

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-T33-8-11)
(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-T33-8-11

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-T33-8. This interrogatory seeks information on pricing for the Priority Mail flat-rate box. Please refer to Attachment A, Tables 6 and 8, and the line "Flat-Rate Box." Please confirm that the average density for a flat-rate box is 14.18 (66,128,867 pounds / 4,664,692 cubic volume in feet) pounds per cubic foot. If you do not confirm, please explain, show all calculations and provide citations to all sources used.

RESPONSE:

Confirmed.

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OCA/USPS-T33-9. This interrogatory seeks information on pricing for the Priority Mail flat-rate box. Please refer to your testimony at page 57, lines 19-20, where it states, “This suggests that the premium built into the rate, originally \$1.78, can be lowered.”

- a. Please provide the “base rate” upon which you propose to apply the lower premium. Show all calculations and provide citations to all sources used.
- b. Please confirm that the average weight per flat-rate box is 4.82 pounds. If you do not confirm, please explain, show all calculations and provide citations to all sources used.
- c. Please provide the estimated or approximate Zone for a flat-rate box having the “base rate” cited in subpart a., above, and the average weight cited in subpart b., above. Show all calculations and provide citations to all sources used.

RESPONSE:

a. I do not propose to apply the premium as conceived in Docket No. MC2004-2, USPS-T-1 to any kind of “base rate” (and as a result, there is no mention anywhere in my testimony of a “base rate”). Such a methodology was appropriate (and necessary) in Docket No. MC2004-2 when it was unknown what kinds of mail pieces, in particular by weight and by zone, would migrate to the flat-rate box. This risk warranted posing a “base rate” — reflecting known characteristics of Priority Mail parcels averaging, like the flat-rate box, 0.34 cubic feet — and adding a premium to protect against potentially adverse migrations.

The risk has now been largely resolved, with the availability of revealed information about the flat-rate box by weight, by zone, and even by source (preexisting Priority Mail volume vs. “new business”). As a result, Docket No. MC2004-2’s pricing methodology is no longer necessary. The better approach now — which I use in USPS-T-33 — is the one traditionally used for all other Priority Mail rate categories: estimating

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Response to OCA/USPS-T33-9 (cont.)

the implicit unit cost, and applying a markup.

While the “base rate” is no longer applicable to my rate-setting methodology, please see my response to DFC/USPS-T33-1, where I inferred a “base rate” of \$7.12 by applying, in a hybrid fashion, my current proposed rates to the model I used in Docket No. MC2004-2, USPS-T-1.

b. Confirmed.

c. The \$7.12 “base rate” developed in my response to DFC/USPS-T33-1 follows from an average weight of 2.28 pounds. The \$7.12 therefore is not comparable to 4.82 pounds. A Priority Mail piece hypothetically carrying an interpolated \$7.12 rate and weighing 4.82 pounds would, vis-à-vis my proposed Priority Mail rate schedule (USPS-T-33, Table 3), lie somewhere between Zones 1 & 2 and Zone 3. However, with respect to the Priority Mail flat-rate box, that zone is belied by more current (and revealed) zone information — just as the 2.28 pounds factoring into the \$7.12 “base rate” calculation is belied by more current (and revealed) weight information.

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OCA/USPS-T33-10. This interrogatory seeks information on pricing for the Priority Mail flat-rate box. Please refer to your testimony at page 52-53, lines 21-22, and line 1, respectively, where it states, “The rate started at \$7.70 on November 20, 2004, increasing to \$8.10 on January 8, 2006, following Docket No. R2005-1.” Also, please refer to your testimony at pages 57-58, lines 27-28, and line 1, respectively, where it states, “The \$8.80 is derived by equating the flat-rate box’s implicit cost coverage with [the] implicit cost coverage for the Priority Mail flat-rate envelope.” Please provide a table comparing the \$7.70 and the \$8.10 rates in the first quote, above, and your proposed rate, the implicit cost coverage and the subclass average cost coverage for the flat-rate box. Also, in the same table, please provide the rates for the flat-rate envelope effective on the dates in the first quote, above, and your proposed rate, along with the implicit cost coverage and the subclass average cost coverage for the flat-rate envelope.

RESPONSE:

	Flat-Rate Box	Flat-Rate Env.	All Priority Mail
Rate			
11/20/04 - 1/7/06	\$7.70	\$3.85	N.A.
1/8/06 - Present	\$8.10	\$4.05	N.A.
Proposed	\$8.80	\$4.65	N.A.
Cost Coverage*			
11/20/04 - 1/7/06	N/A	N/A	N/A
1/8/06 - Present	N/A	N/A	N/A
Proposed	179%	179%	163%

N.A. Not applicable

N/A Not available

* Implicit for the Flat-Rate Box and Flat-Rate Envelope. Source: USPS-T-33, Attachment F, Table 19.

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OCA/USPS-T33-11. This interrogatory seeks information on the estimated Priority Mail volume to be derived from Premium Forwarding Service (PFS). Please refer to Attachment B, Table 1, line (m), which provides the figure for “Priority Mail in total” of 1,070,345, and states “(Consultation w/ witness Thress).”

a. Please confirm that the “Priority Mail in total” figure of 1,070,345 represents the new or incremental Priority Mail volume from PFS in the test year. If you do not confirm, please explain.

b. Please explain the development of this Priority Mail volume figure, and your consultations with witness Thress, including any notes, papers, spreadsheets or other documents.

RESPONSE:

a. Confirmed.

b. The consultation with witness Thress (USPS-T-7) comprised a phone call.

Witness Thress informed me that because the PFS experiment came on stream so late in FY 2005, and because as a result there was so little volume in FY 2005 (only 27,746 pieces), I should assume that his forecast to the Test Year Before Rates would not account for PFS’s accelerating trend. Rather, the PFS component of his forecast should be assumed to follow the overall expansion path for Priority Mail, which is +6.88% [Attachment B, Table 1, line (f)]. The result is $27,746 \times 106.88\% = 29,655$ [line (h)].

But per USPS-LR-L-51, total PFS volume in the TYBR is projected to be 1.1 million pieces. Hence $1.1 \text{ million} - 29,655 = 1,070,345$ is incremental to witness Thress’s forecast.

I did not keep a written or audio record of my phone call with Mr. Thress.

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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