

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

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

RESPONSE OF POSTAL SERVICE WITNESS SCHERER  
TO OCA INTERROGATORIES  
(OCA/USPS-T30-5-11)

The United States Postal Service hereby provides the response of Postal Service witness Scherer to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T30-5-11, filed on December 5, 2001.

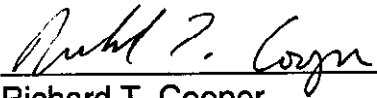
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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Chief Counsel, Ratemaking

  
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December 19, 2001

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER  
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**OCA/USPS-T30-5.** Please confirm that for GFY 2000, the unzoned 2- to 5-pound volumes represent approximately 56 percent (677,864,390/1,222,454,421) of the total Priority Mail volume. If you are unable to confirm, please explain and provide the derivation of the correct amount, and include specific cites to your source documents.

**RESPONSE:**

Not confirmed. The stated fraction is correct, but it rounds to 55 percent, not 56 percent.

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**OCA/USPS-T30-6.** At page 17 of your testimony, you state that, "All rate impacts over 5 pounds are [ ] constrained to a maximum of +18.5%, 5 percentage points above the subclass average rate increase of 13.5%[ ]."

(a) Please confirm that for GFY 2000 the amount of Priority Mail weighing over 5 pounds is approximately 5 percent (63,962,394/1,222,454,421) of the total Priority Mail volume. If you are unable to confirm, please explain and provide the derivation of the correct amount and include specific cites to source documents referenced.

(b) Who made the decision that all rate impacts over 5 pounds would be constrained to a maximum of 18.5 percent?

(c) Why was the decision made to limit the rate impacts to a maximum of 18.5 percent for those Priority Mail pieces weighing over 5 pounds?

(d) Please explain why you decided it was acceptable to allow the prices for the previously unzoned Priority Mail pieces in the 2- to 5-pound category to increase to approximately 62 percent for a 3 pound zone 8 Priority Mail piece, and 56 percent for a 5 pound zone 8 Priority Mail piece.

(e) For GFY 2000, of the 2 to 5 pound Priority Mail mailers, what volume represents: (1) households to households; (2) non-households to households; (3) households to non-households; (4) non-households to non-households. Please cite your source, show the derivation of all calculated numbers and provide a copy if one has not been previously filed in this docket.

**RESPONSE:**

(a) Confirmed that approximately 5 percent of total Priority Mail volume in GFY 2000 weighed more than 5 pounds. Not confirmed that the number of such pieces equaled 63,962,394. Those were only the weight-rated pieces over 5 pounds. A small number of flat-rate envelopes – estimated from a "Special Weight Report" to be 145,149, or 0.12% of the flat-rate total – also weighed more than 5 pounds.

(b) I did.

(c) First, I followed the example of Witness Robinson in Docket No. R2000-1, who chose a "5 percent band around the average rate change for Priority Mail as a whole" (USPS-T-34, p. 18, lines 5-6.). Second, I considered 5

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**Response to OCA/USPS-T30-6(c) (Cont.)**

percentage points above the subclass average rate increase of 13.5% to be a “nice round number.” Third, I preferred a cap of 5 percentage points to a higher one, such as 10 percentage points, because in the previous omnibus rate case, Docket No. R2000-1 (after Modification), approximately two dozen rate cells (weight increment x zone) over 5 pounds experienced a rate increase in excess of 20 percent (against a subclass average rate increase of 17.2 percent). I therefore believed some mitigation of rate impacts over 5 pounds was warranted in the present omnibus rate case, in accordance with §3622 pricing criterion (b) (4).

(d) The objective in my rate design for pounds 2-5 was to de-average, i.e., to set rates that vary with underlying costs. Mitigating the rate impacts – which include approximately + 64% for a 3-pound piece to Zone 8 and +58% for a 5-pound piece to Zone 8 (see Attachment F, page 16 of my testimony) – would have defeated the purpose of de-averaging. While it would be possible to constrain the rate increases and defer full recognition of the impacts of de-averaging to a future rate case, I did not consider such an approach advisable given the extent to which “nearby-zone” volume is eroding. This erosion of relatively low-cost volume, as explained on page 18, lines 14-18 of my testimony, is putting added rate pressure on all remaining Priority Mail customers.

The extent of the erosion of nearby-zone volume was made clear in Table 2 of my testimony, but the rate of erosion was not. To put the latter in

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**Response to OCA/USPS-T30-6(d) (Cont.)**

perspective: Nearby-zone volume has been eroding since GFY 1996. In that year, volume in Zones L-3 accounted for 50% of total Priority Mail volume. By GFY 2000, that share had fallen dramatically to 41%.

(e) The requested disaggregation of 2-5 pound volume is not available. However, the same disaggregation for all Priority Mail volume in GFY 2000 was provided in the Postal Service's responses to UPS/USPS-T9-10 through 13.

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**OCA/USPS-T30-7.** At page 18 of your testimony, you state:

Customers will not have to pay as much for shorter hauls that cost less, but will be asked to pay more for longer hauls that cost more. Rate incentives will no longer favor any one zone over another.

Please explain the apparent discrepancy in the two sentences cited. (For example: Under your new zoned 2-5 pound Priority Mail pricing proposal, a customer who pays less for a shorter haul is "favored" over a customer who pays more for a longer haul.)

**RESPONSE:**

There is no discrepancy between the two sentences cited from my testimony. The first sentence simply says that zoned rates are higher, the more distant the zone. The second sentence follows from the statement at page 18, lines 2-4 of my testimony that "[c]ompetitors are charging zoned rates that, compared to Priority Mail's unzoned rates, are relatively more attractive to customers for shorter hauls and relatively less attractive for longer hauls." As a result of this disparity in rate structure, Priority Mail rates are higher in comparison to competitors' rates, the closer in the zone. This favors consumer use of Priority Mail more for the distant zones and less for the closer-in zones, and has resulted in the "nearby-zone" volume erosion documented in my testimony. Under my proposed zoned rate structure for pounds 2-5, the distant zones will no longer be favored. Indeed, the new consistency in implicit cost coverage across zones for these weight increments (see my testimony's Attachment F, page 17) implies that all zones will get equal treatment.

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**Response to OCA/USPS-T30-7 (Cont.)**

I should also point out that relative to costs, it is not true that "a customer who pays less for a shorter haul is 'favored' over a customer who pays more for a longer haul." Consider the analogy of airline fares. Passengers who pay, say, \$300 for a roundtrip ticket from Washington, DC to Chicago would generally not be considered "favored" over those who pay, say, \$500 for a roundtrip ticket from Washington, DC to Los Angeles. That's because the airline's cost of providing the Los Angeles flight is higher (e.g., more fuel consumption, more labor hours, more wear and tear on the aircraft).

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**OCA/USPS-T30-8.** In your testimony at page 18, you indicate that the rate for a UPS Ground service 2-pound parcel to Zone 2 is \$3.18 and \$3.72 to Zone 4 with a \$1.05 per-piece surcharge for residential deliveries.

(a) Please confirm that the rates quoted are the UPS published delivery rates.

(b) Please confirm that the rates quoted are applicable to individual consumers or businesses who choose to mail a package with UPS, but are not reflective of UPS negotiated service agreements.

**RESPONSE:**

(a) Confirmed.

(b) Confirmed that the rates quoted apply to UPS's customers. The online rate schedule from which I obtained the rates (cited in footnote 10 of my testimony) is labeled "Rates for Customers Who Receive A Daily UPS Pickup." I am unable to confirm that UPS offers "negotiated service agreements," but it is my understanding that it is commonplace for private-sector package-delivery services such as UPS to offer discounts (e.g., to high-volume accounts) off of published rate schedules such as the one from which the rates quoted were obtained.



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**OCA/USPS-T30-9.** On page 18 of your testimony, you indicate that "[c]ompetitors are charging zoned rates that, compared to Priority Mail's unzoned rates, are relatively more attractive to customers for shorter hauls and relatively less attractive for longer hauls."

(a) Who besides UPS are the competitors you are referring to?

(b) Other than UPS, what competitor's rates have you compared USPS's rates to? Please provide all rate charts consulted in making this comparison.

**RESPONSE:**

(a) I was not referring to any competitors in particular, including UPS. I had been informed by USPS Marketing that zoned pricing is the package-delivery industry norm, as stated at page 20, line 8 of my testimony.

(b) I did not attempt a detailed comparison of Priority Mail rates to competitors' rates because I knew that ultimately my proposed rates would be cost-based, not market-based. However, I was informed by some rate comparisons to UPS, FedEx, and Airborne, which confirmed for me that alternatives to Priority Mail are available at published rates that are very competitive in the nearby zones (generally Zones 1-4). These rate comparisons are included among the materials being supplied by the Postal Service in response to OCA/USPS-60(a).

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER  
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**OCA/USPS-T30-10.** For those Priority Mail pieces weighing less than 5 pounds, please provide the ODIS statistics on the percentage that are (a) flats and (b) parcels.

**RESPONSE:**

The requested data are not available from ODIS, which doesn't include weight factors. However, I am able to derive the following from an RPW extract file. In GFY 2000, 71.4% of all weight-rated Priority Mail pieces under 5 pounds were parcels, 27.3% were flats, and 1.4% were letters. Flat-rate envelopes, 99.88% of which in GFY 2000 were under 5 pounds (see response to OCA/USPS-T30-6a), must also be considered. Assuming they are all flats (though technically flat-rate envelopes can be stuffed to greater than ¾" thick and therefore some, most likely, are parcels), 63.8% of all Priority Mail pieces under 5 pounds in GFY 2000 were parcels, 34.9% were flats, and 1.3% were letters.

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**OCA/USPS-T30-11.** In your testimony at pages 23-24, you discuss potential commercial mailers' responses. In preparing your testimony, did you consider the impact your proposal to zone rates for Priority Mail weighing 2-5 pounds would have on non-commercial mailers? If so, please discuss fully the considerations given to non-commercial mailers. If any documents reflect such consideration, please provide them. If you did not consider the impact on non-commercial mailers, then explain why not.

**RESPONSE:**

The discussion of commercial mailers at pages 23-24 of my testimony was in reference to the migration from two pounds to the flat-rate envelope that is likely to occur as a result of my proposed pegging of the flat rate to the one-pound rate, not to my proposed rezoning of rates in the 2-5 pound weight increments. Earlier in my testimony, at pages 17-21, where I discuss the rezoning proposal, I did not consider impacts separately on commercial or noncommercial mailers. The impacts discussed and presented in the testimony's attachments (e.g., rate changes in Attachment F, page 16) apply equally to commercial and noncommercial mailers.

## DECLARATION

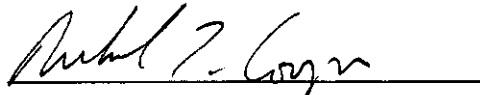
I, Thomas M. Scherer, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Thomas M. Scherer  
THOMAS M. SCHERER

Dated: 12-18-01

### 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.

A handwritten signature in cursive script, appearing to read "Richard T. Cooper", is written over a horizontal line.

Richard T. Cooper

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December 19, 2001