UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268

Postal Rate and Fee Changes Docket No. R2000-1

PRESIDING OFFICER'S INFORMATION REQUEST NO. 12

(May 15, 2000)

The Postal Service is requested to provide the information described below to assist in developing a record for the consideration of its request for changes in rates and fees. In order to facilitate inclusion of the required material in the evidentiary record, the Postal Service is to have a witness attest to the accuracy of the answers and be prepared to explain to the extent necessary the basis for the answers at our hearings. The answers are to be provided within 10 days.

1. Please refer to the response to question 5 of Presiding Officer's Information Request No. 1. The question concerns, among other things, the role that RPW correction factors should play in rate design. These factors significantly affect some subclasses, but not others such as Periodicals. Whether significant or not, it seems important that they be handled appropriately and uniformly among witnesses.

   The response agrees that the revenue requirement should be divided by the correction factor at the beginning of the rate design process but then indicates (in part "f") that a correction factor need not be used to estimate the revenue that finally results. To clarify the record, please discuss the logic of the following development, which is adapted to the Postal Service's procedure of developing rates on a TYBR basis.

Suppose for a subclass that the billing determinants multiplied by the rates in the base year yield a "calculated" revenue of $800 (without fees) and that the official RPW revenue, for some unknown reason, is $960 (without fees). This produces a correction factor of 1.2 (960/800). The mechanics are that whatever revenue is calculated, the actual revenue tends to turn out to be 1.2 times that amount. Now suppose the TYBR cost is $600 and that an after-fees coverage of 150% is desired. The revenue requirement, then, is $900 (1.5 x 600). If the billing determinants were to be used to design rates that yield $900, which (except for rounding) would then be the calculated revenue, the actual RPW revenue would be expected to turn out to be $1080 (1.2 x $900). Since this would be excessive, an adjusted procedure is used.

Assume the TYAR fees are estimated to be $15, at before rates volumes. Since the fees may not be known at this point, a rough estimate or first-iteration value may be used. The figure of $885 ($900 - $15) is divided by 1.2 to yield $737.50. The rates are designed according to the billing determinants to yield $737.50, knowing that the RPW realized revenue will tend to be 1.2 times this much. At the end of the rate design process, the calculated revenue, which will be $737.50 (except for rounding effects) is multiplied by 1.2 to get an estimate of the realized revenue of $885. To this, the TYAR fees of $15 are added. The sum, $900, divided by the cost of $600 yields the desired coverage of 150%. If the volume decreases 1% under the new rates, the revenue estimates will decrease by 1%, the costs (to the extent they are volume variable) will decrease 1%, and the fee estimate will decrease 1%. The coverage will be approximately the same.

Please explain whether this process properly represents a logical rate design procedure and whether the rate design procedures used by the Postal Service in this proceeding are consistent with it. If another rate design procedure has been used, please outline it in detail and explain whether it has been used consistently.

2. Please refer to the response to question 1 of Presiding Officer's Information Request No. 10. The response says that there is an error in the mail volume effect of component 907, the computer forwarding system distribution key. The response also says that this key is used to develop the distribution keys for space (component 1099) and rental value (component 1199) costs in the "B" report. The response also includes spreadsheets showing the effect of correcting the error on cost distributions as reported in the "B" report. A review of the PESSA cost distributions shows that component 907 is also used in the development of other cost distribution keys. First, component 907 is used to create component 1258 that is the distribution key for mail processing equipment maintenance. Component 1258 is part of the development of the space and rental related distribution key components 1099 and 1199. Second, Component 907 is also used in the development of the capital factors distribution key, component 1229. The Capital Factors distribution key is used to distribute the costs of Component 232, Equipment Depreciation.
   Please provide updated worksheets showing the effect on cost distributions from using a corrected component 907 in the development of components 1258 and 1229.

3. Please refer to the response to question 2 of Presiding Officer's Information Request 10. Witness Kashani says that the rollforward was intended to account for the migration of Standard A Single Piece to First-Class single piece and Priority Mail for all components. He

also says that "The proper method of reflecting this migration in the aforementioned rollforward distribution keys is to include the migrated amounts for First-Class and Priority Mail in the VBL1 file in FY99rcc...". While the response was referring to the distribution key components 1439 through 1453, would the proper method of reflecting the Standard A Single Piece migration noted in the response also apply to all of the distribution key components that make up the space and rental value distribution keys (Components 1099 and 1199), the mail processing equipment maintenance distribution key (component 1258), and the capital factors distribution key (component 1229)?

If the answer is in the affirmative, please provide the entries into the VBL1 file to accomplish this adjustment. The VBL1 entries should be in the same format as the BEN2FACT file in FY99rcc.

4. In response to POIR No. 5, question 4, witness Miller stated, using First-Class as an example, that witness Yacobucci's cost savings relied on only one CRA unit cost for First-Class flats. For this reason, witness Miller concluded that "[as] a result of this fact, the flats worksharing related savings results would not have changed had witness Yacobucci used a third cost pool classification similar to that in my testimony."

   In Standard A Regular Subclass, witness Moeller calculates a rate differential between letters and flats based on witness Miller's mail processing cost for letters and witness Yacobucci's mail processing cost for flats. Both the letter and flat costs include nonworksharing-related costs. Excluding nonworksharing-related costs from both letters and flats, would affect the size of the cost differential unless, by coincidence, the per-piece nonworksharing-related cost for letters and flats are equal.

a. Please provide actual average and normalized automation-related cost savings for flats that reflect worksharing-related costs only, i.e., excluding nonworksharing-related costs.
b. Please provide revised pages 34, 35, and 36 of USPS LR-I-90 reflecting three columns (1) worksharing related – proportional, (2) worksharing related – fixed per piece, and (3) not worksharing related – fixed per piece.
c. Please provide revised electronic spreadsheets for USPS LR-I-90 incorporating the changes described in (a) and (b).

5. In the calculation of the CRA cost adjustment for letters, witness Miller treats the platform cost pool as nonworksharing fixed. USPS-T-24. For the CRA adjustment factor for flats witness Yacobucci also treats the platform costs as nonworksharing fixed. USPS-T-25. For parcel post, however, witness Eggleston treats the platform costs as proportional in calculating the CRA adjustment factor. USPS-T-26, attachment A, pg. 2. Please explain why the platform costs are considered proportional in parcel post and fixed, non-worksharing for flats and letters.

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Presiding Officer