

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T31-1 THROUGH 3)

The United States Postal Service hereby files the responses of witness O'Hara to above-listed interrogatories, filed on July 14, 2006.

The interrogatories are stated verbatim and are followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGAOTRY OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T31-1.

Please confirm that nowhere in your testimony do you discuss the degree to which the Postal Service satisfies the service standards it has established for:

- a. Express Mail
- b. Priority Mail
- c. First Class
- d. Package Services

If you do not confirm this for a., b., c., or d., then provide a citation to your testimony where this is discussed.

RESPONSE:

Confirmed that I do not explicitly discuss service performance in my testimony.

However, Criterion 2 mentions both "mode of transportation" and "priority of delivery," as components of what is generally referred to as a product's "intrinsic" value of service.

Both could have a significant effect on service performance (although I understand that changes in the airline industry can create situations where a switch to ground transportation can provide the same average level of service performance with greater consistency.)

As part of my job, I need to be knowledgeable about both the applicable service standards for various products and the available data regarding the Postal Service's experiences in meeting these standards, and my decisions in establishing cost coverages were informed by this knowledge.

In this case, the Postal Service is not proposing any cost-coverage adjustments based on changes in service performance, but I would note that the improved performance of single-piece First-Class Mail with two- and three-day service commitments is one of the more notable service-performance developments during the past five years.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
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OCA/USPS-T31-2.

Consider the following hypothetical. The Postal Service establishes a 4-day service standard for a particular product. Do you agree that the value of service is higher if the 4-day standard is met 100% of the time, as opposed to 80% of the time? If you do not agree, then please explain.

RESPONSE:

Yes.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGAOTRY OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T31-3.

Consider the following hypothetical. The Postal Service establishes 2 new products – A has a 4-day service standard; the other, B, has a 2-day service standard. A's 4-day service standard is met 100% of the time. B's 2-day service standard is met only 30% of the time and, in fact, delays are so severe that the average delivery time for B is actually 5 days. Holding all other factors equal, does A or B have a higher value of service? Please explain your answer.

RESPONSE:

The service performance against standard for Product B in this hypothetical represents such an extreme case that I doubt that it would ever arise, and, if it did, I would expect the Postal Service to focus on improving the product's service performance

It might seem obvious that a product with an average delivery time of four days would have a higher value of service than one with an average delivery time of five days. However, average delivery time is not the only aspect of service performance that matters to customers. Variation around the average can also be important.

The only information on variation in your example is that Product B meets its two-day service standard 30% of the time. If, hypothetically speaking, Product A were never delivered sooner than the third day, it is conceivable that customers on average could prefer Product B's 30% chance of delivery in two days to the certainty the Product A will never be delivered in two days but will always be delivered in four days.

Geographic variation in service performance may also be important. For Product A, suppose that days-to-delivery were tightly clustered around the four-day standard across all origin-destination (OD) pairs. For Product B, suppose that the 30% of pieces delivered in two days were not randomly distributed across all OD pairs but were concentrated in a subset of pairs (e.g., pairs connecting two major metropolitan areas or pairs that are only a short distance apart), and customers were aware of this. Conceivably customers could then value Product B's service performance more than that of Product A.