

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

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POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS DANIEL TO INTERROGATORIES OF ASSOCIATION OF
ALTERNATE POSTAL SYSTEMS
(AAPS/USPS-T28—1-5)**

The United States Postal Service hereby provides the responses of witness Daniel to the following interrogatories of the Association of Alternate Postal Systems: AAPS/USPS-T28—1-5, filed on February 23, 2000.

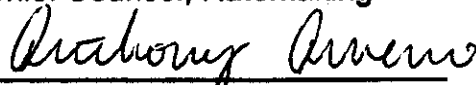
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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Chief Counsel, Rate-making


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March 8, 2000

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AAPS/USPS-T28-1. At page 3, lines 26-27 of your testimony, you indicated that, besides weight, "shape, origin/destination combination, cube and level of presorting and dropshipping of mail can affect the cost of mail." Can the degree to which mail is bound or loose also affect costs? In other words, holding everything else constant, is it more costly to handle an eight-ounce bound catalog or an eight ounce shared mail set with numerous coupons and single sheets of glossy paper inside a folded supermarket brochure? Has the Postal Service studied this issue? If so, please provide a copy of the study.

RESPONSE:

The degree to which mail is bound or loose could conceivably affect costs, but to my knowledge, no cost study of this issue has been conducted.

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AAPS/USPS-T28-2. You state on page 4, line 8, that the weight study methodology "involves every major cost component." Did the Postal Service actually study the effect of weight on every major cost component, or was the effect simply assumed as to some. If the effect on some cost components was assumed, which ones?

RESPONSE:

Section IV on pages 5-10 of my testimony discusses how costs were distributed to weight increment. The following costs were allocated to weight increment in a manner consistent with how the CRA allocates costs to subclass and are not assumptions. Generally, costs in segments 3.1, mail processing; 3.2, window service; and 6.1, city carrier in-office, were distributed on the basis of IOCS tallies. Costs in segment 6.2, in-office support, were distributed on the basis of cost segment 6.1 costs as is consistent with Base Year methodology. Costs in cost segment 7.4, city carrier street support, were distributed on the basis of total city carrier costs as is consistent with Base Year methodology. Costs in segment 10, rural carriers, were distributed to shape and then on the basis of pieces as is consistent with rural carrier compensation. Air and water transportation costs in segment 14 were distributed on the basis of weight. Highway and rail, also in segment 14, and vehicle service costs, segment 8, were distributed on the basis of cube, as is consistent with Base Year methodology.

The following costs were allocated to weight increment based on a reasonable set of assumptions. City carrier street Route and Access costs, segments 7.1 and 7.2, were assumed to vary with pieces, while costs in segment 7.3, Elemental Load, were assumed to vary with weight within shape. The justification of these assumptions can be found on pages 8-9 of my testimony. "Other" costs were assumed to vary with weight.

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AAPS/USPS-T28-3. Please explain, with references to your testimony or to the testimony of other Postal Service witnesses, any new studies or initiatives undertaken since Docket R97-1 to study the effect of weight on costs other than in-office costs – specifically on carrier street time.

RESPONSE:

As explained on page 8-9 of my testimony, I reexamined previous assumptions on the impact of weight on costs. In this Docket, elemental load costs are treated as weight-related within shape. This departs from the assumption in Docket No. R97-1 that assumed these costs varied in proportion to volume within shape. Assumptions regarding access and route costs were also reexamined, but these were not changed; that is, as in Docket No. R97-1, access and route costs remain piece-related. To the best of my knowledge, no other studies have been undertaken since Docket No. R97-1 to study the effect of weight on carrier street-time costs.

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AAPS/USPS-T28-4. Beginning at page 8, you discuss cost segment 7.

- (a). Please confirm that, for cost segment 7.1, Route Time, the Postal Service simply assumed that weight would not affect costs. If you do not confirm, please explain how the effect of weight was studied.
- (b). Please confirm that, for cost segment 7.2, Access time, the Postal Service simply assumed that weight would not affect costs. If you do not confirm, please explain how the effect of weight was studied.
- (c). Please expand on your explanation at pages 8-9 that, for cost segment 7.3, Elemental Load, costs were allocated "on the basis of weight within shape...."
- (d). Please explain in greater detail what you mean at page 9, lines 3-6, when you say that for cost segment 7.4, Street Support, costs are distributed to weight in proportion to the sum of costs in segments 6.1 through 7.3. Does this mean that to the extent that weight in [sic] assumed not to affect those segments, that assumption is carried forward to segment 7.4?

RESPONSE:

- (a-b). Strictly speaking, the mathematical formulae allocate access and route costs strictly on the basis of pieces; however, please see page 8 lines 25-31 of my testimony, which reads:

Since flats and parcels cost more to load than letters, and flats and parcels are heavier on average than letters, it seems reasonable that heavier pieces of the same shape may cost more to load than lighter pieces of the same shape. However, if weight is used as a distribution key, costs will double as weight doubles. This is not necessarily the case for load time, but using weight as a key compensates for any weight-related effects in route and access time, which have been allocated on the basis of piece.

Thus, the Postal Service has not simply assumed weight would not affect route and access time costs. See also my response to interrogatory AAPS/USPS-T28-5.

- (c) Elemental load costs vary with shape and a distribution key has been developed in

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USPS LR-I-95 to allocate elemental load costs to letters, flats and parcels by subclass. The costs for each shape are then distributed to weight increment in proportion to the number of pounds in each weight increment. For example, see Section 1 page 13 row 10 of USPS LR-I-92.

- (d) The Base Year methodology allocates costs in segment 7.4, Street Support, in proportion to the sum of all the other city carrier costs in segments 6.1 through 7.3. Thus, the city carrier street support costs are assumed to vary with weight to the same degree as all other city carrier costs (i.e., in-office, route, access and load) vary with weight.

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AAPS/USPS-T28-5. Assume that a carrier has 500 stops on her route and a saturation ECR piece to deliver to each stop every day, in addition to an assortment of other mail (including perhaps, other saturation pieces). Assume further that on three days the saturation piece weighs one ounce and on three days the saturation piece weighs ten ounces. Please explain with reference to each to the out-of-office functions of the carrier and support personnel whether the costs will vary depending upon whether the piece weighs one ounce or ten ounces. If any other assumptions are necessary to respond to this question, please provide reasonable assumptions.

RESPONSE:

The hypothetical presented in this question is not very likely.

7.1 Route costs *may* vary depending upon whether the piece weighs one ounce or ten ounces, but the cost study allocates route costs as if they will not vary. To the extent these costs do vary with weight, allocating all of elemental load costs directly in proportion to weight could compensate for any understatement that could arise by allocating route costs on the basis of piece.

7.2 Access costs should not vary depending upon whether the piece weighs one ounce or ten ounces; therefore, the cost study allocates access costs as if they will not vary. To the extent these costs possibly vary with weight, allocating all of elemental load costs directly in proportion to weight could compensate for any understatement that may arise by allocating access costs on the basis of piece.

7.3 Elemental Load costs probably vary to some degree although certainly less than ten times more depending upon whether the piece weighs one ounce or ten ounces. The cost study, however, distributes elemental load costs directly proportional to the weight of the piece. To the extent these costs do vary less than 100% with weight, allocating all of elemental load costs directly in proportion to weight overstates the true impact of weight, although it is not known by how much. Therefore, to the extent this assumption overestimates the impact of weight on elemental load costs, this is expected to compensate for the extent to which route or access costs may have been understated.

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7.4 Support Costs are considered to vary in proportion to all other city carrier costs in the CRA. Therefore, these costs should vary to the same degree as the costs in the office as well as those on the street varied and have been allocated as such.

DECLARATION

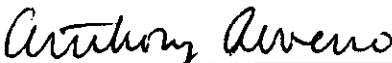
I, Sharon Daniel, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


SHARON DANIEL

Dated: 3/8/00

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.


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