

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

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-T34-44-52)

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-T34-44-52, filed on March 22, 2000.

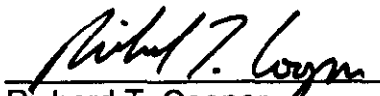
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


Richard T. Cooper

475 L'Enfant Plaza West, S.W.
(202) 268-2993; Fax: -5402
Washington, D.C. 20260-1137
April 5, 2000

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF THE ASSOCIATION OF PRIORITY MAIL USERS

APMU/USPS-T34-44.

Please refer to your response to APMU/USPS-T34-18(f), where you state that you consulted with persons assigned responsibility for marketing Priority Mail during your assessment of its competitive situation before finalizing your proposed rate design for Priority Mail.

- a. In your consultations with persons responsible for marketing Priority Mail, did you discuss the impact of imposing a 20-plus percent increase on the "weight step with the largest volume" (see response to APMU/USPS-T34-30) which represents over 39 percent of anticipated TYAR volume (the sum of flat rate and 2-pound volumes taken from Attachment D, even after 1-pound volume is removed)? (i) If so, were any concerns raised about the impact of this rate increase by marketing staff? Did you communicate any such concerns to witness Mayes, and, if so, did you take any actions in response to the concerns that were raised? (ii) If not, why not?
- b. Please refer to your response to APMU/USPS-T34-17(a). Did you discuss with marketing staff the impact of across-the-board double-digit increases on a product whose market share by volume fell in CY 1999 to its lowest level of the decade? (i) If so, what concerns were raised about the impact of these rate increases by the marketing staff? Were any actions taken in response to the concerns raised? (ii) If not, why not?
- c. Please provide a summary of your consultations with persons responsible for marketing Priority Mail. Include in your summary the number of such people consulted, the approximate number of hours which you devoted to such consultations.
- d. Please explain your understanding regarding changes in the competitive environment for expedited 2-day package service (i.e., the market in which Priority Mail competes) since the Base Year in Docket No. R97-1.

RESPONSE:

a. Yes.

(i) - (ii) Yes. I communicated these concerns to witness Mayes. My understanding is that she tempered the cost coverage at least in part to mitigate the rate increase (See USPS-T32 at 27). As described in my testimony, I took a number of actions to mitigate the impact of the rate

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increase including: (1) proposing a lower one-pound Priority Mail rate; (2) incorporating an adjustment to reflect the fact that the PMPC network was an experimental program; (3) incorporating an even rate increment between the 2-, 3-, 4-, and 5-pound unzoned rate cells; and (4) imposing rate constraints limiting the deviation from the average rate increase to no more than 5 percent.

b. Yes, I discussed the impact of the proposed Priority Mail rate increases with the marketing staff. However, the assertion that the market share for Priority Mail in CY 1999 is at its lowest level in the decade is incorrect. The Priority Mail market share of pieces in Calendar Year 1995 was lower at 60.7%.

(i) - (ii) The marketing staff was concerned about the impact of the proposed rate increase on the competitive position of Priority Mail within the two- to three-day package market and its impact on the ability of the Postal Service to attract and retain Priority Mail customers. The actions described in response to part (a) were taken in response to these concerns.

c. The requested information is not available, I do not maintain either telephone or activity logs. However, I did consult with the staff of the Expedited and Package Services marketing and financial offices and the content of the discussions is generally described in the responses to parts a. and b. of this question.

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d. The market in which Priority Mail competes has become more competitive since 1996. Increasingly, customers are demanding reliable service and some customers want the ability to use computer-based applications to manage and track their mailings.

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APMU/USPS-T34-45.

Please refer to your response to APMU/USPS-T34-25.

- a. Please identify in detail how (i) mail processing, (ii) transportation, and (iii) delivery provided to Priority Mail reflect greater expedition than is provided to First-Class Mail. Please discuss actual practices as well as service standards. For each function for which you maintain that Priority Mail receives more expedited handling than First-Class Mail, please provide copies of all documents, instructions, or other evidence upon which you rely to support your position.
- b. In those Postal Services facilities that process both First-Class Mail and Priority Mail (i.e., not within the PMPC network area), is it your understanding that Priority Mail is processed ahead of First-Class Mail? Is it your understanding that Priority Mail has dispatches that precede those for First-Class Mail?

RESPONSE:

a. While I am not an expert in Postal Service operations, I understand that Priority Mail service reflects greater expedition than First-Class Mail in the following ways:

(i) Mail processing resources are allocated to Priority Mail before First-Class Mail. See POM 453. In the Northeast and Florida, Priority Mail is processed and transported using the PMPC network; First-Class Mail does not have access to this network.

(ii) Priority Mail has earlier clearance times than First-Class Mail in order to expedite the mail and ensure it is "first in line" for transportation resources. The distance range for Priority Mail that remains in the surface network is smaller than the distance range for First-Class Mail that remains in the surface network in order to meet service standards. Priority Mail being

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transported on commercial airlines is assigned using a system that assigns it to earlier flights than First-Class Mail. Priority Mail is transported on the A-Net (Eagle Network) before First-Class Mail.

(iii) In preparing mail for delivery, Priority Mail receives a higher priority than First-Class Mail. In the unlikely event that not all Priority Mail and First-Class Mail can be taken out for delivery, Priority Mail is delivered first. During the year-end holiday season, if necessitated by local operating conditions, Priority Mail would be delivered on supplemental Sunday delivery routes. First-Class Mail would not be delivered on these routes.

There are more three-digit ZIP code pairs where the service standard for Priority Mail is two days than for First-Class Mail.

Number of Three-Digit ZIP Code Pairs

	One-Day Service Standard	Two-Day Service Standard	Three-Day Service Standard
First-Class Mail	8,744	157,081	683,281
Priority Mail	9,029	780,509	59,562

b. See response to a.

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APMU/USPS-T34-46.

Please refer to your response to APMU/USPS-T-34-30. What possible significant changes to the PMPC network have you been informed of?

RESPONSE:

See response to UPS/USPS-T34-16.

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APMU/USPS-T34-47.

Please refer to your response to APMU/USPS-T-34-16(c).

- a. How much variance would there likely be between the elasticity for Priority Mail, and the elasticity for the rate cell which reflects 80 percent of Priority Mail Base Year volume?
- b. How much more difficult would it be to estimate the elasticity of the rate cell which reflects 80 percent of Priority Mail Base Year volume, and the elasticity for all Priority Mail?

RESPONSE:

- a. I am unaware of any study that has estimated the elasticity of any individual Priority Mail rate cell; therefore, I am unable to determine the size of the variance between the elasticity for Priority Mail as a whole and the elasticity of any individual rate cell.
- b. For the reasons discussed in the response to APMU/USPS-T34-16(c), I believe that it would be difficult to estimate the price elasticity for an individual rate cell. However, I am unable to quantify "how much more difficult" it would be.

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APMU/USPS-T34-48.

Please refer to your response to APMU/USPS-T-34-17.

- a. Please provide comparable data for CY 1997.
- b. Please provide complete data for CY 1999 as soon as available.

RESPONSE:

a. - b. See below for revised table including CY 1997. I am informed that complete data for CY 1999 will be available in May 2000.

	Priority Mail Market Share Two- to Three-Day Market	
Time Period	Market Share (pieces)	Market Share (revenue)
Calendar Year 1997	62.7%	45.2%
Calendar Year 1998	62.4%	44.7%
Calendar Year 1999 (thru Quarter 3)	61.3%	45.0%

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APMU/USPS-T34-49.

Please refer to your response to APMU/USPS-T-34-28.

- a. When did testing of Priority Mail delivery confirmation begin with selected mailers?
- b. When did the electronic version of Priority Mail delivery confirmation become generally available?
- c. When did the manual version of Priority Mail delivery confirmation become available?
- d. Please provide data of delivery confirmation usage by A/P for PFY 1999.

RESPONSE:

- a. I am informed that testing of Priority Mail delivery confirmation began in November 1996.
- b. March 14, 1999.
- c. March 14, 1999.

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d.

Delivery Confirmation Volumes*
FY 1999

	Priority Mail		Standard Mail (B)		Total
	Electronic	Retail	Electronic	Retail	
AP1	1,584.0	0.0	0.0	0.0	1,584.0
AP2	1,798.6	0.0	0.0	0.0	1,798.6
AP3	1,803.5	0.0	0.0	0.0	1,803.5
AP4	2,696.5	0.0	0.0	0.0	2,696.5
AP5	1,999.4	0.0	0.0	0.0	1,999.4
AP6	2,046.0	0.0	0.0	0.0	2,046.0
AP7	2,360.3	856.8	0.0	55.5	3,272.6
AP8	2,243.2	1,581.1	0.0	79.9	3,904.2
AP9	2,378.5	1,677.8	0.0	72.4	4,128.7
AP10	2,254.0	1,695.0	0.0	68.8	4,017.8
AP11	2,478.2	1,844.4	39.1	73.1	4,434.8
AP12	2,690.0	2,128.7	31.4	84.4	4,934.5
<u>AP13</u>	<u>2,934.7</u>	<u>2,143.4</u>	<u>18.4</u>	<u>89.9</u>	<u>5,186.3</u>
Total	29,266.9	11,927.1	88.9	524.0	41,806.9

* Delivery Confirmation program data.

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APMU/USPS-T34-50.

- a. Under the PMPC network contract with Emery, what payments for FY 1998 were called for in the original contract? Please explain if payments were fixed, variable, or per piece.
- b. What was the total amount of money paid to Emery for FY 1998?
- c. Please identify all claims or other adjustments by Emery still outstanding for FY 1998?
- d. For those additional FY 1998 amounts paid to Emery over and above the amount stipulated in the original contract. Please set out the amount and justification for each payment.

RESPONSE:

- a. I am informed that the contract did not call for particular payments in FY 1998 as the question seems to assume. There is also no distinction in the original contract such as the question also seems to assume between fixed, variable, or per piece contract prices or payments. Most payments that Emery could and did earn under the contract for FY 1998 are based on fixed per piece prices in the original contract, but payments were also made for FY 1998 under the original contract's cost-reimbursement provisions. Although the original contract's FY 1998 fixed prices are per piece prices, they typically vary according to a variety of other contractual factors such as mail volume, origin point and destination point, type of mail piece (flat, parcel, or outside piece), and the contractor's performance.
- b. \$289,030,069
- c. I am informed that no Emery claims or adjustments are outstanding under the contract for FY 1998 only. Emery still has an outstanding payment claim, a

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portion of which is for work performed in FY 1998. See response to
APMU/USPS-T34-51(c) for a list of all outstanding claims.

- d. I am informed that there is no such single payment amount stipulated in the original contract for FY 1998 such as the question presupposes. As a result of a supplemental letter agreement dated August 4, 1998, USPS paid Emery approximately \$20.8 million above that which the original contract would have required. The supplemental letter agreement states only that all of its provisions, taken as a whole, are "mutually beneficial." It does not justify any one particular provision, or any payments that might be made under it, in isolation from the agreement's other provisions.

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APMU/USPS-T34-51.

- a. Under the PMPC network contract with Emery, what payments for FY 1999 were called for in the original contract? Please explain if payments were fixed, variable, or per piece.
- b. What was the total amount of money paid to Emery for FY 1999?
- c. Please identify all claims or other adjustments by Emery still outstanding for FY 1999?
- d. For those additional FY 1999 amounts paid to Emery over and above the amount stipulated in the original contract. Please set out the amount and justification for each payment.

RESPONSE:

- a. I am informed that the contract did not call for particular payments in FY 1999 as the question seems to assume. There is also no distinction in the original contract such as the question also seems to assume between fixed, variable, or per piece contract prices or payments. Most payments that Emery could and did earn under the contract for FY 1999 are based on fixed per piece prices in the original contract, but payments were also made for FY 1999 under the original contract's cost-reimbursement provisions. Although the original contract's FY 1999 fixed prices are per piece prices, they typically vary according to a variety of other contractual factors such as mail volume, origin point and destination point, type of mail piece (flat, parcel, or outside piece), and the contractor's performance.
- b. \$503,373,935

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c. I am informed that Emery's outstanding claims under the contract are as follows:

(i) FY 1999 change-order claim for \$28,498,816. The Postal Service denied this claim in its entirety; however the twelve months that the law allows Emery to appeal from the USPS's decision have not expired;

(ii) a "recoupment" claim of \$10,649,934 previously paid and then "recouped" by USPS as an overpayment for FY 1999;

(iii) a pending payment claim of \$16,786,397 for contract A/Ps 7-24, of which A/Ps 7-18 are in FY 1998 and APs 19-24 fall in FY 1999;

(iv) a pending price redetermination claim of \$163,115,691 for CY 1999 which includes portions of FY 1999 and FY 2000;

(v) a pending claim for an adjusted price for the balance of the contract for \$437,525,311 for contract A/Ps 26-63, of which A/Ps 26-31 are within FY 1999;

(vi) a claim for the contracting officer's present and future imposition of volume variation pricing in accordance with original contract terms for \$29,167,878 for A/Ps 26-63 of which A/Ps 26-31 are within FY 1999.

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d. I am informed that there is no such single payment amount stipulated in the original contract for FY 1999 such as the question presupposes. As a result of a supplemental letter agreement dated August 4, 1998, USPS paid Emery approximately \$42.8 million above that which the original contract would have required. The supplemental letter agreement states only that all of its provisions, taken as a whole, are "mutually beneficial." It does not justify any one particular provision, or any payments that might be made under it, in isolation from the agreement's other provisions. In addition, the Postal Service paid Emery \$2,309,792 in FY 1999 for a dedicated plane to service the Midwest area and \$116,715 in FY 1999 for a dedicated truck to service Staten Island. These were service-based initiatives beyond the scope of the initial contract for which Emery was compensated in accordance with additional agreements.

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APMU/USPS-T34-52.

For FY 1997, FY 1998 and FY 1999, please provide ODIS (Origin/Destination Information System) data regarding First-Class Mail and Priority Mail that shows the percentage of each which meets its respective overnight, 2-day, and 3-day standard.

RESPONSE:

**ORIGIN-DESTINATION INFORMATION SYSTEM
ON TIME SCORES FOR FIRST -CLASS
AND PRIORITY MAIL, FY 1997**

Percent First-Class 1 Day Service Standard Mail Arriving in One Day.	91
Percent First-Class 2 Day Service Standard Mail Arriving in Two Days.	82
Percent First-Class 3 Day Service Standard Mail Arriving in Three Days.	81
Percent Priority 1 Day Service Standard Mail Arriving in One Day.	86
Percent Priority 2 Day Service Standard Mail Arriving in Two Days.	73
Percent Priority 3 Day Service Standard Mail Arriving in Three Days.	76

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ORIGIN-DESTINATION INFORMATION SYSTEM

ON TIME SCORES FOR FIRST -CLASS

AND PRIORITY MAIL, FY 1998

Percent First-Class 1 Day Service Standard Mail Arriving in One Day.	92
Percent First-Class 2 Day Service Standard Mail Arriving in Two Days.	85
Percent First-Class 3 Day Service Standard Mail Arriving in Three Days.	82
Percent Priority 1 Day Service Standard Mail Arriving in One Day.	84
Percent Priority 2 Day Service Standard Mail Arriving in Two Days.	72
Percent Priority 3 Day Service Standard Mail Arriving in Three Days.	72

ORIGIN-DESTINATION INFORMATION SYSTEM

ON TIME SCORES FOR FIRST -CLASS

AND PRIORITY MAIL, FY 1999

Percent First-Class 1 Day Service Standard Mail Arriving in One Day.	93
Percent First-Class 2 Day Service Standard Mail Arriving in Two Days.	87
Percent First-Class 3 Day Service Standard Mail Arriving in Three Days.	85
Percent Priority 1 Day Service Standard Mail Arriving in One Day.	85
Percent Priority 2 Day Service Standard Mail Arriving in Two Days.	74
Percent Priority 3 Day Service Standard Mail Arriving in Three Days.	76

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: 4.5.2000

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

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
April 5, 2000