

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

FEB 28 5 29 PM '00

POSTAL RATE COMMISSION
OFFICE OF THE CLERK

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

**RESPONSE OF UNITED STATES POSTAL SERVICE TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 2**

The United States Postal Service hereby provides responses to Presiding Officer's Information Request No. 2, issued on February 16. Three responses are provided to the first question because it concerns the subject matter areas of three different pricing witnesses.

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



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February 28, 2000

RESPONSE OF WITNESS KIEFER
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2 QUESTION 1

1. The Postal Service request includes proposed rates that have been developed to reflect the assumption that legislation will be enacted. Specifically, the rates proposed for Regular Periodicals, Nonprofit Periodicals and Classroom Publications; the rates for Standard A Nonprofit ECR; and the rates for Library Mail are all dependent on this assumption. In the absence of the passage of legislation, rates for mail in these subclasses would have to reflect existing applicable law, including the restrictions imposed by the Revenue Forgone Act of 1993.

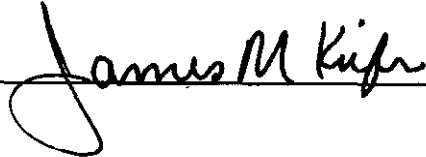
Please provide the test year rates that the Postal Service would propose for these subclasses of mail if it is assumed that no new legislation is enacted. For purposes of this answer the Postal Service is to develop rates that reflect retention of the regular rate mark ups justified in the January 12, 2000 Request. Include exhibits tracing the development of these rates to cost and volume data contained in that Request.

RESPONSE:

The Postal Service would propose the rates contained in its January 12, 2000 Request if no new legislation were enacted.

DECLARATION

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



Dated: 2-28-00

RESPONSE OF U.S. POSTAL SERVICE WITNESS JOSEPH D. MOELLER TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

1. The Postal Service request includes proposed rates that have been developed to reflect the assumption that legislation will be enacted. Specifically, the rates proposed for Regular Periodicals, Nonprofit Periodicals and Classroom Publications; the rates for Standard A Nonprofit ECR; and the rates for Library Mail are all dependent on this assumption. In the absence of the passage of legislation, rates for mail in these subclasses would have to reflect existing applicable law, including the restrictions imposed by the Revenue Forgone Act of 1993.

Please provide the test year rates that the Postal Service would propose for these subclasses of mail if it is assumed that no new legislation is enacted. For purposes of this answer the Postal Service is to develop rates that reflect retention of the regular rate mark ups justified in the January 12, 2000 Request. Include exhibits tracing the development of these rates to cost and volume data contained in that Request.

RESPONSE:

As the Postal Service's rate proposal would be reviewed by the Board of Governors, I do not represent this response to present what the Postal Service's proposal would be in the hypothetical stated in the question. Nevertheless, the rate design workpapers can be manipulated so as to produce rates that meet the general requirements of this information request.

The attached pages display rates derived by using the rate design workpapers for Standard Mail (A) Nonprofit Enhanced Carrier Route. The pages are the same as those found in USPS-T-35, WP 2, with a few modifications. The markup (line 2) that is an input to the rate design formula (page 20 of WP2, or page 2 of the attachment to this response) is one-half of the commercial ECR markup proposed in this proceeding. (See the footnote in bold on the attachment; the commercial markup is 108.8 percent, so one-half that figure, 54.4 percent, is used in this response). Also, the pound rate (line 13) is

RESPONSE OF U.S. POSTAL SERVICE WITNESS JOSEPH D. MOELLER TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

increased to 45 cents. The pound rate is increased so that the piece rate does not bear the entire brunt of the effect of the higher markup that would be required in the absence of a legislative change. The 45 cent figure is selected because it results in percentage changes for pound rated mail that are only slightly higher than the overall subclass increase. The proposal filed on January 12 included a similar relationship. In order to avoid a rate anomaly between automation carrier route, and automation 5-digit letters, the passthrough for the automation carrier route discount is increased to 101 percent. (See Page 1 of the attachment to this response, Column (3)). As directed in the information request, the volumes and costs as presented in the January 12 filing are cited in the attached pages. No changes are made to any volumes or costs, or to the markup on the commercial subclass counterpart. Obviously, if the Postal Service had not anticipated changes to the Revenue Forgone Reform Act, the volume, costs, and the proposed markups would likely have been different than those included in the January 12 request. Pages 3 and 4 of the attachment display the rates that result from the higher markup, higher pound rate, and the higher passthrough for automation carrier route letters.

NONPROFIT ENHANCED CARRIER ROUTE SUBCLASS
DEVELOPMENT OF DENSITY AND AUTOMATION DISCOUNTS

Item	MP + Del Unit Cost (Cents) (1)	Differential (Cents) (2)	Passthrough Percent (3)	Discount (4)	Cumulative Discount (Cents) (5)	Pieces (Millions) (6)	Value (Millions) (7)
Nonletters:							
1 Basic	9.707	---	---		---	905.275	---
2 High Density	4.329	5.378	29.8%	1.6	1.6	9.193	0.147
3 Saturation	3.828	0.501	99.8%	0.5	2.1	303.225	6.368
4 Subtotal	---	---	---		---	1217.693	6.515
Letters:							
5 Basic	8.539	1.168	0.0%	0	0	719.099	0.000
6 Automated	5.023	3.516	101.0%	3.6	3.6	341.586	12.297
7 High Density	3.64	4.899	47.0%	2.3	2.3	53.630	1.233
8 Saturation	3.005	0.635	100.0%	0.6	2.9	575.198	16.681
9 Letter Discount					0.0	628.828	0.000
10 Subtotal						1689.513	30.211
11 Total						2907.206	36.726

(1) Page 10, lines 20-27

(2) Difference between relevant cost figures in Col (1)

(3) Automation passthrough selected; italicized from page 18, worktable C.

(4) Col (2) * Col (3)

(5) Cumulative discount for that category.

(6) Page 4, Col (1). Flat volumes are sum of piece-and pound-rated pieces.

(7) Col (5) * Col (6)

NONPROFIT ENHANCED CARRIER ROUTE SUBCLASS
RATE DESIGN FORMULA
(millions)

Item	Source	Amount
1 Volume Variable Costs (TYBR)	Page 16	212.388
2 Markup	assumed	1.544 *
3 Revenue Requirement	L.1 x L.2	327.927
4 Residual shape surcharge	Page 14, Col (1)	0.183
5 Fees	Page 15, Col (1)	10.734
6 Revenue Requirement from Postage	L.3-L.4-L.5	317.011
7 Value of Discounts	Pages 9,19	87.741
8 RevReq+Discounts (RR+D)	L.6 + L.7	404.752
9 Total Pcs - min rate (Vr)	Page 4, col (1)	2670.479
10 Total Pcs - pound rate (Vrp)	Page 4, col (1)	236.727
11 Total Pounds - Lb Rate (Vp)	Page 4, col (2)	70.580
12 Break point (BP)	Current (approx.)	3.3
13 Pound Rate (P)	proposed	0.450 **
14 FORMULA:		
M = Basic minimum rate for nonletters		
i = per piece rate for pound-rated pieces		
15 $RR+D=(Vr)M+Vrp(i)+Vp(P)$		
16 $M = i + [(BP/16)*(P)]$		
17 $RR+D=[(Vr)[i+[BP/16]*P]+Vrp(i)+Vp(P)]/(Vr+Vrp)$		
18 $i = RR+D-Vr(BP/16)P-VpP$		
19 Intercept (pc rate for lb-rated pieces) (i)		0.043
20 Basic Piece Rate for Flats (M)		0.136
21 Actual Breakpoint (oz.)	$(L.20-L.19)*16/L.13$	3.3067

Line

- 15 Revenue required from Basic Rates in order to fund discounts =
(Rev. from min/pc rate) + (rev. from pc. element of pound-rated mail) +
(rev. from pound element for pound-rated mail)
- 16 min/pc rate = per piece for pound rated mail + pound rate rev. from breakpoint
weight piece
- 17 Substitute equation for M (line 16) into line 15 equation.
- 18 Solve for i
- 20 Solve for M using equation in line 16

* 2 One-half of the commercial ECR markup. See USPS-T-35, WP 1, page 25.
ECR coverage is 208.83%, the "markup" is 108.83%. One-half is 54.4%.

**13 This pound rate is higher than the Postal Service proposal

Nonprofit Subclass

Automation	Entered at destination:		
	BMC	SCF	DDU
Letters			
Basic	0.129	0.112	0.107
3-digit	0.122	0.105	0.100
5-digit	0.101	0.084	0.079
Flats (pc-rated)			
Basic	0.178	0.161	0.156
3/5-digit	0.158	0.141	0.136
Flats (lb-rated)			
per piece:			
Basic	0.058	0.058	0.058
3/5 digit	0.038	0.038	0.038
per pound:			
Basic	0.580	0.497	0.472
3/5 digit	0.580	0.497	0.472

Presort	Entered at destination:		
	BMC	SCF	DDU
Letters			
Basic	0.159	0.142	0.137
3/5-digit	0.150	0.133	0.128
Non-letters (pc-rated)			
Basic	0.219	0.202	0.197
3/5-digit	0.175	0.158	0.153
Non-letters (lb-rated)			
per piece:			
Basic	0.099	0.099	0.099
3/5 digit	0.055	0.055	0.055
per pound:			
Basic	0.580	0.497	0.472
3/5 digit	0.580	0.497	0.472

Residual Shape Surcharge 0.180
Parcel Barcode Discount 0.030

Nonprofit Enhanced Carrier Route

	Entered at destination:		
	BMC	SCF	DDU
Letters			
Basic	0.136	0.119	0.114
Auto	0.100	0.083	0.078
High-D	0.113	0.096	0.091
Saturation	0.107	0.090	0.085
Non-letters (pc-rated)			
Basic	0.136	0.119	0.114
High-D	0.120	0.103	0.098
Saturation	0.115	0.098	0.093
Non-letters (lb-rated)			
per piece:			
Basic	0.043	0.043	0.043
High-D	0.027	0.027	0.027
Saturation	0.022	0.022	0.022
per pound:			
Basic	0.450	0.367	0.342
High-D	0.450	0.367	0.342
Saturation	0.450	0.367	0.342

Residual Shape Surcharge 0.150

Sources:

Non-destination entry rates are from pages 22-24

Destination-entry rates are calculated by subtracting discounts (p.9, col (5)) from non-destination entry rates

Residual Shape Surcharge and Barcode Discount from Page 14, Column (2)

Standard Mail (A) - Nonprofit Enhanced Carrier Route
Proposed Rates

Overall 40.8%

Minimum per piece rates		current	POIR #2	%chg
Basic	Letter	0.099	0.136	37.4%
	Automation	0.092	0.100	8.7%
	Nonletter	0.099	0.136	37.4%
High-Density	Letter	0.078	0.113	44.9%
	Nonletter	0.092	0.120	30.4%
Saturation	Letter	0.072	0.107	48.6%
	Nonletter	0.084	0.115	36.9%

Pound-rated pieces		current	POIR #2	
Basic	per piece	0.039	0.043	
	per pound	0.290	0.450	
	example: 8-ounce piece	0.184	0.268	45.7%
High Density	per piece	0.032	0.027	
	per pound	0.290	0.450	
	example: 8-ounce piece	0.177	0.252	42.4%
Saturation	per piece	0.024	0.022	
	per pound	0.290	0.450	
	example: 8-ounce piece	0.169	0.247	46.2%

Destination Entry Discounts		current	POIR #2
Piece-rated pieces		per piece	per piece
	DBMC	0.016	0.017
	DSCF	0.021	0.022
	DDU	0.026	0.028
Pound-rated pieces		current	POIR #2
		per pound	per pound
	DBMC	0.079	0.083
	DSCF	0.100	0.108
	DDU	0.126	0.134

	current	POIR #2
Residual Shape Surcharge	0.100	0.150

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

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NUMBER 2

1. The Postal Service request includes proposed rates that have been developed to reflect the assumption that legislation will be enacted. Specifically, the rates proposed for Regular Periodicals, Nonprofit Periodicals and Classroom Publications; the rates for Standard A Nonprofit ECR; and the rates for Library Mail are all dependent on this assumption. In the absence of the passage of legislation, rates for mail in these subclasses would have to reflect existing applicable law, including the restrictions imposed by the Revenue Forgone Act of 1993.

Please provide the test year rates that the Postal Service would propose for these subclasses of mail if it is assumed that no new legislation is enacted. For purposes of this answer the Postal Service is to develop rates that reflect retention of the regular rate mark ups justified in the January 12, 2000 Request. Include exhibits tracing the development of these rates to cost and volume data contained in that Request.

RESPONSE

The requested rates are provided with this response (spreadsheets RR-L, NP-L, and CR-L). The underlying spreadsheets are provided in library reference I-203, in hardcopy and electronic form.

For the purpose of meeting the requirement of this Presiding Officer's Information Request (POIR), I have developed separate rate schedules for the three Periodicals' subclasses that were combined into one Outside County subclass in the Postal Service proposal filed on January 12, 2000. Unlike that proposal, which was approved by the Board of Governors, the schedules provided below were developed specifically in response to the POIR, and do not represent an alternate proposal by the Postal Service. As requested, the Regular starting mark-up of 1.0145, and the cost and volume data included in the January 12th filing were used to develop these rate schedules.

I have used the unrevised 2001 TYBR volume forecast (See response of witness Tolley (USPS-T-6) to POIR No. 1 question 1) to maintain consistency

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NUMBER 2

Question 1, Page 2 of 3

with the TYBR volume-variable costs, which are based on the unrevised forecasts. As suggested in Question 5 of POIR No. 1 the following three changes have been made. First, the required revenue is divided by the RPW correction factor rather than multiplied. Second, since TYAR fees are now available to me, TYAR fees have been subtracted from the revenue requirements rather than TYBR fees. Third, the leakage estimate is calculated based on rounded discounts.

The revenue split between pieces and pounds for the Regular and Nonprofit subclasses reflects historical precedents established by the Commission, but Classroom rates are based on a slight deviation from the Commission recommended split in Docket No. R94-1. A major concern was to make sure that the rate increase in each rate cell should not exceed the overall increase in the subclass by more than two percent in order to mitigate the impact on customers. Another goal was to avoid rate anomalies. Given the overall cost increase for all subclasses, a Nonprofit cost increase exceeding the Regular increase, and changes in cost savings for automation and presort levels, I have succeeded on the first count using rather unconventional passthroughs, but was unable to accommodate the second goal.

It is important to note that there are significant anomalies present in the rate schedules for the three subclasses. For instance, comparing Regular to Nonprofit, the anomalies are not limited to piece rates alone. The unzoned editorial pound rate for Nonprofit Periodicals is higher than the corresponding

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NUMBER 2

Question 1, Page 3 of 3

rate for Regular Periodicals. The difference in piece rates is not significant between the two schedules; therefore, combining these smaller differences with some of the larger differences in both dropshipment and editorial discounts would lead to anomalous results where Nonprofit mailers would find Regular rates more attractive. The anomaly issue is actually much worse than the one that led the Postal Service to file Docket No. MC99-3. The situation between Classroom and Regular is slightly better, but still leads to rate anomalies.

These anomalies cannot be resolved without either abandoning existing rate design conventions or altering the cost coverage for Regular Periodicals.

**TYAR BILLING DETERMINANTS - AFTER RATES & VOLUME
REGULAR RATE PERIODICALS**

ATTACHMENT TO RESPONSE TO
POIR # 2, QUESTION 1, PAGE 1 OF 3

USPS T-38
Spreadsheet RR-L
Page 1
For POIR 2

Regular Rate Pounds	Pounds	POIR 2	Postage
	TYAR	Rates	Rate*Pounds
Delivery Unit	12,277,559	\$ 0.169	\$ 2,074,907
SCF	620,713,827	\$ 0.199	\$ 123,522,052
Zones 1&2	289,863,537	\$ 0.233	\$ 67,538,204
Zone 3	140,760,809	\$ 0.248	\$ 34,908,681
Zone 4	199,594,942	\$ 0.287	\$ 57,283,748
Zone 5	197,392,928	\$ 0.345	\$ 68,100,560
Zone 6	79,196,810	\$ 0.406	\$ 32,153,905
Zone 7	60,005,592	\$ 0.480	\$ 28,802,684
Zone 8	52,605,256	\$ 0.544	\$ 28,617,259
Nonadvertising	1,988,303,233	\$ 0.175	\$ 347,953,066
Science of Agriculture Pounds	Pounds	POIR 2	Postage
	TYAR	Rates	Rate*Pounds
SCI. OF AGRICULTURE, DELIVERY OFFICE	32,721	\$ 0.127	\$ 4,156
SCI. OF AGRICULTURE SCF	2,409,420	\$ 0.149	\$ 359,004
SCI. OF AGRICULTURE ZONES 1&2	4,944,677	\$ 0.175	\$ 865,318
SCI. OF AGRICULTURE ZONE 3	1,752,553	\$ 0.248	\$ 434,633
SCI. OF AGRICULTURE ZONE 4	966,792	\$ 0.287	\$ 277,469
SCI. OF AGRICULTURE ZONE 5	506,498	\$ 0.345	\$ 174,742
SCI. OF AGRICULTURE ZONE 6	78,448	\$ 0.406	\$ 31,850
SCI. OF AGRICULTURE ZONE 7	62,018	\$ 0.480	\$ 29,789
SCI. OF AGRICULTURE ZONE 8	40,513	\$ 0.544	\$ 22,039
SCI. OF AGRICULTURE - NONADVERTISING	6,791,929	\$ 0.175	\$ 1,188,588
Science of Agriculture Commingled Pounds	Pounds	Rate	Postage
	TYAR		Rate*Pounds
SCI OF AGI. COMMINGLED NONSBSCRBR SCF	4,141	\$ 0.199	\$ 824
SCI OF AGI. COMMINGLED NONSBSCRBR ZONES 1&2	29,055	\$ 0.233	\$ 6,770
SCI OF AGI. COMMINGLED NONSBSCRBR NONADVERTISING	74,655	\$ 0.175	\$ 13,065
Regular Rate Pieces	Pieces	Rate	Postage
	TYAR		Rate*Pieces
BASIC NON-AUTOMATION	722,445,232	\$ 0.335	\$ 242,019,153
BASIC AUTOMATION LETTER	52,768,106	\$ 0.264	\$ 13,930,780
BASIC AUTOMATION FLAT	83,326,367	\$ 0.284	\$ 23,664,688
3-DIGIT NON-AUTOMATION	756,507,712	\$ 0.290	\$ 219,387,236
3-DIGIT AUTOMATION LETTER	41,090,463	\$ 0.235	\$ 9,656,259
3-DIGIT AUTOMATION FLAT	674,684,923	\$ 0.246	\$ 165,972,491
5-DIGIT NON-AUTOMATION	667,131,724	\$ 0.226	\$ 150,771,770
5-DIGIT AUTOMATION LETTER	1,457,917	\$ 0.182	\$ 265,341
5-DIGIT AUTOMATION FLAT	1,463,090,078	\$ 0.193	\$ 282,376,385
CARRIER ROUTE BASIC	2,817,115,394	\$ 0.140	\$ 394,396,155
CARRIER ROUTE HIGH DENSITY	20,720,918	\$ 0.114	\$ 2,362,185
CARRIER ROUTE SATURATION	18,177,744	\$ 0.097	\$ 1,763,241
PERCENTAGE EDITORIAL DISCOUNT	4,320,965,946	\$ (0.065)	\$ (280,862,786)
WKSHARING DISCNTDELIVERY OFFICE ENTRY	43,749,191	\$ (0.021)	\$ (918,733)
WKSHARING DISCNT SCF ENTRY	2,531,187,889	\$ (0.012)	\$ (30,374,255)
Science of Agriculture - Pieces	Pieces	Rate	Postage
SCI. OF AGRICULTURE - Basic Nonautomation	1,242,244	\$ 0.335	\$ 416,152
SCI. OF AGRICULTURE - Basic Automation Letter	12,266	\$ 0.264	\$ 3,238
SCI. OF AGRICULTURE - Basic Automation Flat	936,828	\$ 0.284	\$ 266,059
SCI. OF AGRICULTURE - 3-Digit Nonautomation	2,218,078	\$ 0.290	\$ 643,243
SCI. OF AGRICULTURE - 3-Digit Automation Letter	13,388	\$ 0.235	\$ 3,146
SCI. OF AGRICULTURE - 3-Digit Automation Flat	1,493,676	\$ 0.246	\$ 367,444
SCI. OF AGRICULTURE - 5-Digit Nonautomation	4,498,115	\$ 0.226	\$ 1,016,574
SCI. OF AGRICULTURE - 5-Digit Automation Letter	0	\$ 0.182	\$ -
SCI. OF AGRICULTURE - 5-Digit Automation Flat	3,580,537	\$ 0.193	\$ 691,044
SCI. OF AGRICULTURE - Carrier Route	19,145,561	\$ 0.140	\$ 2,680,378
SCI. OF AGRICULTURE - High Density	471	\$ 0.114	\$ 54
SCI. OF AGRICULTURE - Saturation	0	\$ 0.097	\$ -
SCI. OF AGRICULTURE - Editorial Discount	14,210,215	\$ (0.065)	\$ (923,664)
SCI. OF AGRICULTURE - Pc. Disc. Delivery Unit	961,200	\$ (0.021)	\$ (20,185)
SCI. OF AGRICULTURE - Pc. Disc. SCF	6,921,591	\$ (0.012)	\$ (83,059)
Science of Agriculture - Commingled Pieces	Pieces	Rate	Postage
SCI OF AGI. COMMINGLED NONSBSCRBR PRESORT LEVEL A	150,384	\$ 0.335	\$ 50,379
SCI OF AGI. COMMINGLED NONSBSCRBR EDITORIAL DISCOUNT	14,965	\$ (0.065)	\$ (973)
SCI OF AGI. COMMINGLED NONSBSCRBR SCF DISCOUNT	0		
Total Pieces & Calculated Revenue	7,351,808,127		\$ 1,993,883,031
TYAR Fees			\$ 15,429,000
Calculated Revenue+TYAR Fees			\$ 2,009,312,031
Target Revenue+TYAR Fees			\$ 2,062,048,209
Calculated Revenue as a Percent of Target Revenue			97.44%
TYAR Cost			\$ 1,981,587,400
Cost Coverage after calculation of new rates			101%
Revenue per piece			0.27
Percent Increase from Base Year			12.47%

**TYAR BILLING DETERMINANTS - AFTER RATES & VOLUME
NONPROFIT PERIODICALS**

Regular Rate Pounds	Pounds	POIR 2	Postage
	TYAR	Rates	Rate*Pounds
Delivery Unit	86,348	\$ 0.169	\$ 14,593
SCF	30,417,541	\$ 0.199	\$ 6,053,091
Zones 1&2	17,232,695	\$ 0.233	\$ 4,015,218
Zone 3	11,206,877	\$ 0.248	\$ 2,779,305
Zone 4	20,175,061	\$ 0.287	\$ 5,790,242
Zone 5	22,682,470	\$ 0.345	\$ 7,825,452
Zone 6	8,523,416	\$ 0.406	\$ 3,460,507
Zone 7	6,048,909	\$ 0.480	\$ 2,902,516
Zone 8	6,257,898	\$ 0.544	\$ 3,404,296
Nonadvertising	437,983,342	\$ 0.182	\$ 79,712,968
Commingled Pounds	Pounds	POIR 2	Postage
	TYAR	Rates	Rate*Pounds
Delivery Unit	5	\$ 0.169	\$ 1
SCF	5,259	\$ 0.199	\$ 1,048
Zones 1&2	48,720	\$ 0.233	\$ 10,886
Zone 3	62,657	\$ 0.248	\$ 15,539
Zone 4	117,423	\$ 0.287	\$ 33,700
Zone 5	343,965	\$ 0.345	\$ 118,668
Zone 6	79,123	\$ 0.406	\$ 32,124
Zone 7	153,612	\$ 0.480	\$ 73,734
Zone 8	2,858	\$ 0.544	\$ 1,555
Nonadvertising	481,041	\$ 0.175	\$ 84,182
Nonprofit (Regular) Pieces	Pieces	Rate	Postage
	TYAR		Rate*Pieces
BASIC NON-AUTOMATION	129,942,673	\$ 0.277	\$ 35,994,121
BASIC AUTOMATION LETTER	18,173,893	\$ 0.224	\$ 4,070,952
BASIC AUTOMATION FLAT	18,958,915	\$ 0.244	\$ 4,625,975
3-DIGIT NON-AUTOMATION	126,784,163	\$ 0.247	\$ 31,315,688
3-DIGIT AUTOMATION LETTER	30,240,250	\$ 0.190	\$ 5,745,648
3-DIGIT AUTOMATION FLAT	133,093,612	\$ 0.219	\$ 29,147,501
5-DIGIT NON-AUTOMATION	160,755,713	\$ 0.215	\$ 34,562,478
5-DIGIT AUTOMATION LETTER	3,320,486	\$ 0.172	\$ 571,124
5-DIGIT AUTOMATION FLAT	350,024,445	\$ 0.193	\$ 67,554,718
CARRIER ROUTE BASIC	1,020,378,992	\$ 0.134	\$ 136,730,785
CARRIER ROUTE HIGH DENSITY	50,382,360	\$ 0.102	\$ 5,139,001
CARRIER ROUTE SATURATION	7,172,532	\$ 0.087	\$ 624,010
PERCENTAGE EDITORIAL DISCOUNT	1,633,799,011	\$ (0.051)	\$ (83,323,750)
WKSHARING DISCNTDELIVERY OFFICE ENTRY	2,515,053	\$ (0.013)	\$ (32,696)
WKSHARING DISCNT SCF ENTRY	437,749,500	\$ (0.007)	\$ (3,064,247)
Nonprofit - Commingled	Pieces	Rate	Postage
BASIC NON-AUTOMATION	1,021,027	\$ 0.335	\$ 342,044
BASIC AUTOMATION LETTER	0	\$ 0.264	\$ -
BASIC AUTOMATION FLAT	124	\$ 0.284	\$ 35
3-DIGIT NON-AUTOMATION	504,386	\$ 0.290	\$ 146,272
3-DIGIT AUTOMATION LETTER	0	\$ 0.235	\$ -
3-DIGIT AUTOMATION FLAT	2,278	\$ 0.246	\$ 560
5-DIGIT NON-AUTOMATION	825,624	\$ 0.226	\$ 186,591
5-DIGIT AUTOMATION LETTER	0	\$ 0.182	\$ -
5-DIGIT AUTOMATION FLAT	8,739	\$ 0.193	\$ 1,687
CARRIER ROUTE BASIC	616,345	\$ 0.140	\$ 86,288
CARRIER ROUTE HIGH DENSITY	1,400	\$ 0.114	\$ 160
CARRIER ROUTE SATURATION	0	\$ 0.097	\$ -
PERCENTAGE EDITORIAL DISCOUNT	1,261,056	\$ (0.065)	\$ (81,969)
WKSHARING DISCNTDELIVERY OFFICE ENTRY	31	\$ (0.021)	\$ (1)
WKSHARING DISCNT SCF ENTRY	103,808	\$ (0.012)	\$ (1,246)
Total Pieces & Calculated Revenue	2,052,207,958		\$ 386,671,356
TYAR Fees			\$ 4,307,000
Calculated Revenue+TYAR Fees			\$ 390,978,356
Target Revenue+TYAR Fees			\$ 373,275,433
Calculated Revenue as a Percent of Target Revenue			104.74%
TYAR Cost			\$ 388,570,325
Cost Coverage after calculation of new rates			101%
Revenue per piece			0.188417238
Percent Increase from Base Year			15.24%

**TYAR BILLING DETERMINANTS - AFTER RATES & VOLUME
CLASSROOM PERIODICALS**

Regular Rate Pounds	Pounds	POIR 2	Postage
	TYAR	Rates	Rate*Pounds
Delivery Unit	6	\$ 0.169	\$ 1
SCF	80,086	\$ 0.199	\$ 15,937
Zones 1&2	415,860	\$ 0.233	\$ 96,895
Zone 3	542,074	\$ 0.248	\$ 134,434
Zone 4	889,779	\$ 0.287	\$ 255,367
Zone 5	859,951	\$ 0.345	\$ 296,683
Zone 6	182,490	\$ 0.406	\$ 74,091
Zone 7	218,919	\$ 0.480	\$ 105,081
Zone 8	269,273	\$ 0.544	\$ 146,484
Nonadvertising	25,252,321	\$ 0.174	\$ 4,393,904
Regular Rate Pieces	Pieces	Rate	Postage
	TYAR		Rate*Pieces
BASIC NON-AUTOMATION	11,744,629	\$ 0.277	\$ 3,253,262
BASIC AUTOMATION LETTER	69,841	\$ 0.212	\$ 14,806
BASIC AUTOMATION FLAT	668,527	\$ 0.233	\$ 155,767
3-DIGIT NON-AUTOMATION	10,516,934	\$ 0.236	\$ 2,481,996
3-DIGIT AUTOMATION LETTER	0	\$ 0.180	\$ -
3-DIGIT AUTOMATION FLAT	3,915,678	\$ 0.208	\$ 814,461
5-DIGIT NON-AUTOMATION	6,199,252	\$ 0.206	\$ 1,277,046
5-DIGIT AUTOMATION LETTER	0	\$ 0.166	\$ -
5-DIGIT AUTOMATION FLAT	5,916,567	\$ 0.183	\$ 1,082,732
CARRIER ROUTE BASIC	15,986,409	\$ 0.127	\$ 2,030,274
CARRIER ROUTE HIGH DENSITY	19,148	\$ 0.101	\$ 1,934
CARRIER ROUTE SATURATION	52,076	\$ 0.083	\$ 4,322
PERCENTAGE EDITORIAL DISCOUNT	50,944,695	\$ (0.048)	\$ (2,445,345)
WKSHARING DISCNTDELIVERY OFFICE ENTRY	484	\$ (0.013)	\$ (6)
WKSHARING DISCNT SCF ENTRY	1,602,492	\$ (0.007)	\$ (11,217)
Total Pieces & Calculated Revenue	55,089,061		\$ 14,178,909
TYAR Fees			\$ 116,000
Calculated Revenue+TYAR Fees			\$ 14,294,909
Target Revenue+TYAR Fees			\$ 14,386,123
Calculated Revenue as a Percent of Target Revenue			99.37%
TYAR Cost			\$ 14,034,300
Cost Coverage after calculation of new rates			101.86%
Revenue per piece			0.257381573
Percent Increase from Base Year			11.29%

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NUMBER 2

2. Please refer to the workpapers of witness Taufique contained in Library Reference I-167, file OC1.xls, which draws from the workpapers of witness Crum contained in Library Reference I-175, files Attachment L.xls and Attachment M.xls. On his page "Summary Sheet" in Attachment L and Attachment M, witness Crum shows the savings for Regular Periodicals SCF mail to be 0.0346 cents/pound and for Nonprofit Periodicals SCF mail to be 0.0331 cents/pound. Using the pieces-per-pound densities of the specific subclasses, these convert into 0.0172 dollars/piece and 0.0091 dollars/piece, respectively. On his page "Discounts" in OC1 at cell C12, witness Taufique uses the Regular Periodicals figure of 0.0172 dollars/piece to develop rates for the proposed joint subclass which includes Regular, Nonprofit, and Classroom. Then in cell D12, witness Taufique develops a savings of 0.0385 cents/pound for the joint subclass using the pieces-per-pound density of the joint subclass. Please respond to the following questions.

- a) Does the fact that the Regular and Nonprofit per-pound savings of \$0.0346 and \$0.0331 are very nearly the same, while the corresponding per-piece savings are quite different, suggest that these savings are pound oriented. If you consider these savings pound oriented, should they be recognized in the form of a pound-rate discount?
- b) Why is it appropriate to use the Regular per-piece savings of \$0.0172 for the joint subclass?
- c) If the Regular per-piece savings of \$0.0172 is used for the joint subclass, please explain why it is appropriate to convert it to per-pound basis in cell D12 using the density of the joint subclass?
- d) Is it consistent to use the Regular density to develop the per-piece savings of \$0.0172 and then to use the joint density to convert it back to a per-pound savings for the joint subclass?

RESPONSE

- a) The mail processing cost savings (as modeled) due to Periodicals dropshipment found in witness Crum's testimony are specifically related to

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NUMBER 2

Question 2, Page 2 of 3

avoided container (sack or pallet) handlings. Therefore, the savings are per container, rather than per-pound or per-piece. The savings are expressed on a per-piece basis by using the average number of pieces per container found in the Periodicals Mail Characteristics Survey (LR-I-87). Per-pound savings are determined by multiplying the per-piece savings by the pieces per pound from the FY 1998 RPW.

The similarity of the per-pound savings between Regular and Nonprofit may imply that Nonprofit and Regular containers weigh approximately the same. But, since Nonprofit pieces on average are lighter than Regular pieces, there are more Nonprofit pieces than Regular pieces in a container. Thus on a per-piece basis Nonprofit savings are lower than Regular savings.

The savings are container based and the Postal Service proposal uses these savings estimates to provide a meaningful dropshipment incentive on both a per-piece and per-pound basis . On the pound side the incentive effect is reduced because the discount only applies to advertising pounds. The piece discount, on the other hand, applies to the dropshipped pieces regardless of the advertising content.

- b. Please see my response to Question 7 in POIR No. 1, which discusses my justification for using rate design parameters for the Regular subclass in developing Outside County rates.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
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Question 2, Page 3 of 3

- c. The conversion to per-pound savings using the joint piece/pound ratio is reasonable for the combined class. It might have been better to derive per-piece savings based on combined densities (number of pieces per container) of Regular and Nonprofit containers. I suspect that the per-piece savings would not change significantly if derived jointly for Regular and Nonprofit because of the large volume proportion of Regular Periodicals.
- d. Please see my response to subpart c above.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
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3. Please refer to the workpapers of witness Taufique contained in Library Reference I-167, file OC1, on the "Discounts" page, cells F2 to J9.

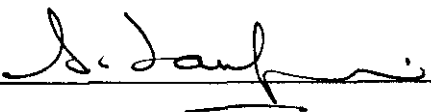
- a) Please explain the decision to propose that the per-piece editorial benefit for the joint subclass be built from the current per-piece editorial benefit for the Regular subclass.
- b) Please explain the decision to propose that the percentage increase in the per-piece editorial benefit be equal to two percentage points less than the average percentage rate increase for the joint subclass.

RESPONSE

- a. Please see my response to Question 7 in POIR No. 1, which discusses my justification for using rate design parameters for the Regular subclass in developing Outside County rates.
- b. The decision to propose that the percentage increase in the per-piece editorial benefit be equal to two percentage points less than the average percentage rate increase for the joint subclass was based on mitigating the impact of a relatively large increase for Outside County Periodicals. Editorial benefit is a leakage in the rate making process that adds to the final revenue requirement resulting in generally higher rates for all the cells.

DECLARATION

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

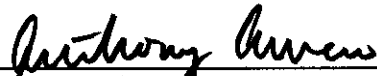


A handwritten signature in cursive script, appearing to read "A. Taufique", is written over a horizontal line. A short horizontal stroke is drawn below the signature line.

Dated: February 28, 2000

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 Alverro

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February 28, 2000