

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Experimental Suspension of Fee for
Manual Delivery Confirmation Category

Docket No. R2001-2
Docket No. MC2001-2

RESPONSE OF THE UNITED STATES POSTAL SERVICE
WITNESS O'HARA TO UPS INTERROGATORIES
(UPS/USPS-T1-1 through 11)

The United States Postal Service hereby provides the response of witness
O'Hara to the following interrogatories of the United Parcel Service (UPS):
UPS/USPS-T-1 through 11, filed on October 5.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

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.

RESPONSE:

(a)-(b) As stated in the cited portion of my testimony, the "approximately 30%" figure refers to retail revenue in total, not to revenue for individual products and services. I received this figure from the Retail Department and I understand that it is based on a comparison of revenue received at POS sites to the grand total revenue received at all retail sites.

(c) Confirmed. I used this figure because some adjustment for transactions occurring at non-POS sites was clearly needed and I believed that this overall figure could reasonably be applied to these particular services in this particular time period.

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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 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.

RESPONSE:

(a) Confirmed, although I believe the term "window-entered," which is used elsewhere in my testimony (e.g., line 18, page 7), is somewhat better than "retail-entered."

(b) Confirmed.

(c) Confirmed. I believe this assumption is reasonable because mailers who use this third channel to enter Priority Mail with Manual Delivery Confirmation are already familiar with Delivery Confirmation and have developed usage patterns that they are not likely to alter dramatically in response to this limited-time offer.

(d) As far as I have been able to determine, the Postal Service does not collect data on the pickup/collection volume of Priority Mail. For quarterly or annual time frames, it might be possible to estimate this volume as a residual by subtracting estimated volume entered through the other two channels from RPW volume.

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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.

RESPONSE:

(a)-(b) Confirmed.

(c) No quantitative analysis has been performed. As noted in my testimony (page 10, lines 2-19) the potential benefits depend on the extent to which customers shift their holiday mailing patterns and the extent to which they increase their future usage of Delivery Confirmation. The Postal Service believes that actually conducting the proposed experiment would provide the best way to obtain this type of information. As noted in my testimony (page 7, lines 1-4), if customers do shift their holiday mailing patterns significantly, a permanent classification modeled on the experiment might well be warranted. The one-time costs of the experiment would then have led to continuing benefits year after year, while the on-going cost and revenue effects of the "without charge" period would be fully recognized and incorporated in the test-year cost-coverage determinations that occur in an omnibus rate case.

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

(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.

(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.

RESPONSE:

(a) - (g) Confirmed.

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RESPONSE TO UPS/USPS-T1-4 (continued):

(h) - (i) I confirm the arithmetic, but I do not accept the premise that Delivery Confirmation costs and contribution should be developed in this fashion. My view of how the costs and revenue consequences of the experiment should be treated is explained in my testimony from page 8 line 17 through page 9 line 22, and reflected in Panel C on page 2 of my work paper. With this treatment, the contribution on Manual Delivery Confirmation with the proposed experiment would be \$19,555,510 less \$16,990,516 = \$2,564,994.

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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 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.

RESPONSE:

(a) Not confirmed; see my response to OCA/USPS-T1-4.

(b) Confirmed.

(c) A contingency should have been applied.

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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.

(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.

RESPONSE:

(a) Not confirmed; see my response to OCA/USPS-T1-4.

(b) –(f) Confirmed.

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(g) Not confirmed. Witness Davis' USPS-RT-21 testimony focused on delivery-side costs and these operations are common to both electronic and manual (or "retail") Delivery Confirmation. If the procedures outlined on pages 4-6 of USPS-RT-1 are applied to his original worksheet, costs for all four forms of Delivery Confirmation are reduced by the same amount, 9.1 cents. In paragraph [6121] of its R2000-1 Decision, the Commission states explicitly that it "accepts witness Davis' revised cost estimates for Standard Mail retail." Moreover, its discussion of rates and cost coverages for all for four types of Delivery Confirmation in that paragraph lead me to conclude that it used witness Davis' "revised cost estimates" in all four cases.

(h) Confirmed.

(i) Not confirmed. On a full-year basis, letters and flats comprise only about one third of Priority Mail pieces. More important, the holiday gifts that cause the very high levels of additional (above-baseline) Priority Mail during the proposed experimental period can be expected to be very heavily parcel-shaped, and could well have as high a percentage of deviation deliveries as the (full-year) percentage that witness Davis used for Standard Mail.

(j) See my response to part (g) of this interrogatory.

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

(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.

RESPONSE:

(a)-(b) Confirmed.

(c) - (d) Confirmed. Although Chart 2 in my testimony does suggest that the holiday package-mailing season starts the week of November 25, most of the Priority Mail entered during this week appears to represent "baseline" users of Priority Mail. The average weekly volume for entire period from September 9 to December 1 (cited in part (b) of UPS/USPS-T1-9) is 3.1 million, so of the 4.2 million pieces mailed during the week of November 25, only 1.1 million are likely to be non-baseline holiday packages. The baseline users have chosen Priority Mail in large part because it provides relatively quick delivery and I doubt that many mailers of the baseline volume would delay mailing even a single day to obtain Delivery Confirmation without charge. Thus, I think it is a reasonable simplification to assume no volume shift from the week of November 25 into the experimental period.

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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 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.

RESPONSE:

(a)-(b) Confirmed.

(c) Not confirmed. Assuming this part of the question refers to the periods mentioned in parts (a) and (b), $20 \text{ minus } 17.2 = 2.8$, not 1.8

(d) Confirmed. As shown in Chart 2 and discussed on page 3, lines 5-9 of my testimony, the bulk of window-entered Priority Mail during the proposed experimental period appears to come from infrequent users. In contrast, volume in the accounting periods used to derive the 2.8 percentage point increase appears to come from individuals and businesses that use Priority Mail more-or-less steadily throughout the year. Increased Manual Delivery Confirmation usage by the latter does not necessarily imply increased usage by infrequent Priority Mail users. Thus, I believe that it is a reasonable simplification to assume that the percentage of Delivery Confirmation usage

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during the experimental period would be the same as in the corresponding period last year.

(e) Comparable data for FY 2000 are not available.

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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.

(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.

RESPONSE:

(a) - (c) Confirmed.

(d) - (e) Not confirmed. The apparent increase in retail-entered Priority Mail during FY 2001 on page 4 of my workpaper may simply reflect an expansion in the number of POS sites for which data are included in the tabulations provided to me. If so, the percentage of revenue recorded at POS sites may have increased and the magnitude of the necessary adjustment for non-POS sites correspondingly decreased. See also the explanation of what the 70% figure represents in my response to UPS/USPS-T1-1.

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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.

(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).

RESPONSE:

(a) Confirmed; this is 100% of the projected candidate volume.

(b) Confirmed.

(c) No such studies have been undertaken. I have simply used test-year unit costs, which represent an average over the entire year. While the projected weekly Delivery Confirmation usage during the experiment represents a very large increase over average weekly usage, the additional workhours required by this increased usage are small when compared to baseline total workhours by window clerks and city and rural carriers. Thus, I believe that the assumption of constant unit cost is reasonable.

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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.

RESPONSE:

Confirmed for those pieces that would not have used Delivery Confirmation if mailed after December 16, 2001. With respect to studies of offsetting benefits, see my response to part (c) of UPS/USPS-T1-3.

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.


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