

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

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSES OF THE UNITED STATES POSTAL SERVICE  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 5  
(QUESTIONS 3 THROUGH 10)

The United States Postal Service hereby provides responses to Questions 3 through 10 of Presiding Officer's Information Request No. 5, filed on March 14, 2000. Each question is stated verbatim and is followed by the response.

Questions 1 and 2 are the subject of a Motion For Reconsideration filed by the Postal Service on March 23, 2000.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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March 24, 2000

**RESPONSE OF U.S. POSTAL SERVICE WITNESS JOSEPH D. MOELLER TO  
PRESIDING OFFICER'S INFORMATION REQUEST NO. 5, QUESTION 3**

**3. In USPS-T-35 at 32, witness Moeller states "...if a passthrough similar to those for other automation letters were used, a potential rate anomaly could exist between Basic and 3-digit automation letters."**

- a. Does the phrase "other automation letters" refer to Standard A commercial 3-digit and 5-digit automation letters?**
- b. Please identify the potential rate anomaly that could exist between Basic and 3-digit automation letters. Please discuss.**

**RESPONSE:**

- a. The cited phrase reads as follows: "if a passthrough similar to those for *the* other automation letters were used...." (emphasis added). This passage refers to the other nonprofit automation letter passthroughs, but the statement could apply to the commercial automation letter passthroughs, as well. The passage follows the observation on page 32 that the selected passthrough for nonprofit basic automation letters only maintains 60 percent of the current discount. In every other instance (nonprofit and commercial automation letters), a passthrough was selected that maintained at least 80 percent of the current discount. In fact, in nonprofit, the "other" (3-digit and 5-digit automation) passthroughs maintain 100 percent of the existing discounts. The passage was trying to explain why the noted passthrough was different from the other (nonprofit letter automation) passthroughs in terms of the percentage of the current discount maintained in the proposal.**
- b. The potential for a rate anomaly arises because, as can be seen in the depiction of the presort tree (see USPS-T-35, WP1, page 35), the Basic and 3-digit automation letter tiers are not tied to each other directly; that is, there is no passthrough between the tiers, as there is between 3-digit and 5-digit automation; instead, the passthrough is relative to Basic nonautomation letters.**

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In this particular instance, the passthrough selected for basic automation letters maintains 60 percent of the current discount. If, instead, a passthrough had been selected that maintained 80 percent of the current nonprofit Basic automation letter discount (the minimum amount maintained of any of the other letter automation discounts, commercial or nonprofit), the Basic automation letter rate would have been lower than the 3-digit automation letter rate, assuming no other passthroughs were adjusted. The specific passthrough that would have maintained 80 percent of the current discount is 140 percent. By entering 140 percent for the Basic automation letter passthrough in the nonprofit rate design workpapers (USPS-T-35, WP2, page 12, column (3)), and making no other changes, the resulting rate for Basic automation letters would be 12.0 cents, which is lower than the resulting 12.3 cent rate for 3-digit automation letters. If a passthrough for Basic automation letters were selected that maintained 100 percent of the current discount (which is the case with the other nonprofit automation letter tiers) this anomaly would be even worse: 11.2 cents for Basic, and 12.5 cents for 3-digit.

## 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: 3/24/00

**RESPONSE OF UNITED STATES POSTAL WITNESS MILLER TO  
PRESIDING OFFICER'S INFORMATION REQUEST NO. 5**

**Question 4**

Please refer to USPS-T-24, Appendix II, pp. II-5 and II-6 and USPS-LR-I-90, pp. 34-36. Postal Service witness Miller separates CRA mail processing unit costs between (1) worksharing related - proportional; (2) other worksharing related - fixed; and, (3) non-worksharing related. Postal Service witness Yacobucci separates CRA mail processing unit costs between (1) worksharing related - proportional and (2) non-worksharing related. Witness Yacobucci does not identify any cost pools as other worksharing related - fixed. Please discuss the rationale for the different treatment accorded the CRA mail processing unit costs by witness Miller compared to witness Yacobucci.

**RESPONSE:**

Both witness Yacobucci and I classify the cost pools that are directly related to worksharing (e.g., presort level) as "worksharing related proportional." The remaining cost pools are classified as fixed. The methodologies used in the testimonies differ in terms of how we have treated these fixed cost pools. Witness Yacobucci uses one classification, "non-worksharing related fixed." My testimony uses two classifications, "worksharing related fixed" and "non-worksharing related fixed."

I have created the "worksharing related fixed" cost pool classification to accommodate the cost pools that are affected by worksharing, but do not necessarily vary by presort level. Had these cost pools been classified as proportional, they would have affected the cost relationships between the rate categories where cost models have been used to de-average CRA mail processing unit costs. The use of a third classification allows these cost pools to be included in the worksharing related savings calculations without affecting the costs relationships between the model adjusted costs for these de-averaged rate categories.

This third cost pool classification is necessary because the worksharing related savings calculations in my testimony rely on multiple CRA mail processing unit cost categories. For example, there are four CRA mail processing unit cost categories that support the

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**worksharing related savings calculations for First-Class presort letters: Bulk Metered Mail (BMM) letters, nonautomation presort letters, automation non-carrier route presort**

**Response to Question 4 (continued)**

**letters, and automation carrier route presort letters. In contrast, witness Yacobucci's testimony relies on one First-Class CRA mail processing unit cost category: non-carrier route presort flats. As a result of this fact, the flats worksharing related savings results would not have changed had witness Yacobucci used a third cost pool classification similar to that in my testimony.**

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**QUESTION 5**

Please refer to USPS-T-24, Appendix II, p. II-30 and USPS-LR-I-90, p. 32. The variability factors appearing on those pages, which come from USPS-T-17, Table 1 appear to reflect only the MODS 1&2 Facilities. Since Standard A mail flows through non-MODS offices and BMCs as well as MODS 1&2 facilities, what is the rationale for using variability factors representing only MODS 1&2 facilities?

**RESPONSE:**

[NOTE: Marginal Productivity = MODS Productivity / Volume Variability Factor]

The USPS volume variability factors only affect 11 cost pools, all of which are MODS 1&2 cost pools. As a result, I use these volume variability factors to calculate marginal productivities for the MODS productivities that are associated with these cost pools in USPS-T-24, Appendix II, page II-30. For the same reason, Witness Yacobucci performs similar calculations in USPS-LR-I-90, p. 32.

## DECLARATION

I, Michael W. Miller, 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 black ink, appearing to read "Michael W. Miller", written over a horizontal line.

Dated: 3/24/2000



**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MEEHAN TO  
PRESIDING OFFICER'S INFORMATION REQUEST NO. 5, QUESTION 6**

6. In USPS-T-18 at page 15 witness Bradley states, "the Intra-SCF and Inter-SCF accounts no longer exist," however, in witness Meehan's W.S. 14.3 costs are recorded in these accounts. Please explain. Please also provide citations for the Inter-SCF and Intra-SCF variabilities used in these workpapers.

**RESPONSE**

The accounts in question were apparently not entirely removed from the accounting system and were used to record minimal proportions of accrued costs in the base year. In addition, it is clear from discussions with those involved in the roll out of the new accounts that the intention was to replace the old intra-SCF and inter-SCF accounts with the new 53600 series of accounts. These accounts are discussed in witness Bradley's testimony (USPS-T-18) at pages 14 through 19.

According to my transportation workpapers, of the \$780,882,000 in accrued costs in the intra-SCF cost pool for 1998, only \$543,000 (or 0.00069 of the cost) was booked to the old intra-SCF accounts (53121, 53122, and 53123). Of that amount, \$545,000 was from exceptional service accruals in account 53122. Of the \$451,826,000 in inter-SCF cost pool, \$2,707,000 (or 0.0060 of the cost) was booked to the inter-SCF accounts (53124, 53125, and 53126). Of this \$2.7 million, \$1,643,000 of this total was accrued in 53125, inter-SCF exceptional service.

There are four possible reasons for the appearance of costs in the old accounts: (1) One HCRID (number 79540) was still associated with the 53121 account in 1998; (2) Accruals were made to old contracts that no longer

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appeared in the HCSS database and these old contracts continued to be associated with the old accounts; (3) Those requesting exceptional service (which is assigned by a paper-based accounting system) infrequently and erroneously used the old accounts; (4) Someone in the accounting process made data entry errors.

The variabilities for exceptional service (53122 and 53125) are 1.0000 as they have been in past cases. For accounts 53121 and 53123, a weighted average was taken of the variabilities for intra-PDC and intra-CSD variabilities shown in Table A1 on page 64 of witness Bradley's testimony. For accounts 53124 and 53126, a weighted average of the inter-PDC, inter-Cluster and inter-Area variabilities was used. See the attached table for the calculations.

**ATTACHMENT TO RESPONSE TO PRESIDING OFFICER'S INFORMATION REQUEST NO.  
5, QUESTION 6**

	HCSS Total	Variability	Variable Total
Intra-PDC	\$ 562,008,573	0.680	\$ 382,165,830
Intra-CSD	\$ 146,350,711	0.390	\$ 57,076,777
Total Intra-SCF	\$ 708,359,284	0.620	\$ 439,242,607
Inter-PDC	\$ 60,809,657	0.841	\$ 51,140,922
Inter-Cluster	\$ 88,473,892	0.904	\$ 79,980,398
Inter Area	\$ 192,060,641	0.913	\$ 175,351,365
Total inter-SCF	\$ 341,344,190	0.898	\$ 306,472,685
Source: Table A1, USPS-T-19, p. 64			
Variabilities in bold are used in witness Meehan's workpapers.			

# 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 Meehan

3/24/00

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 5**

7. Please refer to the Response of United States Postal Service Witness Robinson to DFC/USPS-T34-4 where it is confirmed that the majority of priority flat rate envelopes weigh less than 1 pound, and DFC/USPS-T34-5(b) where she states, "Not confirmed that an appropriate rate for the flat-rate envelope is the one-pound rate." Please discuss the rationale for setting the rate for flat-rate envelopes at the two-pound rate.

**RESPONSE:**

The flat-rate envelope rate was set equal to the two-pound Priority Mail rate for several reasons.

First, the dimensions of the flat-rate envelope are such that material weighing over one pound can easily be enclosed in the envelope. If the flat-rate envelope rate were set at the one-pound rate, over time there would be upward pressure on the one-pound rate as price-sensitive customers mail heavier pieces using the flat-rate envelope to take advantage of the lower rate. As discussed in my testimony on pages 15-17, the \$3.45, one-pound rate was proposed to bridge the "gap" between the maximum First-Class Mail rate and the \$3.85, 2-pound Priority Mail rate. If the flat-rate envelope were priced at the one-pound rate and, as a result, attracted more, heavier-weight (over 1 pound) pieces, the upward pressure on the average weight of the combined rate category of "one-pound pieces and flat-rate envelopes" could result in larger future "gaps."

Second, the proposed one-pound rate will meet the needs of customers who are price-sensitive. Customers who are price sensitive will be able to choose between the flat-rate envelope and weight-rated Priority Mail and elect the rate option that provides the lowest price for their piece.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON  
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Third, the Postal Service initially proposed the flat-rate envelope as a convenience product that "remove[d] the need for customers to weigh pieces, and may reduce the need for customers to travel to and stand in line at post offices to tender Priority Mail pieces." (Docket No. R90-1, USPS-T-18 at 126) The additional value of service, in part, justifies the higher two-pound rate.

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8. Please refer to L.R. I - 165.

- a. Attachment I gives the number of on-call pickup stops for TYAR express mail as 351,049 and the number of scheduled stops for TYAR express mail as 249,893, and cites USPS-T-36, Attachment B as the source of these numbers. USPS-T-36, Attachment B gives the numbers as 352,638 and 251,024 (31,641 + 219,383) respectively. Please reconcile these numbers.
- b. Attachment K gives the final adjustment for delivery confirmation for air transportation as 9,739 and for surface transportation as 5,718 and cites LR-I-127, Chapter XV as the source of these numbers. LR-I-127 has TYBR air transportation costs of 9,877 and surface costs of 5,800 (5,702 + 61 + 37). Please reconcile these numbers.

**RESPONSE:**

- a. The number of on-call (351,049) and scheduled pickup stops (249,893) for Express Mail in USPS-T-34, Attachment I (electronic copy filed as USPS-LR-I-165) are correct. This information is consistent with the data presented in USPS-LR-I-62, Attachment B. I am informed that USPS-T-36, Attachment B incorporates preliminary data.
- b. See response to UPS/USPS-T34-13.

## DECLARATION

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

  
MAURA ROBINSON

Dated: 3.24.2000



**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS EGGLESTON  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 5, QUESTION 9**

9. Please refer to USPS-T-26, Attachments K and L, and Attachment 1 of this Presiding Officer's Information Request. The footnotes at the bottom of USPS-T-26, Attachment L state that the cubic feet by zone were calculated by multiplying the regression results in Attachment K by the volumes in USPS-T-36. For convenience, copies of the USPS-T-36 test year before rates volumes are attached. POIR No. 5, Attachment 1 divides the cubic feet by zone from Attachment L by the regression results in Attachment K. The resulting volumes by rate cell do not match the volumes from USPS-T-36. Please explain.

**RESPONSE:**

The volume distributions shown POIR No. 5, Attachment 1 are the same volume distributions used in my Parcel Post transportation model. I received these data from witness Plunkett, and made the incorrect assumption that the data were shown in the same format in witness Plunkett's testimony. There are two reasons why the test-year-before-rates (TYBR) volume distributions used in my testimony do not exactly match the TYBR volume distributions shown in Attachment E of USPS-T-36 (witness Plunkett). The first is that the TYBR volume distributions in USPS-T-36 Attachment E exclude both OMAS and Alaska By-Pass volume. The second difference is that the TYBR volume distribution in my testimony shows the sum of all dropship volume as DBMC volume. This was necessary to be consistent with the cost data. Witness Plunkett shows these volume distributions by rate category (DBMC, DSCF, and DDU).

It should be noted that the total TYBR volumes for inter-BMC, intra-BMC and dropship (parcel select) used in my testimony do match the total volumes in USPS-T-36, Attachment D, lines 15, 16 and 17. Distributing these volumes to weight and zone using witness Plunkett's methodology created the volume distribution used in my testimony.

# DECLARATION

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

Jennifer L. Eggleston  
JENNIFER L. EGGLESTON

Dated: 3/24/00

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 5**

10. In response to OCA/USPS-T-2 the Postal Service submitted LR-I-179 entitled "GAO' Forecasting Spreadsheet Requested In OCA/USPS-2." OCA/USPS-2 asked the Service to provide the "detailed explanation of its volume forecast scenario" that was given to GAO. Is LR-I-179 a volume forecast that was given to the GAO by the Postal Service? If so, please rename the Library Reference accordingly.

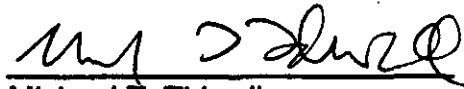
**RESPONSE:**

Yes. The quotation marks around GAO in the title of the library reference were intended to suggest that this was merely a shorthand reference to distinguish these forecasting spreadsheets from any others circulating around in the case. More precise information regarding the genesis of the forecast was included in the question and answer to OCA/USPS-2, and the notice accompanying the library reference explicitly stated "The spreadsheet supports the forecast provided to GAO and referenced in the question." In isolation, however, the title is potentially ambiguous, and therefore, as requested, a notice is being filed to rename the library reference:

USPS-LR-I-179      Forecasting Spreadsheet Provided to GAO and Requested  
                                 in OCA/USPS-2

## **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.

A handwritten signature in black ink, appearing to read "Michael T. Tidwell", written over a horizontal line.

Michael T. Tidwell

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March 24, 2000