

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

REVISED RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORY OF MAJOR MAILERS ASSOCIATION
(MMA/USPS-T32-2) (ERRATUM)

The United States Postal Service hereby files its revised to the following interrogatory of Major Mailers Association, redirected from witness Mayes: MMA/USPS-T32-2. The original response was filed in April 19, 2000. The revised response filed today supersedes that response.

The revised response addresses issues raised by the May 3, 2000, MMA Motion to Compel.

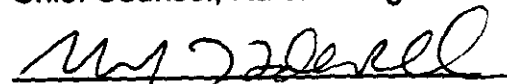
The interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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May 8, 2000

REVISED RESPONSE OF UNITED STATES POSTAL SERVICE TO MMA INTERROGATORY
REDIRECTED FROM WITNESS MAYES

MMA/USPS-T32-2 Please refer to your response to Interrogatory MMA/USPS-T32-1. There you explain where to find postal costs under the Commission's cost methodology for the test year.

- (a) Please confirm the following cost figures (in \$000's) including contingency (but not prior year losses) for the test year before rates. If you cannot confirm these cost figures, please provide the correct cost figures and the derivation and/or source thereof.

	(1) PRC TY BR LR-I-131, Vol H, Table E	(2) USPS TY BR Exhibit USPS-32A	(3) Difference (1) - (2)
Variable Costs	\$ 45,317,267	\$ 41,754,751	\$ 3,562,516
Institutional Costs	\$ 24,592,811	\$ 27,992,970	\$ (3,400,159)
Total Costs	\$ 69,910,078	\$ 69,747,721	\$ 162,357

- (b) If you confirm the cost figures in part (a), please explain why the total costs reported using the Commission's cost methodology are \$162.357 million higher than the total costs reported using the Postal Service's costing methodology. If you did not confirm the cost figures in part (a), please explain any difference in the total costs for your corrected cost figures, if there is a difference.

- (c) Please confirm the following cost figures (in \$000's) including contingency (but not prior year losses) for the test year after rates. If you cannot confirm these cost figures, please provide the correct cost figures and the derivation and/or source thereof.

	(1) PRC TY AR LR-I-131, Vol J, Table E	(2) USPS TY AR Exhibit USPS-32B	(3) Difference (1) - (2)
Variable Costs	\$ 44,387,115	\$ 40,891,695	\$ 3,495,420
Institutional Costs	\$ 24,584,124	\$ 27,978,701	\$ (3,394,577)
Total Costs	\$ 68,971,239	\$ 68,870,396	\$ 100,843

- (d) If you confirm the cost figures in part (c), please explain why the total costs incurred reported by using the Commission's cost methodology are \$100.843 million higher than if reported by using the Postal Service's costing methodology. If you did not confirm the cost figures in part (c), please explain any difference in the total costs for your corrected cost figures, if there is a difference.

REVISED RESPONSE OF UNITED STATES POSTAL SERVICE TO MMA INTERROGATORY
REDIRECTED FROM WITNESS MAYES

Response to MMA/USPS-T32-2:

(a) Not confirmed. The revised amounts are shown below.

	(1) PRC TY BR See Attachment to this Response	(2) USPS TY BR Exhibit USPS-32A Revised 4/21/00	(3) Difference (1) - (2)
Variable Costs	\$ 45,200,186	\$ 41,647,946	\$ 3,552,240
Institutional Costs	\$ 24,592,812	\$ 27,992,970	\$ (3,400,158)
Total Costs	\$ 69,792,998	\$ 69,640,916	\$ 152,082

There are two sources of the revised amounts. The first source is the errata filed by witness Mayes, USPS-T32, on April 21, 2000. The second source is the USPS-LR-I-131, Table E, equivalent that appears as an attachment to this response. The Table E equivalent is the result of the single input change to the Final Adjustment amount for the single-piece portion of First Class Mail Letters & Parcels. The adjustment was calculated by using the same method described at page 8 of USPS-LR-I-169 (witness Fronk workpaper), as revised 4/17/00.

(b) To understand the Commission's costing methodology, please refer to the Opinion and Recommended Decision, Docket No. R97-1 and PRC library references PRC LR-4, LR-5 and LR-19 from Docket No. R97-1.

To understand the Postal Service's costing methodology in the R2000-1 proposal, please refer to the testimonies of postal witnesses Meehan (USPS-T-11), Kashani (USPS-T-14), Bozzo (USPS-T-15), Degen (USPS-T-16), Baron (USPS-T-12), Pickett (USPS-T-19), Bradley (USPS-T-18), Stevens (USPS-T-20), Smith (USPS-T-21), Raymond (USPS-T-13), among others.

REVISED RESPONSE OF UNITED STATES POSTAL SERVICE TO MMA INTERROGATORY
REDIRECTED FROM WITNESS MAYES

The following illustration may be helpful to understand how different methodologies yield different results. If mail processing volume variability is less than one hundred percent in the Postal Service's cost model and the mail processing volume variability is one hundred percent in the Commission's cost model, whenever the same mail volume effect is applied to mail processing, the results will be different. Arithmetically this can be seen in the following hypothetical example in which base year costs are 100, volume is projected to increase 5 percent, and the Postal Service and Commission variabilities are 80 percent and 100 percent, respectively:

	<u>Postal cost model</u>	<u>PRC cost model</u>
1. Base Year Mail processing cost	100	100
2. Volume Variability	0.80	1.00
3. Volume Variable cost (1 X 2)	80	100
4. Mail Volume Effect	0.05	0.05
5. Mail Volume cost change (3 X 4)	4	5
6. Test Year Mail processing cost (1 + 5)	104	105

The difference between 104 and 105 in this example is purely the result of utilizing different volume variabilities.

(c) Not confirmed. The revised amounts are shown below.

	(1) PRC TY AR <small>See Attachment to this Response</small>	(2) USPS TY AR <small>Exhibit USPS-32A Revised 4/21/00</small>	(3) Difference <small>(1) - (2)</small>
Variable Costs	\$ 44,267,841	\$ 40,780,380	\$ 3,487,461
Institutional Costs	\$ 24,584,125	\$ 27,978,701	\$ (3,394,576)
Total Costs	\$ 68,851,965	\$ 68,759,081	\$ 92,884

The sources and explanation are provided in part (b) of this response.

(d) Please refer to the response to subpart (b) above.

<u>Test Year Before Rates</u>	Total Attributable	Final Adjustments	Adjusted Attributable Costs	Contingency 0.025	Total Including Contingency	Product Specific Including Contingency	Volume Variable Total Including Contingency
First-Class Mail:							
Letters & Parcels	14,336,724	83,094	14,419,818	360,495	14,780,313	0	14,780,313
Presort Ltr & Pcl	5,523,756	-203,034	5,320,722	133,018	5,453,740	0	5,453,740
Single Piece Cards	593,739	-4,177	589,562	14,739	604,301	0	604,301
Presort Prvt P Cs	184,981	0	184,981	4,625	189,606	0	189,606
Total First	20,639,200	-124,117	20,515,083	512,877	21,027,960	0	21,027,960
Priority Mail	3,399,051	125,401	3,524,452	88,111	3,612,563	-56,788	3,555,775
Express Mail	695,423	0	695,423	17,386	712,809	-13,519	699,290
Mailgrams	1,105	0	1,105	28	1,133	0	1,133
Second-Class Mail:							
Within County	82,913	0	82,913	2,073	84,986	0	84,986
Outside County:							
Reg Rate Pub	2,095,675	0	2,095,675	52,392	2,148,067	0	2,148,067
Nonprofit Pub	382,808	0	382,808	9,570	392,378	0	392,378
Classroom Pub	14,743	0	14,743	369	15,112	0	15,112
Total Second	2,576,139	0	2,576,139	64,403	2,640,542	0	2,640,542
Third-Class Mail:							
Single Piece Rate	0	0	0	0	0	0	0
Bulk Rate-Reg							
Car Presort	2,611,957	16,804	2,628,761	65,719	2,694,480	0	2,694,480
Other	7,892,373	-353,091	7,539,282	188,482	7,727,764	0	7,727,764
Total Regular	10,504,330	-336,287	10,168,043	254,201	10,422,244	0	10,422,244
Bulk Rate-Nonprof							
Car Presort	212,502	8,181	220,683	5,517	226,200	0	226,200
Other	1,428,340	-32,224	1,396,116	34,903	1,431,019	0	1,431,019
Total Nonprof	1,640,842	-24,043	1,616,799	40,420	1,657,219	0	1,657,219
Total Third	12,145,172	-360,330	11,784,842	294,621	12,079,463	0	12,079,463
Fourth-Class Mail:							
Parcels Zone Rate	1,102,873	-21,287	1,081,586	27,040	1,108,626	0	1,108,626
Bound Prmt Matter	483,414	0	483,414	12,085	495,499	0	495,499
Spc 4th-CI. Rate	307,088	0	307,088	7,677	314,765	0	314,765
Library Rate	48,487	0	48,487	1,212	49,699	0	49,699
Total Fourth	1,941,862	-21,287	1,920,575	48,014	1,968,589	0	1,968,589
U S Postal Service	296,853	-296,853	0	0	0	0	0
Free Mail-Blind & Hndc & Servicemen	42,395	0	42,395	1,060	43,455	0	43,455
International Mail	1,527,297	0	1,527,297	38,182	1,565,479	-68,986	1,496,493
Special Services:							
Registry	84,100	-158	83,942	2,099	86,041	0	86,041
Certified	527,111	3,654	530,765	13,269	544,034	0	544,034
Insurance	78,072	-357	77,715	1,943	79,658	0	79,658
COD	16,488	-49	16,439	411	16,850	0	16,850
Special Delivery	1	0	1	0	1	0	1
Money Orders	164,912	0	164,912	4,123	169,035	-11,391	157,644
Stamped Cards	3,360	0	3,360	84	3,444	0	3,444
Stamped Envelopes	12,164	0	12,164	304	12,468	0	12,468
Special Handling	1,819	0	1,819	45	1,864	0	1,864
Post Office Box	573,599	0	573,599	14,340	587,939	0	587,939
Other	193,316	-592	192,724	4,818	197,542	0	197,542
Total Spc Svcs	1,654,942	2,498	1,657,440	41,436	1,698,876	-11,391	1,687,485
Total Attributable	44,919,439	-674,688	44,244,751	1,106,119	45,350,870	-150,684	45,200,186
Other	23,549,126	296,853	23,845,979	596,149	24,442,128	150,684	24,592,812
Total Costs	68,468,565	-377,835	68,090,730	1,702,268	69,792,998	0	69,792,998

1/ Highlighted cell First Class Mail Letters & Parcels Final Adjustment is the only changed input

<u>Test Year After Rates</u>	Total Attributable	Final Adjustments	Adjusted Attributable Costs	Contingency 0.025	Total Including Contingency	Product Specific Including Contingency	Volume Variable Total Including Contingency
First-Class Mail:							
Letters & Parcels 1/	14,252,866	80,064	14,332,930	358,323	14,691,253	0	14,691,253
Presort Ltr & Pcl	5,519,182	-230,832	5,288,350	132,209	5,420,559	0	5,420,559
Single Piece Cards	577,859	-4,223	573,636	14,341	587,977	0	587,977
Presort Prvt P Cs	180,971	0	180,971	4,524	185,495	0	185,495
Total First	20,530,878	-154,991	20,375,887	509,397	20,885,284	0	20,885,284
Priority Mail	3,189,719	116,642	3,306,361	82,659	3,389,020	-56,788	3,332,232
Express Mail	701,773	0	701,773	17,544	719,317	-13,516	705,801
Mailgrams	1,106	0	1,106	28	1,134	0	1,134
Second-Class Mail:							
Within County	82,087	0	82,087	2,052	84,139	0	84,139
Outside County:							
Reg Rate Pub	2,044,419	0	2,044,419	51,110	2,095,529	0	2,095,529
Nonprofit Pub	401,790	0	401,790	10,045	411,835	0	411,835
Classroom Pub	14,487	0	14,487	362	14,849	0	14,849
Total Second	2,542,783	0	2,542,783	63,570	2,606,353	0	2,606,353
Third-Class Mail:							
Single Piece Rate	0	0	0	0	0	0	0
Bulk Rate-Reg							
Car Presort	2,555,480	16,137	2,571,617	64,290	2,635,907	0	2,635,907
Other	7,574,915	-353,023	7,221,892	180,547	7,402,439	0	7,402,439
Total Regular	10,130,395	-336,886	9,793,509	244,838	10,038,347	0	10,038,347
Bulk Rate-Nonprof							
Car Presort	208,705	8,006	216,711	5,418	222,129	0	222,129
Other	1,418,777	-27,877	1,390,900	34,773	1,425,673	0	1,425,673
Total Nonprof	1,627,482	-19,871	1,607,611	40,190	1,647,801	0	1,647,801
Total Third	11,757,877	-356,757	11,401,120	285,028	11,686,148	0	11,686,148
Fourth-Class Mail:							
Parcels Zone Rate	1,091,263	-35,656	1,055,607	26,390	1,081,997	0	1,081,997
Bound Prmt Matter	469,586	0	469,586	11,740	481,326	0	481,326
Spc 4th-CI. Rate	303,452	0	303,452	7,586	311,038	0	311,038
Library Rate	47,637	0	47,637	1,191	48,828	0	48,828
Total Fourth	1,911,938	-35,656	1,876,282	46,907	1,923,189	0	1,923,189
U S Postal Service	297,117	-297,117	0	0	0	0	0
Free Mail-Blind & Hndc & Servicemen	42,440	0	42,440	1,061	43,501	0	43,501
International Mail	1,483,484	0	1,483,484	37,087	1,520,571	-68,986	1,451,585
Special Services:							
Registry	80,889	-149	80,740	2,019	82,759	0	82,759
Certified	491,761	3,397	495,158	12,379	507,537	0	507,537
Insurance	76,560	-352	76,208	1,905	78,113	0	78,113
COD	16,367	-48	16,319	408	16,727	0	16,727
Special Delivery	1	0	1	0	1	0	1
Money Orders	159,545	0	159,545	3,989	163,534	-11,391	152,143
Stamped Cards	3,360	0	3,360	84	3,444	0	3,444
Stamped Envelopes	12,169	0	12,169	304	12,473	0	12,473
Special Handling	1,814	0	1,814	45	1,859	0	1,859
Post Office Box	565,670	0	565,670	14,142	579,812	0	579,812
Other	193,435	-512	192,923	4,823	197,746	0	197,746
Total Spc Svcs	1,601,571	2,336	1,603,907	40,098	1,644,005	-11,391	1,632,614
Total Attributable	44,060,686	-725,543	43,335,143	1,083,379	44,418,522	-150,681	44,267,841
Other	23,540,389	297,117	23,837,506	595,938	24,433,444	150,681	24,584,125
Total Costs	67,601,075	-428,426	67,172,649	1,679,316	68,851,965	0	68,851,965

1/ Highlighted cell First Class Mail Letters & Parcels Final Adjustment is the only changed input

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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May 8, 2000