

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
THOMAS M. SCHERER (USPS-T-33) TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE (OCA/USPS-T33-1-7)
(June 30, 2006)

The United States Postal Service hereby provides the responses of witness Thomas M. Scherer (USPS-T-33) to the following interrogatories of the Office of the Consumer Advocate, filed on June 16, 2006:

OCA/USPS-T33-1-7

An objection was filed to OCA/USPS-T-33-6 on June 26, 2006, although a partial response is provided to that interrogatory. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF POSTAL SERVICE WITNESS SCHERER (USPS-T-33)
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T33-1. This interrogatory seeks information on the Priority Mail dim-weight pricing model. Please refer to USPS-LR-L-120, and the Word file “DWLibRefJPM.doc,” which describes the Priority Mail Dim-Weight Pricing Model. Please provide copies of Exhibits I – V referenced in this Word file.

RESPONSE:

Six files were included in the USPS-LR-L-120 filing. In addition to DWLibRefJPM.doc were five Excel files: DWZ-5.xls, DWZ-6.xls, DWZ-7.xls, DWZ-8.xls, and DWUSA.xls. These five Excel files represent Exhibits I through V, respectively.

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OCA/USPS-T33-2. This interrogatory seeks information on the Priority Mail dim-weight pricing model. Please refer to your testimony and the section entitled “U.S. Industry Standard,” found at pages 13-15.

- a. Refer to page 14, lines 4-6. Please show the derivation of the “dim factor” of 194 cubic inches per pound. Please show all calculations and provide citations to all sources used.
- b. Refer to page 14, lines 4-6. Please confirm that the larger the “dim factor” the lower the density in terms of pounds per cubic foot. If you do not confirm, please explain.
- c. Refer to page 15, lines 4-9. Please confirm that FedEx and UPS use the “dim factor” of 194. If you do not confirm, please provide the “dim factor” used by FedEx and UPS, and explain what might have influenced the choice of a different “dim factor” by FedEx and UPS.
- d. Refer to page 15, lines 4-9. Did you give consideration to using a “dim factor” larger than that used by FedEx and UPS in order to compete more effectively in terms of price? Please explain.

RESPONSE:

- a. $7,000 \text{ cm}^3/\text{kg} \times 0.0610 \text{ in}^3/\text{cm}^3 \times 0.4536 \text{ kg}/\text{lb} = 193.7 \text{ in}^3/\text{lb} \approx 194 \text{ in}^3/\text{lb}$. The $7,000 \text{ cm}^3/\text{kg}$ is referenced in footnote 9 of my testimony (USPS-T-33).
- b. Confirmed.
- c. Confirmed, for their domestic air services.
- d. No. My Priority Mail dim-weighting proposal is not gauged for competitive effect. Instead, the aim is to “level the playing field” (see my testimony at page 30, line 22 and page 31, line 1) by matching the industry standard (dim factor = 194 in^3/lb).

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OCA/USPS-T33-3. This interrogatory seeks information on the Priority Mail dim-weight pricing model. Please refer to your testimony and the section entitled “Benchmarking Foreign Posts,” found at pages 15 and 16.

- a. Refer to page 16, lines 12-13. Please confirm that the Canada Post “dim factor” of 166 cubic inches per pound is the same factor propounded by the International Air Transport Association for international package shipments. If you do not confirm, please explain.
- b. Refer to page 16, lines 12-13. Please confirm that the Canada Post “dim factor” of 166 is used for both domestic and international package shipments. If you do not confirm, please explain.
- c. Refer to page 16, line 1. Please confirm that the Australia Post “dim factor” of 111 cubic inches per pound is also propounded by the International Air Transport Association.
- d. Refer to page 16, line 1. Please confirm that the Australia Post “dim factor” of 111 is used for both domestic and international package shipments. If you do not confirm, please explain.
- e. According to your testimony at page 15, lines 12-15, Australia Post and Canada Post “deliver mail across wide geographical expanses and therefore have similar transportation economics (e.g., the use of both surface and air transportation) to the U.S. Postal Service.” (footnote omitted). Given the acknowledged similarities between all three postal administrations, what factors, economic or otherwise, influence the use (or the proposed use) of differing “dim factors” by each? Please explain.

RESPONSE:

- a. I am unable to confirm. The interrogatory presumes that the International Air Transport Association propounded its 6,000 cm³/kg standard (translating to 166 in³/lb) specifically for international package shipments. I do not know this to be the case, nor do I state it in my testimony. I only know that the 6,000 cm³/kg standard is in fact used by shipping companies in the U.S. for packages sent overseas. However, UPS, in its Rate and Service Guide for Daily Rates, at pages 20 and 21, does cite “International Air

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Response to OCA/USPS-T33-3 (cont.)

Transport Association (IATA) volumetric standards” for its use of 194 in³/lb domestically and 6,000 cm³/kg (or 166 in³/lb) internationally.

As clarification, in its pricing guides, Canada Post quotes the domestic standard as, alternately, 6,000 cm³/kg and 165 in³/lb. However, the strict translation of 6,000 cm³/kg is 166 in³/lb.

b. Not quite confirmed. To the best of my knowledge, Canada Post does use 6,000 cm³/kg (translating to 166 in³/lb) both for domestic package shipments and for Standard and Express international package shipments, but also uses 4,000 cm³/kg (translating to 115 in³/lb) for its premium (expedited) international courier service, Purolator International.

c. I am unable to confirm. I do not know the source for Australia Post’s 111 in³/lb (translated from 250 kg/m³), nor am I an expert on rules and guidelines issued by the International Air Transport Association.

d. Not confirmed. To the best of my knowledge, Australia Post does not apply “cubing” to international package shipments.

e. I would presume that Australia Post and Canada Post have made decisions with respect to cubic or volumetric pricing that well suit their markets. This can include matching the practices of private-sector operators. For example, in their discussions with me, Canada Post cited “match[ing] the practices of its competitors” as a reason for introducing cubic pricing.

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OCA/USPS-T33-4. This interrogatory seeks information on the Priority Mail dim-weight pricing model. Please refer to your testimony at page 27, lines 13-14. Please provide the source for the 25 percent figure.

RESPONSE:

Line 13 makes explicit that the 25 percent figure (the lower bound of a 25 to 50 percent range) is an assumption. The basis for the assumption is explained in lines 14 to 18.

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OCA/USPS-T33-5. This interrogatory seeks information on the Priority Mail dim-weight pricing model. Please refer to your testimony at page 28, line 6. Please provide the table reference and line number for the \$16.9 million in lost revenue.

RESPONSE:

The \$16.9 million in lost revenue derives from the revenue (as opposed to cost) impacts in Section 4 of USPS-LR-L-120, Exhibit V, Table ZTot-1 (or, alternatively, USPS-T-33, Attachment H, Table 1): Line 4b minus Line 4f plus Line 4m minus Line 4p.

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OCA/USPS-T33-6. This interrogatory seeks information on the development of Priority Mail rates. Please refer to your testimony, Attachment A, Table 2 of 12, and the column "Zone 3 Share of Zones L, 1, 2 & 3." Please confirm that the "Special Weight Report from ODIS-RPW" cited as the source of the percentages in the referenced column has been provided as a library reference in this proceeding. If you do not confirm, please provide the cited "Special Weight Report from ODIS-RPW" in hardcopy and electronic form. If you do confirm, please provide the Library Reference number.

RESPONSE:

Not confirmed. An objection was filed on June 26, 2006, regarding providing the referenced Special Weight Report.

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OCA/USPS-T33-7. This interrogatory seeks information on the development of Priority Mail rates. Please refer to your testimony, Attachment A, Table 9 of 12, and the statement “*Excludes 202,193 boxes for which the zone is unknown.”

- a. Please confirm that the flat-rate boxes for which the zone is unknown equals 1.5 (202,193 / 13,517,489) percent of total flat-rate box volume. If you do not confirm, please explain.
- b. Please explain the factors that caused the existence of the unknown zone for these flat-rate boxes, and whether these boxes were delivered.

RESPONSE:

- a. Not confirmed. The portion for which the zone is unknown is 202,193 / (13,517,489 + 202,193) = 1.47 percent.
- b. The boxes were delivered, but the zone could not be determined because the origin ZIP Code in the postmark or meter strip was either absent or unreadable, or because the box bore permit imprint indicia which rarely include the origin ZIP Code.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

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June 30, 2006
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