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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

SPECIAL SERVICES REFORM, 1996

Docket No. MC96-3

RESPONSE OF UNITED STATES POSTAL SERVICE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2
(QUESTIONS 4, 5, 7 AND 10)

The United States Postal Service hereby provides responses to questions 4, 5, 7, and 10 of Presiding Officer's Information Request No. 2, filed on August 6, 1996. A motion for extension of time to file these responses was filed on August 16, 1996. Responses to questions 1-3, 6, 8-9, and 11-13 were filed on August 16, 1996. A response to question 14 is expected to be filed on August 22, 1996.

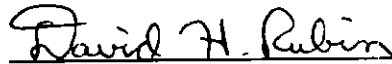
Each question is stated verbatim and is followed by the response.

Respectfully submitted,

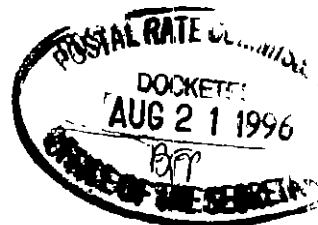
UNITED STATES POSTAL SERVICE

By its attorneys:

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August 21, 1996



RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

4. In response to POIR No. 1, question 6, witness Needham states that currently "customers at CPOs administered by Group I offices who are ineligible for carrier delivery of any type may nonetheless qualify for one Group II box." Does the situation change depending on whether all customers are ineligible or only some customers are ineligible? For each of these scenarios, identify the fee groups to which customers ineligible for delivery will be assigned under the Postal Service's proposal and the number of box holders projected to be in each of these situations?

RESPONSE:

No, the fees charged do not depend upon whether some or all customers are eligible for delivery. DMM § D910.4.3(a) controls this situation, providing with respect only to Group I fees that "A customer ineligible for any kind of delivery by postal carrier may use one box at Group 2 fees." Postal information systems are based upon facilities, rather than individual customers, which means that no information is available regarding how many box customers at Group I offices qualify for a Group II box under this provision. Such customers must accordingly be lumped together with Group I boxholders for purposes of analysis from existing data systems.

Under the Postal Service proposals, the general rule that CPOs administered by the successors to Group I offices (Group A, B, and C offices) will charge the same fees as their parent offices may continue, be eliminated, or be expanded during the implementation effort. Whether the limited exception currently defined by DMM § D910.4.3.(a) continues to apply will also be worked out during the implementation. Since existing postal information systems do not categorize individual customers by their eligibility for carrier delivery, no information is available on the number of CPO customers at Group I administered offices.

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5. For the following scenarios, please identify the rates box holders currently pay and what group rate they will pay under the Service's proposal. Also, please provide the number of current box holders under each scenario and the projected after rate volumes.
- a. Customer ineligible for delivery at a postal operated Group I office.
 - b. Customer ineligible for delivery at a postal operated Group II office with some customers eligible for route delivery. Please confirm that answer applies to Middleburg residents not on the rural routes.
 - c. Customer at a postal operated office with no route deliveries. Please confirm that answer applies to all San Luis, AZ box holders.
 - d. Customer ineligible for delivery at a CPO office when some customers of the CPO are eligible for route delivery and the CPO is administered by a Group I office.
 - e. Customer at a CPO with no delivery routes serving customers of the CPO and the CPO is administered by a Group I office.
 - f. Customer eligible for route delivery at a CPO administered by a Group I office.
 - g. Customer ineligible for delivery at a CPO office with some customers of the CPO eligible for route delivery and the CPO is administered by a Group II office.
 - h. Customer at a CPO when no delivery routes serve customers of the CPO and the CPO is administered by a Group II office.
 - i. Customer eligible for route delivery at a CPO administered by a Group II office. Please provide the volumes pre and post rates by box size for this scenario.

RESPONSE:

For purposes of answering these questions, as well as for the revenue projections relied upon in the Postal Service proposals, two assumptions are necessary. First, customers of postal-operated offices that provide no form of carrier delivery are all assumed to be eligible for carrier delivery from some postal facility. Second, customers of contractor-operated facilities administered by Group II offices are assumed to be ineligible for any form of carrier delivery. While neither of these assumptions is always true, we believe that both are usually true. The creation of independent post offices was the primary means of meeting new service

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requirements for the first century or so of postal services in the United States. Population growth patterns in more recent years have blurred once distinct boundaries between many communities, requiring decisions regarding mail processing to be made at more aggregated levels. In recognition of this, delivery operations have been consolidated out of once independent post offices into larger facilities that promote efficient mail handling. On the other hand, the use of contractors has grown where mail processing operations are less critical, community post offices (CPOs) being prominent examples. This means that contractor-operated facilities are more likely to be operated in areas that do not provide any form of carrier delivery.

These assumptions are consistent with the treatment of box customers under the existing box fee structure wherein box customers at contractor-operated facilities administered by Group II offices are eligible for lower fees than customers at similarly-administered postal-operated facilities. The only customers now eligible for Group III fees are those who obtain box service at contractor-operated facilities. DMM § D910.4.3.

Postal information systems do not track customer eligibility for carrier delivery. These assumptions accordingly make possible the projection of revenue, but the information systems do not permit precise projection of the number of customers who will qualify for Group E box fees.

This question requests four pieces of information with respect to the scenario described in each subpart: 1) current box fees; 2) proposed box fees; 3) number of current boxholders under each of scenarios a through i; and 4) number of projected boxholders. Accordingly, each subpart is answered with respect to these four to the extent information is presently available. Also worth noting is that some of these answers depend on regulations that will appear in the DMM, and as of the date of these responses no firm decisions have been made

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regarding what those regulations will state. Notwithstanding, a good faith effort is made to answer based upon current expectations.

- a.
 - 1) As discussed more thoroughly in connection with POIR-2, question 4, one box at Group II fees. Additional boxes would be at the applicable Group I fees.
 - 2) Group A, B, or C fees, although implementation could change this including by retention of the principle in DMM § D910.4.3(a).
 - 3-4) Not available.
- b.
 - 1) Group II fees. Confirmed that these fees apply to Middleburg Post Office box customers.
 - 2) Group D fees.
 - 3-4) Not available.
- c.
 - 1) Group II fees. Confirmed that box customers of the San Luis Post Office are charged Group II fees.
 - 2) Group D fees consistent with the first assumption discussed above.
 - 3) I understand this number, 1,460,254, is reflected in the revised response to Presiding Officer's Information Request 1, question nine.
 - 4) I understand that, in conformity with the analysis in USPS-T-1, workpaper C, the after-rates number of boxes would be 1,293,544.
- d.
 - 1) Since the CPO is administered by a Group I office, Group I fees apply with the exception noted in my response to question 4.
 - 2) In conformity with the discussion provided in my response to question 4, the fees paid by these customers will be worked out during implementation.
 - 3-4) Not available.

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- e. 1) Since the CPO is administered by a Group I office, Group I fees apply with the exception noted in my response to question 4.
- 2) In conformity with the discussion provided in my response to question 4, the fees paid by these customers will be worked out during implementation.
- 3-4) Not available.
- f. 1) Since the CPO is administered by a Group I office, Group I fees apply with the exception noted in my response to question 4.
- 2) In conformity with the discussion provided in my response to question 4, the fees paid by these customers will be worked out during implementation.
- 3-4) Not available.
- g. 1) Group III fees. Contractor-operated facilities (including community post offices (CPOs) and contract postal units (CPUs)) that are operated by Group II offices are the only offices that offer Group III fees. *See* DMM § D910.4.5
- 2) Depending upon decisions made during implementation, Group D or E fees.
- 3-4) Not available.
- h. 1) Group III fees.
- 2) Group E fees.
- 3-4) Not available.
- i. 1) Group III fees.
- 2) Group D fees. *See* footnote 2 to proposed DMCS SS-10.
- 3-4) Not available.

DECLARATION

I, Susan W. Needham, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Susan W Needham

Dated: August 21, 1996

RESPONSE OF POSTAL SERVICE WITNESS LYONS TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

7. In response to POIR No. 1, question 9, witness Lion states 1,839,816 Group II box holders are located in offices which do not provide city or rural delivery. In USPS-T-1 WP C, page 2, the calculation of changes in estimated revenue assume that all Group II box holders are subject to the new Group D fee schedule and, after adjustment for the acceptance rate, are incorporated in the revenue calculations with Group D annual fees ranging from \$16 to \$500 depending on the size of box utilized. In response to POIR No. 1, question 11, witness Lion states that box holders in offices with no carrier routes of any type "...would find themselves in Group E under our proposal."

- a. Please provide a distribution according to box size of these 1,839,816 Group II boxes.
- b. Please confirm that these 1,839,816 Group II box holders without rural delivery options are included in the Group II revenue calculations in USPS-T-1 WP C, page 2. Please confirm that if all such box holders are distributed proportionally among the box sizes, that the projected revenue of these boxes is nearly \$35,000,000.
- c. Please confirm that according to the response of witness Lion to POIR No. 1, question 11, that the actual revenue from the Group II offices without rural delivery options will be zero.
- d. If 7.b and 7.c are confirmed, please discuss the apparent contradiction and over estimation of revenue due to the treatment of the Group II box holders without rural delivery. If 7.b or 7.c are not confirmed, please describe how the Service treats the 1,839,818 boxes in the revenue calculations.
- e. If the estimates for the revenues for Group II box holders in USPS-T-1 WP C are incorrect, please provide revised revenue estimates.

RESPONSE:

On August 16, Witness Lion revised the response to Presiding Officer's Information Request-1, question 9, since the figure 1,839,816 reflects installed boxes rather than those in use. The correct figure is 1,460,254.

Witness Needham's (not Lion's) response to Presiding Officer's Information Request No.1, question 11, does not say that these customers would pay the \$0 fee.

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Question 7, Page 2 of 3

As explained in the response to Presiding Officer's Information Request No. 2, question 5, the Postal Service is assuming that Group II box customers of postal-operated facilities **are** otherwise eligible for delivery because on the whole that will be true. In conformity with DMCS, SS-10, footnote 2, and consistent with the calculations in USPS-T-1, Workpaper C, page 2, these customers would pay Group D fees. The Postal Service regrets that the lack of a more complete explanation may have caused some confusion.

- a. In accord with the revised response to Presiding Officer's Information Request No. 1, question 9:

Box Size 1	1,027,011
Box Size 2	344,586
Box Size 3	82,677
Box Size 4	5,415
Box Size 5	565

- b. Confirmed that the Group II boxholders of offices with no carrier delivery are included in the Group II revenue calculations in USPS-T-1, WP C. As explained above, not confirmed that such customers are entirely without delivery options. Using the revised figure of 1,460,254, the projected revenue for these boxes (assuming proportional distribution) is \$28,373,510.
- c. Not confirmed, since customers at these offices who are eligible for delivery will pay Group D fees.
- d. As previously explained, postal information systems do not track customer eligibility for delivery, whether within the service area of an office currently providing box service or from a neighboring office. Accordingly, some assumptions were necessary in order to project revenue, and the assumption

RESPONSE OF POSTAL SERVICE WITNESS LYONS TO
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made for box customers of postal-operated Group II offices is that they are eligible for delivery, and therefore pay Group D fees.

- e. Given the assumptions used to generate revenue estimates and described in response to Presiding Officer's Information Request No. 2, question 5, the Postal Service does not believe that revision is necessary.

RESPONSE OF POSTAL SERVICE WITNESS LYONS TO
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10. Please complete the attached Exhibits POIR 2-E1 and E2 by entering the number of boxes that currently are classified in each of the current combinations of office group and box price and the number of those boxes that will be classified in the proposed combinations of office group and box prices. Exhibit E1 is for the Group I and II offices. Exhibit E2 is for the Group III offices administered by Group II and Group I offices. Do not consider the effect of the proposed price changes; that is, assume the total count of boxes remains constant.

RESPONSE:

For current Group I and II boxes in use, please see the attached Exhibit E-1. Note that our assumptions, explained in response to Presiding Officer's Information Request No. 2, question 5, regarding treatment of existing box customers at Group II administered postal-operated offices (assumed to be eligible for some kind of carrier delivery) and of existing box customers of Group II contractor-operated offices (assumed to be ineligible for any kind of delivery), mean that we are not projecting cross-group customer migrations. Thus we only have a single number for each row in the Exhibit.

With respect to existing Group III boxes in use, we are assuming that all of the current 2,707,964 Group III box customers are assumed to become Group E boxholders. Since they are all contractor-operated and administered by Group II offices (see DMM § D910.4.3), this number is put into the first two blank cells of the second row (labelled "II Admin") in Exhibit E-2, which is also attached.

Revised September 3, 1996

REVISED RESPONSE OF POSTAL SERVICE WITNESS LYONS TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

10. Please explain the difference between the number of boxes listed as Group III in USPS-T-1, WP C, 2,707,964, and the number of possible PO box deliveries, 338,510, given in LR SSR-93, page 6. Does either number represent the PO box customers currently paying \$2 a year for box rental? Does either number represent the number of PO box customers who will be paying \$0 under the Postal Service's proposal?

RESPONSE:

The two numbers are drawn from different sources. The "338,510" is drawn from the Delivery Statistics File, as described in LR SSR-93, while the "2,707,964" is drawn from the Commission's Recommended Decision in Docket No. R94-1.^{1/} It is my understanding that the latter figure is based on a Docket No. R90-1 estimate of installed boxes in Group III offices, multiplied by a utilization rate derived from the 1985 POPS survey.^{2/} Both numbers are arguably estimates of how many customers are currently paying the \$2 group III fee, but I have used the larger figure for the revenue analysis, in order to be consistent with the Commission's analysis in Docket No. R94-1.^{3/} Neither number accurately reflects how many customers will be paying \$0 under the Postal Service's proposal, since neither represents total box customers at all offices offering no form of carrier delivery, let alone accounts for customers at those offices who are nonetheless eligible for carrier delivery.

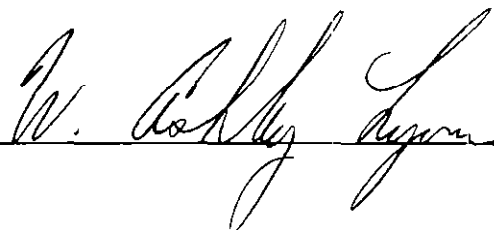
^{1/} PRC Op., Docket No. R94-1, Appendix G, Schedule 2, page 25.

^{2/} In Docket No. R87-1, the Postal Service estimated that there would be 396,252 Group III boxes in the test year (FY 1989), based on the 1985 Post Office Profile Survey. USPS-T-21, WP-1, pages 1-6. The Post Office Profile Survey was discontinued after 1985.

^{3/} USPS-T-1, WP C at 3, and WP D at 8.

DECLARATION

I, W. Ashley Lyons, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.



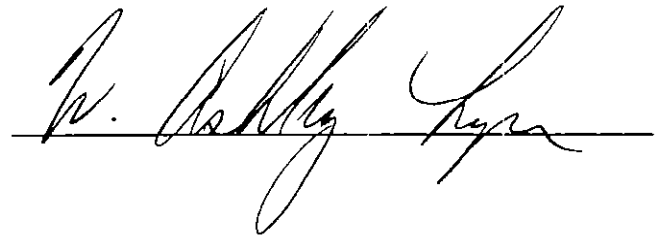
Dated: 9-3-96

EXHIBIT POIR 2 E-2: CURRENTLY RENTED GROUP III BOXES DISTRIBUTED BY CURRENT PRICES & PROPOSED PRICES

			CURRENTLY RENTED BOXES DISTRIBUTED BY PROPOSED GROUPS & PRICES (Each Row Corresponds to Current Group/Price Classification)																					
GROUP	CURRENT PRICES	NUMBER	E \$0	D \$16	D \$26	D \$48	D \$70	D \$110	C \$50	C \$72	C \$130	C \$190	C \$300	B \$56	B \$82	B \$140	B \$218	B \$372	A \$60	A \$92	A \$160	A \$242	A \$418	
I Admin	\$ 2																							
II Admin	\$ 2	2,707,964	2,707,964																					
II Admin	\$ 8																							
II Admin	\$ 13																							
II Admin	\$ 24																							
II Admin	\$ 35																							
II Admin	\$ 55																							
IC Admin.	\$ 40																							
IC Admin.	\$ 58																							
IC Admin.	\$ 104																							
IC Admin.	\$ 172																							
IC Admin.	\$ 288																							
IB Admin	\$ 44																							
IB Admin	\$ 66																							
IB Admin	\$ 112																							
IB Admin	\$ 190																							
IB Admin	\$ 310																							
IA Admin	\$ 48																							
IA Admin	\$ 74																							
IA Admin	\$ 128																							
IA Admin	\$ 210																							
IA Admin	\$ 348																							
TOTAL NUMBER																								

DECLARATION

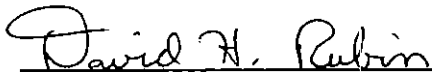
I, W. Ashley Lyons, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

A handwritten signature in cursive script, appearing to read "W. Ashley Lyons", is written over a horizontal line.

Dated: 8-21-96

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



David H. Rubin

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August 21, 1996