

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

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EXPERIMENTAL SUSPENSION OF FEE FOR
MANUAL DELIVERY CONFIRMATION CATEGORY

POSTAL RATE COMMISSION
OFFICE SECRETARY
Docket No. R2001-2
Docket No. MC2001-2

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS O'HARA TO INTERROGATORIES OF UNITED PARCEL SERVICE
(UPS/USPS-T1-26-34)

The United States Postal Service hereby provides the responses of witness O'Hara to the following interrogatories of United Parcel Service: UPS/USPS-T1-26-34, filed on October 16, 2001. The Presiding Officer's Ruling Establishing Procedural Schedule, issued October 12, 2001, indicated that Interrogatories filed by close of business, October 17, 2001, should be submitted by 12:00 noon, October 22, 2001. Witness O'Hara has been exercising due diligence in developing interrogatory responses, but was unable to complete responses before mid afternoon of the above date. The Postal Service sent an electronic copy of witness O'Hara's responses to counsel for United Parcel Service upon their completion. The Postal Service does not believe that any party has been prejudiced by the delay.

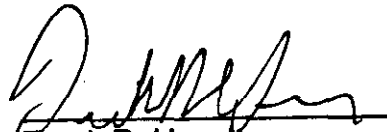
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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UPS/USPS-T1-26. Refer to your response to UPS/USPS-T1-1(a)-(b). Provide the time period covered by the figure received from the Retail Department that compares revenue received at POS sites to the grand total revenue received at retail sites.

RESPONSE: The 70% figure applies to the anticipated coverage resulting from the most recent round of POS purchases; deployment for this round was essential complete in Quarter 3 of FY 2001.

The revenue to which this figure applies is retail "walk in revenue." Walk in revenue excludes certain revenue received at retail sites, such as revenue from the sale of precanceled stamps, that comes from commercial mailers

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UPS/USPS-T1-27. Refer to your response to UPS/USPS-T1-2(c).

(a) Define "dramatically" as used in this response.

(b) Are the "developed usage patterns" of these third channel pickup/collection box mailers strongly associated with the price of the delivery confirmation service?

(c) Describe in detail why these third channel mailers with "developed usage patterns" will not respond to a 40-cent price decrease.

(d) Confirm that these third channel mailers simply apply a manual delivery confirmation label to the Priority Mail piece. If not confirmed, explain in detail.

RESPONSE: (a) In this response "dramatically" simply means enough to affect the adjustment for third-channel use (column headed "Ratio of non-window manual DC to window manual DC," workpaper page 1) by more than a few percentage points

(b) & (c) The "developed usage patterns" (which might be thought of as loosely defined standard operating procedures) reflect business decisions to use Delivery Confirmation with certain types of out-going Priority Mail and not with others, depending perhaps on the value of the item, the need for some evidence of delivery, or recipient request. I can not confirm that these patterns are "strongly" associated with the price of Delivery Confirmation, but I would expect them to have been somewhat affected by the price of Delivery Confirmation (35 cents from March 1999 to January 2001, and 40 cents thereafter) during the period they were developed, and I would expect them to respond to a permanent reduction of 40 cents in the Delivery Confirmation fee. However, I would expect very few of the business decisions that generated these usage patterns to be revisited because of a 16-day reduction of 40 cents.

(d) Confirmed. Moreover, through the web site noted in OCA/USPS-T1-1, many if not most of these third channel mailers can already obtain Delivery Confirmation without charge by printing their own label. I would expect this permanent change to generate a gradual expansion in third-channel use of Delivery Confirmation.

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UPS/USPS-T1-28. Refer to your response to UPS/USPS-T1-2(d).

(a) Provide the total RPW-based Priority Mail volume for FY2001 by quarter and annually.

(b) Provide the total "window-entered" Priority Mail volume for FY2001 and FY2000 by quarter and annually.

(c) Provide the POS Site-entered Priority Mail volume for FY2001 and FY2000 by quarter and annually.

(d) Provide the PERMIT-entered Priority Mail volume for FY2001 and FY2000 by quarter and annually.

RESPONSE:

Priority Mail Volume Data		Window- Entered (=POS*100/ POS % of Retail Rev.)	POS	PERMIT	POS % of Retail Revenue 1/ using Q1 01
FY 2000					
Q1	283,583,000	30,904,508	18,362,100	66,209,402	59%
Q2	318,102,000	47,925,612	28,475,292	72,699,866	59%
Q3	279,492,000	38,890,270	23,106,889	59,122,579	59%
Q4	334,404,000	57,678,307	34,269,915	65,551,310	59%
PFY	1,215,581,000	175,398,697	104,214,196	263,583,157	
GFY	1,222,454,000	n.a.	n.a.	n.a.	
FY 2001					
Q1	272,694,000	62,114,839	36,905,907	58,936,433	59%
Q2	303,383,000	92,563,342	55,634,375	53,695,565	60%
Q3	264,586,000	64,059,850	43,493,814	55,776,689	68%
Q4	n.a.	75,708,370	54,441,046	n.a.	72%
PFY	n.a.	294,446,401	190,475,142	n.a.	65%
GFY	n.a.	n.a.	n.a.	n.a.	
<p>1/ Retail revenue is "Walk in Revenue." This excludes certain revenue received at retail units that relates to commercial customers, such as sales of precancelled stamps. Walk in Revenue AICs are defined in the 9/7/00 Postal Bulletin. Note also that in calculating window-entered volume from POS volume, data for FY 2000 utilize the FY 2001 Q1 POS percentage of Retail revenue since FY 2000 data are not yet available.</p>					

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UPS/USPS-T1-29. Refer to your response to UPS/USPS-T1-3(c). Describe in detail the specific permanent classification modeled on the experiment that "might well be warranted".

RESPONSE:

If the experiment is successful in smoothing holiday package mailing patterns, the Postal Service and its customers could benefit from establishing the no-charge period as a permanent feature of the season. The details of any such classification could only be determined after the experiment has been evaluated. My expectation of how such a classification would be structured is generally reflected in my workpaper, page 2, panel C. The classification would set the fee for manual Delivery Confirmation with Priority Mail at zero for a certain period in early December, and the costs of providing the service during that period would be transferred to Priority Mail as is currently done for electronic Delivery Confirmation for the full year. Decisions as to exactly how many days and whether either the beginning day or the final day should be specified (relative to December 25) are best left until later.

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UPS/USPS-T1-30. Refer to your response to UPS/USPS-T1-4(h)-(i). Confirm that in an omnibus rate case, both the Postal Service and the Commission calculate the manual delivery confirmation cost coverage for Priority Mail by comparing the revenue from the fee for the service to the cost of manual delivery confirmation in excess of the cost of electronic delivery confirmation. If not confirmed, explain in detail.

RESPONSE: Confirmed. [Should I say more – like “and I have conformed to the practice except for the 16 days on which Delivery Confirmation would be provided without charge. For those days I have conformed to Postal Service and Commission practice for electronic Delivery Confirmation for Priority Mail, where the cost is transferred to Priority Mail and marked up along with other Priority Mail costs.

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UPS/USPS-T1-31. Refer to your response to UPS/USPS-T1-6(g).

(a) Confirm that the Postal Service proposed 0 cents per piece for Priority Mail electronic delivery confirmation and 40 cents per piece for Priority Mail manual delivery confirmation in Docket No. R2000-1. If not confirmed, explain in detail.

(b) Confirm that the Commission recommended 0 cents per piece for Priority Mail electronic delivery confirmation and 40 cents per piece for Priority Mail manual delivery confirmation in Docket No. R2000-1. If not confirmed, explain in detail.

(c) Explain in detail why you conclude that the Commission used witness Davis' revised cost estimates for Priority Mail delivery confirmation.

RESPONSE:

(a) Confirmed.

(b) Confirmed.

(c) Please see Docket No. R2000-1 Supplement to PRC-LR-18, Special Services Workpapers. This is an Excel workbook; the Delivery Confirmation portion of the "Summary" tab is reproduced below.

Delivery Confirmation

	<u>Current Fee</u>	<u>USPS Original Proposed Fee</u>	<u>USPS Original Cost</u>	<u>USPS Revised Cost</u>	<u>USPS Revised Proposed Fee</u>	<u>PRC Cost**</u>	<u>PRC Rec Fee</u>
Priority Mail Manual*	\$0.35	\$0.40	\$0.35	\$0.35	N/A	\$ 0.35	\$0.40
Standard Mail (A) Electronic	N/A	\$0.25	\$0.17	\$0.08	\$0.10	\$ 0.08	\$0.12
Standard Mail (B) Electronic	\$0.25	\$0.25	\$0.17	\$0.08	\$0.10	\$ 0.08	\$0.12
Standard Mail (B) Manual	\$0.60	\$0.65	\$0.52	\$0.43	\$0.50	\$ 0.43	\$0.50

*PRC followed the USPS recommended method (Davis USPS-RT-21) of calculating the revised cost for Delivery Confirmation

**Revised cost do not affect Priority Mail manual Delivery Confirmation b/c the changes relate to base Delivery Confirmation which are included in the Priority Mail costs rather than Delivery Confirmation costs

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UPS/USPS-T1-32. Refer to your response to UPS/USPS-T1-8(d).

(a) Provide all evidence and supporting data that the bulk of window-entered Priority Mail outside of the timeframe of the proposed pricing experiment consists of frequent, rather than infrequent, users.

(b) Why isn't the increased window-entered Priority Mail during the proposed pricing experiment simply the result of normal infrequent users mailing more often during this period?

RESPONSE:

(a) (b) The primary, if indirect, evidence for the frequent/infrequent user distinction is the timing of the spikes in window-entered Priority Mail displayed in Chart 2. In addition to the very sharp peak during the December holiday season, all of the other peaks correspond to identifiable periods of household mailing: Valentine's Day, the April 15 tax return period, Mothers' Day, and the June season of graduations, weddings, and Fathers' Day.

Also, Household Diary Study (HDS) data on packages sent suggest that households send somewhere between 100 million (1999 HDS) and 200 million (2000 HDS) Priority Mail packages per year, or 1 to 2 Priority Mail packages per household per year. At this average rate, most households can clearly be characterized as infrequent users of Priority Mail, and the holiday season appears to provide the best opportunity to reach them. [HDS data on packages sent are necessarily subject to considerable margins of uncertainty because the number of packages sent is very small compared to other types of mail received and sent by households, which primarily governs the HDS sample size.]

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UPS/USPS-T1-33. Refer to your response to UPS/USPS-T1-11 regarding retail Priority Mail pieces that would have been mailed after December 16, 2001, but instead are mailed during the proposed pricing

(a) Confirm that approximately 12.8% of these pieces would have selected manual delivery confirmation. If not confirmed, explain in detail.

(b) Confirm that the Postal Service will not receive 40 cents per piece in revenue for those pieces that would have selected manual delivery confirmation, and thus, the net additional cost to the Postal Service of the proposed experiment is 40 cents for these pieces. If not confirmed, explain in detail.

RESPONSE:

(a) Not confirmed; rather than use the 12.8% average for the experimental period (page 1 of my workpaper, cell D9), it would be better to use the 11.3% that applies to the week following the experimental period (page 4 of my workpaper, cell E17).

(b) Confirmed.

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UPS/USPS-T1-34. Refer to Table 13 of the Origin Destination Information System (ODIS) Quarterly Statistic Report for Q1 of FY2001 (September 9,2000 to December 1,2000), filed as USPS-LR-J-137 in Docket No. R2001-1.

(a) Confirm that during Q1 of FY2001 the percentage of Priority Mail that was stamped was 9.06% and the percentage that was metered was 63.26% for a total of 72.32% that was stamped or metered. If not confirmed, explain in detail.

(b) Confirm that during Q1 of FY2001 the percentage of Priority Mail that was PERMIT was 25.65%. If not confirmed, explain in detail.

(c) Confirm that that stamped and metered Priority Mail volume was 2.8 times the PERMIT volume during Q1 of FY2001. If not confirmed, explain in detail.

(d) Refer to Library Reference USPS-LR-1, Workpaper, page 3 of 4 and your response to UPS/USPS-TI-7. Confirm that during the "baseline" week of November 25, 2000 to December 1, 2000, the PERMIT Priority Mail volume was 7.25 million and the Estimated Retail Priority Mail volume was 5.95 million. If not confirmed, explain in detail.

(e) Confirm that window-entered Priority Mail volume would be stamped and metered volume. If not confirmed, explain in detail.

(f) Refer to your response to UPS/USPS-T1-2(d). Confirm that the "third channel" pickup/collection box Priority Mail volume would be stamped and metered volume. If not confirmed, explain in detail.

(g) Confirm that the ODIS and POS data together suggest that the volume of third channel pickup/collection box Priority Mail volume is 2.4 times $[(7.25 * 2.8 - 5.95)/5.95]$ that of window-entered Priority Mail volume. If not confirmed, explain in detail.

RESPONSE:

(a) – (f) Confirmed, although I would note that the week of November 25 to December 1, 2000 is not pure baseline. In my response to UPS/USPS-T1-7, I suggested that only about 74% (= 3.1/4.2) of that week's volume was baseline volume.

(g) Not confirmed. The difficulty with this analytical framework is that the ODIS percentage for metered mail reflects not only window-entered and third-channel Priority Mail, but also metered Priority Mail from large commercial shippers. As noted on page 2, lines 12-13 of my testimony, for Priority Mail, the PERMIT system records only permit indicia mail. Unlike other mail classes that are entered through bulk mail acceptance units, Priority Mail has no worksharing

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discounts (except the experimental presort discount, not available in Q1 of FY 2001) and hence it is not necessary to record metered mail in the PERMIT system. Without some estimate of metered mail from commercial shippers that could be factored out of ODIS metered mail, the calculation outlined in part (g) cannot be used to estimate the ratio of third-channel to window-entered Priority Mail.

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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October 22, 2001