

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Docket No. R97-1

POSTAL RATE AND FEE CHANGES, 1997

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS HUME TO INTERROGATORIES OF
VAL-PAK DEALERS' ASSOCIATION, INC., VAL-PAK DIRECT MARKETING
SYSTEMS, INC., AND CAROL WRIGHT PROMOTIONS, INC.
(VP-CW/USPS-T18-1-2)

The United States Postal Service hereby provides responses of witness Hume to the following interrogatories of Val-Pak Dealers' Association, Inc., Val-Pak Direct Marketing Systems, Inc., and Carol Wright Promotions, Inc.: VP-CW/USPS-T18-1-2, filed on August 21, 1997.

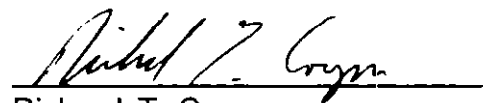
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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September 4, 1997

Response of United States Postal Service Witness Peter Hume
to Interrogatories of VP-CW

VP-CW/USPS-T18-1.

Please refer to USPS-18B, p. 4, Table B-4. Please explain what the unit cost data for Enhance Carrier Route shown on rows 7-12 represent. For example:

- (A) Are the data for the Base Year or Test Year?
- (B) Are the direct data costs for cost segments 6, 7 and 10 only, or do they also include piggyback costs?
- (C) If piggyback costs are included, what are the direct costs for each rate category exclusive of piggyback costs?

Response

- (A) The data in Table B-4 of my Exhibit USPS-18B are for the Test Year. See my Testimony at page 3, lines 2 through 6.
- (B) The data include the pertinent piggyback costs. See my Testimony at page 3, lines 4 and 5.
- (C) The "direct costs", (i.e., the CRA unit costs for the six ECR categories excluding piggybacks) can be found from my Workpaper 1 as follows.
 - (1) The "Basic Letters" cost (4.367) at line 7 of Table B-4 is the sum of the city carrier unit cost at line 7 of Table B-2 (3.423) and the rural carrier unit cost at line 7 of Table B-3 (0.944). Both these amounts derive from the Source Sheet cell references addresses shown for the corresponding position (denoted "f" at line 7 of Table B-1); these are m:i80 and m:i128 in the row "f" at the bottom of Table B-1 ("Third Class Reg Crte Ltr Disagg").

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- (2) Now turn to page M-2 of Workpaper 1 (serial page number 000083). Line 52 ("Loaded CRA Unit Cost FY98") at column i shows 3.423 (this is cell i80 of the spreadsheet); the city carrier piggyback factor contributing to this cost (1.305) is shown at line 35 ("Piggyback FY98") at column e. On page M-3, line 81 (which is erroneously labeled and should be "Loaded CRA Unit Cost FY98") at column i shows 0.944; the corresponding rural carrier piggyback factor (1.197) is at line 65 ("Piggyback FY98") at column e.
- (3) The same city carrier and rural carrier piggyback factors are also shown on page serial number 000005 of Workpaper 1 at line 31, columns ab and ac.
- (4) Now divide the city carrier cost by the city carrier piggyback factor ($3.423/1.305 = 2.623$) and divide the rural carrier cost by the rural carrier piggyback factor ($0.944/1.197 = 0.789$) and add the results ($2.623+0.789 = 3.412$). The 3.412 is the FY98 cost of "Basic Letters" without piggybacks.
- (5) Steps (1) through (4) should be repeated for each of the remaining costs on lines 8, 9, 10, 11, and 12 of Table B-4.

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VP-CW/USPS-T18-2.

Please refer to USPS-18B, P. 5, Table B-5, rows 7-12, Enhanced Carrier Route.

- (A) What does the total density in column ad represent?
- (B) For Test Year 1998, what column represents your best estimate of the Postal Service's unit delivery costs on an After Rates basis?
- (C) Please refer to USPS-29C pp 2-3 and explain why the Enhanced Carrier Route Unit Delivery costs (referenced to USPS-T-18, but with no specific reference to page, table, or column) appear to be those shown in column (ab) of your Table B-5, and not those in column (ae) labeled as "actual" unit costs.
- (D) Within USPS-T-18, what is the exact source of the unit delivery cost for Auto Basic shown in USPS-29C, p. 2?

RESPONSE:

- (A) The "Total Density" is the sum of the City Density Factor, i.e., the fraction of total system volume subject to city delivery, and the Rural Density Factor, i.e., the fraction of total system volume subject to rural delivery. Thus, for ECR Basic Letters, 0.869 is the sum of 0.664 (line 7a of Table B-2) and 0.205 (line 7a of Table B-3).
- (B) None of my Tables deals with "After Rates" costs; such costs were not a subject of my testimony.
- (C) The costs in the "Delivery Costs" column of USPS-29C are indeed the costs in column ab of USPS-18B. These are "CRA Unit Costs"; they are additive across cost segments as they are all based on total system volume as a common denominator. Such an addition is performed on page 3 of USPS-29C. "Actual delivery costs", as shown in column ae of USPS-18B, reflect the actual city and

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rural delivery volumes, and are not so additive. The distinction between CRA unit costs and actual unit costs is fully explained in my previous testimony, USPS-T-7 of Docket No. MC95-1.

- (D) See line 6 of Table B-5 of USPS-18B. The cost 3.357 is the weighted combination of a DPS letter cost, (2.999 at line 6, column m, of Table B-4) and a non-DPS letter cost (3.794 at line 6, column k, of Table B-4). The weight factors, 0.55 and 0.45 (line 6a of Table B-4), reflect the proportion of DPS in the delivery mailstream of this rate category.

DECLARATION

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

P. D. Hume

Dated: 9-4-97

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.


Richard T. Cooper

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