

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268B0001

EXPERIMENTAL PRIORITY MAIL FLAT-RATE  
Box, 2004

Docket No. MC2004-2

RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS THOMAS M. SCHERER  
TO INTERROGATORIES OF DAVID B. POPKIN  
(DBP/USPS-T1-1-10)  
(July 6, 2004)

The United States Postal Service hereby files the response of witness Thomas M. Scherer to the following interrogatories of the Office of the Consumer Advocate: DBP/USPS-T1-1-10, filed on June 21, 2004.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
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RESPONSE OF POSTAL SERVICE WITNESS SCHERER  
TO DAVID B. POPKIN INTERROGATORIES

**DBP/USPS-T1-1.** In your response to Interrogatory DBP/USPS-T2-11 subpart h, you indicate that you were not aware of any customer confusion. Please redirect this subpart to the United States Postal Service for an institutional response from any qualified individual.

**RESPONSE:**

Redirected to witness Barrett.

RESPONSE OF POSTAL SERVICE WITNESS SCHERER  
TO DAVID B. POPKIN INTERROGATORIES

**DBP/USPS-T1-2.** In your response to Interrogatory DBP/USPS-T2-11 subpart h, you indicate that you do not believe that there will be a similar confusion with respect to the proposed flat-rate box and lower non-flat-rate postage options.

[a] Please provide the basis for this belief.

[b] In the discussion for this proposed rate, did any of the participants express a concern?

[c] If so, please provide details of their concern.

**RESPONSE:**

(a) The basis for this belief was provided in my response to DBP/USPS-T2-11(i), redirected from witness Barrett.

(b) If you are asking whether any participants expressed a concern about the flat-rate box being priced above some other Priority Mail options, and whether this might create a risk that some customers might pay more than necessary for a given shipment, the answer is yes.

(c) See my testimony at section IV(B).

RESPONSE OF POSTAL SERVICE WITNESS SCHERER  
TO DAVID B. POPKIN INTERROGATORIES

**DBP/USPS-T1-3.** Please confirm, or explain any items you are not able to confirm, that a sophisticated mailer utilizing Priority Mail, will normally have access to a scale to determine the weight of the article, a zone chart or other availability to determine the mailing zone, a rate chart or other availability to determine the necessary postage rate and knowledge of the proposed flat-rate box postage and will either choose the option that has the lower of the two rates or will make an educated decision to utilize the higher of the two rates for a perceived convenience.

**RESPONSE:**

Unable to confirm. I have neither defined nor studied “sophisticated mailers.” However, I would agree that your apparent description of such a mailer’s attributes is plausible. With respect to any decision “to utilize the higher of two rates,” I would interpret “perceived convenience” broadly so as to include all of the flat-rate box’s non-price attributes, such as its size/dimensions, and other considerations such as those mentioned on lines 4 through 10 at page 8 of my testimony.

RESPONSE OF POSTAL SERVICE WITNESS SCHERER  
TO DAVID B. POPKIN INTERROGATORIES

**DBP/USPS-T1-4.**

[a] Please advise the types of sophisticated mailers and the perceived conveniences you believe that they will have which will cause them to choose to utilize a flat-rate box when the postage for its use will be greater than the non-flat-rate postage.

[b] Please provide an Exhibit similar to Exhibit B showing the positive changes in revenue resulting from mailers utilizing the flat-rate box when the postage is higher for its use.

**RESPONSE:**

(a) Redirected to witness Barrett.

(b) I am not able to model revenue impacts of parcels “migrating up” to the flat-rate box as I did in Exhibit B of my testimony for parcels “migrating down” to the flat-rate box. The latter assumed, as a “worst case,” that all Priority Mail parcels priced above \$7.70 and able to fit into the flat-rate box actually migrate to the flat-rate box. The former would also require knowledge of customer perceptions of value. In theory, customers will “buy up” to the flat-rate box if the perceived added value exceeds the additional amount paid. For example, if the baseline rate is \$7.05 (4 pounds, Zone 4), a customer who values the flat-rate box at \$1.00 would buy up but a customer who values the box at 50 cents would not. In the absence of such information, it is not possible to do the requested modeling. This is why at page 6, line 7 of my testimony I referred to the potential benefits from buy-ups to the flat-rate box, *inter alia*, as “unquantifiable.”

RESPONSE OF POSTAL SERVICE WITNESS SCHERER  
TO DAVID B. POPKIN INTERROGATORIES

**DBP/USPS-T1-5.**

[a] Please confirm, or explain if you are not able to confirm, that an unsophisticated mailer utilizing Priority Mail, may not normally have access to a scale to determine the weight of the article, a zone chart or other availability to determine the mailing zone, a rate chart or other availability to determine the necessary postage rate and knowledge of the proposed flat-rate box postage.

[b] Please advise the sources that an unsophisticated mailer will have to obtain a USPS box of the flat-rate box size for use in shipping an article by Priority Mail.

[c] Please provide your best estimate as to the percentage of the total that each of the sources will represent.

[d] Please provide the information the Postal Service will provide with each of these sources to allow the mailer to make an educated decision as to whether to choose a flat-rate box or a similar sized non-flat-rate box.

**RESPONSE:**

(a) Unable to confirm. I have neither defined nor studied “unsophisticated mailers.” However, I would expect that many mailers lack immediate access to resources such as a scale, a zone chart, and a rate chart. I would also expect that users of the flat-rate box will quickly understand and recall its specified postage rate.

(b) Redirected to witness Barrett.

(c) Redirected to witness Barrett.

(d) Redirected to witness Barrett.

RESPONSE OF POSTAL SERVICE WITNESS SCHERER  
TO DAVID B. POPKIN INTERROGATORIES

**DBP/USPS-T1-6.** Please refer to lines 16 to 18 on page 3 of your testimony in which you indicate that there were 5,368 parcels sampled in the study. Please advise the level of confidence that this sample size will provide.

**RESPONSE:**

Redirected to witness Loetscher.

RESPONSE OF POSTAL SERVICE WITNESS SCHERER  
TO DAVID B. POPKIN INTERROGATORIES

**DBP/USPS-T1-7.** Does the calculation starting at line 18 of page 3 of your testimony utilize only those parcels that would fit into either or both of the proposed flat-rate boxes? If not, why not?

**RESPONSE:**

No. The calculation relies on an estimate from witness Loetscher's testimony of 6.70 pounds per cubic foot (density), which is an average for all baseline Priority Mail parcels at 0.34 cubic feet, regardless of whether or not they can fit into either or both of the two proposed flat-rate boxes. This is appropriate because the end result of the calculation, the \$5.92 "base rate," is intended to represent "existing Priority Mail parcels of comparable size" (to the flat-rate box). USPS-T-1 at 4, line 18. In turn, a premium is added to the base rate partly to account for the possibility that the flat-rate box will attract parcels that are heavier than the baseline average.

Using a foundational density reflecting only those Priority Mail parcels that can fit into the flat-rate box – which are assumed in my testimony to range from 0 to 0.34 cubic feet – is potentially a feasible alternative to calculating a proposed rate, but it is more complicated than the approach I chose and it is fraught with uncertainty. For example, the majority of parcels that can fit into the flat-rate box (0 to 0.34 cubic feet) are in rate cells under \$7.70. As explained in my response to DBP/USPS-T1-4(b), I have no basis for estimating to what extent those parcels will actually migrate and therefore influence the average weight/density of the flat-rate box. Furthermore, many parcels that can fit into the flat-rate box are quite small, for example in the region of 0 to 0.10 cubic feet (see Tables 1-6 in

RESPONSE OF POSTAL SERVICE WITNESS SCHERER  
TO DAVID B. POPKIN INTERROGATORIES

witness Loetscher's testimony), and it is unclear to what extent shippers will want to "upsized" them to 0.34 cubic feet. Once again, parcels that can fit into the flat-rate box may not be representative of those that will actually migrate to the flat-rate box and therefore influence its average weight/density.

I should note that the ability-to-fit analysis conducted at pages 6 and 7 of my testimony is useful, I believe, for its intended purpose – estimating the maximum risk of revenue leakage. But in my opinion the ability to fit is not necessarily a good indicator of what will actually migrate to the flat-rate box.

RESPONSE OF POSTAL SERVICE WITNESS SCHERER  
TO DAVID B. POPKIN INTERROGATORIES

**DBP/USPS-T1-8.** Does the calculation starting at line 18 of page 3 of your testimony utilize only those parcels that would choose either or both of the proposed flat-rate boxes as the best fit box when compared to other USPS boxes that are available for use? If not, why not?

**RESPONSE:**

No. Please see my response to DBP/USPS-T1-7. Additionally, the parcels that will migrate to the flat-rate box are not known, either generally (for example, please see my response to DBP/USPS-T1-4b) or as a “best fit” vis-à-vis other Postal Service-supplied Priority Mail packaging. Many Priority Mail parcels currently use Postal Service-supplied packaging. Without knowledge of their contents, it would have to be presumed, without any basis whatsoever, that the baseline parcel always provides a better fit than the flat-rate box.

RESPONSE OF POSTAL SERVICE WITNESS SCHERER  
TO DAVID B. POPKIN INTERROGATORIES

**DBP/USPS-T1-9.** Please refer to footnote 5 on page 4 of your testimony.

[a] Please confirm, or explain if you are not able to confirm, that a common use of a flat-rate envelope is for mailing paper items that are approximately 8-1/2 by 11 inches in size and that the flat-rate envelope will only hold a limited thickness of the contents and that the proposed 14 by 12 by 3-1/2 inch proposed flat-rate box will provide a convenient substitute for mailing these paper items when the thickness is greater than the flat-rate envelope will conveniently hold.

[b] If heavier flats were considered in the analysis, what changes would result and provide the revisions?

**RESPONSE:**

(a) Confirmed, except I would add the caveat that the flat-rate box *might* provide a convenient substitute for mailing these paper items, not necessarily “will.”

(b) The number of flats in GFY 2003 priced above \$7.70 was 677,993 (the difference between the totals in USPS-LR-1 Attachment 1, Tables 2 and 5).

Assuming as a worst case that a) all of these flats are candidates for migrating to the flat-rate box despite not currently using the cheaper flat-rate envelope (*e.g.*, because they cannot fit into the flat-rate envelope), and b) all of these flats actually do migrate to the flat-rate box, annual revenue leakage would be an additional \$895,648. The worst-case revenue loss calculated in Exhibit B, Table 2 of my testimony (applying to parcels only) would increase from \$12.6 million to \$13.5 million, or from 0.28 percent to 0.30 percent of total Priority Mail revenue in GFY 2003.

RESPONSE OF POSTAL SERVICE WITNESS SCHERER  
TO DAVID B. POPKIN INTERROGATORIES

**DBP/USPS-T1-10.** The Federal Register for February 26, 2004 [69FR8899] contains a proposed change to DMM Section C010.2.3c which would limit the density of items weighing more than 15 pounds to 60 pounds per square foot on the smallest side of the mailing container. If this proposed rule were to be adopted as written, it would limit the weight of the 14x12x3.5 inch box to 17.50 pounds and the 11.25x8.75x6 inch box to 21.88 pounds. Please advise how this would affect your analysis and provide the revisions.

**RESPONSE:**

The effects are minimal because very few Priority Mail parcels as small as 0.34 cubic feet weigh as much as 17.50 pounds (which requires a density of at least 51.5 pounds per cubic foot). Assuming that the 14" x 12" x 3.5" flat-rate box cannot exceed 17 pounds and the 11.25" x 8.75" x 6" flat-rate box cannot exceed 21 pounds, 9,189, or 0.1 percent, of the 9,252,059 parcels identified in Exhibit A, Table 2 of my testimony as eligible to migrate down to the flat-rate box would no longer be eligible. The risk of revenue leakage (Exhibit B, Table 2) would decline by \$150,000 to \$12.4 million.

## **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.

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