

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. 5,
QUESTION 2
(November 22, 1996)

The United States Postal Service hereby provides a response to Presiding
Officer's Information Request No. 5, question 2, issued on November 13, 1996.

The question 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

K N Hollies
Kenneth N. Hollies

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.

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November 22, 1996

K N Hollies
Kenneth N. Hollies



Answer of Ashley Lyons
to POIR 5, Question 2
to USPS MC96-3

POIR No. 5 - Question 2.

In response to Presiding Officer's Information Request No. 4, question 6, witness Lyons states, "The Postal Service estimates that between 50 and 90 percent of boxholders at Group III offices are ineligible for carrier delivery from any office and thus would receive free boxes." Presumably, the other 10 to 50 percent of boxholders at Group III offices are eligible for delivery and will be paying Group D fees.

- a. Please provide an estimate of the minimum, maximum, and likely projected revenue from these boxes. Please show all calculations.
- b. What is the proper acceptance rate to use in estimating the after rates volume of these boxes. In responding, please consider that the box fees will be increasing 700% - 5400%, from the current fee of \$2 to between \$16 and \$110 depending on size.

RESPONSE

- a. The various minimum, maximum, and likely scenarios used here are the same ones employed in the response to POIR 4, question 6.

The minimum projected revenues will be \$1,423,612 from 169,255 boxes (50% of 338,510). The maximum projected revenues will be \$2,277,682 from 270,796 boxes (10% of 2,707,964). The most likely projected revenues will be \$284,722 from 33,851 boxes (10% of 338,510). We assume the same breakdown of box size as observed in Group II. Below are the detailed calculations.

Projected Revenues From Former Group III Customers Paying Group D Fees

Minimum

Box Count = 338,510 ; 50% eligible for delivery; 50% ineligible for delivery;

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
	Box Size	Current Annual Fee	Proposed resident Fee	% Change	Magnitude of Change	Before Rates # of boxes	% Accept	After Rates # of Boxes	Before Rates Revenues	After Rates Revenues	Additional Revenues
	1	\$2	\$16	700%	Mid-to-high	111,697	63%	69,810	\$223,393	\$1,116,965	\$893,572
	2	\$2	\$26	1200%	Over high	44,864	17%	7,627	\$89,728	\$198,298	\$108,571
	3	\$2	\$48	2300%	Over high	11,618	17%	1,875	\$23,236	\$94,802	\$71,567
	4	\$2	\$70	3400%	Over high	969	17%	165	\$1,937	\$11,526	\$9,589
	5	\$2	\$110	5400%	Over high	108	17%	18	\$216	\$2,020	\$1,804
Subtotal						169,256		79,596	\$338,510	\$1,429,612	\$1,095,192

Most Likely

Box Count = 338,510; 10% eligible for delivery; 90% ineligible for delivery;

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
	Box Size	Current Annual Fee	Proposed resident Fee	% Change	Magnitude of Change	Before Rates # of boxes	% Accept	After Rates # of Boxes	Before Rates Revenues	After Rates Revenues	Additional Revenues
	1	\$2	\$16	700%	Mid-to-high	22,339	63%	13,962	\$44,679	\$223,393	\$178,714
	2	\$2	\$26	1200%	Over high	8,973	17%	1,525	\$17,946	\$39,660	\$21,714
	3	\$2	\$48	2300%	Over high	2,324	17%	395	\$4,647	\$18,960	\$14,313
	4	\$2	\$70	3400%	Over high	194	17%	33	\$387	\$2,305	\$1,918
	5	\$2	\$110	5400%	Over high	22	17%	4	\$43	\$404	\$361
Subtotal						34,852		18,319	\$67,702	\$294,722	\$227,020

Maximum

Box count = 2,707,964; 10% eligible for delivery; 90% ineligible for delivery;

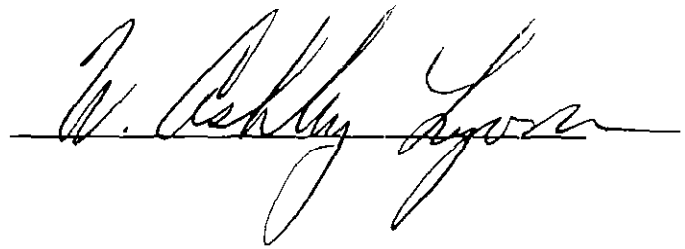
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
	Box Size	Current Annual Fee	Proposed resident Fee	% Change	Magnitude of Change	Before Rates # of boxes	% Accept	After Rates # of Boxes	Before Rates Revenues	After Rates Revenues	Additional Revenues
	1	\$2	\$16	700%	Mid-to-high	178,707	63%	111,692	\$357,414	\$1,787,068	\$1,429,654
	2	\$2	\$26	1200%	Over high	71,779	17%	12,202	\$143,558	\$317,264	\$173,706
	3	\$2	\$48	2300%	Over high	18,588	17%	3,160	\$37,176	\$151,677	\$114,502
	4	\$2	\$70	3400%	Over high	1,550	17%	263	\$3,099	\$18,442	\$15,342
	5	\$2	\$110	5400%	Over high	173	17%	29	\$346	\$3,232	\$2,886
Subtotal						270,796		127,347	\$543,892	\$2,277,682	\$1,736,090

b. The selection of a proper acceptance rate is a function of the magnitude of the price change under consideration. For box size 1, the 700% price change falls within the mid-to-high range (525% to 1025%) of fee increases studied, thus permitting the survey results to provide a direct measure of acceptance rates. Using the approach that appears in my testimony, the midpoint between survey acceptance rate and 100% assumption is 62.5%.

For box sizes 2-5, the magnitude of price change is above the high range of the market survey. Therefore, we selected as a proxy the acceptance rate for the high range, 17% for box sizes 2 and 3 (see USPS-T-1, WP C, page 5). The same value was also applied to box sizes 4 and 5. As a further accommodation to the fact that the actual increases are outside the range tested, the 17% acceptance rate is used without the adjustment made to other acceptance rates.

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, reading "W. Ashley Lyons", written over a horizontal line.

Dated: 11/22/96