

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

RESPONSE OF UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF
THE OFFICE OF THE CONSUMER ADVOCATE
REDIRECTED FROM WITNESS PATELUNAS
(OCA/USPS-ST44-12)

The United States Postal Service hereby provides its response to the following interrogatory of the Office of the Consumer Advocate: OCA/USPS-ST44-12, filed on July 20, 2000, and redirected from witness Patelunas.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Susan M. Duchek

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2990 Fax -5402
August 1, 2000

**RESPONSE OF UNITED STATES POSTAL SERVICE TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE
(Redirected from witness Patelunas, USPS-ST-44)**

OCA/USPS-ST44-12. The following interrogatory refers to USPS-LR-I-419, Table 8, and the exhibit in your testimony titled "Development of Cost By Segment and Component FY01ATM, D Report," hereafter "New D Report" and USPS witness Kashani's exhibit titled, "Development of Cost By Segment and Component FY01ATM, D Report, hereafter "Old D Report."

(a) In Table 8, Priority mail receives a Final Adjustment of \$30.524 million. The New D Report, indicates that Priority Mail has a final adjustment of \$88.777 million. Please explain the apparent discrepancy.

(b) In the FY 01AR Old D Report, Standard Mail (B) Parcels Zone Rate has a "final" reduction of (\$40.604) million, which represents approximately 7 percent of the total volume variable final adjustment cost - (\$543.173). In the FY 01AR New D Report, Standard Mail (B) Parcels Zone Rate has a "final" reduction "\$100.868" million which represents approximately 17 percent of the total volume variable final adjustment cost of (\$594.323) million. Please explain what changes prompted the large weighted increase in Parcel Zone Rated mail's final adjustment.

RESPONSE:

(a) Two adjustments to Priority Mail costs were made totaling \$88.777 million.

The first adjustment of \$30.524 million adjusts Priority Mail costs for the effect of the Docket No. R97-1 classification change which increased the maximum weight of First-Class Mail from 11 ounces to 13 ounces. This adjustment is reported in Table 8 of USPS-LR-I-419. The second adjustment of \$58.253 million adjusts Priority Mail costs for a projected increase in volume due to delivery confirmation. This adjustment is reported in USPS-LR-I-420, Section 11.

(b) The reason for the disparity between the final adjustments for Parcel Post is that in the original filing, two adjustments were made to Parcel Post costs. The

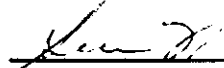
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first adjustment accounted for a reduction in mail processing and transportation costs due to an increase in volume of dropship compared to non-dropship Parcel Post. This adjustment was necessary to account for the volume in the new dropship rate categories introduced in FY99. These cost reductions were calculated in USPS-T26, Attachment X, page 2. These cost reductions were distributed in USPS-T-14, Workpaper I, volume I, page 201 (mail processing) and page 559 (transportation). Since the Parcel Post cost models (USPS-T-26) estimate costs in test-year dollars, Parcel Post costs could not be adjusted to account for the new dropship rate categories until the test-year. This is what is referred to as the second or "final" adjustment. This is the \$40.604 in FY 01 AR old D Report referred to above.

In contrast, in the BY 1999 filing, only one adjustment was made to Parcel Post total costs. This adjustment is the "final" adjustment shown in LR-I-419. This accounts for both the increase in dropship versus non-dropship and the increase of volume in the new rate categories. Only one adjustment was necessary since BY 1999 already accounted for an increase in dropship volume due to the introduction of new dropship rate categories.

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.



Susan M. Duchet

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2990 Fax -5402
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