

Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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OFFICE OF THE SECRETARY

Postal Rate and Fee Changes

Docket No. R2000-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE
WITNESS CRUM TO PSA INTERROGATORIES
(PSA/USPS-T27-1-5)

The United States Postal Service hereby provides the response of witness Crum to the following interrogatories of the Parcel Shippers Association: PSA/USPS-T27-1-5, filed on February 4, 2000.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
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February 18, 2000

**U.S. POSTAL SERVICE WITNESS CHARLES L. CRUM
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PSA/USPS-T27-1

Your testimony states that the Postal Service excludes parcels between .75 inches and 1.25 inches from the shape charge applicable in Standard (A) where the parcels are prepared in compliance with Postal Service criteria for the flat automation rate.

(a) When did the Postal Service implement this exclusion?

(b) Were any Federal Register Notices issued in connection with the proposed exclusion?

(c) Is it the Postal Service's position that it is free to determine unilaterally which Standard (A) parcels are subject to the shape surcharge without a recommendation of the Postal Rate Commission?

(d) Does the Postal Service have any cost data to support its assumption that, as you testify, these types of parcels "are the most similar to flats and will likely have the most similar cost characteristics to flats?" (pp. 7 and 8) If the answer is in the affirmative please supply whatever cost data you have to support your assumption.

RESPONSE

a. The applicable rule was implemented on October 4, 1998. Therefore, it was in place before the surcharge was implemented on January 10, 1999.

b. Yes.

c. I am unaware of the Postal Service's position regarding implementation of the surcharge and the involvement of the Postal Rate Commission.

d. My statement that these types of parcels are the most similar to flats was merely a recognition based on the size of the pieces. Since flats have a maximum thickness of .75 inches, parcels with a thickness between .75 inches and 1.25 inches would physically resemble flats more than parcels of a greater thickness. We do know that increases in cubic volume relate to cost increases in

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non-piece distribution mail processing, highway and rail transportation, and vehicle service drivers. Beyond that I am not aware of any cost data that shows that the parcels with a thickness below 1.25 inches are less costly than the parcels with a thickness greater than 1.25 inches.

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PSA/USPS-T27-2

On page 9 of your testimony you state that you have chosen to use the average density for all Standard Mail (A) parcels from the parcel density study (PCR-38, Appendix C) as opposed to separating the densities by sub-class because you believe that that represents the most reasonable estimate available for Standard Mail (A) parcels overall.

(a) Is it your belief that using that density represents the most reasonable estimate available for the Bulk Regular Standard Mail (A) category of IPPs and parcels? Please explain any affirmative answer.

(b) Would the study you have used provide sub-class specific densities? If that study would provide such densities, please explain whether using the sub-class specific density for the Regular Bulk rate parcel category would result in greater or lesser allocation of cost.

RESPONSE

a. The data presented in Figure 2 on page 10 of my testimony shows my estimate for the costs for all of bulk Standard Mail (A). My intention was to estimate the density for all of bulk Standard Mail (A) and not the Regular subclass of Standard Mail (A). Hypothetically, if I were estimating the density only for Regular, I would probably use the subclass specific density for Regular. The difference, however, is very small. The average density estimate used in this docket is 8.12 while the subclass specific density estimate is 8.18.

b. Yes. Please see my answer to (a). Using the subclass specific density for Regular parcels would result in slightly (unchanged to the nearest tenth of a cent) lesser costs allocated to that category.

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PSA/USPS-T27-3

In your Attachment F, Table 6.1, you display the revenues, costs, and contributions per piece for Regular and ECR flats and parcels, as well as all shapes. Please supply, and provide the source for, the same information for FY 1998 for each of the four sub-classes for flats, and IPPs and parcels, specifically, for Bulk Standard Mail (A) Enhanced Carrier Route, Bulk Standard Mail (A) Regular, Bulk Standard Mail (A) Nonprofit ECR, and Bulk Standard Mail (A) Nonprofit. Also, please supply the same information for each of these sub-classes for the Test Year After Rates, and provide the source of that information.

RESPONSE

I have attached a chart reformatting the Base Year 1998 information you ask for.

The source for this data is found in my testimony in Attachment F - Table 1,

Table 2, and Tables 3.1 through 3.4. Test Year After Rates data is not available.

Please also see Witness Moeller's response to PSA/USPS-T-35-2.

Attachment to Response to PSA/USPS-T-27-3

<u>Subclass</u>	<u>Revenue</u> <u>(\$ per piece)</u>	<u>Cost</u> <u>(\$ per piece)</u>	<u>Contribution(Loss)</u> <u>(\$ per piece)</u>
Regular flats	\$ 0.234	\$ 0.205	\$ 0.029
ECR flats	\$ 0.154	\$ 0.066	\$ 0.088
Nonprofit flats	\$ 0.153	\$ 0.197	\$ (0.044)
Nonprofit ECR flats	\$ 0.095	\$ 0.076	\$ 0.019
Regular parcels	\$ 0.478	\$ 0.768	\$ (0.290)
ECR parcels	\$ 0.156	\$ 0.746	\$ (0.590)
Nonprofit parcels	\$ 0.255	\$ 0.984	\$ (0.729)
Nonprofit ECR parcels	\$ 0.147	\$ 2.262	\$ (2.115)

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PSA/USPS-T27-5

Your Exhibit F Tables 3.1, 3.2, 3.3, and 3.4 purport to show the per piece costs and revenues for flats and parcels. Those Tables show that the per piece cost for Bulk Standard (A) ECR parcels is \$.746, for Nonprofit-ECR it is \$2.26 and for Bulk Regular it is \$.768.

(a) Can you rationalize why the ECR parcels, in the regular category, would seem to cost as much as the non-ECR parcels, and why the nonprofit-ECR would appear to cost three times as much as either?

(b) Isn't it obvious at that the ECR costs for parcels are on their face unreliable?

(c) Isn't it the case that the amount of volumes are so tiny as to guarantee that there will be statistical anomalies from your sampling systems? Please explain any negative answer.

(d) Is it not the case that the volumes of all IPPs and parcels are so statistically insignificant that the results from your samples cannot be given any credibility? If the answer is in the negative, please explain why your sample volumes are sufficient to give reliable results.

RESPONSE

a. By going to Attachment F, Tables 3.1 and 3.2 of my testimony, one could calculate that while ECR parcels do have lower mail processing costs than Regular parcels, ECR parcels have higher City Carrier In-Office costs (Cost Segment 6). I did not conduct my study with the intention of fully describing the unit cost results in every subclass and cost segment. However, based on my visits to delivery offices and discussions with carriers, carrier supervisors, and other delivery personnel, the following might possibly account in part for the City Carrier In-Office results.

Regular parcels usually come in one at a time and are processed as part of the carrier's normal daily activities. ECR parcels come in larger groups, and,

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thus can cause the carrier to deviate from his/her normal routine, adding to the resulting costs. Also, ECR parcels require a detached label card. This card must be cased with the letters and flats while the parcel must also be prepared for delivery. This too could cause higher costs for ECR parcels.

Additionally, there could be differences in average physical and/or location characteristics that might possibly have an impact. Finally, high Carrier In-Office costs for ECR parcels were also noted in Docket No. R97-1 and spurred an intervenor to ask a similar question.

While the Nonprofit ECR parcel costs have been historically quite high, the very high number in this docket could be the result of a variance due to the difficulties associated with estimating and calculating extremely small volume categories. Fiscal Year 1998 Nonprofit ECR parcel volume was only about .2 percent (1,914/904,090) of total bulk Standard Mail (A) parcel volume.

b. I do not believe they are "on their face unreliable". The ECR cost data for parcels have been somewhat variable over the years, but have invariably far exceeded the associated revenues.

c. The fact that carrier route parcel volumes are lower than non-carrier route parcel volumes does contribute to their unit cost variability, but the intent of my testimony is to estimate the unit costs of the combination of all bulk Standard Mail (A) parcels and not just ECR and Nonprofit ECR. Nonprofit ECR unit cost estimates will likely remain variable as long as they continue to comprise only a very small percentage of Standard Mail (A) parcels.

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d. No. The overall flat and parcel unit cost data, which is what I present in the body of my testimony to support witness Moeller's surcharge, has been consistent from year to year. Please see the attached table for cost data across the years.

ATTACHMENT TO CROM RESPONSE TO PSA 5(d)

BULK STANDARD MAIL (A) UNADJUSTED UNIT COSTS BY SHAPE

	<u>FY 1993*</u>	<u>FY 1994*</u>	<u>FY 1995*</u>	<u>BY 1996**</u>	<u>BY 1998***</u>
Parcels	\$ 0.519	\$ 0.572	\$ 0.541	\$ 0.516	\$ 0.780
Flats	\$ 0.112	\$ 0.113	\$ 0.115	\$ 0.113	\$ 0.122
Diff.	\$ 0.407	\$ 0.459	\$ 0.426	\$ 0.403	\$ 0.658

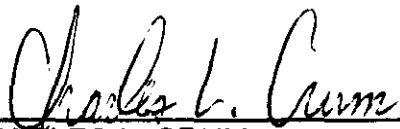
* Source: Response to NDMS/USPS-T28-18 (Tr. 2229-2234) Docket No. R97-1.

** Source: USPS-T-28, page 11. Docket No. R97-1.

*** Source: USPS-T-27, page 10. Mail Processing costs are calculated under a different methodology than in the four previous cost numbers. See USPS-T-27, page 8, lines 7-13.

DECLARATION

I, Charles L. Crum, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


CHARLES L. CRUM

Dated: 2-18-00

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.


Richard T. Cooper

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