

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 Nos. R2001-2
MC2001-2

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO QUESTIONS POSED DURING HEARINGS**

The United States Postal Service hereby files the responses of witness O'Hara to the questions posed from the bench during cross-examination on October 23, 2001.


The questions are paraphrased and followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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October 26, 2001

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO QUESTIONS FROM
POSTAL RATE COMMISSIONERS POSED AT THE OCTOBER 23, 2001 HEARING**

QUESTION 1. Can you think of anything that might be done to obtain a quantitative estimate of the savings in overtime and supplemental air transportation generated by the experiment? Tr.2/180-181, 184-186.

RESPONSE: Many factors other than the experiment will have an effect on this year's use of both overtime and supplemental air transportation in comparison with last year. For this reason, any estimate of savings will require numerous assumptions and approximations.

However, the reduction in the scale of the experiment does permit an approach that was not available when the experiment was going to cover the entire country. This is to use parts of the excluded area as a "control group." The control group would be selected to match the experimental areas as closely as possible. The experimental areas could then be compared to the control group with respect to changes in window-clerk overtime and outgoing mail-processing overtime. Since the Priority Mail entered in the experimental areas will be destined for locations throughout the country, this approach is not likely to yield meaningful results with respect to carrier overtime or incoming mail-processing overtime.

Measuring changes in supplemental air transportation due to the experiment will be difficult in part because major changes in the overall transportation arrangements for Priority Mail have occurred between last year and this year. However, the northern California area included in the experiment represents a relatively self-contained region for originating Priority Mail, so some analysis of supplemental air transportation costs for that area may be possible.

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QUESTION 2. What has the Postal Service decided with respect to the scale of the experiment, and, if the experiment will not cover the entire country, what areas will be included? Tr.2/198-199.

RESPONSE:

The Postal Service has decided that it would prefer to reduce the scale of the experiment to a level that represents about 12% of the original nationwide scope.

The areas that have been selected are listed below, with their originating Priority

Mail volume during last year's A/P 4, which contains the experimental period:

Postal Districts to be Included in the Experiment	Originating Volume A/P 4 FY2001*	Percent of National Volume
Akron	1,013,553	
Cleveland	816,760	
Columbus	1,996,062	
Cincinnati	1,531,366	
Total	5,357,741	4.2%
Dallas	2,665,301	
Fort Worth	1,065,451	
Total	3,730,752	2.9%
Oakland	1,147,874	
Sacramento	1,662,824	
San Francisco	2,016,140	
San Jose	1,202,485	
Total	6,029,323	4.7%
Total Experiment	15,117,816	11.9%
National Total	126,979,397	
*ODIS Originating volume shares applied to RPW volume.		

POS terminals were deployed in these areas prior to last year's holiday mailing season, which means that the data collected this year can be compared with the

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Response to Hearing Room Question No. 2 (continued):

corresponding period last year. The boundaries of these areas are such that they do not split major metropolitan areas, so communication about the experiment through mass media can be used without complicated explanations of exactly what areas are and are not included.

Since the experiment will be limited to areas representing only about 12% of the country, any potential impact on competitors should be greatly reduced.

This reduction in scale will have the effect of proportionately reducing all of the figures related to the experiment on pages 1 and 2 of my workpaper, as shown below. The changes on page 1 are shaded; these flow through to Panel B on page 2, where the cost of informing customers is also scaled down. The cost of the reduced-scale experiment is \$1,138,439.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO QUESTIONS FROM
POSTAL RATE COMMISSIONERS POSED AT THE OCTOBER 23, 2001 HEARING**

Response to Hearing Room Question No. 2 (continued):

**Projected Experimental Volumes
with Reduced Scale**

Page 1

CY 2000 Days Corresponding to the Proposed Experimental Period of December 1, 2001 to December 16, 2001	Estimated Retail Priority Mail Volume (= POS Volume x 100/70	Percent of Priority Mail Buying DC (POS Sites)	Projected Window Purchase of DC if No Experiment	Ratio of Non-Window Manual DC to Window DC	Projected Total Purchase of DC if No Experiment
------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------	---------------------------------------------------------------	--------------------------------------------------------------	--------------------------------------------------------	-------------------------------------------------------------

12/02 - 12/08 (Sat. thru Fri.)	<u>971,075</u>	14.6%	<u>141,431</u>	20.6%	<u>170,621</u>
12/09 - 12/15 (Sat. thru Fri.)	<u>1,392,005</u>	11.8%	<u>164,601</u>	18.0%	<u>194,189</u>
12/16 - 12/16 (Sat. & Sun.)	<u>239,436</u>	11.3%	<u>27,170</u>	16.9%	<u>31,757</u>
Total Period:	<u>2,602,516</u>	12.8%	<u>333,202</u>	19.0%	<u>396,567</u>

Lost revenue on projected DC usage if no experiment, at
\$0.40 \$158,627

Retail Priority Mail Not Buying DC if No
Experiment (Candidate volume for additional
DC usage) 2,269,314

Percentage of candidate volume accepting
DC offer 100%

Additional Manual DC usage 2,269,314

Scale factor (see response to
Question 2 posed at the
October 23 hearing) 11.9%

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Response to Hearing Room Question No. 2 (continued):

**TY 2001 Cost and Revenue for Priority Mail and Manual Delivery Confirmation
with reduced-scale experiment**

Page 2

	Volume	Revenue	Cost	Coverage	Unit Cost
A. Summary of TYAR Volume, Revenue and Cost from R2000-1¹					
Priority Mail	1,243,245,000	\$5,680,265,000	\$3,509,283,000	161.9%	\$2.823
Manual Delivery Confirmation on Priority Mail paying the \$0.40 fee ²	52,221,268	\$20,888,507	\$18,068,559	115.6%	\$0.346
Unit cost of electronic DC (cost of TYAR electronic DC usage is included in Priority Mail cost) ³					\$0.078

B. Data on the experiment:

Portion of TYAR manual DC usage occurring during experimental period:	396,567				
Revenue not received on this manual DC usage at \$0.40		(\$158,627)			
Cost (non-electronic only) of this usage at \$0.346			\$137,212		
Additional manual DC usage due to experiment	2,269,314				
Full cost (including electronic) of additional usage at (\$0.346+ \$0.078)			\$961,962		
Cost of informing customers			\$17,850		
Cost of experiment (= revenue not received+cost of add'l usage+cost of informing customers)			\$1,139,439		

C. Adjustments to TYAR data to reflect the experiment:

Priority Mail	1,243,245,000	\$5,680,265,000	\$3,509,283,000		
Plus non-electronic cost of existing usage			\$137,212		
Plus full cost of additional usage:			\$961,962		
Plus one-half the cost of informing customers			\$8,925		
Adjusted TYAR Priority Mail data	1,243,245,000	\$5,680,265,000	\$3,510,391,099	161.8%	
Manual Delivery Confirmation on Priority Mail paying \$0.40 fee	52,221,268	\$20,888,507	\$18,068,559		
Less volume and revenue of existing manual DC during experiment	(396,567)	(\$158,627)			
Less cost (non-electronic only) of this DC usage transferred to Priority Mail			(\$137,212)		
Plus one-half the cost of informing customers			\$8,925		
Adjusted TYAR Manual Confirmation on Priority Mail data	51,824,701	\$20,729,880	\$17,940,272	115.5%	

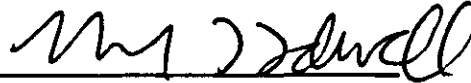
¹ Unless otherwise noted all data in Panel A are from the R2000-1 Op. & Rec. Dec., App. G, p.1

² Volume & Revenue: Op. & Rec. Dec., R2000-1, App. G, p.33; unit cost based on USPS-RT-21 in accordance with paragraph 6121. Cost and cost coverage calculated from volume, unit cost, and revenue.

³ Unit cost based on USPS-RT-21 in accordance with paragraph 6121, R2000-1 Op. & Rec. Dec.

CERTIFICATE OF SERVICE

I hereby certify that I have attached a copy of the foregoing has been served on all parties of record in accordance with the Commission's Rules of Practice and Procedure.



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