

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Postal Rate and Fee Changes

Docket No. R2000-1

PRESIDING OFFICER'S INFORMATION REQUEST NO. 13

(May 24, 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. In his March 20, 2000 speech "Breaking Through to a New Golden Age of Mail" Postmaster General Henderson announced a plan to reduce expenses by at least 4 billion dollars between the year 2000 and the year 2004. He specified that overhead costs will be reduced by about \$100 million a year. An additional \$100 million a year is to come from reducing transportation costs. More efficient paperwork and purchasing will reduce costs by \$100 million a year. Finally, \$700 million a year will come from improved productivity in mail processing. To what extent are the reductions in expenses announced by the Postmaster General already incorporated in rate case projections?
 - a. Please identify interim year (FY 2000) reductions in expenses, by segment and component, related to savings in overhead; transportation; more efficient paperwork and purchasing; and mail processing.

- b. To the extent that the reductions in expenses identified by Postmaster General Henderson for 2000 are not included in the rate case forecast, please set out by segment and component the additional reductions in expenses planned for each of these four areas that will allow the Postal Service to achieve the target set by the Postmaster General.
 - c. Please identify test year (FY 2001) reductions in expenses, by segment and component, related to savings in overhead; transportation; more efficient paperwork and purchasing; and mail processing.
 - d. To the extent that the reductions in expenses identified by Postmaster General Henderson for 2001 are not included in the rate case forecast, please set out by segment and component the additional reductions in expenses planned for each of these four areas that will allow the Postal Service to achieve the target set by the Postmaster General.
2. In the response to Presiding Officer's Information Request No. 9, question 1, it is reported that Postal Service Total Factor Productivity improved in FY 2000, quarters 1 and 2, by 1.7%, and 2.7% respectively. Please identify, by segment and component, the extent to which savings resulting from these productivity gains were included in the interim year (FY 2000) cost projections.
3. Please refer to Table 5 of USPS LR-I-95, revised 3/1/00, the response to question 2 of POIR No. 11, the response to parts "b" and "c" of question 4 of POIR No. 7, and USPS LR-I-307. Table 5 shows the cost difference between Regular Nonletters (8.359 cents) and ECR Basic Nonletters (6.589 cents) to be 1.770 cents. The latter figure is used as part of the carrier route (relative to 5-digit) cost avoidance for Regular Periodicals in USPS-T-38 and USPS LR-I-167 (workbook OC1.xls, sheet 'Discounts,' cells D20:D23). Three issues appear to exist relating to the applicability of the difference of 1.770 cents to Periodicals.

- (a) LR-I-307 explains (on page 4) that the line-of-travel (LOT) requirement in Basic ECR has reduced the costs of ECR Basic Nonletters by approximately 0.74 cents per piece, and that a LOT requirement for Periodicals does not exist. The library reference also calculates potential savings in Periodicals for the imposition of a LOT requirement on the assumption that no LOT sequencing is currently being done. Accordingly, it appears that approximately 0.74 cents of the 1.770-cent difference is due to the LOT requirement in Basic ECR and therefore would not apply to Periodicals. Please explain whether the 1.770-cent difference should be reduced by 0.74 cents. If not, explain why it still applies to Periodicals.
- (b) The response to question 4b of POIR No. 7 explains that the proportion of parcels in the Periodicals categories is negligible, ranging from 0.001 percent to 0.042 percent. The response to question 2 of POIR No. 11 explains that the proportion of parcels in the Standard A ECR Basic Nonletter category is 0.15 percent and the proportion of flats is 60.20 percent. Of nonletters, then, 99.74 percent is flats and 0.25 percent is parcels. In line with the practice of basing presort discounts on constant profile cost comparisons, and assuming there is no practical difference between the 0.25-percent figure and the negligible proportions for Periodicals, it is possible to calculate a Regular Nonletter Subtotal (to replace the 8.359-cent figure in Table 5) based on 99.74 percent flats and 0.25 percent parcels. This can be done using the separate flat and parcel costs above the 8.359-cent figure in Table 5, and yields a revised cost for the Regular Nonletter Subtotal of 7.632 cents. If the 8.359-cent figure is replaced by the 7.632-cent figure, the 1.770-cent cost difference is reduced by 0.727 cents. Please explain whether this analysis is appropriate. If not, please explain how an appropriate constant-profile avoidance should be estimated.

- (c) If the 1.770-cent figure is reduced by 0.74 cents and 0.727 cents, it becomes 0.303 cents. Part or all of this, however, would appear to be due to the fact that the 8.359-cent figure in Table 5 is composed in part of presort levels less fine than 5-digit. This poses some difficulty since the 1.770-cent figure is being used to provide a carrier route discount relative to the 5-digit level. Please explain whether this analysis is correct. Also, please provide any costs available for 5-digit flats or 5-digit nonletters.
4. Please refer to the response to POIR No. 6 question 6a. This response explains that the volume of P. O. Box mail, by subclass, is assumed to have the same shape distribution as the volume of total mail in the same subclass.
- a. Do you agree that P. O. Boxes are a rented in substantial degree by business as who receive high volumes of specific kinds of mail, such as those who receive bill payments.
- b. If you agree with (a) above, P.O. Box volume may have a different shape distribution from carrier delivered mail. A way of avoiding the assumption that P. O. Box mail has an average shape distribution would be to assume either that city-carrier-delivered volume has an average shape distribution or that city-carrier-delivered volume has the same shape distribution as rural-carrier-delivered volume. The latter assumption is supported by the observation that many rural routes are now in suburban areas that are similar to many areas covered by city carriers. Please explain why the assumption that P. O. Box mail has an average shape distribution is preferred to either of the two alternative assumptions just outlined.
5. Please refer to the response to POIR No. 6 question 4b. The background for this question is that the city carrier analysis shows the in-office costs for saturation flats to be 0.23 cents and for letters to be 0.53 cents. The response explains that a weighted average of these

two costs is used in order to deal with the presumption that many saturation flats, more often than saturation letters, are taken to the street as a third bundle, causing the lower costs for flats in the office. The averaging process essentially allows the third-bundle savings to be shared between letters and flats. When third-bundles are taken directly to the street, and the in-office savings are accordingly realized, one would expect the carrier street costs to be higher than if the bundle had been cased in the office. Please explain where this extra street cost for saturation mail is acknowledged in the cost avoidance for saturation mail. If it is not acknowledged, explain how this extra cost should be accounted for in rate design.

6. In POIR No. 11, question 3, attachment 1a, the Postal Service provides volumes by weight step for First-Class Single-Piece letters for the first and second quarters of FY 2000. Please provide the same data for First-Class Nonautomation Presort, Automation Presort, and Automation Carrier Route Presort letters.
7. In POIR No. 11, question 3, attachment 1b, the Postal Service provides volumes by weight step for First-Class Single-Piece letters for the Combined PFY: PQ 3 & PQ 4 1999 and PQ1 & PQ2 2000. Please provide the same data for First-Class Nonautomation Presort, Automation Presort, and Automation Carrier Route Presort letters.
8. In the attachment to OCA/USPS-T33-13(f), the Postal Service provides FY 1998 and FY 1999 First-Class Single-Piece letter volumes by weight step. Please provide the same data for First-Class Nonautomation Presort, Automation Presort, and Automation Carrier Route Presort letters.



Edward J. Gleiman
Presiding Officer