Postal Rate Commission
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BEFORE THE

POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Complaint on First-Class Mail Service Standards | **Docket No. C2001-3**

DOUGLAS F. CARLSON RESPONSES TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE (OCA/DFC-T1-1–9)

January 2, 2004

I, Douglas F. Carlson, hereby provide my responses to interrogatories of the Office of the Consumer Advocate (OCA/DFC-T1-1–9). The interrogatories were filed on December 18, 2003.

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

Respectfully submitted,

Dated: January 2, 2004

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DOUGLAS F. CARLSON

OCA/DFC-T1-1. Your testimony at page 12 states mail volume "may be a proxy for the needs of customers." You then discuss only mail volume as a measure of customer need throughout your testimony. Is there any other measure that you believe is appropriate in addition to, or in lieu of, mail volume to determine customer need on a nationwide basis?

RESPONSE:

The most-direct way to measure customer need would be to ask customers. Unfortunately, I do not have the resources to conduct an opinion survey. Perhaps another participant in this proceeding will introduce a survey or some similar evidence to supplement mail volume as a measure of customer need or as a proxy for customer need. In its operational decisions, I understand that the Postal Service sometimes uses mail volume as a measure of the needs of customers or as a proxy for a measure of the needs of customers. As I explained at pages 12–13 of my testimony, the Postal Service used the 0.5-percent threshold as a measure of customer need in Docket No. N89-1. The Postal Service also measures volume to determine customers' need for some types of collection services. Absent additional evidence, I am comfortable using volume as a proxy for customers' needs.

Another way to measure customers' needs for two-day First-Class Mail service between city pairs for which the Postal Service changed the service standard to three days would be to examine customers' use of higher-priced two-day delivery services, including Priority Mail and competitor companies' two-day delivery services. These customers obviously need two-day mail service.

OCA/DFC-T1-2. You point out, at pages 12 to 13 of your testimony, that 0.5 percent is the volume that the Postal Service used in Docket No. N89-1 to be "significant enough to warrant consideration for two-day delivery." Please refer to page 13 of your testimony where you state that the volume of mail between a P&DC and a destination ADC starting at about 0.5 percent of the originating P&DC's volume continues to be noteworthy. Please explain why you believe that the 0.5 percent volume continues to be noteworthy.

RESPONSE:

When college professors assign grades, they often list the examination scores from their students in rank order, look for natural breaking points to separate the A, B, C, D, and F grades, and draw lines to establish the cutoff score for each grade. In doing so, professors try to make distinctions that are meaningful, not arbitrary.

I followed a similarly subjective process in reviewing the volume data. I knew that the Postal Service determined that the 0.5-percent figure was significant in Docket No. N89-1. The Postal Service did not articulate the reason. Partly because the Postal Service did not articulate a reason, and partly because more than 12 years had elapsed since Docket No. N89-1, I did not automatically accept the significance of the 0.5-percent figure. However, after I looked at the volume data and the city pairs involved, I observed that 0.5 percent still seemed to be a natural breaking point. The Postal Service's 0.5-percent figure was, to the best of my knowledge, uncontroversial in Docket No. N89-1. After viewing the raw data, I decided to accept the significance of this figure that the Postal Service assigned to it in Docket No. N89-1.

OCA/DFC-T1-3. In your conclusions at page 44, item 6, of your testimony, you suggest the Postal Service "consider" restoring the two-day service between city pairs that exceed the 0.5-percent P&DC volume threshold.

a. Is it correct that you are recommending that a 0.5-percent volume threshold should not automatically determine the customers' need for two-day service but that it should be considered along with other factors?

b. If your response to part (a) is affirmative, what other factors should be present that would reasonably justify the Postal Service in upgrading the delivery service from three days to two days?

RESPONSE:

The interrogatory does not accurately quote my testimony. In numbered paragraph 6 on page 44, I testified that the Postal Service "should consider using FedEx transportation to restore two-day delivery between city pairs that exceed the 0.5-percent threshold." In this paragraph, I was focusing on the relatively new availability of FedEx transportation and suggesting that the Postal Service *consider using FedEx transportation* to restore two-day delivery between city pairs whose volume exceeds the 0.5-percent threshold. The Postal Service should restore two-day service for all city pairs whose volume exceeds the 0.5-percent threshold, but I would not presume to know or recommend the optimal method of transportation — commercial passenger airlines, FedEx or other dedicated air transportation, trains, or trucks.

OCA/DFC-T1-4. You recommend at page 43, item 3, that the Postal Service should determine the needs of customers for two-day service.

a. To meet your recommendation, would it be sufficient for the Postal Service to do that which you state on page 13 of your testimony you were unable to do, namely: determine nationwide the three-digit ZIP Code pairs that have volume which exceeds the 0.5-percent threshold?

b. If your response to part (a) is negative, what additional steps would you recommend the Postal Service take to determine the needs of its customers?

c. If the Postal Service took the steps you indicate in response to (b), is it your recommendation, as discussed in interrogatory OCA/DFC-T1-3, that the Postal Service use that information to "consider" upgrading service from three days to two days?

d. Would other factors also need to be present in order to justify the Postal Service in upgrading three-day service to two-day service? If so, what are those factors.

RESPONSE:

a., b., and d.: Please see my response to OCA/DFC-T1-1. Ideally, the Postal Service could collect and analyze more information on the needs of customers than solely volume data. However, if this process were infeasible for any of a variety of reasons, then yes, the Postal Service could better meet the needs of customers by restoring two-day service for city pairs whose volume exceeds the 0.5-percent threshold.

c. Please see my response to OCA/DFC-T1-3. The Postal Service should, at minimum, restore two-day service for city pairs whose volume exceeds the 0.5-percent threshold.

OCA/DFC-T1-5. Please refer to your conclusion on page 14 of the section of your testimony concerning mail volume. That section of testimony discusses the 0.5-percent volume threshold for only certain western ZIP Code pairs. You conclude, "The Postal Service may not be meeting the needs of its customers, particularly in the Western States."

a. Is this conclusion based only on your determination that certain ZIP Code pairs have volumes greater than 0.5-percent of the originating P&DC's volume? If not, please state the other considerations that led to your conclusion.

b. You list "In-State" western areas on page 14 of your testimony where the volume exceeded the 0.5-percent threshold, but the service was not upgraded from three-day to two-day. After the list, you go on to conclude that the Postal Service "may not" be meeting the needs of its customers. Other than looking at the volume threshold, how is the Commission to ascertain whether the Postal Service is meeting the needs of its customers?

RESPONSE:

a. In addition to volume data, I considered my own knowledge of the western states. For example, numerous companies provide customers in Northern California with remittance addresses in Phoenix, Arizona. I know because I have sent many bill payments to addresses in Phoenix. My own bank sends monthly checking-account and credit-card statements from the Phoenix area. A company that mails payment checks for a major California bank's on-line bill-payment service sends these checks from Phoenix. I am acquainted with one recipient of a monthly bill payment who is annoyed by the time required for delivery. Another major credit-card issuer provides a remittance address in the Las Vegas area, a destination that now has a three-day delivery standard from Northern California. Yet another major credit-card issuer sends statements to Northern California customers from Seattle and receives payments in Seattle. This service standard is now three days as well. Much of this financial-related mail is time sensitive. My own knowledge of mail flows, combined with the volume data, leads me to believe that the Postal Service may not be meeting the needs of its customers.

Response to OCA/DFC-T1-5 (continued)

b. Perhaps another participant will introduce evidence that will supplement volume data as a measure of the needs of customers. My testimony does not assert that the Postal Service is not meeting the needs of its customers; it merely raises the question based on the Postal Service's disregard of its own 0.5-percent threshold and, most importantly, its decision not to consider the needs of customers in changing service standards. The Commission surely would have more information by which to judge the needs of customers if the Postal Service would request an advisory opinion under section 3661(b) before implementing substantial changes in postal services, instead of ignoring this statute and placing the burden on individual customers to prove, after the fact, that the Postal Service is not providing adequate service.

OCA/DFC-T1-6. Please refer to page 43 of your testimony, recommendation 4. You recommend the Postal Service restore the use of air transportation to provide two-day service where customer need exists.

a. Is customer need defined in your view as 0.5 percent of the originating P&DC's volume? If so, are you proposing that air transportation should be provided in all of those cases?

b. Please explain why you do not recommend use of air transportation for all three-day service, regardless of volume or demonstrated need for two-day service.

RESPONSE:

a. Please see my response to OCA/DFC-T1-1 for a discussion of measurements of customer need. Two-day service standards should be restored for all city pairs whose volume exceeds the 0.5-percent threshold. The Postal Service should use any means of transportation sufficient to provide two-day service, but in almost all instances the method of transportation will be air. I expect that the transportation method will be air in most cases because the service standard already is two days, in most instances, if truck transportation provides delivery in two days. Paragraph 1 on page 43 addresses those situations in which existing truck transportation would provide two-day delivery, but the service standard nevertheless is three days — typically because the computer-projected truck drive time is more than 12 hours, but the truck actually arrives at the destination ADC before the critical entry time of 18:00. The preceding analysis was implicit in my abbreviated recommendation to "[r]estore the use of air transportation to provide two-day service where customer need exists."

b. For each transportation route, the Postal Service should select reliable and economical means of transportation to meet the applicable service standards. Airplanes, trucks, and trains each have advantages and disadvantages depending on distance, terrain, mail volume, and other conditions.

OCA/DFC-T1-7. On page 16 of your testimony, you provide examples of instances in California where the Postal Service could provide two-day service to customers. Do you know of other instances outside of California and Reno, Nevada where two-day service could be provided to those ZIP Code pairs with a three-day service standard? If so, please identify those locations.

RESPONSE:

No, but I did not conduct a complete review of the service-standard information or submit additional discovery requests to the Postal Service. To answer my interrogatories about truck arrival times, the Postal Service needed to query field officials. I was concerned about objections for burden if I continued or expanded this line of discovery. I decided to focus my discovery on uncovering examples of various types of problems, rather than to conduct a comprehensive audit. On pages 43 and 44 of my testimony, I made recommendations to resolve the categories of problems that I uncovered. At the conclusion of this proceeding, the Postal Service should fully evaluate its service standards and transportation network and implement necessary changes.

OCA/DFC-T1-8. On page 24 of your testimony, you indicate that California has four “pseudo ADC’s.”

a. To your knowledge, is California the only state that has pseudo ADCs?

b. If your response to part a of this interrogatory is other than affirmative, then to the best of your knowledge, please identify those states that have pseudo ADCs.

c. If you identify additional states with pseudo ADCs, then to the best of your knowledge, please indicate whether those states have similar problems to those discussed in your testimony. (i.e., The problem of letter sorting and processing being done at a different P&DC than that which was selected for the transportation model’s mileage calculation.)

RESPONSE:

a. Yes. Please see the response to DFC/USPS-GAN-40(b).

b. N/A

c. N/A

OCA/DFC-T1-9. On page 34 of your testimony, you indicate that the "average days to delivery increased 0.8 days." Please show the derivation of the 0.8 day increase.

RESPONSE:

The 0.8-day figure is an editing error. The correct increase in the average days to delivery is 0.7 days. Please see my testimony at page 33, including footnote 16, where I discuss the correct figure.