

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  
DOUGLAS F. CARLSON (DFC/USPS-T33-1-7)  
(June 16, 2006)

The United States Postal Service hereby provides the responses of witness Thomas M. Scherer (USPS-T-33) to the following interrogatories of Douglas F. Carlson, filed on June 2, 2006:

DFC/USPS-T33-1-7

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

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RESPONSE OF POSTAL SERVICE WITNESS SCHERER (USPS-T-33)  
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**DFC/USPS-T33-1.** Please refer to your testimony at pages 57-58. Please provide the premium that you propose for the flat-rate box.

**RESPONSE:**

The premium originally built into the rate, \$1.78, derived in Docket No. MC2004-2 from the difference between the \$7.70 proposed rate and a “base rate” of \$5.92. The base rate — which was calculated in Docket No. MC2004-2, USPS-LR-1, Attachment 1, Table 14 — represented the interpolated revenue associated with a 0.34 cubic-foot parcel averaging 2.28 pounds and between Zone 4 and Zone 5 (though closer to Zone 4). Substituting the proposed rates in the instant rate case into Docket No. MC2004-2, USPS-LR-1, Attachment 1, Table 6, a new base rate of \$7.12 is obtained in Table 14. The analogous proposed premium would therefore be  $\$8.80 - \$7.12 = \$1.68$ .

In real terms, this is more than 10 cents less than the original \$1.78 premium. Since that premium was posed, Priority Mail rates have increased by 5.4 percent (Docket No. R2005-1) and are proposed in the instant case to increase by 13.8 percent, on average. Indeed, if I had proposed to increase the current \$8.10 flat-rate-box rate by the subclass average of 13.8 percent rather than 8.6 percent, the premium would have been  $(\$8.10 \times 1.138) - \$7.12 = \$2.10$ .

Now that the Priority Mail flat-rate box has acquired a weight and zone profile, the \$1.68 premium is a hybrid measure because it represents the difference between a rate proposed for a product that has averaged around 4.8 pounds and “Zone 5.8” (*i.e.*, between Zones 5 and 6, but closer to Zone 6), and a base rate calculated for a parcel averaging 2.28 pounds and closer to Zone 4 than to Zone 5. (For the source of the 4.8

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**Response to DFC/USPS-T33-1 (cont.)**

pounds and "Zone 5.8," see Section II of the Second Semi-Annual Status Report on the Experimental Priority Mail Flat-Rate Box, filed February 28, 2006.)

As such, while the premium was vital to the Docket No. MC2004-2 rate-setting methodology, it is no longer all that relevant. A new, more relevant premium may be the difference between the proposed rate, \$8.80, and the rate that would result from applying the subclass-average cost coverage, 163 percent. That would be \$8.80 - \$7.99 = 81 cents.

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**DFC/USPS-T33-2.** Please refer to your testimony at page 31, lines 7-8. Do you believe that “simply adding a footnote to the rate schedule” will adequately inform users of the mail of the shift to dim-weighting in the pricing of Priority Mail — a practice that you admit at page 27, lines 17-18 will represent “somewhat of a culture change to the Postal Service”?

**RESPONSE:**

No. That statement was only intended to address necessary changes to the Priority Mail rate schedule (as predicated in line 4). Naturally, in addition to adding a footnote to the rate schedule (though not adding any new rate cells), various other efforts including educational campaigns will be required to bring about the referenced culture change. This was implied by my assumption of, on average, only 37.5 percent compliance in the Test Year.

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**DFC/USPS-T33-3.** Please refer to your testimony at page 29, lines 16-17. Please explain the basis for your belief that Priority Mail offers “a relatively high degree of reliability.”

**RESPONSE:**

My statement refers simply to title 39, U.S.C. §3623(c), Classification Criterion No. 3: “The importance of providing classifications with extremely high degrees of reliability and speed of delivery.” I took the liberty of not quoting the criterion directly, substituting “relatively” for “extremely,” because I am not sure what constitutes an “extreme.”

Priority Mail does have a relatively high speed of delivery (*e.g.*, vs. Parcel Post) and therefore, in my view, merits consideration under Criterion No. 3.

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**DFC/USPS-T33-4.** Please refer to your testimony at page 11. In which year were Priority Mail service standards changed to make Priority Mail primarily a two-day service (measured by the service standard applying to a majority of origin-destination ZIP Code pairs) while First-Class Mail remained primarily a three-day service?

**RESPONSE:**

I do not see the connection between page 11 in my testimony — which pertains to the history of Priority Mail rates — and changes to service standards. However, it is my understanding that Priority Mail was entirely a one- and two-day service for destinations in the contiguous 48 states when service standards were introduced in the early 1970s, and then sometime in the early 1990s, a relatively small percentage of two-day service standards were changed to three-day.

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**DFC/USPS-T33-5.** Please provide examples of zone 5 Priority Mail shipments that are transported by truck.

**RESPONSE:**

I am informed of the following two examples. On at least one occasion during Quarter 4 of Fiscal Year 2005, Priority Mail was transported five zones by truck from Landover, MD to Jacksonville, FL and from St. Louis, MO to Grapevine, TX. These lanes are not necessarily always filled with truck transportation; at other times air transportation may be used.

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**DFC/USPS-T33-6.** Please provide the weight distribution of Priority Mail flat-rate envelopes.

**RESPONSE:**

In Fiscal Year 2005, the Priority Mail flat-rate envelope's 107.1 million pieces were distributed as shown below. There is no volume discretely at 15 pounds and at 19+ pounds in part because the data are derived from sampling.

1 Pound	70.8%
2 Pounds	22.6%
3 Pounds	5.0%
4 Pounds	1.2%
5 Pounds	0.2%
6 Pounds	0.05%
7 Pounds	0.02%
8 Pounds	0.01%
9 Pounds	0.007%
10 Pounds	0.001%
11 Pounds	0.004%
12 Pounds	0.001%
13 Pounds	0.003%
14 Pounds	0.002%
15 Pounds	0%
16 Pounds	0.001%
17 Pounds	0.002%
18 Pounds	0.0002%
19+ Pounds	0%

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**DFC/USPS-T33-7.** Is all zone 4 Priority Mail transported by truck? If not, please explain.

**RESPONSE:**

No. This is evident from my USPS-T-33, Attachment E, Page 2, Table (E), Column (a), which shows some air pounds in Zone 4.

## **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 16, 2006  
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