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

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000–1

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO QUESTIONS POSED DURING HEARINGS

The United States Postal Service hereby provides its responses to several questions posed during the cross-examination of witness Fronk, on April 26, 2000.

The questions are stated verbatim and followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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May 3, 2000

RESPONSE OF U.S. POSTAL SERVICE TO QUESTIONS POSED
DURING THE ORAL TESTIMONY OF USPS WITNESS FRONK

TR. 12/4894-95. [By Mr. Costich] Mr. Chairman, could I ask that the Postal Service provide these short paid volumes and revenues broken down by the exact amount short paid [referring to the row labeled "varies"]?

RESPONSE: The requested data are being supplied in electronic form in USPS-LR-I-312.

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Tr. 12/4907. [By Mr. Costich] Could I ask that the Postal Service provide a breakdown or a further demonstration of how that attributable cost number was calculated in the Christensen Associates paper [referring to response to OCA/USPS-121(c)].

RESPONSE: This question requests information about a document prepared by an outside consultant and presented to the Postal Service. This response provides the information requested, but should not be considered as an endorsement of either the methodologies employed or the results reported.

The derivation of the total cost associated with nonpresort FIM letters for FY 97 of $0.37 billion used to estimate the contribution per piece as reported in USPS-LR-I-121 is described here.

Derivation of total cost for Nonpresort FIM letters (Contribution per piece analysis; Christensen Associates)	
$0.0455	Attributable unit cost FY97 – nonpresort FIM letters (average cost by Cost Segment; derived from CRA data, as described below)
x 8.23	Volume (billions)
= $0.37	Cost (billions) – Nonpresort FIM letters

In general the methodology used to derive the attributable unit cost for nonpresort FIM letters for FY97 distributes CRA costs or MODS-based costs to shape and type using the appropriate distribution keys. Average cost by shape (FIM letters, non-FIM script letters, non-FIM non-script letters, flats, parcels) was derived by cost segment. The resulting sum gives the attributable unit cost for FY97 of $0.0455.

Derivation of attributable unit cost FY97 for nonpresort FIM letters		
Cost Segment	Average Cost	Source/derivation
CS 1 Postmasters	0.0017	Total CRA volume variable cost is distributed to shape using DPS revenue shares. Resulting cost for letters is then distributed to type using ODIS volume shares.
CS 3.1 Mail Process.	0.0132	Total IOCS volume variable cost* is

		distributed to shape and type using IOCS (direct and mixed) shares. Separate keys are developed for Function 1 & BMC pools and Function 4 & non-MODS pools.
CS 3.2 Window Service	0.0111	Total IOCS volume variable cost* is distributed to shape and type using IOCS (direct and mixed) shares. Non-direct costs (CRA costs less IOCS costs) are distributed to shape and type using ODIS volume shares.
CS 6 & 7 City Delivery Carrier	0.0084	In-Office: Total IOCS volume variable cost* is distributed to shape and type using IOCS (direct and mixed) shares. IOCS costs are adjusted for in-office support. Route time: Total CRA volume variable cost is distributed to shape and type using ODIS volume shares. Access time: Total CRA volume variable cost is distributed to shape and type using ODIS volume shares. Elemental load: Total CRA volume variable cost is distributed to shape using elemental load keys from CRA worksheets. Resulting cost for letters is then distributed to type using ODIS volume shares. Street Support: Total CRA volume variable cost is distributed to shape and type using composite totals from C/S 6 to C/S 7.3 Piggybacked costs: Total costs for C/S 6 to C/S 7.5 are adjusted for piggybacked costs (same piggyback factor for each shape and type).
CS 8 Vehicle Service Drivers	0.0005	Total CRA volume variable cost is distributed to shape using cube data. Cube data are based on DPS weight data by shape multiplied by density constants that are established in Supplement 1 of USPS-LR-MCR-13. CRA costs are adjusted for piggybacked costs. Resulting cost for letters is then distributed to type using ODIS volume shares.

CS 10 Rural Delivery Carrier	0.0043	Total CRA volume variable cost is distributed to shape using rural carrier keys from CRA worksheets. CRA costs are adjusted for piggybacked costs. Resulting cost for letters is then distributed to type using ODIS volume shares.
CS 14 Transportation	0.0063	Domestic Air: Total CRA volume variable cost is distributed to shape using DPS weight shares. Resulting cost for letters is then distributed to type using ODIS volume shares. Domestic Highway: Total CRA volume variable cost is distributed to shape using cube data. Cube data are based on DPS weight data by shape multiplied by density constants that are established in Supplement 1 of USPS-LR-MCR-13. Resulting cost for letters is then distributed to type using ODIS volume shares. Domestic Rail: Total CRA volume variable cost is distributed to shape using cube data. Cube data are based on DPS weight data by shape multiplied by density constants that are established in Supplement 1 of USPS-LR-MCR-13. Resulting cost for letters is then distributed to type using ODIS volume shares. Domestic Water: Total CRA volume variable cost is distributed to shape using DPS weight shares. Resulting cost for letters is then distributed to type using ODIS volume shares.
All other costs	0.0002	The difference between the CRA grand total cost and the sum of all the costs above is distributed to shape and type using ODIS volume shares.
Total	0.0455	

*IOCS costs are adjusted for premium-pay and piggybacked costs.

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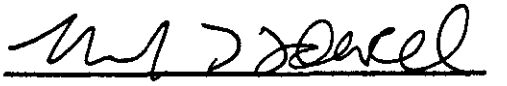
Tr. 12/4951. [By Chairman Gleiman] I'm willing to direct the Postal Service to see if they have any information on single-piece usage and its sensitivity to price.

RESPONSE: The testimony of witness Thress (USPS-T-7 at pages 21-23) includes a discussion of the price elasticity of single-piece letters. Using a model which includes worksharing discounts, the own-price elasticity of single-piece First-Class letters is equal to –0.262. Price elasticities have not been separately measured for components of the single-piece mail stream, for example, remittances.

The rebuttal testimony of Postal Service witness Ellard in Docket No. R97-1 (USPS-RT-14) explained market research which evaluated a proposed two-stamp system for First-Class single-piece letters. Under the evaluated proposal, the basic rate for a First-Class letter would remain the same, but a lower rate (3 cents lower) would be available for payments mailed in return envelopes that met certain addressing requirements. The research concluded that the public did not find the proposed two-stamp system attractive. Also, market research conducted by the Postal Service on Prepaid Reply Mail in Docket No. R97-1 (USPS-LR-H-242) included some qualitative discussion of price. Focus group participants indicated that the price levels tested (32, 29, and 27 cents) did not affect the potential use of the proposed product.

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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