

BEFORE THE
POSTAL RATE COMMISSION

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY


EXPERIMENTAL SUSPENSION OF FEE FOR
MANUAL DELIVERY CONFIRMATION CATEGORY

DOCKET NOS. R2001-2,
MC2001-2

INTERROGATORIES OF UNITED PARCEL SERVICE
TO UNITED STATES POSTAL SERVICE WITNESS O'HARA
(UPS/USPS-T1-1 through 11)
(October 5, 2001)

Pursuant to the Commission's Rules of Practice, United Parcel Service hereby files and serves the following interrogatories directed to United States Postal Service witness O'Hara: UPS/USPS-T1-1 through 11.

Respectfully submitted,



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UPS/USPS-T1-1. Refer to page 2, lines 9-11, of your testimony.

(a) Provide all available data and supporting studies for the contention that 30% of retail revenue for manual delivery confirmation is received at sites that do not have Point of Service ("POS") terminals.

(b) Provide all available data and supporting studies for the assumption that 30% of Priority Mail retail revenue is received at sites that do not have POS terminals.

(c) Confirm that it is assumed that 30% of Priority Mail retail revenue during the first 16 days of December 2001 will be received at sites that do not have POS terminals. If confirmed, provide all data and supporting studies for this assumption. If not confirmed, explain in detail.

UPS/USPS-T1-2. Refer to page 2, lines 13-19, and page 4, lines 10-21, of your testimony.

(a) Confirm that the "third Priority Mail entry channel" representing Priority Mail pieces picked up by the Postal Service or deposited in collection boxes is not considered "retail-entered" mail. If not confirmed, explain in detail.

(b) Confirm that the Postal Service assumes that, absent the proposed pricing experiment, customers will purchase manual delivery confirmation service for 0.19 pieces of pick-up/collection Priority Mail during the December 1 to December 16, 2001, period for every window-entered Priority Mail piece purchasing delivery confirmation service. If not confirmed, explain in detail.

(c) Confirm that the Postal Service assumes that there will be no increase in the number of pickup/collection Priority Mail pieces selecting manual Delivery

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Confirmation service during the proposed pricing experiment even though the service would be offered for free during the December 1 to December 16, 2001 period. If confirmed, provide an explanation for this assumption. If not confirmed, explain in detail.

(d) Provide all available data regarding the annual, accounting period, and weekly volume of pickup/collection Priority Mail for the FY2000-2001 period.

UPS/USPS-T1-3. Refer to page 2 of your workpaper.

(a) Confirm that the net cost to the Postal Service of the proposed pricing experiment includes:

(i) \$150,000 for the cost of informing customers. If not confirmed, explain in detail.

(ii) \$8,083,717 for the cost of the additional Priority Mail manual delivery confirmation that would take place. If not confirmed, explain in detail.

(iii) \$1,332,998 for the revenue that would have been received for Priority Mail manual delivery confirmation if the proposed pricing experiment did not take place. If not confirmed, explain in detail.

(b) Confirm that the total cost to the Postal Service of the proposed pricing experiment is \$9,566,715 ($\$150,000 + \$8,083,717 + \$1,332,998$). If not confirmed, explain in detail.

(c) Provide any quantitative analysis or studies that show that the benefits of the proposed pricing experiment exceed or are likely to exceed \$9,566,715.

UPS/USPS-T1-4. Refer to page 2 of your workpaper.

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(a) Confirm that the TY2001 revenue for Priority Mail manual delivery confirmation service is expected to be \$20,888,507 in the absence of the proposed pricing experiment. If not confirmed, explain in detail.

(b) Confirm that this TY2001 revenue is comprised of the 40-cent fee for Priority Mail manual delivery confirmation multiplied by the TY2001 Priority Mail manual delivery confirmation volume of 52,221,268. If not confirmed, explain in detail.

(c) Confirm that the TY2001 costs for Priority Mail manual delivery confirmation service are expected to be \$18,068,559 in the absence of the proposed pricing experiment. If not confirmed, explain in detail.

(d) Confirm that these TY2001 costs of \$18,068,559 are comprised of 34.6 cents per piece for the non-electronic cost of manual delivery confirmation multiplied by the TY2001 Priority Mail manual delivery confirmation volume of 52,221,269. If not confirmed, explain in detail.

(e) Confirm that Priority Mail manual delivery confirmation service would provide \$2,819,948 of contribution to TY2001 institutional costs (\$20,888,507 – \$18,068,559) in the absence of the proposed pricing experiment. If not confirmed, explain in detail.

(f) Confirm that the TY2001 revenues for Priority Mail manual delivery confirmation service would be reduced by \$1,332,998 (from \$20,888,507 to \$19,555,510) under the proposed pricing experiment, as a result of waiving the 40-cent fee for the 3,332,494 pieces of Priority Mail that would have used the service if the proposed pricing experiment did not take place. If not confirmed, explain in detail.

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(g) Confirm that the non-electronic cost of the additional usage of Priority Mail manual delivery confirmation during the term of the proposed pricing experiment is 19,069,868 pieces multiplied by 34.6 cents per piece, or \$6,598,174. If not confirmed, explain in detail.

(h) Confirm that if the TY2001 costs for Priority Mail manual delivery confirmation service under the proposed pricing experiment include the 34.6 cents per piece non-electronic charge for all Priority Mail pieces receiving manual delivery confirmation during the test year, the total TY2001 costs would be \$18,068,559 plus \$6,598,174, or \$24,666,733. If not confirmed, explain in detail.

(i) Confirm that the contribution to TY2001 institutional costs for the Priority Mail manual delivery confirmation service would be negative \$5,111,223 (\$19,555,510 minus \$24,666,733) under the proposed pricing experiment if the TY2001 revenues and costs for Priority Mail manual delivery confirmation service include all of the TY2001 revenues and all of the TY2001 non-electronic costs associated with the service. If not confirmed, explain in detail.

UPS/USPS-T1-5. Refer to page 2 of your workpaper.

(a) Confirm that the 34.6 cents per piece non-electronic cost for Priority Mail manual delivery confirmation was obtained from Table 1 of the testimony of Postal Service witness Davis, USPS-T-30, at 7, in Docket No. R2000-1. If not confirmed, explain in detail.

(b) Confirm that in Docket No. R2000-1, Postal Service witness Mayo (USPS-T-39), at 56 n.29, applied a contingency to the 34.6 cents per piece non-electronic cost

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for Priority Mail manual delivery confirmation to obtain a cost of 36 cents per piece, including contingency, for Priority Mail manual delivery confirmation. If not confirmed, explain in detail.

(c) Explain why a contingency is not applied to the 34.6 cents per piece figure in the TY2001 calculations on page 2 of your workpaper.

UPS/USPS-T1-6. Refer to page 2 of your workpaper.

(a) Confirm that the 7.8 cents per piece figure for the cost of Priority Mail electronic delivery confirmation was calculated by (1) taking from Table 1 of Postal Service witness Davis's rebuttal testimony in Docket No. R2000-1, USPS-RT-21, a delivery cost of 7.3 cents per piece for Standard Mail electronic delivery confirmation, and (2) adding 0.5 cents per piece for information systems from Table 1 of Postal Service witness Davis's testimony, USPS-T-30, in Docket No. R2000-1. If not confirmed, explain in detail.

(b) Confirm that Mr. Davis derived volume variable costs of 17 cents per piece for electronic delivery confirmation for both Priority Mail and Standard Mail (B) in Table 1 of USPS-T-30 in Docket No. R2000-1.

(c) Confirm that Table 1 in USPS-RT-21, Docket No. R2000-1, represents the results of Mr. Davis applying a "less conservative set of costing assumptions" than those used in Mr. Davis's direct testimony, USPS-T-30 (R2000-1).

(d) Confirm that Mr. Davis's rebuttal testimony, USPS-RT-21, was focused on Standard Mail electronic delivery confirmation costs. If not confirmed, explain in detail.

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(e) Confirm that Mr. Davis's rebuttal testimony did not reject his original calculation of 17 cents per piece for the cost of Standard Mail electronic delivery confirmation, but merely derived a less conservative estimate. If not confirmed, explain in detail.

(f) Confirm that, in Docket No. R2000-1, the Postal Service used 17 cents per piece, and not 7.8 cents per piece, in deriving the electronic Priority Mail delivery confirmation costs that should be included in Priority Mail base costs. If not confirmed, explain in detail.

(g) Confirm that, in its decision in Docket No. R2000-1, the Commission used 17 cents per piece, and not 7.8 cents per piece, in deriving the electronic Priority Mail delivery confirmation costs that should be included in Priority Mail base costs. If not confirmed, explain in detail.

(h) Confirm that one "less conservative" assumption made in witness Davis's rebuttal testimony, USPS-RT-21, in R2000-1, was that certain delivery confirmation activities could be undertaken during the course of a deviation delivery. If not confirmed, explain in detail.

(i) Confirm that, given the large percentage of letters and flats within Priority Mail, Priority Mail will have fewer deviation deliveries than Standard Mail (B). If not confirmed, explain in detail.

(j) Provide all justification for using 7.8 cents per piece as the electronic cost for Priority Mail Delivery confirmation, rather than 17 cents per piece.

UPS/USPS-T1-7. Refer to page 4 of your workpaper.

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(a) Confirm that 4.2 million pieces of Priority Mail were retail-entered in the POS system in the week November 25 to December 1, 2000, and that 700,000 of these pieces had delivery confirmation. If not confirmed, explain in detail.

(b) Confirm that these figures would be multiplied by a factor of (100/70) to obtain the total amount of retail Priority Mail during the week. If not confirmed, explain in detail.

(c) Confirm that the Postal Service assumes that Priority Mail retail customers that would ordinarily select Delivery Confirmation in the days just prior to the pricing experiment will not wait to mail Priority Mail pieces until December 1, 2001, despite the fact that they would receive a 40 cent per piece "discount" if they waited until December 1, 2001, or later. If confirmed, explain the justification for this assumption. If not confirmed, explain in detail.

(d) Confirm that the Postal Service assumes that Priority Mail retail customers who would mail these pieces in the days just prior to the pricing experiment, and who do not ordinarily select Delivery Confirmation will not wait until December 1, 2001, or later to mail Priority Mail pieces, despite receiving an additional service for free if they wait to mail until December 1, 2001. If confirmed, explain the rationale for this assumption. If not confirmed, explain in detail.

UPS/USPS-T1-8. Refer to page 4 of your workpaper.

(a) Confirm that the percentage of pieces of retail-entered Priority Mail for which the customer purchased delivery confirmation averaged 20.0% over the four most

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recent available FY2001 accounting periods starting May 19, 2001. If not confirmed, explain in detail.

(b) Confirm that the percentage of pieces of retail-entered Priority Mail for which the customer purchased delivery confirmation averaged 17.2% during the first three FY2001 accounting periods from September 9, 2000, through December 1, 2000. If not confirmed, explain in detail.

(c) Confirm that the portion of retail-entered Priority Mail for which the customer selected delivery confirmation has risen approximately 1.8 percentage points since the first few months of FY2001. If not confirmed, explain in detail.

(d) Refer to page 3 of your workpaper. Confirm that the Postal Service uses the retail-entered delivery confirmation percentages from December 2 to December 17, 2000, to derive the amount of delivery confirmation that would take place from December 1, 2001, to December 16, 2001, if the proposed pricing experiment did not take place. If confirmed, explain why no adjustment was made for the increased percentage of retail-entered Priority Mail delivery confirmation that has taken place since the beginning of FY2001. If not confirmed, explain in detail.

(e) Provide the same data contained on page 4 of your workpaper, Weekly POS Data on Priority Mail and Manual Delivery Confirmation, for FY2000.

UPS/USPS-T1-9. Refer to page 4 of your workpaper.

(a) Confirm that POS Priority Mail has averaged 3.42 million per week over the four consecutive FY2001 accounting periods starting May 19, 2001. If not confirmed, explain in detail.

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(b) Confirm that POS Priority Mail averaged 3.09 million per week during the first three FY2001 accounting periods from September 9, 2000, through December 1, 2000. If not confirmed, explain in detail.

(c) Confirm that POS Priority Mail volume has risen approximately 330,000 per week, or about 11%, since the first few months of FY2001. If not confirmed, explain in detail.

(d) Confirm that this POS Priority Mail figure would be multiplied by a factor of (100/70) to obtain the increase in retail Priority Mail. If not confirmed, explain in detail.

(e) Confirm that, on page 3 of your workpaper, the Postal Service uses POS Priority Mail volumes from December 2 to December 17, 2000 (multiplied by a factor of 100/70) to derive the retail-entered Priority Mail that would take place from December 1, 2001, to December 16, 2001, if the proposed pricing experiment did not take place. If confirmed, explain why no adjustment was made for the increased volume of retail-entered Priority Mail that has taken place since the beginning of FY2001. If not confirmed, explain in detail.

UPS/USPS-T1-10. Refer to page 1 of your workpaper.

(a) Confirm that the Postal Service assumes that 19,069,868 additional pieces of Priority Mail will receive manual delivery confirmation service during the December 1 to December 16, 2001, period, or approximately 1.2 million pieces per day, counting Sundays. If not confirmed, explain in detail.

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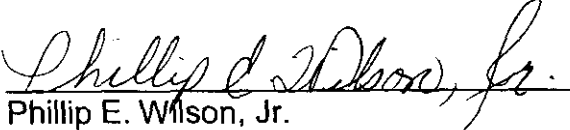
(b) Confirm that, absent the proposed experiment, manual Delivery Confirmation volume would be expected to be 3,332,494, or about 200,000 pieces per day during this same period. If not confirmed, explain in detail.

(c) Provide all supporting studies and analyses that evaluate the Postal Service's ability to handle an increase in manual Priority Mail delivery confirmation of nearly 6 times normal volume without incurring increased unit costs for the service (e.g., from the incurrence of overtime).

UPS/USPS-T1-11. Confirm that each retail Priority Mail piece that would have been mailed after December 16, 2001, but instead is mailed during the proposed pricing experiment, will incur an additional cost of 42.4 cents per piece (7.8 cents for electronic services plus 34.6 cents for manual services) for delivery confirmation without the Postal Service receiving any offsetting additional revenue. If confirmed, explain what studies have been conducted to show that any benefits to the Postal Service of earlier mailing will offset this additional cost. If not confirmed, explain in detail.

CERTIFICATE OF SERVICE

I hereby certify that on this date I have caused to be served the foregoing document by first class mail, postage prepaid, in accordance with Section 12 of the Rules of Practice.


Phillip E. Wilson, Jr.

Dated: October 5, 2001
Philadelphia, PA

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