

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, 2001

Docket No. R2001-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

The United States Postal Service hereby provides the responses to Presiding
Officer's Information Request No. 3, issued October 18, 2001.

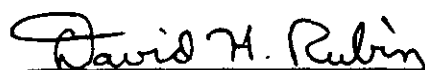
Each question is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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November 1, 2001

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NUMBER 3

POIR3-1.

The Revenue Forgone Reform Act provides for Science of Agriculture publications to pay advertising pound rates equal to 75% of the corresponding rates paid by regular-rate publications in certain zones. Proposed rates for Science of Agriculture editorial matter are 75% of those for regular rate. Please provide a discussion of the reasoning behind the proposed reduction of the editorial rate for Science of Agriculture publications relative to that of regular rate.

RESPONSE:

There is no statutory requirement for the Science of Agriculture editorial pound rates to be equal to 75 percent of the Outside County editorial pound rates.

Instead, the 75 percent figure is applied for rate design purposes. The proposal for Periodicals in this Docket provides incentives for both editorial and advertising pounds to be dropshipped closer to destination. A similar incentive is being provided to mailers of Science of Agriculture Periodicals. An additional rate design goal is to prevent rate anomalies in which the editorial pound rates would be higher than the advertising pound rates.

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POIR3-2.

In USPS-LR-J-107, the Pound Data_Adv worksheet in the file OC01.xls contains an average haul of 63 miles (cell e25, formula $50 * 189/150$). Please provide the source of the 50-mile figure used in this calculation. The zones 1 & 2 average haul is 189 miles. Please describe the analysis done to conclude that the average haul for periodicals remaining in zones 1 and 2 after removing the destination ADC periodicals should not be altered.

RESPONSE:

The source of the 50-mile figure is DMM G030.2.2, which defines the Postal Zones. The 50-mile figure is for Zone 1, while Zone 2 is defined to be 150 miles.

The 50-mile number is inflated by the ratio of 189 miles to 150 miles to correspond with the average haul numbers used in the calculation of pound miles for the purpose of allocating distance-related transportation cost.

No analysis was conducted concerning whether to change the average haul for Zones 1 & 2.

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POIR3-3.

The development of the pound rates for Outside Periodicals in the past has reflected, among other things, (1) a policy decision that the flat pound rate for editorial matter should be 75 percent of the zones 1 and 2 pound rate for advertising matter; and (2) a rate design procedure that allocates all distance-related transportation costs on all pounds in such a way that the differences in the zone rates for advertising are best-estimates of the differences in the zone transportation costs. Recently, this has been modified slightly to include non-transportation costs in the differences in rates going from zones 1 and 2 down to the DDU level. In this case, as explained by witness Taufique (USPS-T-34), this procedure has been replaced by a procedure that (a) controls the proportion of the pound revenue that is from advertising to be equal to the proportion that occurred in the base year, and (b) develops the zone differences on a rate design procedure that allocates 50 percent (in this case) of the distance-related transportation costs on just advertising pounds in such a way that the differences in the zone rates for advertising do *not* bear a well-defined relation to the differences in the zone transportation costs. Witness Taufique's explanation for this change is, basically, that it is needed to accommodate proposed structural changes without being unfair to the rates for editorial matter. In order that the record be complete on the justification and the need for these changes in procedure, please:

- a) Discuss the implications of a procedure that ties the proportion of the pound revenue from advertising rates to the proportion actually obtained in the base year.
- b) Discuss the bases for selecting the 50-percent figure.
- c) Provide an explanation of the meaning of the differences in the zone rates in the new procedure.
- d) Supply a set of rates implied by using the old procedure.
- e) Explain whether any other avenues to accommodate the proposed structural changes were considered.

RESPONSE:

A major change proposed by the Postal Service in this Docket is to provide dropshipment incentives for total pounds rather than just advertising pounds. We believe that correct signals in this regard would benefit all mailers as well as the Postal Service. (See USPS-T-34, pages 5-6.)

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a. As stated in my testimony, I wanted to maintain a balance between the economic efficiency of applying dropshipment incentives to all pounds, and the social objective of dissemination of information. The allocation of revenue to advertising and editorial pounds based on base year revenue proportions ensures that the changes in rate design would not impact the share of revenue burden borne by the editorial pounds. Editorial pound revenue in the base year is based on two factors: the proportion of editorial pounds in FY2000 and the setting of the editorial pound rate at 75 percent of the Zones 1 & 2 rate. Since the editorial and advertising pound proportions are held constant in the test year, the method proposed by the Postal Service ensures that regardless of rate design changes, editorial pounds would not be burdened by more than their historical share.

b-c. The allocation of transportation cost to the estimation of zoned advertising pound rates becomes a crucial determinant of the difference between rates for farther and nearer zones. One option was to allocate the transportation cost between advertising and editorial pounds on the same basis as the allocation of overall revenue between advertising and editorial pounds – approximately 53 percent to advertising and 47 percent to editorial. This allocation would have caused a sharper increase in the farther zones compared to the proposed rates. The 50 percent allocation was used to mitigate the impact on advertising pound rates for farther zones. Another option that might improve the relationship

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between zone transportation costs and zoned advertising pound rates would be to allocate the transportation cost based on the proportion of advertising pounds.

d. The attached sheet provides pound rates based on the old methodology.

e. Other avenues to accommodate the proposed structural changes were considered but not adopted due to various constraints, such as the need to maintain a reasonable unzoned editorial pound rate.

OUTSIDE COUNTY POUND RATE COMPARISONS			
Regular Rate	Current Rate	Proposed Rate	Old Method Rate
<i>Advertising Pounds</i>			
Destinating Delivery Unit	\$ 0.153	\$ 0.160	\$ 0.174
Destinating SCF	\$ 0.195	\$ 0.204	\$ 0.215
Destinating ADC		\$ 0.225	\$ 0.234
Zones 1&2	\$ 0.238	\$ 0.250	\$ 0.256
Zone 3	\$ 0.253	\$ 0.268	\$ 0.273
Zone 4	\$ 0.292	\$ 0.317	\$ 0.315
Zone 5	\$ 0.351	\$ 0.390	\$ 0.379
Zone 6	\$ 0.413	\$ 0.467	\$ 0.447
Zone 7	\$ 0.488	\$ 0.560	\$ 0.528
Zone 8	\$ 0.552	\$ 0.640	\$ 0.597
<i>Nonadvertising Pounds</i>			
Destinating Delivery Unit	\$ 0.179	\$ 0.158	\$ 0.192
Destinating SCF	\$ 0.179	\$ 0.180	\$ 0.192
Destinating ADC	\$ 0.179	\$ 0.191	\$ 0.192
Editorial Pound Rate (All other Zones)	\$ 0.179	\$ 0.203	\$ 0.192
Science of Agriculture			
<i>Advertising Pounds</i>			
Destinating Delivery Unit	\$ 0.115	\$ 0.120	\$ 0.130
Destinating SCF	\$ 0.146	\$ 0.153	\$ 0.161
Destinating ADC	\$ 0.179	\$ 0.168	\$ 0.176
Zones 1 & 2	\$ 0.179	\$ 0.187	\$ 0.192
<i>Nonadvertising Pounds</i>			
Destinating Delivery Unit	\$ 0.179	\$ 0.120	\$ 0.192
Destinating SCF	\$ 0.179	\$ 0.136	\$ 0.192
Destinating ADC	\$ 0.179	\$ 0.143	\$ 0.192
Zones 1 & 2	\$ 0.179	\$ 0.152	\$ 0.192

DECLARATION

I, Altaf H. Taufique, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

A handwritten signature in cursive script, appearing to read 'Altaf', is written over a solid horizontal line.

Dated: NOVEMBER 1, 2001

Response of United States Postal Service Witness Meehan
to
Presiding Officer Information Request No. 3

POIR/USPS-4. Witness Meehan's Workpaper B spreadsheets include the outputs to the CRA for each cost segment and component which are reflected in the manual input of witness Meehan's Workpaper A. The structure of the outputs to the CRA and the manual input to the CRA does not include costs associated with any of the former non-profit subclasses such as Periodicals Non-Profit or Standard Non-Profit ECR. However, it appears that the costs associated to the non-profit subclasses are included in section of the spreadsheets labeled "*oldoutputs*". Please confirm that if the CRA structure was the same as in Docket No. R2000-1 the costs input into the CRA would have come from the spreadsheet sections labeled "*oldoutputs*" in the Workpaper B spreadsheets.

If confirmed please provide the PESSA, custodial maintenance and equipment, and rollforward distribution keys that are included in the manual inputs into the CRA in the same format as indicated in the "*oldoutputs*" sections mentioned above.

Response:

Confirmed. The relevant keys requested are provided as follows. Component 943, Space Distribution Key for Platform, can be found in USPS-LR-J-55, Table V-1, part 5, column d, labeled Component 943, Space Platform Distribution Key. The other base year distribution keys are filed in USPS-LR-J-154.

DECLARATION

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

Karen Meehan

Dated: 11/1/01

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4. Witness Meehan's Workpaper B spreadsheets include the outputs to the CRA for each cost segment and component which are reflected in the manual input of witness Meehan's Workpaper A. The structure of the outputs to the CRA and the manual input to the CRA does not include costs associated with any of the former non-profit subclasses such as Periodicals Non-Profit or Standard Non-Profit ECR. However, it appears that the costs associated to the non-profit subclasses are included in section of the spreadsheets labeled "*oldoutputs*". Please confirm that if the CRA structure was the same as in Docket No. R2000-1 the costs input into the CRA would have come from the spreadsheet sections labeled "*oldoutputs*" in the Workpaper B spreadsheets.

If confirmed please provide the PESSA, custodial maintenance and equipment, and rollforward distribution keys that are included in the manual inputs into the CRA in the same format as indicated in the "*oldoutputs*" sections mentioned above.

Response:

The rollforward distribution keys are not presently available. Developing the rollforward distribution keys that are included in the manual inputs into the CRA requires much work because many of those "inputs" are outputs from various sources. The list below shows the rollforward manual inputs that would require additional work:

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Response continued:

Rollforward

Manual

<u>Input</u>	<u>Title</u>	<u>Source</u>	<u>Input</u>
1439	CFS	Factor Report	Rerun Base Year
1440	MPBCS	Factor Report	Rerun Base Year
1441	Del BCS	Factor Report	Rerun Base Year
1442	FSM	Factor Report	Rerun Base Year
1443	Fac/Canx	Factor Report	Rerun Base Year
1444	Culling	Factor Report	Rerun Base Year
1445	SPBS	Factor Report	Rerun Base Year
1446	RBCS	Factor Report	Rerun Base Year
1449	OCR	Factor Report	Rerun Base Year
1450	GenLog BMC	Factor Report	Rerun Base Year
1451	GenLog NonBMC	Factor Report	Rerun Base Year
1452	CS BCS	Factor Report	Rerun Base Year
1453	Parcel NMO	Factor Report	Rerun Base Year
1465	FY02 FedEx Air	Rerun USPS-LR-J-94/Hatfield USPS-T-18	
1466	FY02 FedEx Gr	Rerun USPS-LR-J-94/Hatfield USPS-T-18	
1467	FY02 FedEx Hwy	Rerun USPS-LR-J-94/Hatfield USPS-T-18	
1470	FY03 FedEx Air	Rerun USPS-LR-J-94/Hatfield USPS-T-18	
1471	FY03 FedEx Gr	Rerun USPS-LR-J-94/Hatfield USPS-T-18	
1472	FY03 FedEx Hwy	Rerun USPS-LR-J-94/Hatfield USPS-T-18	
1397	FY2001 Final Adj	Cost Study Models	Rerun Rollforward
1398	FY2002 Final Adj	Cost Study Models	Rerun Rollforward
1399	TYBR Final Adj	Cost Study Models	Rerun Rollforward
1455	TYAR Final Adj	Cost Study Models	Rerun Rollforward

The first group of manual inputs are taken from the Factor Report of the base year and are used in the rollforward to distribute cost reductions and other programs for the interim and test years. The Factor Report is used as the source

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Response continued:

because it provides the correct variabilities that are applied to the individual cost reductions and other programs. It is my understanding, that in order to generate a Factor Report, the base year must be run using the format necessary to provide the profit-nonprofit distribution keys requested. As such, a new base year must be built, tested and run using the former profit-nonprofit classes of mail in all the files and control strings. It should be noted then, that producing the PESSA and custodial maintenance and equipment distribution keys in the old format (See witness Meehan's, USPS-T-11, response to this request and USPS-LR-154) is only the starting point because all those distribution keys would need to be input into a functioning base year model.

The second set of distribution keys are those associated with incorporating the FedEx contract into the rollforward, and these were provided in USPS-LR-J-94, associated with the testimony of witness Hatfield, USPS-T-18. It is my understanding that, while the underlying TRACs distribution keys for Base Year 2000 are available for the profit-nonprofit distinction, much like the base year model, USPS-LR-J-94 would need to be modified and tested to incorporate that distinction. USPS-LR-J-94 is in Excel format; therefore, rows for the profit-nonprofit data would need to be manually inserted into each of the spreadsheets and ensure that all of the linkages and formulas were still correct.

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Response continued:

The last section of rollforward distribution keys is the final adjustments that are applied to each individual year in the rollforward. It is my understanding that each of the cost study models would need to be modified because the profit-nonprofit distinction is in none of the models. This would require rebuilding the cost models of witnesses Miller, USPS-T-22 and USPS-T-24, and Eggleston, USPS-T-26, to incorporate the former profit-nonprofit class distinction. Additionally, each of those models require inputs from the rollforward; therefore, the rollforward model would need to be run incorporating the profit-nonprofit distinction.

To run that rollforward also requires additional work. There must first be a functioning base year model because that cost matrix is the basis of the rollforward model. As in the case of the base year model, all the rollforward files and control strings for each of the years would need to be modified and tested; including the *before rates* and *after rates* test years, there are eight rollforward versions that would need to be modified and tested before successful execution.

DECLARATION

I, Richard Patelunas, declare under penalty of perjury that the foregoing answers to interrogatories are true and correct to the best of my knowledge, information, and belief.

A handwritten signature in black ink, appearing to read "Richard Patelunas", is written over a horizontal line.

Dated: 11/1/01

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.

David H. Rubin

David H. Rubin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
November 1, 2001