

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

EXPERIMENTAL PRESORTED PRIORITY
MAIL RATE CATEGORIES, 2001

Docket No. MC2001-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE
WITNESS SCHERER TO OCA INTERROGATORIES
(OCA/USPS-T1-1-6)

The United States Postal Service hereby provides the response of witness Scherer to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T1-1-6, filed on March 23, 2001.

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 2, 2001

RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES

OCA/USPS-T1-1. Please refer to your testimony at page 5, lines 19-21, where it states that the Priority Mail presort discount eliminated in Docket No. R97-1 "limited flexibility" because of its "density-based sequential sorting requirements...." Please explain in detail how four levels of "density-based sequential sorting requirements" limited flexibility for mailers. Please explain how the proposed experiment differs from an arrangement with "density-based sequential sorting requirements."

RESPONSE:

The "density-based sequential sorting requirements," as I call them, of the Priority Mail presort discount eliminated in Docket No. R97-1, are described in Section M120.2.7 of Domestic Mail Manual (DMM) 53.

For flats or letters, a five-digit sort was required if a 15-pound sack sorted to 5 digits could be prepared. A lighter sack sorted to 5 digits could optionally be prepared with a minimum of 6 pieces. If not a 5-digit sort, a 3-digit sort was required if a 15-pound sack sorted to 3 digits could be prepared. A lighter sack sorted to 3 digits could optionally be prepared with a minimum of 6 pieces. If not a 5-digit or 3-digit sort, an SCF sort was required if a 15-pound sack sorted to SCF could be prepared. A lighter sack sorted to SCF could optionally be prepared with a minimum of 6 pieces. If not a 5-digit, 3-digit or SCF sort, an ADC sort was optional.

For parcels, a five-digit sort was required if 6 or more pieces sorted to 5 digits could be prepared. If not a 5-digit sort, a 3-digit sort was required if 6 or more pieces sorted to 3 digits could be prepared. If not a 5-digit or 3-digit sort, an SCF sort was required if 6 or more pieces sorted to SCF could be prepared. If not a 5-digit, 3-digit or SCF sort, an ADC sort was optional.

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These rules required presort mailers to check their densities first at 5 digits, then at 3 digits, then at SCF, then at ADC. This was onerous compared to the current Priority Mail presort proposal, under which any of three presort levels – 5-digit, 3-digit or ADC – can be chosen as an option regardless of densities at the other two presort levels. Under the current proposal, mailers have the flexibility to choose any of three (or any two, or all three) presort options. Previously, presort choice was limited by the sequential sorting requirements.

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OCA/USPS-T1-2. Please refer to your testimony at page 9, lines 6-8, which states, "The first risk with respect to fully realizing estimated cost savings is that presort volume may have different characteristics from the overall Priority Mail profile." Please provide data on the mail mix characteristics of the Priority Mail volume that qualified for participation in the previous Priority Mail presort discount program. What is the current flats-parcel mix of ADP?

RESPONSE:

The flats-parcel mix in the previous Priority Mail presort discount program is not known. I do know that the majority of presort mailers had average realized revenue per piece (total revenue + total number of pieces) of \$2.89, indicating that they were exclusively mailing pieces 2 pounds and under (\$3.00 two-pound base rate minus \$.11 presort discount).

I am informed by Witness Kalenka (USPS-T-3), Senior Vice President at ADP, that ADP's current mail mix is 100 percent flats and letters, 0 percent parcels.

As indicated on page 4, lines 5-6 of my testimony – "To learn as much as possible from the experiment, the Postal Service will seek participants of diverse....mail characteristics (e.g., shape)" – both mailers who predominantly mail flats and mailers who predominantly mail parcels will be solicited for the proposed Priority Mail presort discount.

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OCA/USPS-T1-3. Please refer to your testimony at page 9, lines 17-18, which states, "A second mitigating factor is that the Postal Service has limited experience with Priority Mail worksharing." Please explain in detail how Priority Mail worksharing is different from other types of worksharing.

RESPONSE:

I have not testified that Priority Mail worksharing is different from other types of worksharing. I have only said that Priority Mail is characterized by comparatively little worksharing experience. This reduces the amount of within-subclass information that can inform the development of worksharing discounts. In my judgment, the lack of within-subclass information introduces an element of uncertainty that warrants some mitigation of the cost pass-through.

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OCA/USPS-T1-4. Please refer to your testimony at page 10, lines 7 and 8.

- a. Please describe in detail "the proposed presort discount's containerization requirements."
- b. Please describe the differences, if any, from the current Priority Mail containerization requirements.

RESPONSE:

- a. Containerization and other "make-up" requirements have not been finalized for the proposed Priority Mail presort discount. Eventually there will be such requirements, which will be similar to those for worksharing discounts in other mail classes. The requirements will specify whether presorted mail should be presented in tubs, trays or sacks. They may in some instances be tailored to customer and entry location, depending on such factors as the type of transportation to be used at the entry location. For example, I anticipate that presorted mail will be accepted on pallets only if the facility accepting the mailing plans to ship the mail to its destination by surface transportation. Pallets cannot be transported by air because they are not accepted by commercial airlines.
- b. I am informed by the USPS Office of Mail Preparation and Standards that currently there are no containerization requirements for Priority Mail.

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OCA/USPS-T1-5. Please refer to our testimony at page 10, lines 20-23 (sic), where it states, "The Postal Service believes that the proposed new presort discount's flexibility...will attract more mailer interest than...the old discount." Please confirm that the Postal Service's belief is based in part on discussion with potential Priority Mail presort mailers.

- a. If you do not confirm, please explain the basis for your assumption that the proposed discount will double the volume of presorted Priority Mail, as compared to the volume of the old presort discount.
- b. If you do confirm, please provide the number of potential Priority Mail presort mailers with whom the Postal Service discussed the proposed Priority Mail presort discount.

RESPONSE:

Confirmed.

- a. Not applicable.
- b. I personally discussed the proposed Priority mail presort discount with one mailer, ADP, represented by Witness Kalenka (USPS-T-3), who expressed ADP's interest in the proposal, as indicated in his testimony. Other Priority Mailers were made aware that a presort proposal was under development from industry (e.g., trade association) meetings and through contact with the Postal Service sales organization. The number of mailers that were so informed is not known. Before the presort discount was filed, Postal Service management indicated to me that at least a few mailers had expressed interest in the proposal.

Independent of mailer sentiment, I formed the *a priori* notion that, based on the greater choice given mailers, the proposed presort discount will attract more mailer interest than the old discount. This was the main basis for positing a doubling of presort volume in relation to total Priority Mail volume.

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OCA/USPS-T1-6. Please refer to your testimony at pages 15 and 16, lines 23 and 1, respectively, where it states that the two-to-three-day package and document delivery "market is approximately 2 billion pieces per year." Please provide any data, the source, and the methodology used to arrive at this figure, or other information, that substantiate this statement.

RESPONSE:

I based my statement on the best information available to me, the attached table from "Competitor and Total Package Delivery Market Growth Projections," by The Colography Group, Inc. That document estimates the total market for two- and three-day delivery in 1999 at 1,939 million pieces. This figure is aggregated from estimates for different competitors in the market. I do not know how Colography developed the individual competitor estimates.

COMPETITOR AND TOTAL PACKAGE DELIVERY MARKET GROWTH PROJECTIONS

COMPETITOR MARKET SHARE PROJECTIONS 2000-2004 (Data In Thousands)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
SECOND-DAY AND THREE-DAY AIR							
PIECES							
FedEx	336,415	343,257	355,958	367,348	380,206	393,893	408,861
UPS	286,000	308,329	334,229	357,959	379,436	400,305	419,520
Airborne	78,896	80,912	85,685	90,398	95,370	100,901	107,157
Other Commercial Carriers	6,930	6,741	6,539	6,441	6,376	6,313	6,250
Priority Mail	<u>1,189,855</u>	<u>1,199,681</u>	<u>1,234,472</u>	<u>1,262,865</u>	<u>1,294,436</u>	<u>1,326,797</u>	<u>1,357,313</u>
TOTAL MARKET	1,909,096	1,938,920	2,016,882	2,085,011	2,155,825	2,228,210	2,299,101
PERCENT MARKET SHARE OF PIECES							
FedEx	17.6%	17.7%	17.6%	17.6%	17.6%	17.7%	17.8%
UPS	15.1%	15.9%	16.6%	17.2%	17.6%	18.0%	18.2%
Airborne	4.1%	4.2%	4.2%	4.3%	4.4%	4.5%	4.7%
Other Commercial Carriers	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Priority Mail	<u>62.6%</u>	<u>61.9%</u>	<u>61.2%</u>	<u>60.6%</u>	<u>60.0%</u>	<u>59.5%</u>	<u>59.0%</u>
TOTAL MARKET	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
REVENUE							
FedEx	\$2,202,860	\$2,316,351	\$2,426,077	\$2,528,748	\$2,643,427	\$2,765,976	\$2,899,794
UPS	\$2,487,808	\$2,722,538	\$2,980,744	\$3,224,300	\$3,451,936	\$3,678,210	\$3,893,312
Airborne	\$520,281	\$560,428	\$599,428	\$638,721	\$680,589	\$727,284	\$780,078
Other Commercial Carriers	\$87,445	\$88,735	\$86,934	\$86,486	\$86,477	\$86,469	\$86,460
Priority Mail	<u>\$4,298,543</u>	<u>\$4,706,096</u>	<u>\$4,839,129</u>	<u>\$5,683,093</u>	<u>\$5,825,170</u>	<u>\$5,970,789</u>	<u>\$6,108,128</u>
TOTAL MARKET	\$9,596,937	\$10,394,148	\$10,932,311	\$12,161,348	\$12,687,599	\$13,228,718	\$13,767,771
PERCENT MARKET SHARE OF REVENUE							
FedEx	23.0%	22.3%	22.2%	20.8%	20.8%	20.9%	21.1%
UPS	25.9%	26.2%	27.3%	26.5%	27.2%	27.8%	28.3%
Airborne	5.4%	5.4%	5.5%	5.3%	5.4%	5.5%	5.7%
Other Commercial Carriers	0.9%	0.9%	0.8%	0.7%	0.7%	0.7%	0.6%
Priority Mail	<u>44.8%</u>	<u>45.3%</u>	<u>44.3%</u>	<u>46.7%</u>	<u>45.9%</u>	<u>45.1%</u>	<u>44.4%</u>
TOTAL MARKET	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The Colography Group, Inc.

DECLARATION

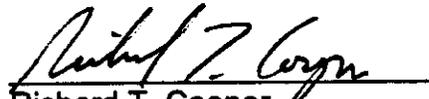
I, Thomas M. Scherer, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Thomas M. Scherer
THOMAS M. SCHERER

Dated: 4/2/01

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 2, 2001