

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
WITNESS SMITH TO INTERROGATORIES OF
THE MCGRAW-HILL COMPANIES, INC.
(MH/USPS-T21-1-2)

The United States Postal Service hereby provides the responses of witness Smith to the following interrogatories of The McGraw-Hill Companies, Inc.:
MH/USPS-T21-1-2, filed on March 22, 2000.


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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
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April 5, 2000

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO INTERROGATORIES OF THE MCGRAW-HILL COMPANIES, INC.**

MH/USPS-T21-1: With reference to the Attachment to your response to Presiding Officer's Information Request No. 4:

- a. Please explain why the mail processing unit costs for First-Class non-carrier route/presort flats would nearly double from 1996 to 1997 (as set forth in Table 2).
- b. Please explain why the mail processing unit costs for First-Class carrier route/presort flats would increase more than five-fold from 1996 to 1997 (as set forth in Table 3).
- c. Please explain why the unit mail processing costs for Periodicals Regular Rate mail in 1998 would increase by 9.5 percent over 1997 (as set forth in Table 4), while the unit mail processing costs for Standard A Nonprofit flats in 1998 would decrease by 15.2 percent from 1997 (as set forth in Table 7). Please explain the role in this regard of the non-automation processing of machinable, prebarcoded, non-carrier-route Periodicals mail.
- d. Please explain why the unit mail processing costs for Periodicals Regular Rate mail in 1999 would increase by 2.3 percent over 1998 (as set forth in Table 4), while the unit mail processing costs for Standard A Regular flats in 1999 would decrease by 2.6 percent from 1998 (as set forth in Table 5). Please explain the role in this regard of the non-automation processing of machinable, prebarcoded, non-carrier-route Periodicals mail.

Response:

- a. Based on the costs by cost pool from the base year 1996 and the FY 1997 CRA, the largest increases are in the FSM, platform, opening, pouching and Non-MODS cost pools. I have no explanation for this. It is probably relevant that the implementation of Classification Reform in July of 1996 meant significant changes in the makeup requirements for both First-Class presort letters and flats.
- b. I don't know. Classification Reform, which was implemented at the end of FY 1996, eliminated this category. As shown in USPS-LR-I-233, available data do indicate costs and volumes for this category in FY 1997. Volume

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in FY 1996 was 43.8 million, and only 9.3 million in FY 1997. No costs or volumes are reported for this category in FY 1998.

- c. Based on comparing the mail processing costs by cost pool from the FY 1997 and FY 1998 CRAs, we can say the following. Periodicals Regular Rate costs rose due to significant increases in the unit costs for FSM sorting, platform and opening units, and Non-MODS cost pools. This was offset partially by a decline in plant manual flat sorting unit costs. The cost increase for Periodicals Regular Rate appears to share some of the same factors prompting the increase in Standard A Regular flats unit costs as discussed in my response to DMA/USPS-T21-2. The decline in Standard A Nonprofit flats costs occurred due to a large reduction in the plant manual flat sorting unit costs and declines in platform and opening, and Non-MODS costs pools. An increase in FSM unit costs partially offset this decrease. I have no information concerning non-automation processing of machinable, prebarcoded, non-carrier route Periodicals mail. Also see witness Kingsley's response to MH/USPS-T10-4.
- d. A comparison of the Periodicals Regular Rate mail processing unit costs for the base year FY 1998 with the preliminary costs for the FY 1999 CRA indicates there is a slight decline in wage adjusted unit costs. Thus, this is a case where the pre-R97-1 and current Postal Service costing methodology provide different results on the direction of cost changes. As

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to non-automated flats sorting, based on comparing the mail processing costs by cost pool from the FY 1998 base year and FY 1999 CRAs, the plant manual flat sorting unit costs decline between FY 1998 and FY 1999.

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MH/USPS-T21-2: With reference to Attachment 17 to your testimony, please explain all of the reasons for the disparity in the mail processing unit costs for Periodicals Regular mail and Periodicals Nonprofit mail, respectively.

Response:

A comparison of the unit costs by cost pool for these two subclasses using USPS-LR-I-81, pages V-49 to V-52, shows the same pattern as the overall costs from my Attachment 17. The unit costs for Regular Rate are nearly twice the unit costs for Nonprofit in most cost pools. As shown in the FY 1998 billing determinants in USPS-LR-I-125, Regular Rate's heavier weight per piece and smaller percentage of both carrier route presort and automation may be the cause. Regular Rate is 8 oz. per piece as compared to Nonprofit, which is 4.4 oz. per piece. Regular Rate has approximately 39 percent carrier route presort as compared to 52 percent for Nonprofit. Of the non-carrier route presort, about 48 percent of Regular Rate is non-automation, while about 43 percent of Nonprofit is non-automation.

DECLARATION

I, Marc A. Smith, hereby declare, under penalty of perjury, that the foregoing Docket No. R2000-1 interrogatory responses are true to the best of my knowledge, information, and belief.




Marc A. Smith

4/5/2000
Date

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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