

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

POSTAL RATE AND FEE CHANGES  
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005-1

RESPONSES OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORIES OF THE OCA (OCA/USPS-T10-2, 3 and 5(c)),  
REDIRECTED FROM WITNESS WATERBURY (USPS-T-10)  
(June 2, 2005)

The United States Postal Service hereby provides its response to the following interrogatories of the OCA, filed on May 19, 2005:

OCA/USPS-T10-2, 3 and 5(c)

These interrogatories have been redirected from witness Waterbury (USPS-T-10) to the Postal Service for response. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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June 2, 2005

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE**

**OCA/USPS-T10-2.** Please refer to USPS-LR-K-5, file "ExA\_BY04.CRpt.xls," and the table accompanying OCA/USPS-T10-1, above.

a. Refer to C/S 3, Clerks and Mailhandlers – CAG A-J Offices. Please explain the 90.2 percent increase in unit costs between FY 2000 and FY 2004, which constitutes 66.2 percent of the total unit cost increases for those cost segments experiencing increases.

b. Please identify and explain any changes in postal operations that may have caused the 90.2 percent increase in C/S 3 unit costs between FY 2000 and FY 2004.

c. Refer to C/S 10, Rural Carriers. Please explain the 242.2 percent increase in C/S 10 unit costs between FY 2000 and FY 2004, which constitutes 10.3 percent of the total unit cost increases for those cost segments experiencing increases.

d. Please identify and explain any changes in postal operations that may have caused the 242.2 percent increase in C/S 10 unit costs between FY 2000 and FY 2004.

**Response:**

(a) and (b) The volume variable costs for mail processing/window service for Registry have increased 7.85 percent (from \$43,556 (000) in Docket No. R2001-1, BY2000 to \$46,976 (000) in Docket No. R2005-1, BY/FY 2004), less than the productive hourly rate increase of 22 percent (from Docket R2001-1, LR-J-50 base year wage rate of \$27.07 and LR-K-50 Docket No. R2004-1 \$33.09 base year wage rate) for Cost Segment 3 from Base Year 2000 to Base Year 2004. It is the 44 percent volume drop that results in the 92 percent unit cost increase. Registered Mail costs are fairly independent of volume. Another way of saying this is to say that there are economies of scale in Registry so that costs do not rise as fast as volume. Unfortunately, declining volumes mean the economies of scale work in the opposite direction, in that costs do not *fall* as fast as volume. We are not aware of any operational changes that would cause Registered Mail's cost to increase significantly.

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**Response to OCA/USPS-T10-2 (continued)**

(c) and (d). We are not aware of any operational changes that had significant impact on the rural carrier operations related to Registered Mail. However, it is useful to note that in the Rural Carrier Cost System, a system that measures mail volume delivered on rural routes, there has been a continuous *increase* in Registry pieces delivered on rural routes, as opposed to a continuous *decrease* in national level (RPW) Registry pieces.

Also note that the volume variable rural carrier costs found in C/S10 did increase between BY 2000 and FY 2004 for Registry, but the volume variable cost increased not 242.2 percent but 96.4 percent (Source: Percent change in FY 2004 volume variable cost for Registry of \$4.88 million found in Docket No. R2005-1, USPS-T-9, Exhibit A, page A-11; and BY2000 volume variable cost for Registry of \$2.486 million found in Docket No. R2001-1, USPS-T-11, Exhibit A, page 34).

Rural carrier costs of \$4.883 million (Docket No. R2005-1, USPS-T-9, Exhibit A, page A-11) account for only 6 percent of Registry's total volume variable cost of \$81.3 million (Docket No. R2005-1, USPS-T-9, Exhibit A, page A-2). So although the rural carrier costs increased, the increase only affected 6 percent of Registry's cost.

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**OCA/USPS-T10-3.** Please refer to USPS-LR-K-5, file “ExA\_BY04.CRpt.xls,” and the table accompanying OCA/USPS-T10-1, above. For all cost segments other than C/S 3, C/S 10, C/S13, and C/S 20, please identify and explain any changes in postal operations between FY 2000 and FY 2004 that may have caused the percent increase in unit costs shown in column [4].

**Response:**

We are not aware of any operational changes that had significant impact on the operations in these cost segments related to Registered Mail.

Consider the information in the following table:

<b>Registry Volume and Volume Variable Cost</b>		
<b>FY2000 Volume <sup>1</sup> (000s)</b>	<b>FY2004 Volume <sup>2</sup> (000s)</b>	<b>Registry Volume % Change</b>
8,913	5,009	-44%
<b>BY2000 Volume Variable Cost <sup>3</sup> (\$000s)</b>	<b>FY2004 Volume Variable Cost <sup>4</sup> (\$000s)</b>	<b>Registry Volume Variable Cost % Change</b>
84,619	81,268	-4%
<b>Sources:</b>		
<sup>1</sup> Docket No. R2001-1, USPS-T-11, Exhibit C, page 4		
<sup>2</sup> Docket No. R2005-1, USPS-T-9, Exhibit C, page C-4		
<sup>3</sup> Docket No. R2001-1, USPS-T-11, Exhibit A, page 8		
<sup>4</sup> Docket No. R2005-1, USPS-T-9, Exhibit A, page A-2		

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**Response to OCA/USPS-T10-3 (continued)**

This table shows the total volume variable cost for Registry declined between Base Year 2000 and Base Year/Fiscal Year 2004 from \$84.6 million to \$81.3 million, a decline of 4 percent. Volume, on the other hand, dropped 44 percent between FY 2000 and FY 2004 from 8.9 million to 5.0 million.

The total cost for Registered Mail has been declining steadily. For example, in the base year (FY1998) from Docket No. R2000-1, the cost for Registered Mail was \$99.3 million, Exhibit USPS-11C, page 8. In Docket No. R2001-1, the BY2000 volume variable cost for Registered Mail was \$84.6 million (Exhibit 11A, Page 8). In the instant proceeding, the FY 2004 cost for Registered Mail declined to \$81.3 million, Exhibit USPS-9A, page A-2. The FY 2005 Registered Mail cost declines to \$74.0 million, USPS-T-10, Exhibit USPS-10E. The FY 2006 before rates cost for Registered Mail declines further to \$69.5 million, USPS-T-10, Exhibit USPS-10G. The final, FY 2006 after rates cost is \$65.3 million. USPS-T-10, Exhibit USPS-10I. The overwhelming reason for increases in Registered Mail's unit costs relates to the economies of scale that the Postal Services benefits from (when volume is rising, that is) for Registry. Unfortunately, declining volumes mean the economies of scale work in the opposite direction, in that costs do not fall as fast as volume. Because of such economies, the sustained, large drops in its volume cause unit costs to increase, despite the fact that total Registered Mail costs decline. Registered Mail has been losing significant volume annually. See USPS-T-7 at 201-06, and the Postal Service's response to interrogatory DBP/USPS-52.

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**Response to OCA/USPS-T10-3 (continued)**

Of the cost segments cited to explain in this particular interrogatory, the largest one (i.e. City Carrier Street Cost, C/S 7) contributes just 7 percent (i.e. \$5.7/\$81.3 million) of Registry's total volume variable cost. (Docket No. R2005-1, USPS-T-9, page A-9 is the source of the \$5.7 million.) The cost segment that contains the overwhelming majority of Registry's cost is Cost Segment 3 with \$47 million of its \$81.3 million total volume variable cost. See the response to OCA/USPS-T10-2 (a) and (b) for a discussion of Cost Segment 3 costs.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
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**OCA/USPS-T10-5.**

a. Please confirm that the cost of Registered Mail pieces used by the Postal Service are treated as institutional costs of the Postal Service.

b. If you do not confirm subpart a. of this interrogatory, please provide the cost of Registered Mail pieces used by the Postal Service by cost segment and component for FY 2000 through FY 2004, and for the TYBR and TYAR.

c. If you do confirm subpart a. of this interrogatory, please provide the institutional cost of Registered Mail pieces used by the Postal Service for FY 2000 through FY 2004, and for the TYBR and TYAR.

**Response:**

a. Redirected to witness Meehan, USPS-T-9.

b. Redirected to witness Meehan, USPS-T-9.

c. Precise estimates of costs for individual products used by the Postal Service are not available. However, our best estimates of the portion of Postal Service Registry mail costs for mail processing and related costs are as follows: FY 2004 - \$12.9 million; FY 2003 - \$17.0 million; FY 2002 - \$16.3 million; FY 2001 - \$13.7 million; FY 2000 - \$14.2 million. Due to aggregations in the test year, estimates for the TYBR and TYAR Postal Service Registered Mail costs are not available.

## **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 2, 2005