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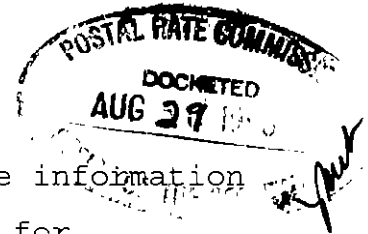
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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Special Services Fees and Classifications

Docket No. MC96-3

PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

(August 29, 1996)



The Postal Service is requested to provide the information described below to assist in developing the record for consideration of its request for classification and rate changes. In order to facilitate possible inclusion of the requested material in the evidentiary record, the Postal Service is to have a witness attest to the authenticity of each item provided and be prepared to explain, to the extent necessary, the content of each item provided.

The Postal Service is requested to respond to the following questions on or before September 5, 1996. This short response date is established so that answers will be received before witnesses take the stand for oral cross-examination beginning September 9, 1996. If this deadline cannot be met for all responses, the Service is requested to provide responses at least 24 hours before the responding witness is scheduled to appear, which will minimize the possibility that it might be necessary to recall a witness to explain or elaborate on a response to this POIR.

1. In USPS-T-1, Workpaper D, page 4, the volume of domestic uninsured registered mail valued up to \$100 decreases even though the rate does not change. Please explain why this is a reasonable expectation.

2. How many Contract Postal Facilities administered by Group II offices were in operation at the end of 1995?

3. In response to POIR No. 2, question 9, witness Needham states, "the Postal Service revenue projections make the implicit assumption that only some resident customers ineligible for any kind of carrier delivery will get free boxes. Implementation of the new box fee schedule may mitigate this..."

a. Does the Postal Service intend to offer free boxes to all customers who are ineligible for delivery regardless of which Group office they belong.

b. If yes, please provide your best estimate of the maximum amount of test year box rental revenue that the Postal Service would lose from such a decision.

c. If no, please discuss the equity issues involved in offering free boxes to some customers who are ineligible for delivery and not to other customers who are also ineligible for delivery.

4. In OCA/USPS-T7-28, the OCA asks whether or not "the Group II post office boxes in use [that] are located in offices which do not provide city or rural delivery service pay the proposed Delivery Group D fees?" Witness Needham responds, "No, unless the boxes are used by nonresidents." In POIR No. 2, question 7, witness Lyons confirms that "the Group II boxholders of offices with no carrier delivery are included in the Group II revenue calculations" and states "customers at these offices who are eligible for delivery will pay group D fees." Given that these two responses are referring to the same customers, that

is, boxholders at Group II offices with no carrier delivery, please explain this apparent contradiction.

5. Consider the following scenario: An office which has a noncity delivery route and has some customers who receive delivery from a city route originating at another post office. Under this scenario, what delivery group fees are boxholders currently paying? What delivery group fees will they be paying under the Postal Service's proposal?

6. According to Patelunas' Workpaper C-1, page 211, in the base year there are \$31,243,867 in total mail processing costs for certified mail. Of that amount, \$25,904,786 is for basic function incoming. Under what circumstances is an IOCS observation for a clerk or mailhandler working in a mail processing operation handling certified mail pieces assigned to certified rather than the underlying mail class?

7. Consider the following facts.

a. According to Patelunas' Workpaper C-1, page 213, "other" special services are listed as having FY 95 direct labor mail processing costs of \$74,095,168. Also, according to the same workpaper, page 211, Special Services consisting of business reply, return receipt and address correction have FY 95 direct labor mail processing costs of \$74,095,168. Thus, it appears that the "other" special services is comprised of business reply, address correction and return receipt.

b. Patelunas Exhibit USPS-T-5H, page 8, shows that the total attributable costs of "other" special services are expected to be \$220,053,000 in the test year. According to Lyons' Workpaper D, page 3, in the test year after rates the

total attributable cost of return receipts is expected to be \$214,021,000 based on the special study conducted by the Postal Service. Thus, on the basis of 9.a. above, it appears that the costs of address correction and business reply combined are expected to be \$6,032,000. These are total costs of which direct labor is only a portion.

c. Patelunas' Workpaper C-1, page 211, shows that the direct labor cost for mail processing related to business reply alone is \$36,578,364 in the base year. This is only a portion of the total business reply attributable costs for FY 95.

d. In summary, given that the CRA shows that the test year after rates total attributable costs for return receipt, business reply and address correction are \$220 million; given that the Service's special study shows that the total attributable costs for return receipt in the test after rates are \$214 million; given that the direct labor mail processing cost for business reply alone in the base year is \$36.6 million and is not likely to be substantially different in the test year after rates; and, given that in the face of \$36 million in direct mail processing cost for business reply, only \$6 million (\$220 million minus \$214 million) remains for the test year after rates total attributable costs of both business reply and address correction combined, there appears to be a significant conflict between the results of the CRA and the result of the Service's special cost study. These facts also imply that if the Service were to conduct special cost studies for business reply and address correction, or use the CRA numbers, the resulting cost estimates when combined with the special study's

estimated costs for return receipt would likely exceed the CRA cost of \$220 million by a substantial amount.

Please discuss this conflict and how the Service reconciles the special study costs with the CRA cost for each individual service.

8. The LIOCATT Workpapers include separate costs for business reply, address correction, and return receipt. But the Postal Service combines these three costs into a single cost in the CRA. Please explain why the Postal Services does not maintain separate costs for each of these special services throughout the CRA. In this case, why did the Postal Service decide to use a special study for return receipt cost rather than the CRA cost? In general, how does the Postal Service decide to use the results of a special study rather than the CRA cost?

9. What Postal Service activities are reflected in the cost of returning return receipt? (See USPS-LR-SSR-104, page 7, Table B.) Why does the Postal Service use the total unit attributable cost of Postal Cards as a proxy for the cost of returning return receipt? Using the total attributable cost for Postal Cards reflects all the cost segments and components. What activities does this approach capture that are not already captured either in the special study for return receipt or the CRA based costs for return receipt? For example, since the special study reflects window service cost, why should the proxy cost also include window service cost and the related costs for window service like floor space?

Since the cost of Postal Cards is a CRA cost and since the Service has available data for a CRA cost for return receipt, please discuss why the Postal Service chose the Postal Card cost as a proxy for the cost of returning return receipt rather than using the CRA cost for return receipt.

10. In response to OCA/USPS-13, witness Patelunas states that the volume used to calculate the 1995 unit cost for Certified Mail includes not only certified volume but also the volume of return receipts for merchandise. Why does not the Service shift the return receipt merchandise volumes with the volumes associated with these special services where the costs for return receipt reside? How does the Postal Service justify the apparent misalignment of costs and volumes inherent in the unit cost for Certified Mail?

11. In response to OCA/USPS-T8-8, witness Needham shows \$416.7 million in revenue for Certified Mail and \$365.6 million in revenue for return receipt mail. The sum of these two revenues is \$782.3 million. Postal Service Exhibit USPS-T-5J, page 23, shows \$784.3 million. Please explain the \$2 million discrepancy?

12. In witness Patelunas' Workpaper WP-B, Base Year 1995 Cost Segment, WS 7.0.4.1, lines 22-26e, the number of actual stops is greater than the number of possible stops for thirteen (13) of the twenty four (24) possible stop type/route category combinations listed. Please explain how the number of actual stops can be greater than the number of possible stops.

13. Please explain why the number of actual stops reported in Patelunas' Workpaper WP-B, Base Year 1995 Cost Segment,

WS 7.0.4.1, lines 22-26e, do not match the number of actual and potential stops reported in the CCS source documents presented in this docket, Library References SSR-36 or SSR-36A, or the source cited for Actual Stops, Library Reference F-194. Also, please explain the impact on the CRA costs submitted in this docket from using the latest submission of CCS data as contained in LR SSR-36A.

14. Please identify the source for the number of actual and potential stops reported in Patelunas' Workpaper WP-B, Base Year 1995 Cost Segment, WS 7.0.4.1, lines 22-26e.

15. Please provide the FY 95 average cost per cubic foot-mile for highway services comparable to that filed in Docket No. R94-1 at Tr. 3/1020-21 and the average cost per cubic foot for account 53121, Intra-SCF highway.

16. Please provide FY 95 Intra-Alaska Air data comparable to that provided in Docket No. R94-1 at Tr. 3/1020-21.

17. In Docket No. R94-1 at Tr. 26E/14322, volume and weight proportions of fourth-class Intra-Hawaii were updated. Please provide updated data for FY 95.

18. The Postal Service is requested to comment on the following matters regarding the proposed DMCS language accompanying its Special Services filing:

a. Would it be appropriate to make a conforming change in the second sentence of § 222.13, by substituting the word "stamped" for the word "postal" where it appears in the phrase "and returned by mail as a single postal or post card?"

b. Would the organization and clarity of the Express Mail Insurance provisions, especially § 9a.021, be improved by

separating document reconstruction from merchandise, and further distinguishing merchandise from negotiable instruments, currency and bullion?

c. In § 9a.021:

(1) Does the phrase "regardless of the number of claimants" mean that both sender and receiver may exercise insurance rights in the mailing? If not, please explain to whom it refers.

(2) Do the references to "per piece" in connection with both document reconstruction and merchandise indemnity refer to the "mailpiece" as a whole, or to individual documents or items comprising a mailing sent via Express Mail?


d. DMCS § 500.41c, currently reads:

For [Express Mail] mailings valued at \$15 or less, for negotiable items, or currency or bullion, the indemnity is \$15 to be paid under terms and conditions prescribed by the Postal Service.

The successor provision (§ 9a.021) reads:

For negotiable items, currency, or bullion, the maximum liability is \$15.

Thus, in addition to eliminating the introductory clause of "For mailings valued at \$15 or less," the new wording appears to change the level of exposure from a flat \$15, and apparently no less, to a **maximum** of \$15. Please comment on whether a substantive change was intended, and on the rationale for the limitation, given that there is a \$1500 limit on merchandise.



H. Edward Quick, Jr.
Presiding Officer