

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 AMERICAN BANKERS ASSOCIATION AND NATIONAL ASSOCIATION OF
PRESORT MAILERS
REDIRECTED FROM WITNESS PATELUNAS
(ABA/USPS-ST44-1-8, 12, 20(a) and 21)

The United States Postal Service hereby provides its responses to the following interrogatories of the American Bankers Association: ABA/USPS-ST44-1-8, 12, 20(a) and 21, filed on July 25, 2000, and redirected from witness Patelunas.

It should be noted that responses are not provided to interrogatories ST44-14 through 19 as these were withdrawn by ABA/NAPM. It also should be noted that ABA/NAPM, throughout some of their interrogatories, characterize the Postal Service's response to Order No. 1294 as a "revised filing." The Postal Service's interrogatory responses should not be considered agreement with that characterization; the Postal Service considers its response to Order No. 1294 to consist of a requested update rather than a "revised filing."

Each 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

A handwritten signature in cursive script, appearing to read "Susan M. Duchek", is written over a horizontal line.

Susan M. Duchek

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August 2, 2000

**Response of United States Postal Service
to Interrogatories of
American Bankers Association and
National Association of Presort Mailers
(Redirected from witness Patelunas, USPS-ST-44)**

ABA&NAPM/USPS-ST44- 1 .

Commission Order 1294 required the Postal Service to produce the impact of the revised base year on its case by July 7th and to present the impact of other cost change factors no later than July 21st. What the Service produced on July 7th, however, was only the combined impact of the change in base year along with all other cost change factors.

- a) Please present your testimony and the summary test year data accompanying it showing only the impact of your use of the actual FY 1999 CRA cost data.
- b) Please present LR-I-420, Section 2, pages 1-47, revised FCLM worksharing cost avoidance calculations showing only the impact of the change in base year on your test year numbers. Please present this information in a methodologically identical manner to that contained in USPS witness Miller's direct testimony (USPS-T-24), Appendix I, including but not limited to the inclusion of piggyback factors, not simply "direct costs only".
- c) Please confirm that in all mail processing cost pool estimates in LR-415, Folder SPTY99MP.XLS, revised cost pool estimates, you have omitted piggyback costs associated with direct labor costs in mail processing that were provided in your original filing in LR-I-81. If you can not confirm, explain why not.
- d) Please provide the revised test year unit mail processing costs by individual cost pool on a methodologically identical manner to your original filing in LR-I-81, including but not limited to the inclusion of piggyback costs as defined in the original filing. Please provide the information in two files: (1) revised numbers due to the revision of the BY to BY99 alone; (2) revised numbers due to the change in base year and all other cost change factors you have incorporated. Provide this information for each subclass and for each of the 11 other classifications used in LR-I-81, for example, F-C presort automated letters, F-C single piece metered letters, Standard A Regular letters, automated, etc.

Response:

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(Redirected from witness Patelunas, USPS-ST-44)

- a. This material is not available. It has not been prepared as part of the response to Order No. 1294.
- b. This material is not available. It has not been prepared as part of the response to Order No. 1294.
- c. Confirmed.
- d. This material is not available. It has not been prepared as part of the response to Order No. 1294.

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ABA&NAPM/USPS-ST44-2.

- a) Relative to your original filing on extra costs for First Class single piece letters, please confirm that your revised filing for the third ounce shows an increase in test year unit costs of over twelve cents. If you cannot confirm, explain why not.
- b) Between January and July of this year, please explain in detail what factors would cause the true cost of a First Class single piece letter weighing between 2 and 3 ounces to increase by over 12 cents.

Response:

- a. Not confirmed. The numbers which should be compared are the cost of pieces weighing between 2 and 3 ounces as shown in section 7 of USPS LR-I-98 of \$0.587 and those in section 7 of USPS LR-I-420 of \$0.613.

This is not a difference of over 12 cents. The letters only costs in LR-I-98 and LR-I-420 were not used for anything and should not be relied upon.
- b. N/A.

**Response of United States Postal Service witness Patelunas
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ABA&NAPM/U SPS-ST44-3.

- a) Please confirm that in your revised filing in LR420, Folder PT7.XLS, the "total unit cost" over all weight ranges for First Class single piece letters has fallen by over one cent since your original filing in LR-I-91 revised, Section 1, page 1, from 20.5 cents to 19.1 cents. If you can not confirm, explain why not.
- b) Please confirm that in your revised filing in LR420, Folder PT7.XLS, the "total unit cost" for the first ounce of First Class single piece letters has fallen almost two cents since your original filing in LR-I-91 revised, Section 1, page 1, from 19.6 cents to 17.8 cents. If you can not confirm, explain why not.
- c) In light of your answers to a. and b. above, do you intend to pass these cost reductions through in a revised and lower rate for First Class single piece letter mail by one cent relative to your initial filing? If not, why not?

Response:

- a. Confirmed; however, the letters-only costs in LR-I-98 and LR-I-420 were not used for anything and should not be relied upon. The total costs are the only numbers which were intended to be used and they show the total First-Class Single-Piece costs to have risen from \$0.244 to \$0.248.
- b. Confirmed. The cost of a letter weighing between 0 and 1 ounce shown in Section 7 of USPS LR-I-420 is \$0.178 which is lower than the cost of a single piece letter weighing between 0 and 1 shown in USPS LR-I-91. However, there are several reasons why this comparison is meaningless. First, the letters-only costs in USPS LR-I-420 were not used for anything and should not be relied upon. Second, the costs in USPS LR-I-420 were developed to show only the direct labor costs by weight increment. Indirect, "piggybacked" costs, were not distributed by function in UPS LR-I-420 in the same manner as they were in USPS LR-I-91. They were

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captured in "other" costs and distributed on the basis of weight. "Other"

costs were not used in the calculation of final adjustments.

- c. Please see the response to OCA/USPS-St44-8.

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ABA&NAPM/USPS-ST44-4.

- a) Please confirm that in your revised filings, you have presented updated data for extra ounce costs of First Class single piece mail, but have not presented any updates for extra ounce costs for First Class presort mail. If you can not confirm, explain why not.
- b) Please explain why you have not provided this updated data for presort.

Response:

- a. Some data have been presented which allowed the calculation of First-Class Single-Piece direct costs by weight increment as necessary for the calculation of final adjustments; however, a cost study which allocated total costs to ounce increment consistent with the methodology filed in USPS LR-I-91 has not been conducted for either subclass.
- b. The data requested were not required for the final adjustments or rollforward factors needed to respond to Order No. 1294.

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ABA&NAPM/USPS-ST44-5.

- a) Please confirm that the TY mail processing cost by cost pools for FCLM single piece letters in your original filing in LR-I-81 totaled 12.3 cents, and in your revised filing in LR-415 totals 7.56 cents, or 4.74 cents lower. [Note: Including piggybacks, the revision is 2.7 cents lower.] If you can not confirm, explain why not.
- b) Is it your position that there has been a 4.74 cent (or 2.7 cent including piggybacks) cut since your original filing, in what you estimate it will cost to process a single piece letter in TY2001?
- c) Please confirm that in your revised filing of test year unit mail processing costs by cost pool unit mail processing costs for the bar code sorter operation have fallen from 2.1 cents in LR-I-81 for First Class single piece mail to 1.14 cents in LR-415, Folder SPTY99MP.XLS, or a drop of 46% before reconciliation to a consistent methodological basis. If you can not confirm, explain why not.

Response:

- a. Not confirmed. This is not a valid cost comparison, since the USPS LR-I-81 costs of 12.3 cents per piece includes piggyback (or indirect costs), while the USPS LR-I-415 cost of 7.56 cents per piece does not include piggyback costs. The cost which is comparable to the 7.56 cents per piece is shown on USPS LR-I-81, page VII-3, and is 7.77 cents per piece. I am also not able to confirm the bracketed statement, regarding the cost difference if piggybacks are included, since USPS LR-I-415 does not include piggyback costs. Such costs have not been prepared as a part of the response to Order No. 1294. Such costs are unavailable.
- b. No. See my response to part a.
- c. Not confirmed. As indicated in part "a" of this response, this is not a valid

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comparison, since the USPS LR-I-81 costs of 2.1 cents per piece includes piggyback (or indirect costs), while the USPS LR-I-415 cost of 1.14 cents per piece does not include piggyback costs. The cost which is comparable to the 1.14 cents per piece is shown on USPS LR-I-81, page VII-1, and is 1.10 cents per piece.

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ABA&NAPM-ST44-6.

- a) Please confirm that your 2.29 cent revised test year unit mail processing cost number (LR-I-415, Folder SPTY99MP.XLS) for First Class presort automated letters (an aggregate consisting of the rate categories for basic automation, 3 digit presorted prebarcoded and 5 digit presorted prebarcoded) is 1.6 cents lower than your original BY 1998 number of 3.79 cents from LR-I-81. If you can not confirm, explain why not.
- b) Please confirm that your 2.94 cent (3.23 cents including piggybacks) revised test year unit mail processing cost number (LR-I-415, Folder SPTY99MP.XLS and LR-I-420, Folder PL.XLS Part 1) for First Class non-carrier route presort letters (an aggregate consisting of the three above rate categories plus non-automation presort) is 1.54 cents lower (1.25 cents including piggybacks) than your original BY 1998 number of 4.48 cents from LR-I-81. If you can not confirm, explain why not.
- c) Please confirm that your test year unit delivery costs for First Class presort automated letters (each of the three above rate categories) and non-automation presort has not changed between witness Daniel's errata to the original filing and your revised figures in Section 2 of LR-I-420, "First - Class Letters Summary." If you can not Confirm, explain why not.
- d) Please state the change, if any in unit transportation costs for First Class presort automated letters between the original and revised filings.

Response:

- a. Not confirmed. This is not a valid cost comparison, since the USPS LR-I-81 costs of 3.79 cents per piece includes piggyback (or indirect costs), while the USPS LR-I-415 cost of 2.29 cents per piece does not include piggyback costs. The cost which is comparable to the 2.29 cents per piece is shown on USPS LR-I-81, page VII-3, and is 2.51 cents per piece.
- b. Not confirmed. This is not a valid cost comparison, since the USPS LR-I-81 costs of 4.48 cents per piece includes piggyback (or indirect costs), while the USPS LR-I-415 cost of 2.94 cents per piece does not include

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piggyback costs. The cost which is comparable to the 2.94 cents per piece is shown on USPS LR-I-81, page VII-3, and is 2.97 cents per piece. I am also not able to confirm the statements regarding the cost difference if piggybacks are included, since USPS LR-I-415 does not include piggyback costs. Such costs have not been prepared as a part of the response to Order No. 1294. Such costs are unavailable.

- c. Confirmed; however these numbers were not used for anything. Separate delivery costs were calculated in Section 6 of USPS LR-I-420 which were used in the development of final adjustments.
- d. The TYBR unit transportation cost for First-Class Presort Automated letters shown in USPS LR-I-97 is \$0.807 and in USPS LR-I-419 is \$0.838 for a difference of \$0.031.

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ABA&NAPM/USPS-ST-44-7.

Has there been any change from your original filing in the RCR Decision Analysis Report (LR-1-164) accept rates for RCR technology used in your test year forecasts, namely 69%? If so, please provide the revised number and all the documentation for the revised number on which it is based.

Response:

No.

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ABA&NAPM/USPS-ST44-8.

Please confirm there have been no changes in DPS percentages for First Class letters as between your original and revised filings. If you can not confirm, explain why not.

Response:

Confirmed

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ABA&NAPM/USPS-ST- 12.

Please confirm that LR-I-420, Section 2, page 1, indicates that the cost avoidance for a non-automation presort letter is a negative 2.1 cents (-2.093). Isn't this counterintuitive?

Response:

Confirmed that the costs in column 5 entitled worksharing related savings show - 2.093 cents; however this number reflects direct mail processing costs only and the originally calculated delivery costs. The costs in column 5 were not intended to be used. Only the costs in column 1 were used in the calculation of final adjustments.

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ABA&NAPM/USPS-ST-44-20.

In answering the questions below for a one ounce letter, please refer to your revised extra ounce cost data for First Class single piece letters by one ounce increment (LR-I-420, Folder pt7.xls) and the corresponding worksheet from wireess Daniel's original (revised 3/1/00) worksheet in LR-I-91, Section 1, page 1.

- a. Please confirm that the unit costs for one ounce letters by cost category have changed between your original filing and your 7/21/00 filing by the percentages and amounts noted below.

All mp (3.1) tally	-27.81%	-3.27cents
Window sevice (3.2) tally	-30.11	-0.48
Delivery in-office (6.1) tally	-15.33	-0.35
Delivery in-office (6.2) 6.1	-24.12	-0.14
Del. Route (7.1) piece	-11.62	-0.00
Del. Access (7.2) piece	-13.75	-0.03
Ele. Load (7.3) shape&wt	-15.40	-0.11
Del. Support (7.4) sum6&7	-18.68	-0.13
Vehicle service (8) cube	-22.38	-0.01
Delivery rural (10) shape&pc	-19.09	-0.13
Air/water trans. (14) wieght	+16.98	+0.05
Why/rail trans. (14) cube	+ 5.49	-0.01
Total cost segment changes	-24.10%	-4.59 cents

- b) Please explain the source(s) of each and every cost segment change by the following categories, with weights if more than one sottree applies in a cost segment:

- Change to 99BY
- Breakthrough productivity
- Other cost reduction factor (be specific)
- Cost methodology change (be specific)
- Cost shift to "other weight"
- Other (be specific)

Response:

- (a) Confirmed; however, it is inappropriate to compare the costs in Section 7 of USPS LR-I-420 with USPS LR-I-91. The appropriate comparison is between

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the costs developed in Section 7 of USPS LR-I-98 which were used in the original development of final adjustments with the Order No.1294 costs developed in Section 7 of USPS LR-I-420. When the appropriate costs are compared the percentages and amount different by cost component are:

All mp (3.1) tally	-4%	-0.34 cents
Window sevice (3.2) tally	-9%	-0.12
Delivery in-office (6.1) tally	-4%	+0.07
Delivery in-office (6.2) 6.1	-7%	-0.03
Del. Route (7.1) piece	8%	-0.00
Del. Access (7.2) piece	6%	+0.01
Ele. Load (7.3) shape&wt	4%	+0.02
Del. Support (7.4) sum6&7	0%	-0.00
Vehicle service (8) cube	0%	-0.00
Delivery rural (10) shape&pc	-3%	-0.02
Air/water trans. (14 wieght	17%	+0.05
Why/rail trans. (14) cube	5%	+0.01
Total cost segment changes	2%	+0.07

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ABA&NAPM/USPS-ST-44-21.

- a) Comparing LR-I-420, Folder pt7.xls, SP letters (corn) and LR-I-91 (revised), Section 1, page 1, please confirm that the row labeled "other weight" for a one ounce letter has changed from \$228,973,000 in the 3/1/00 filing to \$1,498,233,000 in the revised 7/21/00 filing, an increase of \$1,269,260,000.
- b) There is an asterisk after the label "other weight" in the 7/21/00 filing, implying a footnote, but nowhere in folder pt7.xls, does there appear to be such a footnote of explanation. Please clarify the asterisk and provide the missing footnote if that is the purpose of the asterisk.
- c) If that is not the purpose of the asterisk, please explain in detail all the sources of the change in costs labeled "other weight" for a one ounce letter as noted in a. If this includes any change in the Postal Service's costing methodology, please explain what these changes are and why they were made at this late date in R2000-1.

Response:

- a. Confirmed; however the letters-only cost in USPS LR-I-98b and LR-I-420 are not relied upon in the calculation of final adjustments. See the response to subparts b-c for the explanation of the differences.
- b-c. The asterisk was to flag the user that the costs in the "other" row included costs not originally in the "other" row in USPS LR-I-91. Since the purpose of Section 7 of USPS LR-I-98 and USPS LR-I-420 was to estimate the direct labor costs of First-Class Single Piece by function, all indirect costs ended up in the "other" row. "Other" costs were not used in the calculation of final adjustments.

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.

A handwritten signature in black ink, appearing to read "Susan M. Duchek", is written over a horizontal line.

Susan M. Duchek

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