

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

NOTICE OF THE UNITED STATES POSTAL SERVICE CONCERNING ERRATA  
TO WORKPAPER OF WITNESS FRONK (USPS-T-33) (ERRATUM)

The United States Postal Service hereby provides notice of the filing of errata to the Workpaper of witness Fronk (USPS-T-33). These errata flow from the response of the Postal Service today to interrogatory OCA/USPS-106, and affect the following pages of witness Fronk's Workpaper: Contents, 1, 2, 4, and 7 through 9.

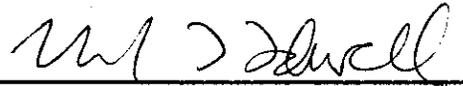
The revised Fronk Workpaper pages filed today replace the original pages filed on January 12, 2000. On each attached revised page, the changes are highlighted by shading.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking



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April 17, 2000

**Docket No. R2000-1**

**USPS-T-33 Fronk Workpaper: First-Class Mail Pricing**

**CONTENTS**

<u>Page</u>	<u>Title</u>
1	First-Class TY Summary: Total Class and Subclass
2	First-Class TY Summary: Letters Subclass Detail
3	First-Class TY Summary: Cards Subclass Detail
4	First-Class TY Billing Determinants: Letters Subclass
5	First-Class TY Billing Determinants: Cards Subclass
6	Inputs: Current and Proposed Rates for FCM Letters and Cards
7	Inputs: 1998 Billing Determinant Data
8	Inputs: Forecast Volumes, Costs and Fees
9	Inputs: 13-Ounce Breakpoint, Adjustments to Nonstandard Single-Piece Volume and Additional Ounces
10	Inputs: 13-Ounce Breakpoint, Adjustments to Presort

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Note on Structure of this Workpaper: Pages 1-3 present summary volume and financial data for total First-Class Mail, the Letters subclass, and the Cards subclass, respectively. Pages 4 and 5 then present the underlying billing determinant data for the Letters subclass and the Cards subclass, respectively. Finally, pages 6-10 present various inputs used in developing the billing determinants shown on pages 4-5.

FIRST-CLASS TY SUMMARY: TOTAL CLASS AND SUBCLASS  
 TY 2001 BEFORE AND AFTER RATES

	<u>BEFORE RATES</u>	<u>AFTER RATES</u>	<u>% CHANGE</u>
<b><u>LETTERS SUBCLASS:</u></b>			
VOLUMES	100,261,726	99,857,394	-0.40%
REVENUES:			
POSTAGE REVENUE	\$34,933,727	\$35,976,352	2.98%
FEE REVENUE	\$156,588	\$189,592	21.08%
TOTAL REVENUE	\$35,090,315	\$36,165,944	3.07%
REVENUE PER PIECE	\$0.349987	\$0.362176	3.48%
COSTS :			
TOTAL COSTS (incl. contg.)	\$18,459,138	\$18,345,506	-0.62%
COST COVERAGE	190.10%	197.14%	
CONTRIBUTION	\$16,631,177	\$17,820,437	7.15%
<b><u>CARDS SUBCLASS:</u></b>			
VOLUMES	5,584,931	5,440,951	-2.58%
REVENUES:			
TOTAL POSTAGE REVENUE	\$1,021,746	\$1,043,775	2.16%
FEE REVENUE	\$7,500	\$8,914	18.85%
TOTAL REVENUE	\$1,029,246	\$1,052,689	2.28%
REVENUE PER PIECE	\$0.184290	\$0.193475	4.98%
COSTS :			
TOTAL COSTS (incl. contg.)	\$727,672	\$708,877	-2.58%
COST COVERAGE	141.44%	148.50%	
CONTRIBUTION	\$301,574	\$343,812	14.01%
<b><u>TOTAL FIRST-CLASS MAIL:</u></b>			
VOLUMES	105,846,657	105,298,345	-0.52%
REVENUES:			
TOTAL POSTAGE REVENUE	\$35,955,473	\$37,020,127	2.96%
FEE REVENUE	\$164,088	\$198,506	20.98%
TOTAL REVENUE	\$36,119,561	\$37,218,633	3.04%
REVENUE PER PIECE	\$0.341244	\$0.353459	3.58%
COSTS :			
TOTAL COSTS (incl. contg.)	\$19,186,810	\$19,054,383	-0.69%
COST COVERAGE	188.25%	195.33%	
CONTRIBUTION	\$16,932,751	\$18,164,249	7.27%

NOTES: Letter data from page 2 of this workpaper.  
 Card Data from page 3 of this workpaper.

FIRST-CLASS TY SUMMARY: LETTERS SUBCLASS DETAIL  
TY 2001 BEFORE AND AFTER RATES

	<u>BEFORE RATES</u>	<u>AFTER RATES</u>	<u>% CHANGE</u>
<b><u>LETTERS:</u></b>			
<b>Single-Piece:</b>			
Volume	53,213,828	52,877,658	-0.63%
Revenue:			
Postage Revenue	\$22,169,105	\$22,746,522	2.60%
Fee Revenue	\$137,713	\$167,072	21.32%
Total Revenue	\$22,306,818	\$22,913,594	2.72%
Revenue Per Piece	\$0.419192	\$0.433332	3.37%
Costs (include contingency):	\$13,408,525	\$13,326,042	-0.62%
<b>Presort:</b>			
Volume	47,047,898	46,979,736	-0.14%
Revenue:			
Postage Revenue	\$12,764,622	\$13,229,830	3.64%
Fee Revenue	\$18,875	\$22,520	19.31%
Total Revenue	\$12,783,497	\$13,252,350	3.67%
Revenue Per Piece	\$0.271712	\$0.282087	3.82%
Costs (include contingency):	\$5,050,613	\$5,019,464	-0.62%
<b>Total Letters Subclass:</b>			
Volume	100,261,726	99,857,394	-0.40%
Revenue:			
Postage Revenue	\$34,933,727	\$35,976,352	2.98%
Fee Revenue	\$156,588	\$189,592	21.08%
Total Revenue	\$35,090,315	\$36,165,944	3.07%
Revenue Per Piece	\$0.349987	\$0.362176	3.48%
Costs (include contingency):			
Costs	\$18,459,138	\$18,345,506	-0.62%
Cost per Piece	0.184110	0.183717	-0.21%
Cost Coverage	190.10%	197.14%	
Contribution, Total	\$16,631,177	\$17,820,437	7.15%

Notes: Postage revenue and volumes from page 4 of this workpaper. Fee revenue and costs from page 8.

First-Class TY Billing Determinants  
Letters, Flats and Sealed Parcels Subclass  
FY 2001 TEST YEAR: BEFORE RATES AND AFTER RATES

Line Description	Volume (000)		Rates		Revenues (000)	
	Current (1)	Proposed (2)	Current (3)	Proposed (4)	Current (5)	Proposed (6)
<b>Single-Piece</b>						
First Ounce, except QBRM	52,854,032	52,519,725	0.330	0.340	\$17,441,831	\$17,856,707
First Ounce, QBRM	359,796	357,932	0.300	0.310	\$107,939	\$110,959
<b>Additional Ounces</b>	<b>19,974,221</b>	<b>19,779,450</b>	<b>0.220</b>	<b>0.230</b>	<b>\$4,394,329</b>	<b>\$4,549,273</b>
Nonstandard Pieces	362,544	360,307	0.110	0.110	\$39,880	\$39,634
Total Pieces* (or Rates Revenue)	53,213,828	52,877,658			\$21,983,978	\$22,556,573
<b>Revenue x Adjustment Factor</b>					<b>\$22,169,105</b>	<b>\$22,746,522</b>
Revenue from Rates, Per Piece					\$0.416604	\$0.430173
<b>Nonautomation, Presorted</b>						
First Ounce*	2,930,521	2,586,288	0.305	0.320	\$893,809	\$827,612
Heavy-Piece Discount	134,498	118,699	-0.046	-0.046	(\$6,187)	(\$5,460)
Additional Ounces	509,536	449,683	0.220	0.230	\$112,098	\$103,427
Nonstandard Pieces	21,329	18,823	0.050	0.050	\$1,066	\$941
Total Pieces (or Rates Revenue)	2,930,521	2,586,288			\$1,000,786	\$926,520
<b>Revenue x Adjustment Factor</b>					<b>\$999,609</b>	<b>\$925,431</b>
Revenue from Rates, Per Piece					\$0.341103	\$0.357822
<b>Automation, Presorted</b>						
<b>Letters:</b>						
Basic Automation, First Oz.*	5,587,538	5,620,726	0.270	0.280	\$1,508,635	\$1,573,803
3-Digit, First Oz.*	24,358,882	24,508,201	0.261	0.271	\$6,357,668	\$6,641,722
5-Digit, First Oz.*	12,283,788	12,362,727	0.243	0.253	\$2,984,960	\$3,127,770
Heavy-Piece Discount	84,155	84,676	-0.046	-0.046	(\$3,871)	(\$3,895)
Additional Ounces	1,059,030	1,065,587	0.220	0.230	\$232,987	\$245,085
<b>Flats:</b>						
Basic Automation, First Oz.*	51,973	52,293	0.300	0.310	\$15,592	\$16,211
3-Digit Flats, First Oz.* **	299,532	33,211	0.270	0.295	\$80,874	\$9,797
5-Digit Flats, First Oz.	N/A	271,480	N/A	0.275	N/A	\$74,657
Heavy-Piece Discount	170,589	173,248	-0.046	-0.046	(\$7,847)	(\$7,969)
Additional Ounces	857,506	870,873	0.220	0.230	\$188,651	\$200,301
Nonstandard Pieces	51,173	51,971	0.050	0.050	\$2,559	\$2,599
Total Pieces (or Rates Revenue)	42,581,713	42,848,638			\$11,360,208	\$11,880,081
<b>Revenue x Adjustment Factor</b>					<b>\$11,386,030</b>	<b>\$11,907,084</b>
Revenue from Rates, Per Piece					\$0.267392	\$0.277887
<b>Carrier Route</b>						
First Ounce*	1,535,664	1,544,810	0.238	0.248	\$365,488	\$383,113
Heavy-Piece Discount	4,646	4,674	-0.046	-0.046	(\$214)	(\$215)
Additional Ounces	62,187	62,557	0.220	0.230	\$13,681	\$14,388
Total Pieces (or Rates Revenue)	1,535,664	1,544,810			\$378,955	\$397,286
<b>Revenue x Adjustment Factor</b>					<b>\$378,983</b>	<b>\$397,315</b>
Revenue from Rates, Per Piece					\$0.246788	\$0.257193
<b>Total Pieces or Rates Revenue, All</b>	<b>100,261,726</b>	<b>99,857,394</b>			<b>\$34,933,727</b>	<b>\$35,976,352</b>
<b>Revenue from Rates Per Piece, All</b>					<b>\$0.348425</b>	<b>\$0.360277</b>

NOTES: Rate categories marked with an asterisk are from RCF forecast per p. 8 of this workpaper, except 3/5-Digit Flats split according to 1997 mail characteristics data per note \*\* below. Other categories from billing determinant proportions per page 7, with additional ounces, heavy pieces, and nonstandard surcharge volumes adjusted per pages 9 and 10 of this workpaper. Rates from page 6 of this workpaper. Columns (5) and (6): Columns (1) and (2), times Columns (3) and (4), respectively.  
\*\* Currently a combined 3/5-Digit rate; volume split based on Table 9, USPS LR-H-185 from Docket No. R97-1, which indicates 89.1% is 5-Digit (224,574+3,375 / 224,574+3,375+138+27,809) and 10.9% is 3-Digit (27,809+138 / 224,574+3,375+138+27,809).

Inputs: 1998 Billing Determinant Data

Letters (Units divided by pieces)		Source 1/
<b>Single-Piece</b>		
<b>Additional Ounce</b>	<b>0.337847</b>	<b>Table A-1</b>
Nonstandard Surcharge	0.006833	Table A-1
<b>Revenue Adjust. Factor</b>	<b>1.008421</b>	<b>Table A-1</b>
<b>Nonautomation Presort</b>		
Heavy Piece	0.045250	Table A-2 <u>2/</u>
Additional Ounce	0.166195	Table A-2
Nonstandard Surcharge	0.007283	Table A-2
<b>Revenue Adjust. Factor</b>	<b>0.998824</b>	<b>Table A-2</b>
<b>Automation Presort</b>		
Heavy Piece, Letters	0.001993	Table A-3 <u>3/</u>
Heavy Piece, Flats	0.471600	Table A-3 <u>4/</u>
Additional Ounce, All	0.041908	Table A-3 <u>5/</u>
Additional Ounce, Ltr.	0.025078	Table A-3 <u>5/</u>
Additional Ounce, Flat	2.202073	Table A-3 <u>5/</u>
Nonstandard Surcharge	0.149461	Table A-3 <u>6/</u>
<b>Revenue Adjust. Factor</b>	<b>1.002273</b>	<b>Table A-3</b>
<b>Carrier Route</b>		
Heavy Piece	0.003026	Table A-4 <u>7/</u>
Additional Ounce	0.040495	Table A-4
<b>Revenue Adjust. Factor</b>	<b>1.000073</b>	<b>Table A-4</b>

**Cards:**

<b>Single-Piece</b>		
Letter Rate Cards	0.048617	Table A-5

1/ All references are to the billing determinants for FY 1998, USPS-LR-I-125.

2/ 210,787 heavy pieces / 4,658,236 pieces of nonauto presort, as shown in Table A-2

3/ 68,608 heavy letters / 68,608+34,360,073 total automation presort letters, as shown in Table A-3

4/ 126,504 heavy flats / 126,504+141,740 total automation presort flats, as shown in Table A-3

5/ "Additional Ounce, All" calculated by dividing 1,454,080 additional ounces by 34,696,924 pieces, as shown in Table A-3.

As discussed in the Note below, the change in breakpoint from 11 to 13 ounces affects automation flats, but not letters. To make the adjustment to automation flat additional ounces resulting from the breakpoint change & described on page 10, it was necessary to disaggregate the "Additional Ounce, All" ratio into separate ratios for flats and letters. Data from FY 1998 mailing statements (permit system), indicate that of the 1,454,080 additional ounces, 863,387 are from letters and 590,693 are from flats. The letters ratio was calculated by dividing 863,387/ 34,360,073+68,608 and the flats ratio was calculated by dividing 590,693/ 141,740+126,504.

6/ 40,092 nonstandard flats / 141,740+126,504 flats, per Table A-3.

7/ 3,870 heavy pieces / 1,279,092 carrier route pieces, as shown in Table A-4.

**Note:** As a result of R97-1, the maximum weight limit for First-Class Mail was increased from 11 to 13 ounces. Within the letters subclass, this weight increase affects single-piece, nonautomation presort, and automation flats. Since this increase in weight became effective January 10, 1999, the 1998 percentages shown above do not reflect the impact of this weight change. In addition, the pieces migrating to FCM as a result of the elimination of Standard (A) single-piece on January 10, 1999, may have a different average weight than the typical single-piece FCM letter.

To account for the weight limit increase and the elimination of Standard (A) single piece, the above proportions in italics were applied as follows. The nonstandard ratio was not applied to pieces migrating from Priority Mail to FCM since they were by definition more than 11 ounces; nonstandard volume for former Standard (A) pieces migrating to FCM was calculated separately, per page 9.

The additional ounce proportion for single-piece was applied per page 9 of this workpaper, that is, the proportion was applied to the single-piece volume less the pieces migrating from Priority Mail to FCM and from former Standard (A) SP. Additional ounces were then calculated separately for former Standard (A) single piece and the volume migrating to FCM from Priority. The billing determinant proportions in italics for nonautomation presort and automation flats were applied per page 10 of this workpaper, that is, the proportions were applied to the nonautomation presort and automation flat volumes less the volume estimated for 12 and 13 ounce pieces. Additional ounces were then calculated separately for these two weight steps. Also, all 11-13 ounce pieces were by definition standard, and were "heavy" for purposes of the heavy piece disc.

Inputs: Forecast Volumes, Costs and Fees (000s)

Forecast Volumes (from  
USPS-T-6, Table 1)

	TYBR	TYAR
<u>Letters Subclass</u>		
Single Piece Letters	53,213,828	52,877,658
Nonautomation Presort Letters	2,930,521	2,586,288
Basic Auto Letters	5,587,538	5,620,726
3-Digit Letters	24,358,882	24,508,201
5-Digit Letters	12,283,788	12,362,727
Carrier Route Letters	1,535,664	1,544,810
Basic Auto Flats	51,973	52,293
3/5-Digit Flats	<u>299,532</u>	<u>304,691</u>
Workshared Total	47,047,898	46,979,736
<u>Cards Subclass</u>		
Stamped Cards	445,823	415,873
Post Cards	2,405,027	2,354,910
Nonautomation Presort Cards	400,483	383,715
Basic Auto Cards	554,484	548,060
3-Digit Cards	959,003	939,713
5-Digit Cards	678,794	661,035
Carrier Route Cards	<u>141,317</u>	<u>137,645</u>
Total FCM	105,846,657	105,298,345
<u>QBRM Volumes*</u>		
TYBR Letters	359,796	
TYAR Letters	357,932	
TYBR Cards	104,217	
TYAR Cards	103,678	

\* Developed using the following two inputs:

1. Forecast Totals from USPS-T-39, WP 5)	
TYBR QBRM Volume	464,013
TYAR QBRM volume	461,610

2. Letter/Card Split from RPW

Letters %	77.54%
Cards %	22.46%

Note: Since the BRMAS per-piece fee (now QBRM fee) is the same for both letters and cards, the 1998 billing determinants did not break down the total BRMAS piece count by shape. To develop the letter/card split, a special run was done using FY 1998 data from the Domestic Probability Subsystem of the RPW system. Mail Category Code 8380, Business Reply Mail Envelopes/Cards - Advance Deposit BRMAS, was allocated to letters and cards based on the associated shape field. The percentages obtained from the system, 77.54% letters and 22.46% cards, are shown above.

Cost Data  
(TYBR: USPS-T-14, Workpaper H, Table E  
TYAR: USPS-T-14, Workpaper J, Table E)

<u>Letters Subclass</u>	
TYBR Single Piece	\$13,185,688
TYAR Single Piece	\$13,109,617
TYBR Presort	\$4,927,427
TYAR Presort	\$4,897,038
<u>Cards Subclass</u>	
TYBR Single Piece	\$541,262
TYAR Single Piece	\$526,750
TYBR Presort	\$168,662
TYAR Presort	\$164,837
Contingency	1.025
<u>Fees (from USPS-T-32, Exhibits 32A &amp; 32B)</u>	
<u>Letters Subclass</u>	
TYBR Single Piece	\$137,713
TYAR Single Piece	\$167,072
TYBR Presort	\$18,875
TYAR Presort	\$22,520
<u>Cards Subclass</u>	
TYBR Single Piece	\$6,405
TYAR Single Piece	\$7,636
TYBR Presort	\$1,095
TYAR Presort	\$1,278

Reduction in Final Cost Adjust. for change  
in single-piece additional ounce calculation  
(before application of contingency factor):

<u>Letters Subclass:</u>	
TYBR Single Piece	(\$104,200)
TYAR Single Piece	(\$108,600)

Note: It is my understanding that to make this adjust. consistent with the response to OCA/USPS-106(d), one needs to make the following adjustments to USPS LR-I-97.

The costs for "Heavier Distribution <11 oz" need to be set equal to the "Rollforward Unit Cost" for TYBR01 and TYAR01.

This is done by setting cells M4 equal to M3 and R4 equal to R3 on the "Mail Processing," "Window," "City Delivery," "Vehicle Service," "Rural Delivery, and "Transportation," worksheets in "lr97fnad.xls." The new final adjustments to FCM single-piece are as follows:

TYBR01 = \$78,233; TYAR01 = \$75,351.

This represents a TYBR change of \$104.2 from the original \$182,437, and a TYAR change of \$108.6 from \$183,926.

(It is also my understanding that FY00 would similarly change by setting cells J4 = J3 in the same worksheets, making the new final adjustment \$72,741, a change of \$70.7.

Inputs: 13-Ounce Breakpoint,  
 Adjustments to Nonstandard Single-Piece Volume and Additional Ounces (000s)

Ounce Increments	Former Standard (A) Mail Single-Piece Addition to First-Class					
	1998 Pieces <u>1/</u>	%	TYBR 2001 Pieces <u>2/</u>	TYAR 2001 Pieces <u>2/</u>	TYBR Add'l. Ozs.	TYAR Add'l. Ozs.
up to 1.0	80,920	56.66%	56,786	60,466		
2.0	21,708	15.20%	15,234	16,221	15,234	16,221
3.0	7,549	5.29%	5,298	5,641	10,595	11,282
4.0	6,173	4.32%	4,332	4,613	12,996	13,838
5.0	4,490	3.14%	3,151	3,355	12,603	13,420
6.0	3,164	2.22%	2,220	2,364	11,102	11,821
7.0	2,097	1.47%	1,472	1,567	8,829	9,402
8.0	1,986	1.39%	1,394	1,484	9,756	10,388
9.0	2,414	1.69%	1,694	1,804	13,552	14,430
10.0	2,009	1.41%	1,410	1,501	12,688	13,511
11.0	1,942	1.36%	1,363	1,451	13,628	14,511
12.0	4,183	2.93%	2,935	3,126	32,290	34,382
13.0	4,174	2.92%	2,929	3,119	35,149	37,427
	142,809	100.00%	100,217	106,711	188,423	200,633

Nonstd. Pieces	747
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Nonstd. Pieces	796
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Ounce Increments:	Former Priority Mail Addition to First-Class <u>3/</u>			
	TYBR 2001 Pieces	TYAR 2001 Pieces	TYBR Add'l. Ozs.	TYAR Add'l. Ozs.
11.01 up to 12.0	84,929	80,853	934,216	889,388
12.01 up to 13.0	<u>80,260</u>	<u>76,164</u>	<u>963,116</u>	<u>913,971</u>
	165,188	157,018	1,897,332	1,803,359

No nonstandard pieces associated with these volumes migrating into FCM.

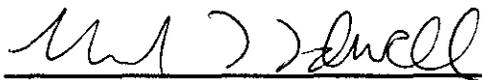
1/ Fiscal Year 1998 Billing Determinants, Table G-1 (USPS-LR-I-125). Also, per Table G-1, 1,065 pieces are nonstandard (1.3161% of one-ounce pieces)

2/ FY 1998 distribution applied to forecast TY volume of FCM single-piece coming from former Standard (A) single piece, per USPS-T-7, Workpaper 4, page 4-2.

3/ Forecast TY volume for 11-12 and 12-13 ounce increments from USPS-LR-I-114 at pages 8 and 15.

## 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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April 17, 2000