

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

RESPONSE OF UNITED STATES POSTAL SERVICE  
TO PRESIDING OFFICER'S RULING NO. R2000-1/24,  
AND NOTICE OF FILING OF ERRATA TO  
TESTIMONY AND EXHIBITS OF WITNESS KANEER (USPS-T-40) [ERRATUM]  
(March 31, 2000)

The United States Postal Service hereby responds to Presiding Officer's Ruling No. R2000-1/24, which requested a notice providing the status and anticipated filing date of the errata to witness Kaneer's testimony and workpapers, and if applicable, to witness Yezer's testimony and supporting materials. As background, witness Yezer's testimony, filed with the Postal Service's Request on January 12, 2000, described his approach and methodology for estimating rental values for the space used by the Postal Service to provide post office box service. Witness Yezer's econometric estimates, supporting data, and resulting rental values were withheld pending a request to provide them only under protective conditions. Presiding Officer's Ruling No. R2000-1/11, issued March 10, 2000, granted the Postal Service's motion for protective conditions, and requested that the protective conditions materials be provided. On March 14, 2000, the Postal Service provided notice that it would need some additional time to provide the materials because of recently discovered errors that were being corrected. The Postal Service corrected these errors, and provided the protective condition materials in USPS-LR-I-241 on March 24, 2000.

Three errors have been corrected. First, one of witness Yezer's imputation equations inadvertently used a log base 10 factor instead of the natural log factor used in his regression equations. Second, additional lease length data for certain Alaska

facilities permitted improvements in rental value estimates for all facilities in Alaska. Third, the list of Group B ZIP Codes used in witness Kaneer's analysis was corrected to make it consistent with those ZIP Codes actually charging Group B fees.

No errata are needed for witness Yezer's testimony, since that testimony was limited to description of his approach and methodology. Library reference I-241 already reflected all of his corrections when filed.

However, the corrections do require errata to witness Kaneer's testimony and exhibits.<sup>1</sup> These errata are fairly limited, reflecting changes to the average cost per square foot, Figure 1, and a revenue variance estimate. The exhibit changes correct some reclassification examples, and present the new results in summary form.

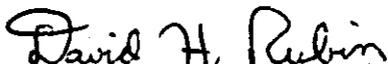
The United States Postal Service therefore provides notice of the filing of errata to the testimony and exhibits of witness Kaneer (USPS-T-40). A summary of the changes is attached, along with the revised pages.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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<sup>1/</sup> There are also errata to witness Kaneer's workpapers, and library reference I-155, which contains his supporting materials. These errata are also being provided today, as discussed in separate pleadings.

**Docket No. R2000-1**  
**Postal Service Witness Kaneer Revisions**

**I. Testimony USPS-T-40**

1. Page 5, ln 14: change \$8.92 to \$8.30.
2. Page 9: New chart.
3. Page 19, ln 15: Change \$18,829,368 to \$18,896,221.

**II. Exhibit A USPS-T-40**

1. Page 1: change ZIP Code from 02139 to 02141.
2. Page 2: change ZIP Code from 78412 to 78415.
3. Page 2: change ZIP Code from 46619 to 46624.
4. Page 2: change ZIP Code from 57701 to 67202.
5. Page 2: change city from Rapid City, SD to Wichita, KS.

**III. Exhibit B USPS-T-40: Replace page 2.**

**IV. Exhibit C USPS-T-40: Replace page 1.**

1           The current fee groups are not strongly related to their costs and thus are  
2 sub-optimal with respect to the fairness and equity criterion.<sup>10</sup> Part of the  
3 problem has been the lack of data showing location-based costs. Witness Yezer  
4 has recently developed the necessary location cost data. These data can be  
5 used to delineate variations in economic space costs by five-digit ZIP Code, thus  
6 allowing the development of truly cost-based post office box fee groups.

7           The current classification categorizes most boxes by the carrier delivery  
8 type without focusing on the economic cost of the space they occupy. On the  
9 other hand, some locations thought to have high costs are segregated into Fee  
10 Groups A and B. Yet the rent ranges for Groups A and B overlap those of  
11 Groups C and D. Exhibit C, table 1, column (b) shows the high and low cost per  
12 square foot values, or "Rent Range," as developed by witness Yezer for the  
13 current fee groups. Note that each fee group's range overlaps that of the others.  
14 For example, all four rent ranges contain facilities having a space cost of \$8.30  
15 per square foot – the overall average cost per square foot (Exhibit C, table 1, line  
16 3, column (e)). A purely cost-based classification system would avoid this result  
17 (though fee shock considerations force the proposed groups to still contain  
18 locations with wide-ranging costs). Given the overlap of rent ranges, currently  
19 there are likely thousands of ZIP Codes in Groups C and D around the nation  
20 that have location costs as high as ZIP Codes in Groups A and B.

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<sup>10</sup> OCA witness Callow pointed to the wide space provision cost variations and cost heterogeneity within the current post office box fee schedule (Docket No. R97-1, Tr.23/12286-87).



1 Facility Profile data in order to estimate the number of Group E boxes (see  
2 column (e)).<sup>17</sup>

3 Workpaper 8 applies box size distributions, shown in Workpaper 5, to the  
4 box counts found in Workpaper 7, thus yielding baseline box counts – both  
5 installed and in use – by size for the current and proposed fee groups.

6 Workpaper 9 displays forecasting input data, and calculates changes in  
7 real GDP and the CPI-U. These data are used in conjunction with the baseline  
8 box counts to estimate box counts in the base year and forecast the box counts  
9 in the test year for current and proposed fee groups.

10 Workpaper 10 shows the Government Fiscal Year (GFY) 1999 and GFY  
11 2000 average Docket No. R97-1 fee change timeline. The purpose of this  
12 worksheet is to supply factors used to calculate interim year box counts.

13 Workpaper 11 displays the GFY 1998 “Base Year Estimate” and develops  
14 a Revenue Pieces and Weight (RPW) adjustment factor. As can be seen, there  
15 is only a \$18,896,221 variance to 1998 RPW revenue, once Caller Service,  
16 Reserve Numbers, and Group E box usage is taken into account. Thus the  
17 basis used to estimate box count data at the rate cell level yields reasonable  
18 estimates of PO Box revenues. Hence, it is also reasonable to use similar  
19 methods in forecasting test year box counts and revenues.

20 My Workpaper 12 applies real price change, elasticity, and GDP growth  
21 factors to estimate End-GFY 1998 boxes in use.

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<sup>17</sup> “Group E” applies to boxes rather than facilities because there is no facility that can be termed a “Group E” facility. Currently, each facility is either Group A, B, C, or D based on the type of carrier delivery or specified ZIP Code.

<b>Post Office Box Reclassification Examples</b>						
<b>From Fee Group B</b>						
<b>To Fee Group B2 (Space Cost &gt;= \$12.50)</b>						
	<i>Zip Code</i>	<i>City</i>		<i>Current Semi-Annual Fee, Box Size 1</i>	<i>Proposed Semi-Annual Fee, Box Size 1</i>	<i>Percent Change In Fee</i>
	02141	Cambridge, MA		\$27.00	\$30.00	11.1%
	22210	Arlington, VA		\$27.00	\$30.00	11.1%
	11205	Brooklyn, NY		\$27.00	\$30.00	11.1%
<b>To Fee Group C3 (\$10.00 &lt;= Space Cost &lt; \$12.50)</b>						
	<i>Zip Code</i>	<i>City</i>		<i>Current Semi-Annual Fee, Box Size 1</i>	<i>Proposed Semi-Annual Fee, Box Size 1</i>	<i>Percent Change In Fee</i>
	60606	Chicago, IL		\$27.00	\$27.50	1.9%
	90049	Los Angeles, CA		\$27.00	\$27.50	1.9%
<b>To Fee Group C4 (Space Cost &lt; \$10.00)</b>						
	<i>Zip Code</i>	<i>City</i>		<i>Current Semi-Annual Fee, Box Size 1</i>	<i>Proposed Semi-Annual Fee, Box Size 1</i>	<i>Percent Change In Fee</i>
	11223	Brooklyn, NY		\$27.00	\$22.50	-16.7%
	19107	Philadelphia, PA		\$27.00	\$22.50	-16.7%

<b>Post Office Box Reclassification Examples</b>						
<b>From Fee Group C</b>						
<b>To Fee Group C3 (Space Cost <math>\geq</math> \$10.00)</b>						
	<i>Zip Code</i>	<i>City</i>		<i>Current Semi-Annual Fee, Box Size 1</i>	<i>Proposed Semi-Annual Fee, Box Size 1</i>	<i>Percent Change In Fee</i>
	10591	Tarrytown, NY		\$22.00	\$27.50	25.0%
	22041	Falls Church, VA		\$22.00	\$27.50	25.0%
	96706	Ewa Beach, HI		\$22.00	\$27.50	25.0%
<b>To Fee Group C4 (\$7.50 <math>\leq</math> Space Cost <math>&lt;</math> \$10.00)</b>						
	<i>Zip Code</i>	<i>City</i>		<i>Current Semi-Annual Fee, Box Size 1</i>	<i>Proposed Semi-Annual Fee, Box Size 1</i>	<i>Percent Change In Fee</i>
	78415	Corpus Christi, TX		\$22.00	\$22.50	2.3%
	46624	South Bend, IN		\$22.00	\$22.50	2.3%
	67202	Wichita, KS		\$22.00	\$22.50	2.3%
<b>To Fee Group C5 (Space Cost <math>&lt;</math> \$7.50)</b>						
	<i>Zip Code</i>	<i>City</i>		<i>Current Semi-Annual Fee, Box Size 1</i>	<i>Proposed Semi-Annual Fee, Box Size 1</i>	<i>Percent Change In Fee</i>
	87109	Albuquerque, NM		\$22.00	\$17.50	-20.5%
	43216	Columbus, OH		\$22.00	\$17.50	-20.5%
	39201	Jackson, MS		\$22.00	\$17.50	-20.5%

Proposed Classification Schedule, TYBR 2001 Box Counts, and Costs

Size One Boxes										
Current Fee Group and Box Counts						Proposed				
A	B	C	D	E	Total	Group	Count	Unit Cost	Total Cost	
24,239	63,276					B2	87,515	\$ 37.24	\$ 3,258,895	
50,532	29,140	1,485,812				C3	1,565,484	\$ 30.82	\$ 48,245,600	
	53,683	1,416,416				C4	1,470,099	\$ 24.85	\$ 36,538,206	
		3,055,537				C6	3,055,537	\$ 20.47	\$ 62,536,285	
			3,930,130			D6	3,930,130	\$ 25.71	\$ 101,035,361	
			246,653			D7	246,653	\$ 18.47	\$ 4,555,264	
				1,437,690		E	1,437,690	\$ 22.71	\$ 32,652,731	
74,772	146,099	5,957,765	4,176,783	1,437,690	11,793,109	Total	11,793,109		\$ 288,822,341	

Size Two Boxes										
Current Fee Group and Box Counts						Proposed				
A	B	C	D	E	Total	Group	Count	Unit Cost	Total Cost	
667	12,454					B2	13,121	\$ 57.38	\$ 752,915	
1,391	5,736	641,785				C3	648,911	\$ 46.85	\$ 30,403,863	
	10,566	611,810				C4	622,376	\$ 36.56	\$ 22,754,849	
		1,319,815				C6	1,319,815	\$ 29.02	\$ 38,299,061	
			1,684,899			D6	1,684,899	\$ 37.75	\$ 63,608,365	
			105,743			D7	105,743	\$ 25.48	\$ 2,694,121	
				188,869		E	188,869	\$ 30.99	\$ 5,852,640	
2,058	28,756	2,573,410	1,790,642	188,869	4,583,736	Total	4,583,736		\$ 164,365,815	

Size Three Boxes										
Current Fee Group and Box Counts						Proposed				
A	B	C	D	E	Total	Group	Count	Unit Cost	Total Cost	
659	5,455					B2	6,114	\$ 102.31	\$ 625,571	
1,374	2,512	208,939				C3	212,825	\$ 91.75	\$ 19,527,803	
	4,628	199,180				C4	203,808	\$ 69.65	\$ 14,194,545	
		429,677				C6	429,677	\$ 53.54	\$ 23,003,139	
			448,609			D6	448,609	\$ 66.28	\$ 29,732,643	
			28,155			D7	28,155	\$ 43.65	\$ 1,229,071	
				18,394		E	18,394	\$ 55.82	\$ 1,026,654	
2,033	12,595	837,796	476,764	18,394	1,347,582	Total	1,347,582		\$ 89,339,226	

Size Four Boxes										
Current Fee Group and Box Counts						Proposed				
A	B	C	D	E	Total	Group	Count	Unit Cost	Total Cost	
82	700					B2	782	\$ 225.87	\$ 176,546	
170	322	46,804				C3	47,297	\$ 192.40	\$ 9,100,029	
	594	44,618				C4	45,212	\$ 142.69	\$ 6,451,493	
		96,251				C6	96,251	\$ 106.48	\$ 10,249,240	
			34,510			D6	34,510	\$ 132.73	\$ 4,580,339	
			2,166			D7	2,166	\$ 83.52	\$ 180,885	
				0		E	0	\$ -	\$ -	
252	1,616	187,674	36,675	0	226,217	Total	226,217		\$ 30,738,532	

Size Five Boxes										
Current Fee Group and Box Counts						Proposed				
A	B	C	D	E	Total	Group	Count	Unit Cost	Total Cost	
17	85					B2	102	\$ 558.69	\$ 57,167	
36	39	10,423				C3	10,498	\$ 368.04	\$ 3,863,714	
	72	9,936				C4	10,009	\$ 272.05	\$ 2,722,824	
		21,435				C6	21,435	\$ 202.35	\$ 4,337,262	
			2,125			D6	2,125	\$ 284.38	\$ 604,450	
			133			D7	133	\$ 170.25	\$ 22,710	
				0		E	0	\$ -	\$ -	
53	197	41,794	2,259	0	44,303	Total	44,303		\$ 11,608,126	

Total, All Size Boxes										
Current Fee Group and Box Counts						Proposed				
A	B	C	D	E	Total	Group	Count	Unit Cost	Total Cost	
25,664	81,971					B2	107,635	\$ 45.26	\$ 4,871,094	
53,503	37,749	2,993,763				C3	2,485,015	\$ 44.72	\$ 111,140,809	
	69,543	2,281,960				C4	2,351,504	\$ 35.15	\$ 82,661,917	
		4,922,715				C6	4,922,715	\$ 28.12	\$ 138,424,986	
			6,100,273			D6	6,100,273	\$ 32.71	\$ 199,561,159	
			382,850			D7	382,850	\$ 22.68	\$ 8,682,051	
				1,644,953		E	1,644,953	\$ 24.03	\$ 39,532,024	
79,167	189,263	9,598,439	6,483,124	1,644,953	17,994,946	Total	17,994,946	\$ 32.50	\$ 584,674,041	

# EXHIBIT C

## Developing A More Cost Homogeneous Classification Structure

Table 1. Test Year Before Rates, Summary Data, Current Fee Groups

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
1		Rent Range					
2	Current Fee Group	(\$/Sq.Ft.)				Zip Codes	Average Rent per Sq.Ft.
3	Total	All				31,507	\$8.30
4	A	\$8.41 to \$16.86				43	\$11.65
5	B	\$1.10 to \$31.12				175	\$12.88
6	C	\$-2.70 to \$32.10				10,394	\$8.16
7	D	\$-2.23 to \$32.10				20,895	\$8.35
8	E	NA				NA	NA

Sources: USPS -LR-I-155, page 38 and page 43.

Table 2. TYBR, Summary Data, Cost-based Groups -- i.e., Without Fee Shock Mitigation

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
1		Rent Range					
2	Cost Group	(\$/Sq.Ft.)				Zip Codes	Weighted Average Rent per Sq.Ft.
3	Total	All				31,507	\$8.30
4	I	>=\$16				1,027	\$20.66
5	II	>=\$12.5 & <\$16				2,425	\$13.91
6	III	>=\$10 & <\$12.5				4,458	\$11.12
7	IV	>=\$7.5 & <\$10				9,745	\$8.64
8	V	>=\$5.0 & <\$7.5				9,820	\$6.29
9	VI	>=\$4.0 & <\$5.0				1,902	\$4.52
10	VII	<\$4.0				2,130	\$2.92
11	E	NA				NA	NA

Sources: USPS -LR-I-155, page 44.

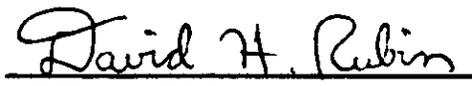
Table 3. TY Summary Data, Proposed Fee Groups - With Fee Shock Mitigation Based on Current Fee Groups

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	
1		Current Fee Groups / Rent Range						
2	Proposed Fee Group	A	B	C	D	Zip Codes	Weighted Average Rent per Sq.Ft.	
3	Total					31,507	\$8.30	
4	B2	>=\$12.50	>=\$12.50			91	\$17.14	
5	C3	<\$12.50	>=\$10.00 & <\$12.50	>=\$10.00		2,849	\$13.76	
6	C4		<\$10.00	>=\$7.50 & <\$10.00		2,777	\$8.67	
7	C5			<\$7.50		4,895	\$5.16	
8	D6				>=\$4.00	19,747	\$8.67	
9	D7				<\$4.00	1,148	\$3.26	
10	E					NA	NA	

Sources: USPS -LR-I-155, page 45.

**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.

  
David H. Rubin  
David H. Rubin

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March 31, 2000