

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

RECEIVED  
MAY 5 4 47 PM '00

POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE  
TO INTERROGATORIES OF DISTRICT PHOTO, MYSTIC  
COLOR LAB, AND COX SAMPLING, IN COMPLIANCE WITH  
PRESIDING OFFICER'S RULING NO. R2000-1/45  
(DMC/USPS-1 - 2)

The United States Postal Service hereby provides its responses to the following interrogatories of DMC, Advo, Inc.: DMC/USPS-1 - 2, as restated in Presiding Officer's Ruling No. R2000-1/45.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking



Eric P. Koetting

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-2992 Fax -5402  
May 5, 2000

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
INTERROGATORIES OF DISTRICT PHOTO, INC., MYSTIC COLOR LAB, AND COX  
SAMPLING (DMC) AS PROVIDED IN THE  
PRESIDING OFFICER'S RULING NO. R2000-1/45**

**DMC/USPS-1.** Refer to the Response of Postal Service Witness Smith to POIR No. 4, Attachment page 1 of 8. Please explain the reasons why First-Class parcel processing costs increased in 1996.

**Response:**

There were two cost methodology changes between FY 1995 and FY 1996 in IOCS and LIOCATT that appear to account for most of this change. These changes affected parcel unit costs in First-Class and Standard A in both mail processing (and in-office carrier costs as well). As indicated generally in response to POIR No. 4, there have been changes in IOCS and LIOCATT which lead to inconsistencies across the years. The particular cost methodology changes referred to here, which were not specifically identified in that response, lead to changes in both LIOCATT "direct" and "mixed" costs. The First-Class single-piece parcel and Standard A Regular parcel LIOCATT costs for both FY 1995 and FY1996 are shown in the Attachment to this response. This Attachment shows about half the increase is due to increases in LIOCATT "direct" costs and half the increase is due to LIOCATT "mixed" costs. For instance, the increase in the First-Class single-piece parcels LIOCATT costs of \$47.678 million can be divided into \$25.078 million increase in "direct" costs and \$22.599 million increase in "mixed" costs.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
INTERROGATORIES OF DISTRICT PHOTO, INC., MYSTIC COLOR LAB, AND COX  
SAMPLING (DMC) AS PROVIDED IN THE  
PRESIDING OFFICER'S RULING NO. R2000-1/45**

The reported increase in LIOCATT "direct" costs for these products is due to a change in the way shape for flats and IPPs were determined in the FY 1996 CRA. In FY 1996 a change was made in the IOCS data editing process (Program 40) for IOCS tallies involving shape recorded as parcel machinable or parcel outside with a piece weight less than 8 ounces. Such tallies were designated as "IPP" shape in FY 1996 instead of the designation as "flat" as done in FY 1995 and earlier. This revision had also been included in the Docket No. MC97-2 filing, see USPS-LR-PCR-38, pages 2-3 and Table 3. Table 3 of this library reference provides the Standard A Regular parcel LIOCATT costs for FY 1995 with this change, leading to nearly a 20 percent increase over the FY 1995 CRA LIOCATT costs.<sup>1</sup> This change also impacts city carrier in-office costs for FY 1996 and after. This leads to the reported increase in in-office costs for First-Class single-piece and Standard A Regular parcels as shown on pages 1 and 5 of the Attachment to the Response to POIR No. 4.

The increase in LIOCATT "mixed" costs arose in part due to the increase in "direct" costs, but also from a revised treatment of mixed costs. Not long before FY 1995, the mixed mail codes were reassigned into shape related mixed mail codes based on IOCS Question 19. In FY 1996, IOCS Question 19, response A (manual) was

---

<sup>1</sup> Table 3 of USPS-LR-PCR-38 shows the Standard A Regular parcel LIOCATT costs of \$120.3 million, while the attachment to this interrogatory shows the FY 1995 LIOCATT costs for this same

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
INTERROGATORIES OF DISTRICT PHOTO, INC., MYSTIC COLOR LAB, AND COX  
SAMPLING (DMC) AS PROVIDED IN THE  
PRESIDING OFFICER'S RULING NO. R2000-1/45**

modified to read as it does today. The modifications included the addition of Parcel Piece Distribution. Mixed mail tallies for this additional IOCS response were included in Mixed Mail Activity Code 5700. There was a large increase in activity code 5700 costs in FY 1996 (\$123 million for FY 1996 compared to \$40.3 million in FY 1995). This change only affected mail processing costs.

---

category to be \$101.5 million.

## LIOCATT PARCEL COSTS

		<u>FY 1995</u>	<u>FY 1996</u>	<u>Difference</u>
<b><u>First-Class letters and sealed parcels:</u></b>	(1)			
Mail processing functional costs				
Total IPPs & parcels	(2)	87,480	135,158	47,678
Total IPPs	(3)	69,208	112,391	
Total parcels	(4)	18,272	22,767	
Schedule B: Direct Mail costs:				
Total IPPs & parcels	(5)	63,267	88,345	25,078
Total IPPs	(6)	50,242	73,323	
Total parcels	(7)	13,024	15,021	
Mixed mail costs				
Total IPPs & parcels	(8)	24,213	46,813	22,599
Total IPPs	(9)	18,965	39,067	
Total parcels	(10)	5,248	7,746	
<hr/>				
<b><u>Standard A regular:</u></b>	(11)			
Mail processing functional costs				
Total IPPs & parcels	(12)	101,492	138,471	36,979
Total IPPs	(13)	38,990	71,309	
Total parcels	(14)	62,502	67,161	
Schedule B: Direct Mail costs:				
Total IPPs & parcels	(15)	61,431	79,800	18,369
Total IPPs	(16)	24,849	41,993	
Total parcels	(17)	36,581	37,807	
Mixed mail costs				
Total IPPs & parcels	(18)	40,062	58,671	18,609
Total IPPs	(19)	14,141	29,316	
Total parcels	(20)	25,921	29,355	

Sources:

Clerk/mailhandler functional LIOCATTs for FY 1995 &amp; 1996.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
INTERROGATORIES OF DISTRICT PHOTO, INC., MYSTIC COLOR LAB, AND COX  
SAMPLING (DMC) AS PROVIDED IN THE  
PRESIDING OFFICER'S RULING NO. R2000-1/45**

**DMC/USPS-2.** Refer to the Response of Postal Service Witness Smith to POIR No. 4, Attachment page 5 of 8. Please explain the reasons why Standard A Regular parcel processing costs increased between 1995 – 1998.

**Response:**

The change in processing unit costs between FY 1995 and FY 1996 for Standard A Regular parcels appears to be due to changes in cost methodology as discussed in response to DMC/USPS-1. However, other cost methodology changes have yet to be discovered that could explain the unit cost increase for Standard A Regular parcels for FY 1996 to FY 1998 shown in witness Smith's response to POIR No. 4, Attachment, page 5. A similar, although somewhat smaller, increase in Standard A Regular parcel unit costs is observed for FY 1996 to FY 1998 using mail processing labor costs developed under the Postal Service's methodology as proposed in Docket No. R97-1. It should be noted that there were no significant mail preparation rule changes during these years, and the residual shape surcharge did not go into effect until FY1999.

When looking at the trends in costs by Cost Pool, several stand out. Areas with significant increases between FY 1996 and FY 1998 are P&D SPBS, P&D Platform, BMC Parcel Sorters, BMC Manual, BMC Platform, Stations and Branches Manual (LDC 43), and Non-MODS. The P&D Bulk Opening and BMC SPBS Cost Pools experienced a significant decrease. Based on the mail preparation requirements of machinable and irregular parcels, one plausible explanation for the increase in the P&D SPBS and BMC

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
INTERROGATORIES OF DISTRICT PHOTO, INC., MYSTIC COLOR LAB, AND COX  
SAMPLING (DMC) AS PROVIDED IN THE  
PRESIDING OFFICER'S RULING NO. R2000-1/45**


Manual Cost Pools is that more of these parcels are being prepared as irregulars (SPBSs can process certain irregular pieces while BMC parcel sorters cannot). When a mailing has the characteristics of and is prepared as machinable parcels, the pieces can be presorted to 5-digit destinations when volume dictates, otherwise, the pieces enter the BMC network where they are processed on the parcel sorters ultimately to 5-digit destinations. Machinable parcels should not require additional processing, manual or otherwise, in a BMC or plant, leaving an increase in irregulars as a possible explanation for these cost increases.

A significant portion of the volume prepared as an irregular parcel is labeled to and processed in the BMC network. The fact that the SPBS can process a portion of this volume, but the costs in the BMC SPBS pool have decreased while the BMC Manual pool has increased, signals that these Standard Mail (A) parcels are being replaced on the machine with other volume and pushed to more costly manual operations.

Finally, the increases in the Stations and Branches Manual and Non-MODS cost pools may be related to a general decrease in manually processed volume at the delivery units. As the volume of mail processed to the carrier route in automated operations increases, the fewer remaining pieces processed manually at delivery units, which includes Standard Mail (A) parcels, may be subject to reduced efficiencies.

**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.



\_\_\_\_\_  
Eric P. Koetting

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-2992 Fax -5402  
May 5, 2000