

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

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POSTAL RATE AND FEE CHANGES, 1997)

Docket No. R97-1
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

NASHUA PHOTO INC., DISTRICT PHOTO INC.,
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.
FIRST INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS
TO POSTAL SERVICE WITNESS THOMAS M. SHARKEY (NDMS/USPS-T33-1-19)
(August 1, 1997)

Pursuant to sections 25 and 26 of the Postal Rate Commission rules of practice, Nashua Photo Inc. (hereinafter "Nashua"), District Photo Inc. ("District"), Mystic Color Lab ("Mystic"), and Seattle FilmWorks, Inc. ("Seattle") (hereinafter collectively referred to as "NDMS"), proceeding jointly herein, hereby submit the following interrogatories and document production requests. If necessary, please redirect any interrogatory and/or request to a more appropriate Postal Service witness.

Respectfully submitted,



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Counsel for Nashua Photo Inc., District Photo Inc.,
Mystic Color Lab, and Seattle FilmWorks, Inc.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served by hand delivery or mail the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.



William J. Olson

August 1, 1997

NDMS/USPS-T-33-1.

- a. Please confirm that if the Commission recommends all First-Class and Priority Mail rates as proposed by the Postal Service in this docket, then (i) the rate for an 11-ounce piece of First-Class Mail will increase from \$2.62 to \$2.63, (ii) the minimum rate for a two-pound piece of Priority Mail will increase from \$3.00 to \$3.20, and (iii) the "gap" between the two will become \$0.62, up 63 percent from the current gap of \$0.38.
- b. In your opinion, does the size of the above-described gap represent any kind of problem or issue in rate design? Please explain fully why it is or is not an issue. In your answer, please address all concerns about the gap raised by the Commission in its Opinion & Recommended Decision in Docket No. R94-1.
- c. In view of the importance attached to the gap by the Commission in Docket No. R94-1, please explain why your testimony fails to mention it or to discuss the issue in any way.
- d. Please state the maximum gap that you consider to be acceptable (*e.g.*, as an absolute amount, or as a percentage of the degressive rate of \$0.23 per ounce, or as a percentage of the rate for an 11-ounce piece of First-Class Mail), and explain your rationale for determining the maximum acceptable gap.

NDMS/USPS-T33-2.

Your testimony at p. 26 notes that the two-pound rate for Priority Mail is proposed to be raised from \$3.00 to \$3.20, a 6.7 percent increase.

- a. Please confirm that for the three-, four-, and five-pound Priority Mail unzoned rates, you propose a 10.0 percent increase.

- b. For all zoned Priority Mail rates above five pounds, what is the average proposed increase in rates (weighted by volume)?

NDMS/USPS-T33-3.

- a. Please confirm that for a 30-pound piece of Priority Mail to zone Local 1,2,3, the current rate is \$16.45, the proposed rate is \$16.40, and the percentage change in rate is -0.30 percent.
- b. Please confirm that the maximum percentage increase for any zone-rated Priority Mail rate cell is 16.0 percent. If you do not confirm, indicate the rate cell with the largest percent increase.
- c. Please explain how you arrived at the cell-by-cell forecast of the Test Year After Rates volume of Priority Mail shown in USPS-33M, p. 1. In your answer, please explain whether (i) the forecast for two-pound volume is based on the 6.7 percent rate increase which you recommend, (ii) the forecast for three- to five-pound volume is based on the 10.0 percent rate increase which you recommend for those weights, and (iii) the forecast for zone-rated pieces is based on the average percentage rate increase which you recommend for zoned Priority Mail (as stated in your response to preceding question 2b).

NDMS/USPS-T33-4.

- a. Using the Priority Mail test year cost data supplied in the exhibits attached to your testimony, can you determine the average unit cost for (i) flat rate pieces, (ii) two-pound

pieces, and (iii) three-, four- and five-pound pieces? If so, please provide the result and show how the results were derived.

- b. At your proposed rates, what is the unit contribution for (i) flat-rated pieces, (ii) two-pound pieces, and (iii) three-, four-, and five-pound pieces?
- c. If you had not previously computed the above-requested unit costs, please indicate why you did not consider such information to be pertinent.

NDMS/USPS-T33-5.

- a. What cost justification is there (if any) for the lower percentage increase in your rate for two-pound Priority Mail?
- b. Please list and discuss all other rate design or competitive considerations that led you to recommend a 6.7 percent increase in the two-pound rate that was significantly lower than (i) the 10.0 percent increase for three- to five-pound unzoned parcels, and (ii) the percentage increase (weighted) for zone-rated parcels weighing more than five pounds.

NDMS/USPS-T33-6.

- a. Would you agree that for any target contribution to institutional costs for Priority Mail, any reduction in the contribution from two-pound pieces (which constitute 80 percent of total volume) must be offset by a higher contribution from heavier weight pieces? Please discuss fully any disagreement.

- b. Please explain fully your rationale why Priority Mail weighing more than two pounds should incur a higher-than-average increase in rates to facilitate a below-average increase in the two-pound rate.

NDMS/USPS-T33-7.

Please provide all data in the possession or control of the Postal Service on the weight distribution of Priority Mail weighing less than two pounds. If data are available by one-ounce increments, please provide them. Otherwise, provide the finest detail available.

NDMS/USPS-T33-8.

Please provide all data in possession or control of the Postal Service showing Priority Mail's share of the two-day delivery market. If available, show the market share for different weight ranges; *e.g.*, up to two pounds, more than two and less than five pounds, and over five pounds.

NDMS/USPS-T33-9.

- a. Please provide copies of all published rates of competitors (such as FedEx, UPS, TNT, or Airborne) in the possession of the Postal Service for delivery services that compete with Priority Mail (please include rates for UPS guaranteed three-day service if available).
- b. When you decided to propose a higher-than-average increase for zone-rated Priority Mail, what consideration did you give to the published two-day and three-day rates charged by FedEx, UPS and other competitors?

- c. What consideration did you give to discounts or negotiated or unpublished rates that competitors are known to give to shippers who regularly use their respective two-day services?
- d. What consideration did you give to the market share of Priority Mail by weight segment?
- e. Prior to finalizing your proposed rate design for Priority Mail, did you assess the competitive situation with persons assigned responsibility for marketing Priority Mail?

NDMS/USPS-T33-10.

- a. Has the Postal Service developed any data showing the extent of on-time performance as a result of its experiments with confirmation of Priority Mail? Please provide copies of all summary performance data available from the delivery confirmation data base.
- b. Please provide copies of all other data and information (including anecdotal information) in the possession of the Postal Service that are pertinent to actual delivery service received by Priority Mail during the Base Year. This request includes, but is not limited to, data from ODIS and any external data which the Postal Service may have.

NDMS/USPS-T33-11.

- a. What was the effective date of the current requirement that all Priority Mail pieces weighing more than one pound must be entered at a post office counter?
- b. Will that requirement continue to be in effect during Test Year?

NDMS/USPS-T33-12.

For all zoned Priority Mail rates that you propose, please confirm that the rates in each cell consist of (i) a per-piece charge of \$2.33212 (USPS-33N, line 13, includes markup and contingency), plus (ii) a zoned pound charge as shown in USPS-330, column 14, times the weight, plus (iii) an amount for delivery confirmation, rounded to the nearest five cents. If you do not confirm, please explain in detail how the zoned rates are developed for each individual rate cell. Also, please supply the amount added to each rate cell for delivery confirmation.

NDMS/USPS-T33-13.

- a. Please confirm that your proposed rates for Priority Mail include a full markup on all distance-related transportation costs. If you do not confirm, please explain how distance-related transportation costs are treated with respect to markup.
- b. When designing Priority Mail rates, please explain why distance-related transportation costs should be subject to a full passthrough plus a full markup, while dropship discounts in the Standard A subclass reflect only a partial passthrough of distance-related transportation costs.

NDMS/USPS-T33-14.

Please provide as a library reference the contracts with commercial air carriers that is/are now in effect.

NDMS/USPS-T33-15.

Do distance-related air transportation costs shown in Exhibit USPS-33Q reflect the full amount of such costs, or only some fraction thereof? Please explain.

NDMS/USPS-T33-16.

Why did you choose to distribute non-distance transportation costs to each zone instead of simply adding them to the pound rate (*i.e.*, two cents per pound before contingency and markup)?

NDMS/USPS-T33-17.

- b. What percentage of two-pound Priority Mail is believed to be subject to the Postal Service's statutory monopoly?
- b. What percentage of three-pound, four-pound and five-pound Priority Mail is believed to be subject to the Postal Service's statutory monopoly?
- c. What percent of zone-related Priority Mail is believed to be subject to the Postal Service's statutory monopoly?

NDMS/USPS-T33-18.

Should the principles of Ramsey Pricing apply to rate design within a subclass such as Priority Mail? Please explain.

NDMS/USPS-T33-19.

How does the Postal Service identify distance-related transportation costs for:

- i. the Eagle Network?
- ii. C-Net?
- iii. Western Air?