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

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 13
QUESTIONS 3-5

The United States Postal Service hereby provides responses to questions

3-5 of Presiding Officer's Information Request No. 13, issued on May 24, 2000.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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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.

RESPONSE:

a) It is reasonable to use the 0.74 cent figure derived in USPS LR-I-307 to conclude that 0.74 cent of the 1.770 difference is due to Line-of-Travel (LOT) sequencing. Therefore, assuming that Carrier Route Periodicals are not LOT sequenced, the difference should be reduced by 0.74 cent. However, it is my understanding that LOT may become required for Periodicals receiving the carrier route discount. In that instance, the cost avoidance measured in LR-I-307 should be placed back into the cost avoidance for Periodicals sorted to carrier route.

b) The computations in the question correctly reduce the greater proportions of parcels in Standard Mail (A) Regular to the level of parcels in ECR, which reduces the differential by 0.727 cent, and this is an appropriate way to estimate a constant-profile avoidance for Periodicals. A constant-profile avoidance approach is appropriate when setting discounts for the Periodicals rate categories, but it is unnecessary in Standard Mail (A) because ECR and Regular are separate subclasses,

c) The computations in this subpart are correct. Since delivery point sequencing and shape are drivers of delivery costs, using a pure 5-digit base to calculate the cost avoidance should not affect the resulting delivery costs for flats. There are no separate cost estimates available for 5-Digit flats.

4.   Please refer to the response to POIR No. 6 question [4]a. 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[es] 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 [a]lternative assumptions just outlined.

RESPONSE:

a)   I am unaware of data showing that post office box mail is more letter-oriented than other mail. I agree that some boxes likely are used for receiving bill payments, but assuming relatively more letters for post office box mail would have only a small effect on the relative delivery costs by shape for Single-Piece First-Class Mail. Moreover, no witness makes use of these cost data. The assumption that P.O. boxes have an RPW distribution of shape was made in First-Class simply to be consistent with the treatment of Standard Mail (A) ECR.

b)   While the shape profile by delivery mode (PO boxes) may differ for First-Class Mail as is posited in this question, it is less clear that that would be the case in ECR. As described in response to POIR #6, Question 4a, an adjustment needed to be made in ECR to remedy counter-intuitive results stemming from alternative shape definitions in several data systems. Since it is not clear that the shape profile differs (in ECR) by delivery mode (PO boxes), it is a reasonable assumption to use the overall subclass

shape mix. That is not to say that alternative assumptions are necessarily wrong, or inappropriate; however, lacking specific understanding of the relative shape mixes by delivery mode (in this case PO boxes) argues in favor of using the overall shape mix.

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.

RESPONSE:

Over the past few rate proceedings, improvements have been made in the

quantification of costs to recognize the "value" of high-density and saturation

density, and the cost differences between letters and flats at these density tiers.

The goal is to de-average the relevant costs for the subclass in order to

determine the appropriate differentials for ratemaking purposes. Not

unexpectedly, however, despite the improvements, elements of averaging

remain. In some instances (such as the one cited in this question regarding the

in-office cost of letters and flats), it is appropriate to use averaged costs. It would

be inappropriate to "penalize" letters because they are "too small" to be carried

as third-bundles. Another vestige of averaging is in the mail processing cost for

High-Density and Saturation. These two tiers are grouped together (by shape) to

estimate the mail processing costs. Also, it could very well be that the situation

posited in this question (the "expectation" that carrier street cost for saturation

may be higher with the use of a third bundle) is true.

No attempt was made to determine if this "expectation" is indeed a reality, and

therefore there was no estimate of how much additional street costs is potentially

assignable to the saturation tier cost estimate.

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The rate design can recognize this potential imbedded averaging in several ways. In much the same manner that the letter-nonletter differential recognizes the fact that nonletters can weigh 0-16 ounces, while letters only 0-3.3 ounces (and therefore may not be isolating the effect of shape), the passthrough can be less than 100 percent between the High-Density tier and the Saturation tier. In the proposed rate design, although the passthrough is 100 percent between High-Density and Saturation letters (in part to offset the effect of 0 percent passthrough for shape in the Basic tier), the passthrough between High-Density and Saturation nonletters is only 84 percent. Also, to the extent that saturation may benefit from the third-bundle averaging, it may be "hurt" by the averaging of the high-density and saturation tiers in terms of mail processing costs.
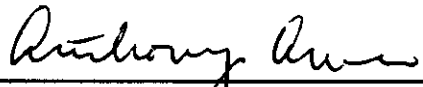
DECLARATION

I, Sharon Daniel, declare under penalty of perjury that the foregoing answers

are true and correct, to the best of my knowledge, information, and belief.

SHARON DANIEL
SHARON DANIEL

Dated: _June 5, 2000_

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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