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

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000–1

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO NOTICE OF INQUIRY NO. 3 (July 17, 2000)

The United States Postal Service hereby submits its response to the June 30, 2000, Notice of Inquiry No. 3 issued by the Commission in relation to the First-Class Mail Revenue Adjustment Factor (RAF) Error and Additional Ounce Method Change.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

Michael T. Tidwell

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260–1137
(202) 268–2989, Fax –5402
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RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK
TO NOTICE OF INQUIRY NO. 3

Summary

This responds to the Commission's Notice of Inquiry No. 3, entitled First-Class Revenue Adjustment Factor (RAF) Error and Additional Ounce Method Change, and provides further support for the revised calculation of single-piece additional ounces included in the errata to my testimony and workpapers filed on April 17, 2000.[1]

As the Commission states on page 4 of its NOI, "The central issue for evaluating the forecasting methods [both as filed on January 12 and revised on April 17] is the significance of the newly available data." While the Commission cites the 1999 data I supplied in response to OCA/USPS-T33-13(f), it does not make mention of the PQ1 and PQ2 2000 single-piece data it asked for and received in my response to POIR No.11/Question 3 on May 15, 2000. These data lent further support to the revised additional ounce method. Also, because PQ3 2000 has become available since I prepared my POIR No. 11/Question 3 response and because the Commission has extended its analysis through PQ3 2000 in Attachment 2 to the NOI, I will add PQ3 2000 data to the previously requested analysis of 2000.

In an important respect, the central issue of the NOI could be thought of as follows: In estimating single-piece additional ounces in test year 2001, which method is likely to do a better job – the revised method which reflects the empirical reality of the nearly three years (1998 through PQ3 2000) immediately preceding 2001, or the as-filed method which does not reflect the reality of 1999 and 2000 to-date. I recognize that the as-filed method may appear to be more consistent with the long-term trend in additional ounces. As a result, I will also review reasons for the 1990-1999 additional ounce trend depicted in Attachment 4 of the NOI in order to assess if that trend is likely to continue in the test year.

It is important to recognize at the outset that it is the as-filed method that represents a departure from the method the Commission itself has used in past

[1] The April 17, 2000 errata are described in the Postal Service's response to interrogatory OCA/USPS-106(d) filed on the same date.

rate cases. In revising this as-filed method, I returned to the traditional approach that has been in use in rate cases at least since Docket No. R84-1.

Below, I also discuss the RAF error referenced in the NOI. While the Commission does not appear to take issue with the change I made to correct this error, the reason this error occurred is germane to the historical trend in additional ounces, and thus is related to the revision in the method for estimating the test year number of single-piece additional ounces.

In any omnibus rate case, a goal of the Postal Service, the Commission, and other interested parties (except perhaps our competitors) is to keep rate increases as small as possible, consistent with the revenue needs of the Postal Service and the statutory requirements of the Postal Reorganization Act. The revised change in the additional ounce forecast reduced net surplus (or contribution) by $172.2 million in the test year. In one sense, almost all parties, including the Postal Service, would desire that the $172.2 million could somehow be restored to the revenue estimate and used to offset the overall magnitude of the rate increase. However, if the Postal Service is highly unlikely to actually realize that revenue in 2001, the ratemaking process needs to recognize both of the revisions I filed on April 17, and not just the RAF revision that works to increase revenue. It is the combined effect of the two revisions, resulting in approximately a $47 million increase in net surplus (or contribution) in the test year, that is appropriate to forecast future revenues and to use for ratemaking purposes.

Revenue Adjustment Factor (RAF) Error and the April 17, 2000 Errata

The April 17, 2000 errata to my testimony and workpapers involved two changes, as described in the Postal Service's response to OCA/USPS-106(d). Both changes stemmed from the treatment of additional ounces in my calculation of First-Class Mail revenue in the test year. The first change incorporated revenue adjustment factors into the First-Class Mail revenue forecast for the first time in any docket, and the second change revised the as-filed method of forecasting single-piece additional ounces for test year 2001.

Both changes resulted from two OCA interrogatories filed at about the same time – OCA/USPS-T33-13(f) filed on March 21 and OCA/USPS-106(d) filed on March 31. Interrogatory OCA/USPS-T33-13(f) asked if I had observed any change in the proportion of First-Class single-piece mail by weight step between 1998 and 1999. I presented the requested data in the Attachment to my April 4 response (reproduced here as Attachment A for ease of reference). In my response, I indicated it was difficult to discern any major change in volume distribution by weight step between 1998 and 1999, with the exception of the two new weight steps appearing in 1999 due to the increase in the First-Class Mail weight limit from 11 to 13 ounces.

This result was of concern because the as-filed additional ounce method predicted that the distribution of pieces by single-piece weight step should be getting heavier in 1999. Specifically, the as-filed approach in this docket assumed that the additional ounces per piece for all mail in the letters subclass as a whole (both single-piece and workshared) and for the workshared portion of the letters subclass would remain the same between the base year and the test year. The result of this approach was an increase in the additional ounces per piece for the single-piece portion of the letters subclass between base year 1998 and test year 2001.

Interrogatory OCA/USPS-106(d) then asked how net overpayment of First-Class postage was included in the test year revenue calculation. The short answer was that it had been inadvertently omitted.

As explained in the response to OCA/USPS-106(d), historically the net overpayment of First Class postage in the letters subclass was included in the estimated volume of additional ounces. This was because all "residual revenue" was attributed to additional ounces by dividing such residual revenue by the prevailing additional ounce rate. For example, for First-Class single-piece, one would first sum the revenue obtained by: (1) multiplying the number of single pieces by the first-ounce rate, and (2) multiplying the number of nonstandard pieces by the nonstandard surcharge. Then, one would subtract this calculated

sum from the postage revenue in RPW and attribute the resulting difference to additional ounces.

As a result of this approach, the historical estimates of additional ounces (before 1997) included both "physical" additional ounces associated with actual weight and "revenue" additional ounces associated with residual revenue. For workshared mail, the effect of this approach on additional ounces was modest. However, for single-piece mail, this calculation created a significant number of additional ounces. For example, according to the 1998 billing determinants (USPS-LR-I-125 at Table A-1) there was $182 million of unexplained revenue in GFY 1998 ($21,807 million less $21,625 million). This would result in 792 million additional ounces associated with revenue under the historical method ($182 million divided by 23 cents per additional ounce at the time). This approach did make intuitive sense since much of this unexplained revenue was most likely explained by single-piece mailers using first-ounce stamps for additional ounce postage.

Beginning with the GFY 1997 billing determinants, I sought to improve the historical method by obtaining the distribution of single-piece mail by weight step from domestic RPW and the distribution of workshared mail by weight step from mailing statement data. I then used this approach in developing the base year 1998 First-Class Mail billing determinants for this docket, thus obtaining a physical measure of additional ounces tied specifically to weight. This new approach also created revenue adjustment factors for the letters subclass which were used to adjust revenue calculated using the billing determinants to RPW revenue totals, as shown, for example, in the First-Class Mail billing determinants for 1998.

In preparing the billing determinant portion of my workpaper, I failed to include these newly calculated revenue adjustment factors in my test year revenue calculation, thereby not properly reflecting the results of the improved additional ounce calculation.

It is clear that this correction, as filed on April 17, needs to be made to my test year revenue forecast to properly reflect net overpayment of postage. It is

also important to recognize that this change affects the historical series of additional ounce data since data prior to 1997 include "revenue" additional ounces, while data beginning in 1997 are limited to "physical" additional ounces.

It is the As-Filed Method that Represents a Departure from Past Rate Cases; The Commission Itself Has Used the "Revised" Method for Forecasting Single-Piece Additional Ounces in the Past Five Rate Cases

The as-filed method represents a departure from the method the Commission itself has used in past rate cases. The "revised" method is the traditional approach that has been used by the Commission in rate cases.[2]

The revised method of estimating single-piece additional ounces assumes that the additional ounces per piece in the historical 0-11 ounce weight range for single-piece mail remain the same between the base year and the test year. The approach of assuming that additional ounces would remain the same between the base period and the test year is the same method the Commission itself has used in at least the previous five omnibus rate cases: Docket Nos. R84-1, R87-1, R90-1, R94-1, and R97-1. For example, in Docket No. R84-1, the Commission used additional ounces per piece from the base year 1982 billing determinants for its test year revenue forecast. This approach was used in subsequent rate cases.

As described in more detail below, the as-filed method was consistent with mail migrating from single piece to workshare in response to worksharing incentives, and was consistent with the observed increase in additional ounces per piece between 1997 and 1998. Although the as-filed method made theoretical sense and was consistent with data available when I initially filed my testimony and workpapers, data in 1999 and 2000 confirm that no change in the long-standing traditional method is necessary or appropriate.

[2] In Docket No. MC95-1, the Commission did use an additional ounce method that closely corresponds to the as-filed method. Docket No. MC95-1, however, represents a unique situation, as discussed below. It is the approach used in past rate cases that is relevant here.

Empirical Evidence for both 1999 and 2000 Supports the Return to the Traditional Method

1999 Data

The as-filed additional ounce method resulted in a substantial increase in the forecast number of additional ounces between 1998 and the test year. This result was consistent with the observed increase in additional ounces between 1997 and 1998, the first year in which a comparison can actually be made between "physical" measures of additional ounces. This result was also consistent with the expectation that mail would migrate from the single piece category to the workshare category in response to worksharing incentives. If the pieces migrating from single-piece to workshare were typical of existing workshare pieces, the migrating pieces would be lighter than the average piece of single-piece mail. The average weight of the remaining single-piece mail would increase.

While this approach made intuitive sense and was consistent with data available when I developed my workpaper, it has not been borne out by actual 1999 and 2000 data. As described in the Postal Service's response to OCA/USPS-106(d), 1999 data indicate that the additional ounce ratio in the 0-11 ounce weight range remained almost constant between 1998 and 1999. There were 0.3378 additional ounces per piece in 1998 and 0.3387 additional ounces per piece in 1999. Because the 1999 figure includes heavier Standard (A) mail pieces migrating into First-Class single-piece, this comparison between 1998 and 1999 is not quite "apples-to-apples." The small increase from 1998 to 1999 may only reflect the Standard (A) migration of pieces.

If the as-filed approach had been applied to 1999, it would have resulted in approximately 350 million more additional ounces in 1999 for the 0-11 ounce weight range than actually occurred (an additional ounce ratio of 0.3448 instead of the actual 0.3387). At 22 cents per ounce, this represents about $77 million in overstated revenue.

Combined 1999/2000 Postal Fiscal Year (PFY) Data

In POIR No. 11/Question 3, the Commission asked me to supply First-Class Mail single-piece volumes by weight step for the first and second quarters of FY 2000. (FY 2000 RPW data are preliminary at this point.)

To gain insight into what may have happened to the number of additional ounces per piece since the Docket No. R97-1 rates were implemented, in my response I also combined the PQ 1 and PQ2 2000 data with the last two quarters of 1999 to get a combined 1999/2000 PFY which consists of the first four postal quarters that are entirely post Docket No. R97-1 rates. The results, presented in Attachment 1b to my response, are also reproduced here as Attachment B for ease of reference. Since the equivalent of an entire PFY is involved in this combination, seasonality is not an issue. (Single pieces typically demonstrate seasonality in weight, for example, holiday greeting cards decrease average weight and tax returns increase average weight.)

As described in my POIR response, for the combined 1999/2000 PFY, there were 0.3656 additional ounces per piece. For the historical 0-11 ounce weight range, there were 0.3396 additional ounces per piece. The 0.3396 additional ounces per piece in the historical weight range is quite similar to the 0.3378 ounces per piece per the 1998 billing determinants and to the 0.3387 additional ounces per piece in 1999 calculated in the Postal Service response to OCA/USPS-106(d). The 1999 additional ounce per piece figure for the 0-11 ounce range includes a partial year of heavier Standard (A) pieces migrating into First-Class single-piece, which may explain the small increase from 1998. Since the combined 1999/2000 PFY period is entirely post R97-1 rates, the additional ounce per piece figure for this period reflects the full-year effect of heavier Standard (A). This may explain the small increase from FY 1999, when the Standard (A) migration was only partially reflected.

The stability in the additional ounce per piece figure for combined PFY 1999/2000 lent additional support to the revised method for calculating single-piece additional ounces in the test year.

It should also be noted that the total number of single-piece additional ounces calculated in my workpaper (as revised April 17) for the Test Year After Rates is 19,779,450 thousand, or 0.3741 additional ounces per piece. This additional ounce total not only includes pieces in the historical 0-11 ounce weight range, but it also includes ounces resulting from the impact of Standard (A) migration and forecast pieces in the new 11-13 ounce weight steps. While this 0.3741 figure is lower than the corresponding figure of 0.3972[3] from my as-filed workpaper, more importantly it is **higher** than the actual 0.3656 additional ounces per piece (0-13 ounce weight range) in combined PFY 1999-2000. (Because the additional ounce ratios for the historical 0-11 ounce weight range are so similar, this difference apparently relates to fluctuations in the forecasts versus actuals for the new 11-13 ounce weight steps.) The fact that the total additional ounce ratio used in my revised test year revenue calculation is above the actual ratio for the combined PFY indicates that my revised test year estimate of additional ounces should not be increased.

2000 Data for PQ1 through PQ3

Since the preparation of my POIR No. 11 response, RPW data for PQ3 have become available. The Commission included PQ3 2000 data in Attachment 2 of its NOI. (RPW data for FY 2000 are preliminary at this point.)

Consequently, I updated the previously requested year 2000 analysis to include PQ3 by developing the table shown here as Attachment C. Attachment C compares the additional ounces per piece for the PQ1 through PQ3 time period of 1998, 1999, and 2000. This comparison controls for seasonality in the single-piece mail stream since the time period covered is the same for each year.

Without adjusting for Standard (A) migration in 1999 and 2000, the comparison indicates that the additional ounces per piece for the historical weight range is quite similar over the period – from 0.3353 in 1998 to 0.3343 in 1999 to 0.3399 in 2000.

[3] 21,001,839 thousand single-piece additional ounces divided by a volume of 52,877,658 thousand single-pieces, from page 4 of my as-filed workpaper.

As noted above, the Standard (A) single-piece classification was eliminated on January 10, 1999. To make the 1999 and 2000 data comparable to the 1998 base year, a second calculation of additional ounces per piece in Attachment C adjusts for the heavier Standard (A) pieces migrating into First-Class single-piece, as explained in the Attachment's note. The effect of this adjustment is modest, but it reduces the range in the additional ounce ratio over the period. The adjusted comparison indicates that the additional ounces per piece for the historical 0-11 ounce weight range is quite stable over the period – from .3353 in 1998 to .3332 in 1999 to .3380 in 2000. Thus, the addition of PQ3 2000 data provides further support for returning to the traditional method.

If the as-filed approach is applied to 2000, it results in a methodologically comparable estimate (excluding Standard (A) pieces) of .3532 additional ounces for the 0-11 ounce weight range for all of 2000. The actual additional ounces per piece are .3380 through the first three quarters, excluding Standard (A) pieces. While only in hindsight will we know for sure, it seems quite unlikely that the actual PQ4 2000 additional ounce data will be high enough to bring the annual number of additional ounces per piece up to the level of 0.3532 implied in the as-filed approach.

The Historical 1990-1998 Trend in Additional Ounces Per Piece and its Implications for the Test Year Forecast

The previous section focused on the period from 1998 through PQ3 of 2000 for the 0-11 ounce weight range, demonstrating stability in additional ounces per piece over the nearly three-year time period. While it is the three-year period immediately preceding the test year that is more relevant to evaluating the additional ounce forecasting method, this section focuses retrospectively on the trend in additional ounces per piece from 1990 to 1998, as shown in Attachment 4 of the NOI. The central issue is: Is the trend from 1990 to 1998 relevant for 2001, or does it reflect events unlikely to be repeated in the test year. At the outset, it is important to recognize that a complete discussion of this

issue is hampered by the lack of comparable historical data from several years ago, as noted below.

In First-Class Mail, it is additional ounce weight steps that generate additional revenue, not weight per se. For example, for a given volume, the average weight of single-piece mail weighing less than 1 ounce could hypothetically increase from 0.5 ounces to 0.7 ounces and the average weight of pieces weighing between 1 and 2 ounces could increase from 1.6 to 1.9 ounces. This would increase the average weight of the single-piece mail stream, but leave revenue unchanged since a first-ounce stamp would still cover the postage for a 0.7 ounce piece and an additional ounce stamp would still cover the postage of the second ounce. As a result, it is the trend in additional ounces per piece as shown in Attachment 4 of the NOI, rather than average weight per piece, that is more directly related to revenue.

The figure plotting additional ounces per piece in Attachment 4 of the NOI has a stair-step shape, that is, flat periods where the number of additional ounces per piece are relatively stable are followed by fairly sharp increases – one between 1997 and 1998 and one between 1994 and 1995. If these two large increases can be explained by historical events unlikely to occur between the base year and the test year, then additional support is provided for the revised method of estimating additional ounces for the test year.

The 1997 to 1998 Increase: When the Data are Adjusted for the "Physical" Approach to Calculating Additional Ounces Implemented for 1997, the Timing of this Increase Changes and Corresponds to Changes Stemming from Classification Reform (Docket No. MC95-1)

As described earlier, historical estimates of additional ounces prior to 1997 include both "physical" additional ounces associated with actual weight and "revenue" additional ounces associated with residual revenue. This change directly impacts the comparison over the 1996-1998 time period shown in Attachment 4 of the NOI. To make the 1997 and 1998 data comparable to that for 1996 and earlier, I recalculated 1997 and 1998 additional ounces using the

historical approach, which attributed all unexplained revenue to additional ounces. The resulting changes are significant, as shown in the following table:

Table 1 – Additional Ounces Under the Historical and "Physical" Methods

	Additional Ounces (000s)[4]		Additional Ounces per Piece	
	Historical Method	"Physical" Method	Historical Method	"Physical" Method
1996	16,683,201		.3081	
1997	17,792,489	16,997,741	.3280	.3134
1998	19,127,754	18,335,848	.3524	.3378

The change in approach implemented for 1997 has a significant impact on additional ounces per piece. For example, in 1997, additional ounces per piece increase from 0.3134 using the "physical" approach of calculating additional ounces to 0.3280 using the historical approach of attributing all unexplained revenue to additional ounces. NOI Attachment 4 indicates relatively little change in additional ounces per piece between 1996 and 1997, and a large jump between 1997 and 1998 (from 0.3081 in 1996, to 0.3134 in 1997, and then to 0.3378 in 1998). Putting the data on a comparable basis using the historical approach for all three years results in significant changes between both 1996 and 1997 and between 1997 and 1998 (from the same 0.3081 in 1996, to 0.3280 in 1997, to 0.3524 in 1998).

This result of spreading the 1997 to 1998 change shown in the NOI over the entire 1996 to 1998 period is consistent with the one-time impact of Classification Reform (Docket No. MC95-1 rates were implemented in PQ 4 of 1996). Classification Reform created a basic automation rate category for the first time, increased the 3-digit letter automation discount by 1-cent, and increased the 5-digit letter automation discount by 2 cents vis-à-vis the single-

[4] 1997 additional ounces under historical method calculated by dividing unexplained revenue ($21,486,056 - $21,303,264 from the 1997 billing determinants) by $0.23 per ounce, yielding 794,748 more ounces than the physical method. 1998 calculated in the same fashion ($21,807,405 - $21,625,308 divided by $0.23 per ounce), yielding 791,726 more ounces.

piece rate, which remained the same at 32 cents.[5] In terms of relative price change, there is nothing else approaching this in magnitude over the 1990-1999 time period.

The additional ounce forecasting method used in Classification Reform closely corresponds to the as-filed method in the current docket. In Classification Reform, the assumption was that the magnitude of the relative price changes would pull lightweight pieces from single-piece to workshare, increasing the additional ounces per piece of what was left behind in single-piece. In calculating additional ounces in Docket No. MC95-1, the overall additional ounce ratio from Docket No. R94-1 was held constant after reform. Pieces were allowed to migrate between single-piece and workshare while the additional ounce ratio for workshared mail was held constant. The result was a forecast increase in the additional ounce ratio for single-piece mail.

As calculated in the Opinion and Recommended Decision in Docket No. MC95-1 (Appendix G, Table 4), price changes were expected to increase the additional ounce ratio for single-piece mail from 0.2622 to 0.2889,[6] an increase of 10.2 percent. The data in Table 1 indicate the actual additional ounce ratio (historical method) increased by about 6.5 percent between 1996 and 1997 (from 0.3081 to 0.3280).[7] The ratio then increased another 7.4 percent (from 0.3280 to 0.3524) between 1997 and 1998. The total increase over the 1996-1998 time frame was 14.4 percent. Thus, the additional ounce forecasting method used in Docket No. MC95-1 anticipated over 71 percent (10.2/14.4) of the increase in the

[5] Classification reform also increased the piece minimums needed to qualify for 3-digit and 5-digit letter rates (from 50 to 150 for 3-digit and from 10 to 150 for 5-digit).

[6] Calculated by taking 14,659,829 additional ounces divided by 55,906,879 pieces from the Docket No. R94-1 Opinion and Recommended Decision (at Appendix G, Schedule 2, page 1) and 15,730,408 additional ounces divided by 54,442,623 ounces from the Docket No. MC95-1 Decision (at Appendix G, page 1).

[7] There is a noticeable difference in the additional ounce level from Docket No. R94-1 (0.2622, which is base year 1993) and the 0.3081 level reached in 1996. Some of this difference is explained in the 1994-1995 discussion in the next section.

single-piece additional ounce ratio that occurred in the two years following implementation. Looking at the two-year period is appropriate to account for lags in the response of volume to the significant price and mail preparation changes from Classification Reform.

If the as-filed additional ounce forecasting method in the current docket largely explains what happened to the additional ounce ratio following Classification Reform, why is it not applicable to the 1999-2001 period? One factor is the sheer magnitude of the relative price change between single-piece and workshare mail implemented as a result of Docket No. MC95-1. Another factor is that the Classification Reform analysis was static, that is the base year and the test year were the same. In an omnibus rate case, new pieces are entering both the single-piece and workshare mailstreams between the base year and the test year, in addition to migrating between single-piece and workshare.

1994 to 1995 Increase is Partially Explained by the Implementation of Docket No. R94-1 and by a Change in RPW Sampling Methodology

As described in detail earlier, prior to 1997 all unexplained revenue was attributed to additional ounces. Within single-piece, much of the unexplained revenue is likely explained by the net overpayment of postage, such as single-piece mailers using first-ounce stamps for additional ounce postage. In 1999, for example, the billing determinants indicate that there was $210 million in unexplained revenue within single-piece. The response of the Postal Service to OCA/USPS-69 (as revised on April 7, 2000) indicates that the net overpayment of postage in 1999 for the letters subclass was also approximately $210 million.

The magnitude of the overpayment in postage depends in part on the gap, or "degression," between the first-ounce stamp price and the additional ounce rate. The implementation of Docket No. R94-1 on January 1, 1995, resulted in an increase in first-ounce postage from 29 to 32 cents while the additional ounce rate remained the same at 23 cents. Thus, the gap between the stamp price and

the additional ounce rate increased from 6 cents (29 minus 23) to 9 cents (32 minus 23).

To determine if overpayment of postage increased as a result of this increase in the degression, I obtained RPW data on the net overpayment of postage for PQ2-PQ4 of 1995 and for the same period in 1994. I omitted PQ1 because the rate change was not implemented until PQ2 of 1995. As expected, the net overpayment of postage went up by $28.8 million over this period, from $64.9 million in PQ1-PQ3 of 1994 to $93.7 million in PQ1-PQ3 of 1995. Dividing this $28.8 million by the prevailing additional ounce rate of 23 cents resulted in 125 million "revenue" additional ounces due to the increased gap between the stamp price and the additional ounce rate. This represents a portion (about 6 percent) of the 2.0 billion increase in the number of additional ounces between 1994 and 1995.

Another potentially significant factor in understanding the additional ounce increase was the change in RPW sampling methodology first implemented in Q2 1995 and completed Q2 1997. It is my understanding that the Mail Exit Point (MEP) system was developed to allow for the sampling frame of mail to quickly adjust to changes in mail processing technology (e.g. introduction of DPS), to achieve the same level of precision in RPW estimates in the face of a 40 percent reduction in staffing and tests as a result of the 1992 restructuring, and to increase the sampling coverage of all mail. The result was a change in projected volume as compared with the previous methodology and an increase in the percentage of flats in the mailstream. As could be anticipated, the result as MEPs was rolled out and more flats were recorded was an increase in the average weight of single-piece and in the number of additional ounces per piece. I am unable to quantify the possible impact, however, because the sampling methodologies do not overlap and because data comparing the piece distribution due solely to the change to MEPs do not exist.

While I am unable to explain the 1994 to 1995 increase in additional ounces per piece as fully as the 1997 to 1998 increase, this increase is now several years past. As a result, there is no need to change the traditional

additional ounce method now that I have "completed" the switch to a physical measure of base-year additional ounces by properly including a revenue adjustment factor in the test year.

Attachment A to USPS Response to NOI 3

(originally Attachment to OCA/USPS-T33-13 (f))

FIRST-CLASS SINGLE-PIECE MAIL IN LETTERS SUBCLASS: VOLUME BY WEIGHT STEP
GFY 1998 and GFY 1999

	Weight Not Over (ounces)													
	1	2	3	4	5	6	7	8	9	10	11	12	13	Total
GFY 1998:														
Volume (000s)	46,819,464	3,618,628	1,440,618	776,457	505,188	341,900	243,875	183,399	145,138	115,357	83,000	N/A	N/A	54,273,024
%	86.2665%	6.6675%	2.6544%	1.4306%	0.9308%	0.6300%	0.4493%	0.3379%	0.2674%	0.2126%	0.1529%	N/A	N/A	100.0000%
GFY 1999:														
Volume (000s)	46,357,005	3,555,528	1,404,186	760,402	498,520	332,308	248,430	184,075	146,335	115,168	89,560	52,583	39,518	53,783,619
%	86.1917%	6.6108%	2.6108%	1.4138%	0.9269%	0.6179%	0.4619%	0.3423%	0.2721%	0.2141%	0.1665%	0.0978%	0.0735%	100.0000%

Attachment B to USPS Response to NOI 3

(Originally Attachment 1b to POIR No. 11, Question 3)

FIRST-CLASS SINGLE-PIECE MAIL IN LETTERS SUBCLASS: VOLUME BY WEIGHT STEP
Combined PFY: PQ 3 & PQ 4 1999 and PQ1 & PQ2 2000

	Weight Not Over (ounces)													
	1	2	3	4	5	6	7	8	9	10	11	12	13	**Total**
Combined PFY:														
Volume (000s)	45,743,327	3,506,764	1,372,546	751,844	485,914	328,111	246,913	184,143	148,972	114,020	91,199	70,771	53,490	53,098,013
%	86.1488%	6.6043%	2.5849%	1.4160%	0.9151%	0.6179%	0.4650%	0.3468%	0.2806%	0.2147%	0.1718%	0.1333%	0.1007%	100.0000%
Add'l. Ounces (000s)		3,506,764	2,745,091	2,255,531	1,943,658	1,640,555	1,481,475	1,288,999	1,191,779	1,026,179	911,988	778,480	641,883	19,412,381
Add'l Oz. Per Piece, Total														0.3656
Add'l. Oz Per Piece, 0-11 ounce Pieces Only														0.3396

FIRST-CLASS SINGLE-PIECE MAIL IN LETTERS SUBCLASS: VOLUME BY WEIGHT STEP
PQ1 - PQ3 for 1998, 1999, and 2000

	Weight Not Over (ounces)													
	1	2	3	4	5	6	7	8	9	10	11	12	13	Total
PQ1+PQ2+PQ3 1998:														
Volume (000s)	33,197,419	2,502,737	1,011,377	541,912	358,631	241,354	173,300	129,986	101,322	81,919	58,427			38,398,385
%	86.4552%	6.5178%	2.6339%	1.4113%	0.9340%	0.6286%	0.4513%	0.3385%	0.2639%	0.2133%	0.1522%			100.0000%
Additional Ounces (000s)		2,502,737	2,022,755	1,625,736	1,434,525	1,206,769	1,039,799	909,902	810,576	737,275	584,274			12,874,347
Add'l. Oz Per Piece:														
0-11 ounce Pieces														**0.335284**
PQ1+PQ2+PQ3 1999:														
Volume (000s)	32,930,123	2,479,188	979,922	533,936	350,648	232,104	176,721	128,300	102,694	80,420	61,503	26,486	19,049	38,101,094
%	86.4283%	6.5069%	2.5719%	1.4014%	0.9203%	0.6092%	0.4638%	0.3367%	0.2695%	0.2111%	0.1614%	0.0695%	0.0500%	100.0000%
Additional Ounces (000s)		2,479,188	1,959,844	1,601,809	1,402,592	1,160,520	1,060,328	898,098	821,554	723,782	615,032	291,343	228,585	13,242,674
Add'l. Oz Per Piece:														
0-11 ounce Pieces														0.334320
Adjusted for Stnd. (A)*														**0.333221**
PQ1+PQ2+PQ3 2000:														
Volume (000s)	32,136,237	2,478,404	949,671	529,105	341,663	232,353	171,820	129,671	106,544	80,493	64,336	50,573	37,250	37,308,120
%	86.1374%	6.6431%	2.5455%	1.4182%	0.9158%	0.6228%	0.4605%	0.3476%	0.2856%	0.2158%	0.1724%	0.1356%	0.0998%	100.0000%
Additional Ounces (000s)		2,478,404	1,899,342	1,587,315	1,366,654	1,161,763	1,030,922	907,698	852,349	724,440	643,355	556,307	447,000	13,655,548
Add'l. Oz Per Piece:														
0-11 ounce Pieces														0.339929
Adjusted for Stnd. (A)*														**0.337999**

* Standard (A) single-piece was eliminated on January 10,1999. As indicated in USPS-T-33 Workpaper, page 9, these pieces were heavier than the typical First-Class Mail piece. To make the 1999 and 2000 data comparable to the 1998 base year, this calculation adjusts for the heavier Standard (A) mail pieces migrating into First-Class single-piece by removing the Standard (A) pieces and their associated additonal ounces from the 1999 and 2000 data. First, the forecast of pieces from Standard (A), 116,682,000 in 2000 (from USPS-LR-I-122, file AO_BR.wk4, sheet Total) and 93,620,000 in 1999 (developed in the same way as 2000 figure using formula in USPS-T-7 at Workpaper 4) were prorated for the partial year of PQ1-3 shown in the table. For 2000, this involved taking 9/13 of the annual total for the 9 accounting periods in PQ1-3. For 1999, this involved taking one-half of the forecast volume, since about one-half of the period after the rate change fell in the first three quarters.
Second, since these 1999 and 2000 forecasts of Standard (A) piece migration include 11-13 ounce pieces, the forecast was adjusted to reflect only 0-11 ounce pieces. 1998 Standard (A) data presented in USPS-T-33 Fronk Workpaper, page 9, indicate that 94.15% of Standard (A) pieces migrating to First-Class weighed between 0-11 ounces. The result for 1999 is 44.1 million pieces (93.62 million pieces * 0 .5 * .9415), and the result for 2000 is 76.1 million pieces (116.682 million pieces * (9/13) * .9415).
Third, additional ounces associated with these pieces were calculated using the additional ounces calculated from page 9 of the Fronk Workpaper, which showed there were 1.2823 additional ounces for each of the pieces in the 0-11 ounce weight range.

DECLARATION

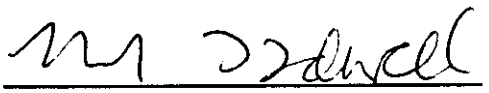
I, David R. Fronk, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

David R. Fronk

Dated: 7-17-00

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.



Michael T. Tidwell

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2989, Fax -5402
July 17, 2000