

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

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POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

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RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MAYES  
TO INTERROGATORIES OF ASSOCIATION OF PRIORITY MAIL USERS, INC.  
(APMU/USPS-T32-1 THROUGH 8)

The United States Postal Service hereby provides the responses of  
witness Mayes to the following interrogatories of Association of Priority Mail  
Users, Inc.: APMU/USPS-T32-1 through 8 (filed on March 6, 2000).

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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Chief Counsel, Ratemaking

  
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March 20, 2000

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO APMU INTERROGATORIES

APMU/USPS-T32-1.

At page 26 (1. 2) of your testimony, you state that Priority Mail "enjoys the same priority of delivery as First-Class letters...." Please cite all data and information (including anecdotal information) which you reviewed regarding actual delivery service received by Priority Mail during the Base Year and 1999, prior to recommending an average rate increase of 15 percent and a coverage of 180.9 percent. If you reviewed no such data or information, on what was this portion of your testimony based?

**Response:**

I receive and review quarterly ODIS (Origin/Destination Information System) reports on service performance.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO APMU INTERROGATORIES**

**APMU/USPS-T32-2.**

Prior to your decision to recommend a 15 percent increase in rates for Priority Mail and a coverage of 180.9 percent, did you review any part of the Inspector General's report on the Priority Mail Processing Center network (September 24, 1999), Report No. DA-AR-99-00? Unless your answer is an unqualified negative, please describe what role the information contained in that report played in your testimony.

**Response:**

No.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO APMU INTERROGATORIES

APMU/USPS-T32-3.

Please refer to your testimony at page 26, lines 18-21, where you discuss "the use of Priority Mail Processing Centers (PMPCs) in an effort to improve Priority's service...." Please provide and discuss all data which you reviewed before submitting your testimony regarding delivery performance of Priority Mail (i) originating and destinating within the PMPC area, (ii) originating inside of and destinating outside of the PMPC area, and (iii) originating outside of and destinating inside of the PMPC area

**Response:**

I did not review any data which showed delivery performance of Priority Mail originating *and* destinating within the PMPC area differentiated from Priority Mail volume originating within *or* destinating within the PMPC service areas.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO APMU INTERROGATORIES

APMU/USPS-T32-4.

At page 27 (11. 2-3) of your testimony, you note that "some materials shipped as Priority Mail are subject to the Private Express Statutes."

- a. What types of materials shipped by Priority Mail fall within the Private Express Statutes and are not subject to any exemption under which companies such as Federal Express and United Parcel Service operate their expedited services? That is, what types of materials shipped by Priority Mail cannot be competed for by expedited courier companies?
- b. For those types of materials which you describe as not subject to competition by expedited courier companies, what is your best estimate as to the percentage of Priority Mail volume and Priority Mail revenue that is not subject to competition?

**Response:**

- a. It is my understanding that items which meet the definition of "letter" under 39 C.F.R. section 310.1(a) can be shipped via Priority Mail. Whether or not the private carriage of this matter is subject to a Private Express exception or suspension would depend on the circumstances. Subject to the restrictions of the Private Express Statutes, there is no material eligible for Priority Mail shipment which cannot be carried by expedited carrier companies.
- b. It is my understanding that an estimate made in 1998 indicated that approximately one-fourth of Priority Mail volume was protected by the Private Express Statutes. As most of these pieces would be flats, I would suspect that the revenue share associated with these pieces would be less than one-fourth of Priority Mail revenue.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO APMU INTERROGATORIES

APMU/USPS-T32-5.

At page 26 (11. 13-17) of your testimony, you state that "Priority Mail service does not necessarily include all of the product features, such as guaranteed service commitments, free insurance and free tracking service, offered as part of the service provided by such competitors as United Parcel Service, FedEx and other private service providers."

- a. Please define the term "not necessarily" as you use it here.
- b. Would you agree that Priority Mail does not offer a "guaranteed service commitment" any time, any where, at any price? If you do not agree, please explain fully.
- c. Would you agree that Priority Mail does not offer "free insurance"? If you do not agree, please explain fully.
- d. Would you agree that for Priority Mail, the Postal Service does not offer "free tracking service" of the nature provided by competitors? If you do not agree, please explain fully.
- e. Would you agree that for Priority Mail the Postal Service also does not offer optional tracking service for a fee?

**Response:**

- a. The somewhat misplaced modifier "not necessarily" was meant to convey that the service offerings of Priority Mail do not always match those of competitors. I meant to suggest that there may be some competitors of which I am unaware that have service offerings identical to or inferior to those of Priority Mail.
- b. Yes.
- c. Yes.
- d. Yes.
- e. Yes.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO APMU INTERROGATORIES

APMU/USPS-T32-6.

At page 30 (11. 2-5) of your testimony, you state that "Unlike many customers of private expedited delivery firms, users of Express Mail are expected to either pay when tendering the mailpiece to the Postal Service, or maintain a balance in their corporate account."

- a. Would you agree that a similar statement is equally true with respect to Priority Mail? If not, please explain why not.
- b. Would you agree what this is another product feature that Priority Mail lacks with respect to competitive private service providers? If not, please explain why not.

**Response:**

- a. Yes
- b. Yes. I used the phrase "many customers of private expedited delivery firms" rather than the phrase "customers of private expedited delivery firms" because I am unaware of the payment practices required by all such firms for all of their customers.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO APMU INTERROGATORIES

APMU/USPS-T32-7.

At page 26 (11. 7-11) of your testimony, you note:

[T]he Priority Mail price elasticity (-0.819) is considerably higher (in absolute value) than that of First-Class Letters, indicating a lower economic value of service. This measured own-price elasticity is also somewhat higher (in absolute value) than the Priority Mail own-price elasticity reported in Docket No. R97-1 of (-0.771).

- a. Would you agree that the increase you note in own-price elasticity could be an indication of increased competitiveness in the market in which Priority Mail competes? Please explain any disagreement or reservation you may have regarding this interpretation of the increase in own-price elasticity.
- b. If the rate for Priority Mail increases relative to the rates charged by private service competitors, would you expect a further increase in own-price elasticity? Please discuss why or why not.
- c. At page 27 (11. 11-12) of your testimony, you note that "Priority Mail received a rate increase more than twice the system average in Docket No. R97-1...." Please discuss whether, in your opinion, the rate increase of more than twice the system average in the last rate case is (i) a cause of, or (ii) purely coincidental with, the increase in own-price elasticity.
- d. Please provide copies of all documents that you reviewed, prior to completing your testimony, concerning the extent and nature of competition in that portion of the expedited market in which Priority Mail competes, including, but not limited to, the market positioning and competitiveness of Priority Mail.
- e. Please indicate all discussion or briefings which you had, prior to completing your testimony, with knowledgeable people from the Expedited Service Group concerning the nature and extent of competition facing Priority Mail.

Response:

- a. It could be. As competitors have added non-price service features to their delivery services, such as tracking and tracing, logistics support, free insurance, price has become more of an issue. Because Priority Mail does not match the service features offered by the competitors, Priority



RESPONSE OF POSTAL SERVICE WITNESS MAYES TO APMU INTERROGATORIES

Response to APMU/USPS-T32-7, cont'd

Mail has had to compete on price, meaning that Priority's price is relatively important to the consumer.

- b. No. It is my understanding that the own-price elasticity measures the *resulting* percentage change in volume to a change in the price of the product.
- c. I have no reason to believe that the rate increase in Docket No. R97-1 *caused* the change in own-price elasticity. Please see my response to subparts a and b above.
- d. I reviewed no such documents in the course of preparing my testimony.
- e. The discussions and briefings that I had with people from Expedited Package Services prior to completing my testimony concerned plans for Priority Mail, not the "nature and extent of competition" facing Priority Mail.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO APMU INTERROGATORIES

APMU/USPS-T32-8.

At page 29 (11. 18-20) of your testimony, you note:

Express Mail's price elasticity, at (-1.565), is the highest own-price elasticity of all the subclasses, well above 1.0 in absolute value. This indicates an extremely low economic value of service.


Can you foresee the day when rate increases for Priority Mail that are well above the rate of inflation, and well above the system-wide average, will cause Priority Mail to have an own-price elasticity which is close to that of Express Mail? Please discuss, feeling free to cite protection conferred by the Private Express Statutes, or any other factors that you believe will prevent the Postal Service from "killing the goose that lays the golden eggs."

**Response:**

Please refer to my response to your interrogatory AMPU/USPS-T32-7. I would expect that the price changes relative to the prices charged by competitors may be more relevant than the price changes relative to the rate of inflation or the systemwide average. As the market providing delivery services becomes more competitive, it would not be surprising to see a change in the own-price elasticity for Priority Mail. If the service features of Priority Mail begin to match those offered by competitors' services, price may not be such a critical factor. While it is possible that the price for Priority Mail may rise high enough that some of its current customers will no longer view it as a viable service, the TYBR and TYAR volume estimates for Priority Mail for this case, shown in my response to POIR 1, Question 4 and provided by witness Musgrave (USPS-T-8), indicate a loss of 8 percent of Priority Mail volume in response to the proposed rate increase of 15 percent.

# DECLARATION

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

  
Virginia J. Mayes

Dated:

3-20-00

### **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.

A handwritten signature in black ink, appearing to read "M. Tidwell", written over a horizontal line.

Michael T. Tidwell

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