UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268

Postal Rate and Fee Changes

Docket No. R97-1

PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

(August 4, 1997)

The Postal Service is requested to provide the information described below to assist in developing a record for the consideration of its request for changes in rates and fees. In order to facilitate inclusion of the requested material in the evidentiary record, the Postal Service is to have a witness attest to the accuracy of the answers and be prepared to explain to the extent necessary the basis for the answers at our hearings. The answers are to be provided within 14 days.

1. Purchased Transportation

a. Alaskan Nonpriority Air Adjustment

(1) Please provide the FY 1996 data for Alaskan air and surface transportation as presented for FY 1995 in response to POIR No. 3, questions 15-16, Docket No. MC96-3 (Tr. 8/3058-60, Volume 2 of 2).

(2) Alaskan Air Adjustment

For Test Year 1998 BR, witness Patelunas shows $115,665,000 of air costs attributed to parcel post (USPS-T-15, WP-E, p. 203). These costs include Alaska nonpreferential air costs and do not reflect an adjustment similar to the one made by the Commission in R94-1 and MC96-3 (*see* Docket No. MC96-3, PRC-LR-5, Part 2, Segment 14, page 37, for development of the adjustment using FY 1995 data).

Witness Hatfield develops transportation costs per cubic foot for the parcel post rate categories (USPS-T-16, Exhibit USPS-16A). These costs are developed without

inclusion of any intra-Alaskan nonpreferential air costs (USPS-T-16, Appendix I, page 11). He states that "the Alaskan nonpreferential air costs have not been included because they are accounted for separately in witness Mayes' testimony (USPS-T-37)." (USPS-T-16, Appendix I, page 11, footnote 3).

Witness Mayes develops preliminary rates (USPS-T-37, Workpaper 1.K, pages 1-6) using transportation costs (USPS-T-37, Workpaper 1.E, pages 3-8) developed from the costs of witness Hatfield.

Please explain where and how witness Mayes has accounted for the intra-Alaskan nonpreferential air costs in her rate development.

b. Variability Factors for Purchased Transportation Cost Accounts

The Base Year 1996 transportation costs and variability factors by account are shown in workpapers to USPS-T-5, Worksheet 14.0.1. The source of the factors is listed as Docket No. R87-1 Appendices to Opinion and Recommended Decision, Appendix J, CS XIV, page 49. The purchased transportation workpapers accompanying the FY 1996 CRA also show the variability factors by account on Worksheet 14.0.1 and reference the same source. Comparing both worksheets entitled "14.0.1" shows that the majority of the factors for the air accounts on page 1 differ between the FY 1996 and BY 1996 data.

Please explain the reasons for the differences and provide any studies to support these differences.

c. Bound Printed Matter (BPM)

(1) Purchased Transportation Costs (Cost Segment XIV)

Witness Hatfield (USPS-T-16) presents a new treatment of purchased transportation costs in the development of parcel post rates. The major difference from the treatment in prior dockets is the identification of intermediate costs which are distributed on the basis of cubic feet (nondistance related) rather than cubic foot-miles (distance related). In contrast, these costs for BPM are distributed on the basis of pound-miles rather than pounds. The intermediate costs include Hawaiian air, Alaskan

preferential air, Inter-SCF, Intra-BMC, Highway plant load, Alaskan highway, and off-shore water. (USPS-T-16, Appendix 1, page 11).

Please explain why these intermediate costs for BPM are not treated as nondistance related and distributed on the basis of pounds rather than pound-miles.

(2) Vehicle Service Driver Costs (Cost Segment VIII)

In the development of parcel post rates, the vehicle service driver costs have been treated as local purchased transportation costs (USPS-T-16, Appendix 1, page 12) and distributed on the basis of cubic feet rather than being included in the per piece rate element (USPS-T-37, Workpaper 1.1, shows the exclusion of these costs from those used to develop the piece rate element). In contrast, for BPM these costs are included in the development of the per piece rate element.

Please explain why the $15,755,000 of BPM (Patelunas WP E, Table D) cost segment VIII costs should not be treated the same way these costs are treated when developing parcel post rates.

d. Air Taxi Transportation

Air taxi costs are distributed to subclasses based on the accumulated attributions of the other subservices. Workpaper B-14, Worksheet 14.2.1, shows the air taxi distribution to parcel post to be $3,539,000. Witness Hatfield removes Intra-Alaskan nonpreferential air costs from the development of the pound rate elements of parcel post (USPS-T-16, Appendix 1, page 11). These costs represent 95.8 percent (82,495,000/86,108,000) of the total non-air taxi costs. Should the same proportion of air taxi costs also be removed? If not, please explain why.

2. BPM Revenue Adjustment Factor

a. The total FY 1996 BPM single piece revenue is shown as $54,940,121 in USPS-T-38, WP-BPM5. The summation of single piece revenue is $54,872,431 in Library Reference H-171, STBBP96.WK4. Please reconcile the differences which appear in zones 1/2 and zone 7.

b. The FY 1996 RPW revenue for single piece is shown as $54,726,175 in USPS-T-38, WP-BPM3. Please confirm that this is the correct revenue or provide the appropriate revenue.

c. The FY 1996 Billing Determinants in H-3 state that the revenue adjustment factor is 99.610582 percent. This appears to have been derived by dividing the RPW revenue ($54,726,175) by the revenue shown in WP-BPM5 ($54,940,121). If the revenue in LR H-171 ($54,872,431) is used, the factor would be 99.7335 percent.

Please provide the correct revenue adjustment factor showing the details behind its development.

3. The workpapers of witness Kaneer, USPS-T--35, are designated by the letters A through O, with one or more page numbers under each letter. Most of the papers were printed from Excel worksheets contained on disks in Library Reference H-205. Workpaper B, pages 3-7, and Workpaper C, pages 2-5, reference Library Reference PRR-2 in Docket No. MC96-2, but the associated disk does not appear to contain those sheets. To insure that the record is complete, please clarify the source and provide any associated disks for Workpaper B, pages 3-7; Workpaper C, pages 2-5; Workpaper D, pages 1-2; Workpaper F, page 1; Workpaper G, page 1; Workpaper I, page 1; Workpaper J, page 1; Workpaper L, page 1; Workpaper N, page 1; and Workpaper O, page 1.

4. The Ramsey model presented in Library Reference H-164, concluding on page 4, contains cross elasticities between the various postal products but does not contain cross elasticities between postal products and the various competing nonpostal products. Elasticities of the latter kind, however, are often included in Ramsey formulations. See, for example, Roger Sherman and Anthony George, "Second-Best Pricing for the U. S. Postal Service," Southern Economic Journal, Vol. 45 (January 1979). Also, cross elasticities to nonpostal products are included in the demand

models of parcel post, Priority, and Express Mail. *See* USPS-T-7, page 98 and USPS-T-8, pages 17 and 37.

a. Please discuss the advantages and disadvantages of formulations with and without cross elasticities to nonpostal products.

b. To the extent to which the required information is available, please provide your best estimates of Ramsey results, including these elasticities.

c. To the extent to which the required information is not available, please provide a discussion of the likely effects of including such elasticities.

5. Workpaper RR-C, page 1, which accompanies USPS-T-34, shows an implicit cost coverage for advertising matter of 182.17 percent and for editorial matter of 88.93 percent. The column above the former figure shows a subtotal labeled "Advertising Total" and another subtotal labeled "Total Pounds." Since this column is based on an assumption that all of the material is advertising material, please explain why the two subtotals should be different.

6. Workpaper WC-I, page 1, which accompanies USPS-T-34, contains a column headed "Billing Det." Please provide a source for the figures in this column.

7. USPS-T-25 (Hatfield) — Please refer to Appendix V. What criteria were used to determine whether a MODS cost pool was classified as fixed or proportional?

8. USPS-T-29, page 8. Referring to Exhibit USPS-T-29A, witness Daniel states

> Those costs identified as worksharing-related are applied to modeled cost proportionately (proportional column); non-worksharing related costs are applied as constants to modeled costs (fixed column). This testimony determines that the letter cost pool activities that are in the mailflow or bundle sorting models, such as "mods bcs/," "manl," "modsocr/," "spbs Oth," etc., are worksharing-related and are related to the modeled costs proportionately.

If letter pool cost pool activities are already "in the mailflow or bundle sorting models," why is any proportional adjustment necessary? Please discuss in detail.

9. In USPS-T-32, page 38, it states that a quantitative consumer research was conducted. Was any research conducted to determine the number of businesses that would be interested in offering PRM to their customers? If not, why not?

10. Volume Forecasting

a. Please describe the procedures employed to forecast international mail volume and revenue for FY 1997, FY 1998 (test year before rates), and FY 1998 (test year after rates). USPS-T-30, Workpapers I, II and IV. Also, provide the underlying calculations for the international mail quarterly volume forecasts for each of the above fiscal years and FY 1999.

b. Refer to Exhibit USPS-6A, Tables 1, 2, 3 and 4, and Library Reference H-173, "Before and After-Rates Volume Forecasting Spreadsheets." Please provide the formula used to generate the aggregate GFY 1999 volume forecasts from quarterly figures.

c. In Library Reference H-173, spreadsheets O_R97BR.WK4 and OF_R97AR.WK4, witness Tolley presents quarterly FY 1996 volumes for First-Class single piece, presort and automation letters and cards, and Standard (A) bulk rate regular presort and automation categories. These FY 1996 volumes in Library Reference H-173 are different from the corresponding FY 1996 volumes reported as SPLY figures in quarters one through three, FY 1997 Revenue, Pieces, and Weight (RPW) reports. Please explain the differences between the FY 1996 quarterly volumes shown in Library Reference H-173 and quarters one through three, FY 1997 RPW reports.

d. Below are selected quarterly values of the price indices for consumer spending used by witnesses Tolley and Musgrave to deflate postal prices for volume forecasting purposes.

Postal Quarter	Tolley's Price Index[a]	Musgrave's Price Index[b]
1997.1	1.110	1.106
1997.2	1.115	1.111
1997.3	1.122	1.128
1997.4	1.129	1.135
1998.1	1.136	1.142
1998.2	1.143	1.150
1998.3	1.150	1.158
1998.4	1.158	1.166
1999.1	1.166	1.174
1999.2	1.174	1.182
1999.3	1.183	1.190
1999 4	1.191	1.199

[a] Variable PC in LR-H-173, Spreadsheet EC_R97.WK4.

[b] Variable PIDC in LR-H-125, Spreadsheets FEMR97.WK4, FEMR97A.WK4, FPMR97.WK4 and FPMR97A.WK4.

Please provide the source of the above indices and explain the differences in their values.

e. Witness Patelunas' Exhibit 15A at 5-6 shows the mail volume change factors used in the CRA/Cost roll-forward model and is sourced to the computer file "rat2fact." A comparison of the "rat2fact" file found in USPS Library Reference H-6 at 474 (the electronic data file "rat2fact" is located at \psmand03\fy97rcr\control) shows a significant difference in the volume change factor for First-Class nonpresort postcards. USPS Exhibit 15A reports a -.121894438 change factor, while the "rat2fact" file shows a +.010895759 change factor.

(1) Please explain the discrepancy between the two factors and provide any necessary corrections to USPS Exhibit 15A or the file "rat2fact."

(2) Please reconcile apparent differences in volumes between USPS Exhibit 15A, USPS Exhibit 6A, and USPS-T-5, Workpaper A-1 at 129-30.

11. There appears to be unexplained differences between the Govtadj and I-forms worksheets used as data inputs for Library Reference H-196 and those used for USPS-T-5, Workpaper B. For example, the entry in Worksheet 7.0.4.2 of USPS-T-5, Workpaper B, line 41, Column 11, is different than the entry for the same cell given in Library Reference H-196. Please explain why this difference exists. Also, please provide a hard copy of Worksheet 7.0.11, as referenced in Worksheet 7.0.4.2, lines 41-43, of USPS-T-5 of Workpaper B.

If there are other differences in the Govtadj and I-forms worksheets used as data inputs for Library Reference H-196 and USPS-T-5, Workpaper B, please identify them and discuss the basis for them.

Edward J. Gleiman
Presiding Officer