

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

RECEIVED
FEB 28 5 22 PM '00
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

**RESPONSE OF UNITED STATES POSTAL SERVICE TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**

The United States Postal Service hereby provides responses to questions 1-5 and 10-12 of Presiding Officer's Information Request No. 3, issued on February 17. The Postal Service respectfully requests additional time to provide responses to questions 6-9, as these could not be completed by the time of this filing.

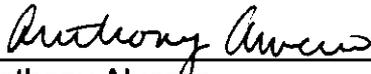
Each question is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Anthony Alverfo
Attorney

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2997; Fax -6187
February 28, 2000

Response of United States Postal Service Witness Meehan
to
Presiding Officer Information Request No. 3

POIR/USPS-1. Please confirm that the attachment includes all costs associated with the Emery Contract, and only those costs associated with the contract. If you do not confirm, please identify missing costs or costs that should be excluded from the attached spreadsheet.

Response:

Not confirmed. The attachment shows all costs associated with the unit at headquarters that oversees the Priority Mail Processing Centers, which includes most of the Emery contract costs plus additional headquarters' costs. In the attached spreadsheet, POIR No. 3, Attachment 1, the Emery contract costs are shown in account 52316.

This spreadsheet does not show an additional amount of \$20,350,623 spent on the Emery contract. This additional amount appears in LR-I-9 on page 122, under the dedicated account 52316.

Therefore, according to the LR-I-9, the Reconciliation of FY 1998 Statement of Revenue and Expenses to Audited Financial Statements and Reallocation of Expenses by Component, the total amount for the Emery contract alone was \$20,350,623 plus \$268,679,446 (both from account 52316), totaling \$289,030,069.

Attachment 1

Priority

Priority Mail Network		FY 1998 PQ 1	FY 1998 PQ 2	FY 1998 PQ 3	FY 1998 PQ 4	PFY 1998	
Personnel							
	191	827,684	827,684	827,684	1,103,579	3,586,630	
	191	604,656	351,957	358,817	354,352	1,669,782	
Subtot	191	1,432,340	1,179,641	1,186,501	1,457,930	5,256,413	CS 18
Non Personnel Accts							
54101	165	-	-	117,633	170,951	288,584	CS 15
54151	167	-	-	3,149	11,204	14,353	
54165	168	16,088	19,927	10,542	13,837	60,393	CS 15
54251	169	17,441	-	-	-	17,441	
52122	187	-	-	-	160,561	160,561	CS 16
52270	182	-	-	-	4,250	4,250	
52336	174	-	-	-	20,000	20,000	
52342	210	-	-	-	201,323	201,323	CS 18
53135	143	-	-	-	83,484	83,484	CS 14
53191	143	-	-	-	(4,550)	(4,550)	
53607	143	-	-	-	55,073	55,073	CS 14
52171	174	11,354	13,007	9,603	12,804	46,768	
52327	210	3,888	29,697	41,726	3,534	78,845	CS 18
52411	211	4,300	8,159	38,302	35,104	85,865	CS 18
54406	174	2,695	1,210	-	-	3,905	
54518	175	632	-	-	-	632	
52101	177	321	55,727	89,014	-	145,062	CS 16
52105	177	-	176,118	1,493	2,949	180,560	CS 16
52111	177	56,463	46,355	31,307	41,660	175,785	CS 16
52121	177	1,759	1,759	1,759	2,345	7,621	
52172	177	4,588	6,484	-	-	11,072	
52359	177	2,529,969	64,741,698	(64,641,436)	1,664,788	4,295,019	CS 16
52418	177	90	90	90	120	390	
52419	177	91	743	75	(65)	644	
54411	177	1,020	14,122	-	-	15,142	
52174	179	1,507	1,506	1,506	2,007	6,525	
52316	187	-	-	135,666,549	133,012,897	268,679,446	CS 16
52435	179	-	496	-	-	496	
52431	179	197	315	197	263	972	
52436	179	224	224	224	1,398	2,069	
52106	184	629,798	4,091,024	3,600,136	4,097,229	12,418,187	CS 16
52120	184	4,994	2,827	2,460	3,279	13,559	
52331	210	325	325	325	434	1,410	
52321	210	30,806	84,817	447,136	199,105	761,864	CS 18
52323	210	21,639	18,683	33,666	102,186	176,174	CS 18
56605	211	9,974	8,372	-	-	18,346	
52439	211	3,816	3,395	1,759	2,097	11,066	
52454	211	36	36	36	49	158	
56603	211	4,521	4,521	4,521	6,029	19,593	
56605	211	1,819	1,819	1,819	2,425	7,882	
56701	211	-	-	-	-	-	

Priority

Priority Mail Network		FY 1998 PQ 1	FY 1998 PQ 2	FY 1998 PQ 3	FY 1998 PQ 4	PFY 1998	
52914	213	90	90	90	120	390	
52363	220	17,367	17,367	17,367	23,157	75,259	CS 19
52367	220	35	35	35	47	153	
54330	232	12,682	12,221	11,663	9,789	46,355	
52326	210	78,485	135,760	120,312	120,777	455,334	CS 18
56617	1437	(326)	1,258	1,450	114	2,496	
Totals		4,901,027	70,679,828	76,801,010	141,520,703	293,902,567	

Allocation Summary

Cost Segment	Component	Amount
14	143	138,557
15	165	288,584
	168	60,393
Subtotal 15		348,977
16	177	4,796,427
	184	12,418,187
	187	268,840,006
Subtotal 16		286,054,620
18	191	5,256,413
	210	1,673,540
	211	85,865
Subtotal 18		7,015,818
19	211	75,259
Total Allocated		293,633,230
Total		293,902,567
Not allocated		269,337

Response of United States Postal Service Witness Meehan
to
Presiding Officer Information Request No. 3

POIR/USPS-2. Please provide a detailed description of the activities, services or supplies associated with each listed costs. For example, for account number 52316, please provide a description of the major types of activities involved, such as mail processing labor, supervision, transportation, facility related, equipment related, etc.

Response:

The F-8 which is filed in LR-I-183 gives a description of the activities, services and supplies associated with each segment. However, for convenience, here is a description of some of the largest line items.

Account 52316: This account is used to record Priority Mail Processing Center (PMPC) contract expenses, except for one time and miscellaneous costs and one-time security installation expenses, associated with the Priority Mail Processing Centers.

Account 52106 is used to record the cost of mail processing expendable equipment paid at information service centers, such as containers, trays, nutting trucks, hampers and other related items for mail processing operations.

Account 52359 is used to record the cost of miscellaneous contractual services.

Account 54101 is used to record payments to private lessors for postal space in buildings occupied under lease/rental agreements.

Response of United States Postal Service Witness Meehan
to
Presiding Officer Information Request No. 3

Account 52122 is used to record the expense for mail transport equipment (flat trays, tray lids, mail pouches, ERMC's) for use within the Priority Mail Processing Center (PMPC) network.

Also, what may be helpful is to understand where these accounts go in the CRA Cost Segment and Component report. The bottom half of the second page of POIR No. 3, Attachment 1, shows a summary of the accounts mapped into the CRA's cost segments and components. For example, the amount of \$288,584 maps into component 165, Rents, of Cost Segment 15, Building Occupancy. Page 1 shows that the amount of \$288,584 came from account 54101. The other listed components are 143, Domestic Highway Transportation; 165, Rents, 168, Communications/Phone Utilities; 177, Miscellaneous Supplies and Services; 184 Operating Equipment, Supplies and Services; 187 Expedited Mail Supplies; 191, Headquarters & Field Service Unit Personnel Costs; 210, Supplies and Professional Services; 211, Miscellaneous Expenses and 211 again, which is a typo. It should be 220, which is Training, Contract Support.

Please note that very small amounts on page 1 which do not have a cost segment notation in the last column are combined into the total at the bottom of page 2 of \$269,337.

Response of United States Postal Service Witness Meehan
to
Presiding Officer Information Request No. 3

POIR/USPS-3. For each row in the worksheet, please identify the costs that are treated as: (1) volume variable; (2) fixed but product specific to Priority mail for purposes of the incremental cost test; and (3) purely institutional.

Response:

For the easiest understanding, please refer to POIR No. 3, Attachment 1 at the bottom of page 2 called Allocation Summary. This summary shows all the accounts consolidated into the cost segments and components used by the CRA.

The amount of \$138,557 from Cost Segment 14, Transportation, was treated as follows: These costs were not assigned to Priority Mail using this spreadsheet because the expenses found within these types of transportation contracts are already available for sampling in TRACS or special studies.

The amount of \$288,584 from Cost Segment 15, Building Occupancy, was treated as follows: fixed but product specific to Priority Mail for purposes of the incremental cost test.

The amount of \$60,363 from Cost Segment 15, Building Occupancy, was treated as follows: fixed but product specific to Priority Mail for purposes of the incremental cost test.

The amount of \$4,796,427 from Cost Segment 16, Supplies and Services, was treated as follows: fixed but product specific to Priority Mail for purposes of the incremental cost test, except the amount from account 52359 of \$4,295,019.

Response of United States Postal Service Witness Meehan
to
Presiding Officer Information Request No. 3

This amount, which was incurred for contractors validating workload measures for the Emery contract, is 100% volume variable to Priority Mail.

The amount of \$12,418,187 from Cost Segment 16, Supplies and Services, was treated as follows: 100% volume variable to Priority Mail.

The amount of \$268,840,006 from Cost Segment 16, Supplies and Services, was treated as follows: 100% volume variable to Priority Mail.

The amount of \$5,256,413 from Cost Segment 18, Administration and Area Operations, was treated as follows: fixed but product specific to Priority Mail for purposes of the incremental cost test.

The amount of \$1,673,540 from Cost Segment 18, Administration and Area Operations, was treated as follows: fixed but product specific to Priority Mail for purposes of the incremental cost test.

The amount of \$85,865 from Cost Segment 18, Administration and Area Operations was treated as follows: fixed but product specific to Priority Mail for purposes of the incremental cost test.

The amount of \$75,259 from Cost Segment 19, General Management Systems, was treated as follows: fixed but product specific to Priority Mail for purposes of the incremental cost test.

Response of United States Postal Service Witness Meehan
to
Presiding Officer Information Request No. 3

POIR/USPS-4. (a) Please confirm that witness Meehan treats all costs that are direct contract payments to Emery as 100% volume variable. (b) Please explain the rationale for this treatment in contrast to the variabilities of less than 100% proposed for mail processing operations and the other corresponding categories of costs, such as transportation, facility, equipment and supervision incurred by the Service.

Response:

(a) Confirmed.

(b) The reason that the direct contract payments to Emery are treated as 100% volume variable is because I assumed that the Postal Service was charged under the contract on a constant per piece basis.

DECLARATION

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

Karen B Meehan

2/28/00

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PRESIDING OFFICER'S
INFORMATION REQUEST NO. 3, QUESTION 5

5. In USPS-T-32, Table 32 D, witness Mayes provides the percent increase of proposed rates over current rates for mail subclasses. At USPS-T-32, page 36, line 7, the system average increase is identified as 6.4%. Please provide the calculations witness Mayes uses to develop these figures and identify the sources of data used in the calculations.

Response:

The system average rate increase was calculated by weighting the percent increases provided by each of the pricing witnesses (USPS-T-33 through USPS-T-39) for their subcategories by the TYBR revenue for each subcategory as provided by each of those witnesses. Please see the attached worksheet for the calculation. Note that the total revenue differs from the total TYBR revenue from mail and services as reported in my Exhibit 32A by the amount of \$19.970 million. This amount represents the fees assigned to First-Class workshared letters (\$18.875 million) and workshared cards (\$1.095 million). These fees were not broken out by the subcategories (Automated and Carrier Route, and Non-automated Presort) for which the percent change figures were provided. Adding the fees to the calculation (by adding total workshared letters fees to either subcategory of workshared letters, for example) does not change the calculated system average percent change.

Calculation of Overall Percent Increase

	Test Year Before Rates <u>Postage & Fees</u>	Percent <u>Change</u>	TYBR Revenue <u>Weighted by % Change</u>
First-Class Mail			
Letters - Single	22,384,156	3.4%	766,891
Automated and Carrier Route Letters	11,739,163	3.9%	461,854
Non-Automated Presort Letters	1,000,786	4.9%	49,053
Stamped Cards	89,346	5.0%	4,486
Post Cards - Single	503,163	4.8%	24,200
Automated and Carrier Route Post Cards	363,556	5.2%	18,771
Non-Automated Presort Cards	72,087	5.6%	4,005
Priority Mail	5,229,846	15.0%	786,766
Express Mail	1,019,497	3.8%	38,741
Mailgrams	1,136	0.0%	-
Periodicals			
In-County	76,286	8.5%	6,484
Outside County			
Nonprofit	319,556	11.6%	37,069
Classroom	12,986	13.8%	1,788
Regular-Rate	1,833,845	13.5%	247,231
Standard Mail A			
Commercial			
Regular	8,653,220	9.4%	812,152
Enhanced Carrier Route	5,036,496	4.9%	246,788
Nonprofit			
Nonprofit	1,458,641	5.6%	81,684
Enhanced Carrier Route	232,440	14.8%	34,401
Standard Mail B			
Parcel Post	1,198,441	1.3%	15,851
Bound Printed Matter	492,554	18.1%	89,393
Special Rate	327,631	4.9%	15,904
Library Rate	48,517	4.5%	2,164
International	1,741,131	3.8%	66,244
Special Services			
Registry	81,435	23.0%	18,730
Certified Mail	414,039	50.0%	207,019
Insurance	89,575	20.9%	18,704
COD	18,373	9.7%	1,776
Delivery Confirmation	20,034	13.7%	2,749
Money Orders *	288,465	9.9%	28,558
Return Receipts	317,371	20.3%	64,458
Stamped Cards	4,458	100.0%	4,458
Stamped Envelopes	12,515	28.2%	3,526
Box/Caller Service	746,817	10.9%	81,254
Address changes	241	35.3%	85
BPRS	2,245	-5.7%	(128)
Correction of Mailing Lists	318	25.0%	79
Merchandise Return	2,038	-100.0%	(2,038)
On-site Meter Setting	8,984	4.5%	408
Permits	6,304	25.0%	1,576
Restricted Delivery	11,832	16.4%	1,936
Signature Confirmation	27,566	12.4%	3,415
Zip Coding Lists	25	0.0%	-
	65,887,115		4,248,484

6.4% = 4,248,484/65,887,115

DECLARATION

I, Virginia J. Mayes, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


Virginia J. Mayes

Dated: 2-28-00

RESPONSES OF U.S. POSTAL SERVICE WITNESS JOSEPH D. MOELLER TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

10. Please refer to USPS-T-35 at 12-13. Will Regular and Nonprofit Subclass pre-barcoded letters weighing between 3.3 and 3.5 ounces per piece pay the minimum-per-piece rate or the pound rate? To eliminate any potential confusion, please provide the current and proposed rates for a 3.4 ounce letter-shaped piece assuming nondestination entry in the following categories.

- a) Regular Subclass basic presort nonbarcoded
- b) Regular Subclass basic presort barcoded
- c) Regular Subclass 3-digit presort nonbarcoded
- d) Regular Subclass 3-digit presort barcoded
- e) Regular Subclass 5-digit presort nonbarcoded
- f) Regular Subclass 5-digit presort barcoded
- g) Nonprofit Subclass basic presort nonbarcoded
- h) Nonprofit Subclass basic presort barcoded
- i) Nonprofit Subclass 3-digit presort nonbarcoded
- j) Nonprofit Subclass 3-digit presort barcoded
- k) Nonprofit Subclass 5-digit presort nonbarcoded
- l) Nonprofit Subclass 5-digit presort barcoded

RESPONSE:

Automation-prepared letters weighing 3.4 ounces would pay the minimum-per-piece rate. Column 1 in the charts below assumes that 3.4 ounce barcoded letter-shaped pieces currently pay the applicable non-letter rate, and are not claiming flat barcode rates. Column 2 assumes that the barcoded pieces also meet the flat dimensions, and qualify for flat automation rates. Column 3 assumes the letter-shaped pieces claim the letter automation rates.

REGULAR SUBCLASS (rates in cents)

	Current (1)	Current, with auto flat rates (2)	Proposed (3)
a. basic presort nonbarcoded	30.78625	N/A	31.54625
b. basic presort barcoded	30.78625	24.88625	20
c. 3-digit presort nonbarcoded	24.38625	N/A	26.24625
d. 3-digit presort barcoded	24.38625	20.68625	19.3
e. 5-digit presort nonbarcoded	24.38625	N/A	26.24625
f. 5-digit presort barcoded	24.38625	20.68625	17.2

RESPONSES OF U.S. POSTAL SERVICE WITNESS JOSEPH D. MOELLER TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

NONPROFIT SUBCLASS (rates in cents)

	Current (1)	Current, with auto flat rates (2)	Proposed (3)
g. basic presort nonbarcoded	23.6875	N/A	22.225
h. basic presort barcoded	23.6875	18.5875	12.9
i. 3-digit presort nonbarcoded	16.8875	N/A	17.825
j. 3-digit presort barcoded	16.8875	14.7875	12.2
k. 5-digit presort nonbarcoded	16.8875	N/A	17.825
l. 5-digit presort barcoded	16.8875	14.7875	10.1

RESPONSES OF U.S. POSTAL SERVICE WITNESS JOSEPH D. MOELLER TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

11. Does witness Moeller rely on witness Eggleston's cost study (See USPS-T-26, Attachment B) as the cost basis for the proposed parcel barcode discount of 3 cents per piece?

RESPONSE:

Yes, indirectly. The parcel barcode discount was proposed at a level equivalent to the barcode discount for Standard Mail (B). (See Moeller testimony USPS-T-35 at page 2, lines 1-2). The Standard Mail (B) discounts, which will be applicable to pieces weighing less than one pound if the minimum weight requirement is removed for Standard Mail (B), are based on witness Eggleston's cost study.

RESPONSES OF U.S. POSTAL SERVICE WITNESS JOSEPH D. MOELLER TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

12. On page 11 of USPS-T-35, witness Moeller states that "...selection of 100 percent [passthrough for letter presort] may result in outcomes for other rate cells that defeat rate design objectives." Please list and discuss those rate design objectives.

RESPONSE:

As discussed at page 4 of my testimony, lines 14-16, the selection of passthroughs and other rate design decisions is an iterative process, and the decisions are interdependent. However, if the passthrough in question were changed to 100 percent in isolation of any other changes, it would have a push-up effect on the basic rates, most notably the Basic letter automation rate. Avoiding the nearly 10 percent increase that would result for automation letters with a passthrough of 100 percent is the type of "rate design objective" to which the cited passage refers. Basic automation letters and 3-digit automation letters bear the brunt (by virtue of their high volume) of the effort to limit the increases for automation flats (see page 5, line 16 through page 6, line 1). Deviating slightly from 100 percent on the cited passthrough offers some offsetting relief to the Basic automation letter category.

DECLARATION

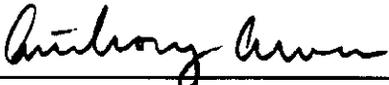
I, Joseph D. Moeller, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


JOSEPH D. MOELLER

Dated: 2/22/00

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.



Anthony Alverno

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2997; Fax -6187
February 28, 2000