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

RECEIVED

SEP 5 5 00 PM '97

POSTAL BATE CREMISSION OFFICE OF THE SLURETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TREWORGY TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE (OCA/USPS-T22-2-8)

The United States Postal Service hereby provides responses of witness

Treworgy to the following interrogatories of the Office of the Consumer Advocate:

OCA/USPS-T22—2-8, filed on August 22, 1997. A partial objection to interrogatory

OCA/USPS-T22—2(c) was filed on September 2, 1997, with errata to it filed on

September 5, 1997.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr. Chief Counsel, Ratemaking

Kenneth N. Hollies

475 L'Enfant Plaza West, S.W. Washington, D.C. 20260–1137 (202) 268–3083; Fax –5402 September 5, 1997

Page 1 of 15

OCA/USPS-T22-2. Please refer to your testimony in Docket No. MC97-2 (USPS-T-9) and your testimony in Docket No. R97-1 (USPS-T-22). At pages 1-2 of the latter, you state that the Postal Service is in the process of purchasing and deploying hand-held barcode scanners. Every city and rural carrier route will receive a dedicated scanner; other postal locations will receive them as well. "The Postal Service plans to deploy approximately 300,000 scanners over the next 18 months. It is planned that the scanners ultimately will serve a variety of purposes, including delivery and collection management, service performance measurement, and mail item information acquisition. Delivery confirmation, the focus of this testimony, is an example of mail item information acquisition."

- a. Please give the date when the decision was made to use the new scarners for delivery confirmation (hereinafter, "DC").
- b. Was there a belief that the technology as described in Docket No. MC97-2 to be used for DC was inadequate? Please explain.
- c. Please submit all documents relating to the decision to use the new scanners for delivery confirmation.
- d. What other "mail item information acquisition" uses are planned for the scanner? Include in your response any such uses that are being considered as possibilities but for which plans are not yet established.

RESPONSE:

- a. On May 6, 1997, the Board of Governors approved funds to purchase the carrier scanners and related infrastructure.
- b. There was not a belief that the technology as described in Docket No. MC97-2 was inadequate for delivery confirmation. At the time of the filing of Docket No. MC97-2, the Board of Governors had not approved funding for the carrier scanners. While the technology described in Docket No. MC97-2 is adequate for delivery confirmation, it does not provide some mailers with as convenient service as does the new carrier

Page 2 of 15

scanner infrastructure (see also LR-H-247, Material Responsive to Interrogatory OCA/USPS-T22-2c, Section 3.0 Alternatives).

- c. See LR-H-247, Material Responsive to Interrogatory OCA/USPS-T22-2c.
- d. See USPS-T-22 (page 3, lines 10-14) for the other mail item information acquisition uses for the scanner. See also my response to UPS/USPS-T22-4a.

Page 3 of 15

OCA/USPS-T22-3. Please refer to your direct testimony in Docket No. MC97-2 at 23, Table 7, where you list final total unit attributable costs at \$0.207541 for electronic DC and \$0.495545 for manual DC. In the earlier proceeding, the proposed rates for electronic and manual DC were \$0.25 and \$0.50, respectively. In your direct testimony in this docket, Table 7 at page 17, you show total volume variable unit costs as \$0.1486 and \$0.3349 respectively. In this proceeding, the proposed rates are \$0.25 and \$0.60, respectively.

- a. Please confirm. If not confirmed, please explain.
- b. It appears from the above figures that the ratio of manual DC to electronic DC costs has gone down between the two proceedings (from about 2.387/1.0 in Docket No. MC97-2, to 2.254/1.0 in this docket) but that the proposed fee ratios have gone in the opposite direction (from 2.0/1.0 to 2.4/1.0). Please explain.
- c. What policy decisions entered into the proposed pricing of electronic delivery confirmation relative to manual delivery confirmation in this docket? Explain fully.
- d. Please submit all documents relating to (c).

RESPONSE:

a. Not confirmed. My testimony in Docket No. MC97-2 estimated costs for electronic and manual delivery confirmation for Standard B mail items only, so the appropriate comparison is between the "Electronic" and "Manual" columns in the previous table 7 and the "SBE DC" and "SBM DC" columns in the current table 7. The volume variable unit cost estimates presented in the latter table are \$0.1499 and \$0.4840, respectively.

As noted in the footnote to table 7 in the current filing, \$0.3349 does not represent the volume variable unit cost of providing manual delivery confirmation for Priority Mail.

Page 4 of 15

Rather, it indicates only the cost of the "retail surcharge." The total volume variable unit cost for manual Priority Mail delivery confirmation is \$0.4835 (\$0.1486 + \$0.3349).

- See my response to OCA/USPS-T22-3a for clarification on the relative costs of delivery confirmation between Docket No. MC97-2 and the current filing.
- c-d. Redirected to witness Plunkett.

Page 5 of 15

OCA/USPS-T22-4. Please explain whether the computer software and hardware necessary for the proposed delivery confirmation service has [sic] been tested.

- Describe the nature of the testing.
- b. Describe the results of the testing.
- c. If any documents summarize the topics addressed in (a) and (b) herein, please supply them.

RESPONSE:

- a. The computer software and hardware necessary for the proposed delivery confirmation service has been tested in two capacities. In October and November of 1996, carriers in Florida were given hand-held scanners to be used for the scanning and transmission of delivery information. In addition, since 1996 several large shippers have been participating in an electronic Priority Mail delivery confirmation test to obtain delivery information.
- b. In Florida, carriers successfully scanned barcodes and data was transmitted as part of delivery operations. The large shippers also successfully have been obtaining delivery information electronically.
- No formal documents were produced. Results were based on review of transmission data.

Page 6 of 15

OCA/USPS-T22-5. In the instant case, you discuss the window acceptance study at pages A-3 to A-4, and use an "average baseline transaction time" for window acceptance of a parcel of 43.17 seconds. Please refer to your response in Docket No. MC97-2 to OCA/USPS-T9-2(b). There you differentiate the 43.17 seconds transaction time reported in your testimony from the La Morte testimony in Docket No. R90-1, which reported a "single transaction, weigh and rate" transaction time of 78.16 seconds.

- a. Do you have any alterations in the analysis presented in your response to OCA/USPS-T9-2(b)? If so, please explain.
- b. In Docket No. MC97-5, Postal Service witness Brehm calculates retail transaction times for window parcel service using the La Morte study. See his direct testimony at 13, Table 5. Please explain why the Postal Service uses that study in one proceeding and disclaims it in another.
- c. You also differentiated the La Morte study on the basis that the study reported in your testimony involved relatively "clean" transactions. However, it would seem that in actual practice, delivery confirmation will involve such real life situations as "extended greetings" and "requests." Please comment on why the La Morte study would not be a more reliable indicator of actual transaction times.
- d. You further differentiated the La Morte study on the basis that "the 78.16 seconds includes multi-parcel transactions; my study timed only single parcel transactions." However, we are unable to discern that the La Morte study involved multi-parcel transactions. See La Morte Direct Testimony at 24 in Docket No. R90-1, paragraph 3; La Morte Exhibit A-3, labeled "Profile of One-Element Transactions." In any event, would not a study of transactions times based on single and multi-parcel transactions have been more representative of what can be expected once the delivery confirmation system is up and running? Please comment.
- e. The La Morte study had a weigh/rate sample size of 1,102 transactions. Your study used 124 observations. See your direct testimony herein at A-4. Would you agree that, other things being equal, a study with a larger sample size is more likely to be representative of the universe of transactions?
- f. La Morte describes a postal transaction as involving a "set-up" component (greeting the customer, listening to the request for services, accepting money, and thanking the customer at the end of the transaction) and a "services" component (e.g., accepting a parcel). La Morte Direct Testimony in Docket No. R90-1 at 11-12. Do you agree with her methodology, and her conclusion that "on average, the time associated with this set-up

Page 7 of 15

- component is constant at 31.7 seconds across all transaction types?" La Morte Direct Testimony at 12. If not, why not?
- g. La Morte apparently included within total transaction time a certain amount of time spent concluding the transaction "after the customer has paid and left" (e.g., taking a parcel to a processing area for distribution). See La Morte Direct Testimony at 10. Did the acceptance study used in the instant proceeding also record this portion of the transaction time?

RESPONSE:

- a. No.
- b. My testimony does not disclaim the La Morte study. Witness Brehm's methodology appropriately relies upon the La Morte study while my distinct approach appropriately does not.

Both testimonies seek to accomplish a similar result, estimating the incremental (or delta) transaction time for a new service. In each case, the delta is estimated by comparing "before" and "after" transactions, that is, a transaction without the new service and a transaction with the new service. To insure accurate estimation of the delta between the two transactions, it is essential that the "before" and "after" transactions be comparable in all respects except for the addition of the new service.

In Docket No. MC97-5, the "after" transaction time recorded is that of a "mystery shopper" conducting a transaction without the knowledge of the window clerk. Witness

Page 8 of 15

Brehm was able to record actual, "mystery shopper" transactions because he observed an existing product (in contrast to delivery confirmation). My understanding is that witness Brehm considered the most appropriate "before" transaction time to compare with this time to be that presented in the La Morte study (78.16 seconds). Please see his responses to OCA/USPS-T2-2b and OCA/USPS-T2-3a in Docket No. MC97-5 for further clarification.

In Docket No. R97-1, the "after" transaction time recorded is not that of a "mystery shopper" conducting a transaction without the knowledge of the window clerk. Rather, the window clerk was fully aware that the transaction was being observed for a specific transaction. This was because delivery confirmation was not an existing service at the time of the study (in contrast to the proposed provisional packaging service).

Consequently, transactions were simulated. The most appropriate "before" transaction time to compare with this time is a comparable, simulated transaction.

transaction times. However, the critical estimate for the purpose of delivery confirmation window service costs is not *total* transaction time, but *incremental* transaction time for the clerk to handle DC-specific activities. Situations such as extended greetings and requests occur whether or not the customer purchases delivery confirmation, and

Page 9 of 15

consequently should not be included in the estimate of incremental transaction time for the special service.

d. I agree that a study of transaction times based on single and multi-parcel transactions may be more representative of what can be expected once the delivery confirmation system is up and running. Conducting such a study, however, would require developing assumptions regarding the proportion of transactions that are a one parcel, two parcels, three parcels, etc. in order to produce a weighted average transaction time. As a proposed new service, no such historical information is available for delivery confirmation.

If multi-parcel delivery confirmation transactions were to be studied, I expect that the acceptance process would exhibit some economies of scale. That is, as the number of parcels in a transaction increased, the incremental transaction time required for delivery confirmation would be not rise in proportion (e.g., the incremental DC time for a two-parcel transaction would likely be less than twice the incremental DC time for a one-parcel transaction). My transaction time estimates do not capture these potential economies of scale. The implication is that, to the extent that multi-parcel DC transactions occur, my transaction time estimates (and corresponding costs) are conservatively high in the direction of fully covering volume variable costs.

Page 10 of 15

- e. Yes. However, it should be noted that the results of the La Morte study (with sample size 1,102) cannot be directly compared to the results of the delivery confirmation window acceptance study (sample size 124) because they measured different types of transactions.
- f. Yes.
- g. Yes. The time recorded for delivery confirmation transactions ended when the clerk was ready to begin serving the next customer. Some observed transactions included the lengthy time required for the clerk to leave the window, walk to the back room, place the parcel in the appropriate container, and return to the window.

Page 11 of 15

OCA-USPS-T22-6. Please refer to your direct testimony at 9 where you state "All DC mailers may use the Internet to monitor the status of DC items." See also your response to Interrogatory OCA/USPS-T9-3 in Docket No. MC97-2, where you state that manual delivery confirmation customers will be able to obtain delivery confirmation via the Internet as well.

- a. Please describe how this system will work for manual delivery confirmation customers.
- b. Will a manual delivery confirmation customer be able to use the Internet to access the Postal Service Information Systems Service Center?
- c. If access to delivery confirmation information via the Internet will be possible for manual delivery confirmation customers, how will those costs differ from those using the corporate call management system?
- d. What proportion of manual delivery customers likely will use the Internet to obtain delivery confirmation information?

RESPONSE:

- a. My understanding is that the system will work in similar fashion to the current process for Express Mail customers. Please refer to the appropriate screens at "www.usps.gov/cttgate" for details.
- b. The Internet will provide manual customers with DC information. My understanding is that the source of this information is a database housed at the Postal Service Information Systems Service Center.
- c. While I have not developed estimates of the cost of obtaining delivery confirmation via the Internet, I expect that it would be less than that of using the corporate call management system.

Page 12 of 15

d. While I do not have specific data on this proportion, I believe that Internet usage by manual customers is likely to be small at first but increase over time.

Page 13 of 15

OCA-USPS-T22-7. Please refer to your response to Interrogatory OCA/USPS-T9-4(a) in Docket No. MC97-2. OCA asked for the protocols or designs for two studies still relevant to the proposal, the scanning study and the window acceptance study. You stated that "[t]he protocols and designs for the studies are presented in appendix A; additional documents beyond these have not been developed."

- a. Appendix A to your direct testimony in both this proceeding and in Docket No. MC97-2 provide results of the studies, as well as some description of how the studies were carried out. However, Appendix A does not constitute a protocol or a design of any study. Study protocols or designs are normally formulated prior to the initiation of any study. Is it your testimony that the protocols and designs of the studies (e.g., the instructions for carrying it out) were done orally? If it is not, please supply the documents requested initially.
- b. Apparently Price Waterhouse assisted in carrying out the studies. See your direct testimony at A-3. Does Price Waterhouse have protocols or designs for the studies? If so, please request them and supply them for the record here.

RESPONSE:

a-b. While protocols and/or designs normally are formulated prior to a study, in this case, the studies were developed and carried out under time constraints severe enough to limit advance development. High quality, reliable results were ensured by two important characteristics of the data collection studies: 1) the protocols and designs were relatively straightforward in nature, and 2) the studies were carried out by a small cadre of data collectors who both designed and implemented the efforts.

Page 14 of 15

OCA/USPS-T22-8. Your response to OCA/USPS-T22-1(a-b) in this docket reports that "Docket No. R97-1 proposes offering delivery confirmation for Priority Mail in addition to Standard B; Docket No. MC97-2 proposed the service only for the latter of these." In Docket No. MC97-2 we asked a series of questions aimed at why delivery confirmation was not being offered for First-Class Mail, Priority Mail, Periodicals Mail, and Standard A Mail. Due to the termination of that proceeding, answers to OCA/USPS-T9-11-22 were never received.

- a. Please supply answers to OCA/USPS-T9-11-22 (except for Interrogatories 12, 16 and 20, which relate specifically to Priority Mail). Please note that page number references have changed between proceedings; please ascribe the interrogatories' page references to your direct testimony in Docket No. MC97-2 to the corresponding direct testimony offered in this docket.
- b. Was consideration given to offering delivery confirmation for First-Class Mail, Periodicals Mail, and Standard A Mail? If so, please describe. If not, why not?
- c. Please submit all documents relating to the inquiries in (b).

RESPONSE:

- My responses to interrogatories OCA/USPS-T9-11-22 (except for 12,16 and 20), Docket
 No. MC97-2, are attached to this response.
- b. As with most decisions, no single factor controlled the Postal Service's decision to provide delivery confirmation only for Priority Mail and Standard B. Decision making is inherently a subjective mix of factors. The goal of delivery confirmation is to meet the needs of expedited and package mailers. The proposed delivery confirmation service for Priority Mail and Standard B is designed to satisfy these mailers.

Page 15 of 15

c. The Postal Service's decision was affirmative in nature—that is, to provide delivery confirmation to expedited and package mailers. As such, my understanding is that no documents address extending delivery confirmation to other types of mail.

Page 1 of 9

OCA/USPS-T9-11. Please confirm that extension of manual delivery confirmation to First-Class Mail would involve substantially the same acceptance operations outlined at pages 5-6 of your testimony. If you are unable to confirm, please explain your answer in detail.

RESPONSE:

Unable to confirm. I have not studied extension of manual delivery confirmation to First-Class Mail. The acceptance procedures developed for Standard B and Priority Mail may also be applicable to First-Class Mail.

Page 2 of 9

OCA/USPS-T9-13. Please confirm that extension of manual and/or electronic delivery confirmation to Periodicals Mail would involve substantially the same acceptance operations outlined at pages 5-6 of your testimony. If you are unable to confirm, please explain your answer in detail.

RESPONSE:

Unable to confirm. I have not studied extension of manual and/or electronic delivery confirmation to Periodicals Mail. The acceptance procedures developed for Standard B and Priority Mail may also be applicable to Periodicals Mail.

Page 3 of 9

OCA/USPS-T9-14. Please confirm that extension of manual and/or electronic delivery confirmation to Standard A Mail would involve substantially the same acceptance operations outlined at pages 5-6 of your testimony. If you are unable to confirm, please explain your answer in detail.

RESPONSE:

Unable to confirm. I have not studied extension of manual and/or delivery confirmation to Standard A Mail. The acceptance procedures developed for Standard B and Priority Mail may also be applicable to Standard A Mail.

Page 4 of 9

OCA/USPS-T9-15. Please confirm that extension of manual delivery confirmation to First-Class Mail would involve substantially the same delivery operations outlined at pages 7-9 of your testimony. If you are unable to confirm, please explain your answer in detail.

RESPONSE:

Unable to confirm. I have not studied extension of manual delivery confirmation to First-Class Mail. The delivery procedures developed for Standard B and Priority Mail may also be applicable to First-Class Mail.

Page 5 of 9

OCA/USPS-T9-17. Please confirm that extension of manual and/or electronic delivery confirmation to Periodicals Mail would involve substantially the same delivery operations outlined at pages 7-9 of your testimony. If you are unable to confirm, please explain your answer in detail.

RESPONSE:

Unable to confirm. I have not studied extension of manual and/or electronic delivery confirmation to Periodicals Mail. The delivery procedures developed for Standard B and Priority Mail may also be applicable to Periodicals Mail.

Page 6 of 9

OCA/USPS-T9-18. Please confirm that extension of manual and/or electronic delivery confirmation to Standard A Mail would involve substantially the same delivery operations outlined at pages 7-9 of your testimony. If you are unable to confirm, please explain your answer in detail.

RESPONSE:

Unable to confirm. I have not studied extension of manual and/or electronic delivery confirmation to Standard A Mail. The delivery procedures developed for Standard B and Priority Mail may also be applicable to Standard A Mail.

Page 7 of 9

OCA/USPS-T9-19. Please confirm that the unit attributable costs that you develop at pages 11-17 and Appendices A and B would not differ substantially for manual delivery confirmation if it were to be extended to First-Class Mail. If you are unable to confirm, please explain your answer in detail.

RESPONSE:

Unable to confirm. I have not studied extension of manual delivery confirmation to First-Class Mail. The unit volume variable costs developed for Standard B and Priority Mail may also be applicable to First-Class Mail.

Page 8 of 9

OCA/USPS-T9-21. Please confirm that the unit attributable costs that you develop at pages 11-17 and Appendices A and B would not differ substantially for delivery confirmation if it were to be extended to Periodicals Mail. If you are unable to confirm, please explain your answer in detail.

RESPONSE:

Unable to confirm. I have not studied extension of manual delivery confirmation to Periodicals

Mail. The unit volume variable costs developed for Standard B and Priority Mail may also be
applicable to Periodicals Mail.

Page 9 of 9

OCA/USPS-T9-22. Please confirm that the unit attributable costs that you develop at pages 11-17 and Appendices A and B would not differ substantially for delivery confirmation if it were to be extended to Standard A Mail. If you are unable to confirm, please explain your answer in detail.

RESPONSE:

Unable to confirm. I have not studied extension of manual delivery confirmation to Standard A Mail. The unit volume variable costs developed for Standard B and Priority Mail may also be applicable to Standard A Mail.

DECLARATION

I, David E. Treworgy, declare under penalty of perjury that the f	oregoing
answers are true and correct, to the best of my knowledge, information	n, and
belief.	

DAVID E. TREWORGY

Dated: 9/5/97

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.

Kenneth N. Hollies

475 L'Enfant Plaza West, S.W. Washington, D.C. 20260–1137 September 5, 1997