please describe all distinguishing characteristics that you perceive (weight excepted, of course) in terms of acceptance, processing, transportation, delivery, theoretical service commitments, actual service performance, etc.

RESPONSE:

Yes. While Priority Mail does serve as heavyweight First-Class Mail, it differs from First-Class Mail service in several ways. Priority Mail is sorted and processed separately from First-Class Mail in Postal facilities and within the Priority Mail Processing Center network which exclusively handles Priority Mail. In addition, Priority Mail receives expedited handling and transportation. Priority Mail service standards, on average, are quicker than First-Class Mail service standards. Lastly, Priority Mail customers are able to use value-added services such as delivery confirmation and Postal Service provided packaging that are not available to First-Class Mail customers.

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APMU/USPS-T34-28.

Please refer to Attachment K to your testimony. (i) Since witness Musgrave (USPS-T-8) uses a Base Year (for his Priority Mail volume estimates) of PFY 1999, and, as you point out (p. 19 of your testimony), delivery confirmation was available during PFY 1999, why do you make an adjustment to witness Musgrave's Priority Mail volume estimates to reflect "Incremental volume from Delivery Confirmation"? (ii) Please explain any role played by witness Musgrave in developing your upward adjustment of his projection. (iii) Did he concur with your upward adjustments either before or after your testimony was submitted?

RESPONSE:

- (i) Since witness Musgrave uses data from PFY 1999, some small effect of delivery confirmation service on Priority Mail volume is included in his forecast. As indicated in my testimony, the Postal Service expects delivery confirmation service to provide an important value-added feature for Priority Mail attracting customers that might not otherwise have chosen Priority Mail. As these customers become familiar with the availability and characteristics of delivery confirmation, they will be more likely to purchase delivery confirmation service and the associated Priority Mail service. The adoption curve proposed by witness Sharkey (Docket No. R97-1, USPS-33R at 6-8) and adopted by the Commission (Docket No. R97-1, PRC Op. at 359) in Docket No. R97-1, models this process for delivery confirmation itself. However, this shift in preferences for Priority Mail itself, cannot be modeled with an econometric projection, such as witness Musgrave's, based on historical data that includes a very short period with the new service.

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- (ii) Witness Musgrave played no role in developing my upward adjustment of his projection.
- (iii) While I informed witness Musgrave of my upward adjustment to his projection of Priority Mail volume prior to the submission of my testimony, he neither concurred with nor objected to my adjustment.

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APMU/USPS-T34-30.

At page 18 of your testimony, you state that Priority Mail rate increases were "constrained to be within a 5 percent band around the average rate change for Priority Mail as a whole." What is the basis for the selection of 5 percent as the maximum variance from the average rate change for Priority Mail?

RESPONSE:

The selection of 5 percent as the maximum variance from the average rate change for Priority Mail was based on the proposed 20.3% change from the current rates for the two-pound rate. This proposed rate change was approximately 5% above the average rate change for Priority Mail as a whole. I determined that a reasonable upper bound above the average rate change for Priority Mail as a whole would be no more than the approximately 5% increase being proposed for the weight step with the largest volume. Similarly, to avoid significant relative rate changes, I determined that a reasonable lower bound below the average rate change for Priority Mail as a whole would be no more than a 5% deviation from the average rate change.

As discussed on pages 17 through 18 of my testimony, "[t]he uncertain future of the Priority Mail network configuration makes significant changes in the relative rates within the Priority Mail rate schedule undesirable." Postal Service management is evaluating the current Priority Mail network and has not yet determined how the network will be configured in the future (see USPS-T34 at 13-14). The 5% constraint on the deviation of any rate from the average rate increase was one method I used to mitigate this uncertainty. This constraint is sufficiently large to incorporate some changes in

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relative costs between rate cells without incorporating all the unique features of the current network -- a network that may significantly change during the period in which the Docket No. R2000-1 Priority Mail rates are in effect.

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APMU/USPS-T34-31

Please identify the percentage of Priority Mail that was unidentified as such and therefore handled as First-Class Mail during the Base Year.

RESPONSE:

I am informed that 29.8 percent of Priority Mail volume was unidentified in FY 1998.

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APMU/USPS-T34-32.

In its Opinion & Recommended Decision for Docket No. R97-1, the Commission urged the Postal Service "to analyze and address the issue of marking up distance-related transportation costs in the subclasses where this is currently done in preparing its next omnibus rate request." See p.366, para #5316. Has such an analysis been performed? If so, please provide a copy. If not, why not?

RESPONSE:

In preparing the Priority Mail rate proposal, I discussed with Postal Service management the issue of marking up distance-related transportation costs in the Priority Mail rate design. No written report was generated.

DECLARATION

I, Maura Robinson, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


MAURA ROBINSON

Dated: 3.16.2000

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.


Richard T. Cooper

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March 16, 2000