

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

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POSTAL RATE AND FEE CHANGES, 1997

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Docket No. R97-1

**RESPONSES OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION  
REDIRECTED FROM WITNESS FRONK  
(MMA/USPS-T32-1, 2, 11, 12, 17, 24b AND 25)**

The United States Postal Service hereby files its responses to the following interrogatories of Major Mailers Association, dated August 13, 1997: MMA/USPS-T32-1, 2, 11, 12, 17, 24b and 25. These interrogatories have been redirected from witness Fronk to the Postal Service for response.

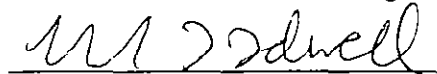
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking



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August 27, 1997

RESPONSE OF U.S. POSTAL SERVICE TO  
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MMA/USPS-T32-1. In Docket No. R94-1, USPS Witness O'Hara provided a table showing First-Class volumes, by subclass and shape, for each ounce increment (1 oz. through 11 oz.). This information was provided in Table A-8 of Exhibit USPS-T-17 and was based on FY 1993 mailing statements.

(A) Please provide a comparable Table showing First-Class volumes, by subclass and shape for each ounce increment (1 oz. through 11 oz.) for BY 1996.

(B) If the requested data is not available for BY 1996, please provide comparable data for the latest available year.

RESPONSE:

(a)-(b) Witness O'Hara did not testify in Docket No. R94-1, but did produce a table in Docket No. MC95-1 that corresponds to the description in this question. In an effort to be as responsive as possible, this question is being interpreted as referring to Docket No. MC95-1.

See attachment.

Attachment to MMA/USPS-T32-1

Base Year 96 First Class Pieces (thousands)

	Distribution of Pieces by Weight Increment (ounces)											Total
	1	2	3	4	5	6	7	8	9	10	11	
<b>Non-Presort</b>												
Letters/Non-letters	47,187,413	3,227,355	1,223,864	660,652	428,503	295,235	214,782	166,485	131,041	96,103	73,803	53,705,236
ZIP+4	394,188	17,388	904	1	0	0	0	0	0	0	0	412,482
Prebarcoded Flats	2,842	10,638	7,680	2,983	4,262	1,068	954	640	799	839	337	33,041
<b>Subtotal</b>	<b>47,584,443</b>	<b>3,255,381</b>	<b>1,232,448</b>	<b>663,636</b>	<b>432,764</b>	<b>296,303</b>	<b>215,736</b>	<b>167,125</b>	<b>131,840</b>	<b>96,942</b>	<b>74,140</b>	<b>54,150,759</b>
<b>3/5-Presort</b>												
Non-Auto Presort Letters	6,992,039	200,182	64,063	8,435	1,662	569	325	135	83	43	69	7,267,605
Non-Auto Presort - Non-Letters	29,474	67,755	84,466	28,806	5,881	4,430	2,667	2,049	1,597	1,519	786	229,430
Basic Automation	1,547,622	34,834	5,016	186	0	0	0	0	0	0	0	1,587,659
3/5-Digit Residual	1,759,108	88,224	27,530	7,462	2,650	2,781	2,222	2,149	1,831	1,572	961	1,896,489
ZIP+4 Letters	617,947	38,954	1,004	0	0	0	0	0	0	0	0	657,904
Prebarcode 3-Digit	15,064,606	161,410	14,940	197	0	0	0	0	0	0	0	15,241,153
Prebarcode 5-Digit	9,037,688	195,297	18,189	241	0	0	0	0	0	0	0	9,251,414
Prebarcode Flats	15,064	34,131	15,959	6,736	3,600	1,854	1,295	1,322	861	462	609	81,894
<b>Subtotal</b>	<b>35,063,548</b>	<b>820,787</b>	<b>231,168</b>	<b>52,062</b>	<b>13,793</b>	<b>9,633</b>	<b>6,509</b>	<b>5,655</b>	<b>4,372</b>	<b>3,596</b>	<b>2,425</b>	<b>36,213,548</b>
<b>Carrier Route</b>												
Letters	2,685,450	128,634	11,246	821	575	0	8	0	0	0	0	2,826,734
Non-Letters	6,678	5,362	1,398	582	440	507	48	56	24	2	13	15,110
Residual	1,736	65	0	0	0	0	0	0	0	0	0	1801
<b>Subtotal</b>	<b>2,693,864</b>	<b>134,060</b>	<b>12,644</b>	<b>1,403</b>	<b>1,015</b>	<b>507</b>	<b>56</b>	<b>56</b>	<b>24</b>	<b>2</b>	<b>13</b>	<b>2,843,645</b>

Note: Total pieces are from the 1996 Billing Determinants (USPS LR H-145). The above distribution of the total pieces among weight increments is approximate and is based on 1996 mailing statements, except for non-presort letters/non-letters which is based on domestic RPW data.

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MMA/USPS-T32-2. Pages A-1 through A-3 Library Reference H-145 provide the billing determinants for First-Class Mail for FY 1996. For Postal Quarter IV and for GFY total, please provide the *numerical* computations that resulted in the entries for "Additional Ounces" of:

- (A) 5,096,798 and 16,683,201 (page A-1--see note 5),
- (B) 547,321 and 1,758,201 (page A2--see note 3), and
- (C) 48,461 and 176,866 (page A3--see note 3)

RESPONSE: Additional ounces have historically been calculated using a formula, which is provided in footnotes which appear in Library Reference H-145, as you reference in your questions. Implementation of this formula was more complicated for Postal Quarter IV and GFY 1996 than is typical due to changes in rates and rate categories that took place during Postal Quarter IV with the implementation of Docket No. MC95-1. Mail preparation requirements and rate categories changed significantly in some instances due to Docket No. MC95-1. To avoid data comparability issues, witness Fronk used FY 1997 billing determinant data, as noted in USPS-T-32, Workpaper I, page 7 of 9.

The requested calculations appear below. The formulas referenced in your questions also appear for ease of reference.

$$(a) AU = (PR - (P * FPR) - (ZP * ZD) - (PB * PD) - (NP * NS)) / APR$$

Where: Additional Ounces (AU), Postage Revenue (PR), Pieces (P), First Ounce Postage Rate (FPR), ZIP+4 Pieces (ZP), ZIP+4 Discount (ZD), Prebarcoded Flats (PB), Prebarcoded Discount (PD), Nonstandard Pieces (NP), Nonstandard Surcharge (NS), Additional Ounce Postage Rate (APR).

$$5,096,798 = (\$6,196,649 - (15,672,194 * \$0.32) - (52,131 * (-\$0.015)) - (11,922 * (-\$0.0284)) - (94,579 * \$0.11)) / \$0.23$$

Note: the PD rate is a weighted average of the discount in effect for pre-July 1 and post-July 1.

$$16,683,201 = (\$21,194,141 - (54,150,759 * \$0.32) - 412,482 * (-\$0.015)) - 33,041 * (-\$0.0263) - 325,611 * \$0.11) / \$0.23$$

Note: the PD rate is a weighted average for the year.

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RESPONSE to MMA/USPS-T32-2 (Continued)

(b) Add Oz = (Rev - (Bas Auto Lt Pcs\*Bas Auto Lt Pc Rate) - (Bas Auto Hvy Pcs\*Bas Auto Hvy Pc Rate) - (Lt Pcs\*Lt Pc Rate) - (Hvy Pcs\*Hvy Pc Rate) - (ZIP+4 Pcs\*ZIP+4 Disc) - (3-D Bar Pcs\*3-D Bar Disc) - (5-D Bar Pcs\*5-D Bar Disc) - (Flat Bar Pcs\*Flat Bar Disc) - Nonstandard Pcs\*Nonstandard Surcharge) - (Residual Pieces\*Residual Rate))/Add Oz Rate

547,321 = (\$2,936,445 - (735,751\*\$0.261) - (3,102\*\$0.215) - ((10,354,504-735,751)\*\$0.288329) - ((103,888-3,102)\*\$0.242329) - (74,917\*(-\$0.007) - (5,013,176\*(-\$0.031153) - (2,410,080\*(-\$0.043976) - (35,348\*(-\$0.022141) - (14,190\*\$0.05) - (258,845\*\$0.32)))/\$0.23

Note: discounts that change due to Docket No. MC95-1 are a weighted average of the discount from the light piece (or heavy piece) rate in effect for pre-July 1 and post-July 1.

1,758,201 = (\$10,050,277 - (845,237\*\$0.261) - (3,569\*\$0.215) - ((34,017,382-845,237)\*\$0.278176117) - ((299,678-3,569)\*\$0.2329309162) - (657,904\*(-\$0.007) - (15,241,153\*(-\$0.017059593) - (9,251,414\*(-\$0.02327891715) - (81,894\*(-\$0.01875127805) - (49,601\*\$0.05) - (1,896,489\*\$0.32)))/\$0.23

Note: rates that change due to Docket No. MC95-1 are a weighted average for the year.

(c) Add Oz. = (Post Rev - (Lt Pcs\*Lt Pc Rate) - (Hvy Pcs\*Hvy Pc Rate) - (Nonstandard Pcs \* Nonstandard Surcharge) - (Residual Pieces\*Residual Rate))/Add Oz Rate

48,461 = (\$136,417 - (526,414\*\$0.237624) - (323\*\$0.191624) - (955\*\$0.05) - (228\*\$0.32))/0.23

Note: Lt Pc and Hvy Pc rates are a weighted average of the discount in effect pre-July 1 and post-July 1

176,866 = (\$754,886 - (2,839,400\*\$0.251014) - (2,444\*\$0.205914) - (7,977\*\$0.05) - (1,801\*\$0.32))/0.23

Note: Lt Pc and Hvy Pc rates are a weighted average for the year

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MMA/USPS-T32-11. Please refer to the Postal Service's Final Rules, entitled "Revisions To Weight and Preparation Standards for Barcoded Letter Mail, published in 59 Federal Register 65967-71 (Dec. 22, 1994) and 60 Federal Register 5860-61 (January 31, 1995).

- a. Please confirm that "For a period of up to 1 year, beginning January 16, 1995, the Postal Service [proposed] to conduct a test of live barcoded bulk third-class regular rate letter mail weighing between 3.0 and 3.3071 ounces, and barcoded bulk third-class nonprofit rate, First-Class and second-class letter mail weighing between 3.0 and 3.376 ounces" (60 Fed. Reg. at 5860) in order "to determine whether a permanent increase in the maximum weight for barcoded letter mail is appropriate...." (59 Fed. Reg. at 65969).
- b. Please state whether the tests were conducted.
- c. What were the results of the tests? Please attach copies of all written reports of the test results.
- d. How did the test results affect the rule published in 59 Federal Register 65967-71 and 60 Federal Register 5860-61 ?
  - (1) Was the rule continued in effect and, if so, does the rule remain in effect?
  - (2) Was the rule modified and, if so, how was it modified? Does the modified rule remain in effect?
  - (3) Was another rule adopted in place of the rule and, if so, what did the modified rule provide and does it remain in effect?
- e. With respect to automation-compatible barcoded letter-size mail, does the Postal Service currently allow Standard and First-Class Mail weighing 3.0 ounces to be accepted at Automation rates and, if so, what is the maximum allowable rate?
- f. With respect to automation-compatible barcoded letter-size mail, does the Postal Service currently allow Standard and First-Class Mail weighing 2.0 ounces or more to be accepted at Automation rates and, if so, what is the maximum allowable rate?
- g. In the live tests announced in 59 Federal Register 65967-71 and 60 Federal Register 5860-61, were the First-Class and the third-class letters processed on the same machines and, if so, were the First-Class and third-class letters processed together?
- h. With respect to the Standard letter mail and the First-Class letter mail referred

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to in your answers to Paragraphs (E) and (F) above, are both types of letter mail usually processed together on the applicable machinery?

**RESPONSE:**

- a. Confirmed.
- b. Yes.
- c. The test results were published in Postal Bulletin 21913 (2-15-96).
- d. The final rule, which was published in 59 Federal Register 65967-71, and the Revision to the final rule, which was published in 60 Federal Register 5860-61, proposed that certain barcoded mailpieces weighing more than 3 ounces would be acceptable at Barcoded rates for a trial period of up to 1 year.
  - (1) The rule, allowing certain barcoded mailpieces weighing more than 3 ounces to claim the barcoded rate, has continued in effect.
  - (2) The rule has only been modified to the extent that the breakpoints have changed since the publication of the two Federal Registers that you referenced. Further, as indicated in Postal Bulletin 21913, "weight limits will be adjusted in the future but not to exceed 3.5 ounces to reflect any further change in the "breakpoint", the maximum weight subject to minimum per piece rates."
  - (3) No.
- e. Yes, assuming you are requesting the maximum allowable weights instead of "rates." The maximum weights are listed in DMM C810.2.3.

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- f. See response to 11e.
- g. Yes to both questions. While First Class and Standard letters were generally processed separately from each other, they were often combined during Delivery Point Sequencing (DPS) in order to maximize the amount of DPS mail.
- h. First Class and Standard letters generally are processed separately from each other; however, they are often combined during Delivery Point Sequencing (DPS) in order to maximize the amount of DPS mail.



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MMA/USPS-T32-12. Please refer to Interrogatory MMA/USPS-T32-10.

- a. In the live tests announced in 59 Federal Register 65967-71 and 60 Federal Register 5860-61, on what types of Postal Service processing machines were the third-class and First-Class letters processed?
- b. What was the basis on which it was determined that the tests should be conducted on these types of machines?

**RESPONSE:**

Interrogatory MMA/USPS-T-32-10 does not refer to the live tests announced in the two Federal Registers you referenced. It is assumed that, instead, you are referring to Interrogatory MMA/USPS-T-32-11 which does reference the two Federal Registers and the live tests.

- a. The types of equipment, utilized to process the First Class and Third Class letters in the referenced tests, are listed on page 7, lines 5 through 21, of witness Moden's testimony (USPS-T4).
- b. Letters included in the test had to bear mailer-applied barcodes. The equipment cited in witness Moden's testimony is what the Postal Service uses to process letters that have mailer-applied barcodes.

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MMA/USPS-T32-17. In USPS-T-32 you state (page 23) that the First-Class additional-ounce rate generated about \$4.3 billion in revenue for 1996 and (page 24) the elimination of the heavy-weight discount for presorted mail weighing more than two ounces "affects a relatively small number of mail pieces."

(A) Please provide the revenues generated in 1996 by category for First-Class Mail weighing:

- (1) more than one ounce but not more than two ounces
- (2) more than two ounces but not more than three ounces
- (3) more than three ounces but not more than four ounces
- (4) more than four ounces but not more than five ounces
- (5) more than five ounces but not more than six ounces
- (6) more than six ounces but not more than seven ounces
- (7) more than seven ounces but not more than eleven ounces

If data is not available for some ounce increments, provide combined data for a group of ounce increments as available (as, for example, ounces four through eleven).

(B) Please provide the number of mail pieces during 1996 (or the latest year for which data is available) by category for First-Class Mail weighing:

- (1) more than two ounces but not more than three ounces
- (2) more than three ounces but not more than four ounces
- (3) more than four ounces but not more than five ounces
- (4) more than five ounces but not more than six ounces
- (5) more than six ounces but not more than seven ounces
- (6) more than seven ounces but not more than eleven ounces
- (7) more than eleven ounces but not more than twelve ounces.

If data is not available for some ounce increments, provide combined data for a group of ounce increments as available (as, for example, ounces four through eleven).

RESPONSE: See attachment. With respect to question (B)(7), First-Class rates apply through 11 ounces.

Attachment to MMA/USPS-T32-17

MMA/USPS-T32-17(A)

Base Year 96 First-Class Revenue (thousands)

Service Category	Weight Increment (ounces)						
	2	3	4	5	6	7	8 to 11
Non-Presort	1,804,753	972,310	676,340	539,364	437,829	367,469	1,028,693
3/5-Presort	421,042	173,057	52,890	17,194	14,540	11,420	36,683
Carrier Route	64,529	8,402	1,258	1,143	687	89	188

MMA/USPS-T32-17(B)

Base Year 96 First Class Pieces (thousands)

Service Category	Weight Increment (ounces)					
	3	4	5	6	7	8 to 11
Non-Presort	1,232,448	663,636	432,764	296,303	215,736	470,047
3/5-Presort	231,168	52,062	13,793	9,633	6,509	16,048
Carrier Route	12,644	1,403	1,015	507	56	95

Note: The above distributions are approximate and are based on 1996 mailing statement data and domestic RPW data

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MMA/USPS-T32-24. Please examine the unit processing costs and proposed rates in cents for First-Class Mail as shown in the following table.

(A) Please confirm that these figures are correct or, if you cannot confirm them, please provide the correct figures, along with an explanation for your corrections.

	Processing <u>Cost</u>	<u>Difference</u>	Proposed <u>Rate</u>	<u>Difference</u>	<u>Notes</u>
Single Piece Letters	16.7		33.0		
Bulk Metered Benchmark	14.7		33.0		
Presort	11.3	3.4	31.0	2.0	Diff with benchmark
Basic Automation	9.0	5.7	27.5	5.5	Diff with benchmark
3-Digit Automation	8.2	6.5	26.5	6.5	Diff with benchmark
5-Digit Automation	6.6	1.6	24.9	1.6	Diff with 3-digit
Carrier Route	6.4	0.2	24.6	0.3	Diff with 5-digit

Source: USPS-29C, page 1, corrected based on footnote 5

(B) Please confirm that the unit processing cost shown for single piece letters, 16.7 cents, (1) is an average for all single piece letters, including bulk metered letters, and (2) excludes all mail preparation and acceptance costs. If you cannot confirm, please explain.

RESPONSE:

(a) Answered by witness Fronk.

(b) As noted in witness Fronk's response to part (a), the costs listed above include processing and delivery costs. The mail processing cost portion of 16.7 cents, 11.742 cents, is an average for all single piece letters including bulk metered letters. This cost includes all mail processing costs including mail preparation and acceptance.

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MMA/USPS-T32-25. In footnote 4 on page 24 of USPS-T-32, you refer to USPS-29C. Footnote 5 on page 1 of USPS-29C refers to LR-H-106. Page II-5 of LR-H-106 shows the unit cost for the First-Class single piece letters is 11.742 cents. On that same page the unit presorted letter cost is shown to be 4.606 cents.

(A) Is the difference between these two figures, 7.136 cents, the difference between processing an average nonpresort letter and an average presorted letter for the test year, excluding mail preparation costs? If not, please explain.

(B) Does the analysis provided in LR-H-106 take into account the Postal Service's attributable cost methodology whereby labor costs are not assumed to be 100% variable with volume? Please explain any no answer.

(C) Are the 11.742 cent and 4.606 cent total unit cost figures shown for the unit variable cost to process non-presorted letters and presorted (non-carrier route) letters, respectively, reconciled to the Postal Service's In-Office Cost System? Please explain.

(D) Do you agree that if the Commission rejects the Service's methodology for reducing direct labor attributable costs, then (a) the unit costs of 11.742 and 4.606 would increase and (b) the difference between the two numbers would increase? If not, please explain.

Response:

(a) Both costs include mail preparation costs. Therefore the 7.136 cents is the difference between the average mail processing costs for non-presort letters and (non-carrier route) presorted letters for the test year.

(b) Yes.

(c) These costs are based on the same methodology used by witness Degen as indicated in LR-H-106 and LR-H-146, part III. These costs are consistent with witness Degen's use of the In-Office Cost System.

(d) These costs would both increase if calculated using the mail processing variability as done prior to R97-1. It is not known if the difference would increase.

CERTIFICATE OF SERVICE

I hereby certify that I have this date 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 cursive script, appearing to read "M. Tidwell", written above a horizontal line.

Michael T. Tidwell

475 L'Enfant Plaza West, S.W.  
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August 27, 1997