

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268B0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS KANEER TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS--T38-1-7)

The United States Postal Service hereby provides the responses of witness Kaneer to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T37-1 to 7, filed on November 14, 2001.

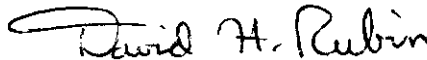
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


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November 28, 2001

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KANEER TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T38-1. Please refer to your testimony at page 4, lines 18-19.

- a. Please confirm that the "Erent" values developed by witness Yezer are used, in conjunction with the Docket No. MC96-3 post office box classification schedule, to develop more cost homogeneous fee groups in this proceeding. If you do not confirm, please explain.
- b. Please confirm that the "Erent" values developed by witness Yezer are used to distribute the category of test year before rates (TYBR) attributable post office box costs known as Space Provision, which includes contingency, less an estimate of costs associated with Caller Service and Reserve Numbers. If you do not confirm, please explain.
- c. Are the "Erent" values developed by witness Yezer used in any additional way, other than identified in parts a. and b. above, in the development of your proposal for post office box service in this proceeding. Please explain.

RESPONSE:

- (a) Confirmed, except that the post office box classification schedules from cases subsequent to Docket No. MC96-3 were also used.
- (b) Confirmed.
- (c) Yes. In addition to defining the proposed fee groups, Erents are also used to assign post office box locations, by ZIP Code, from the current fee classifications to the proposed classifications. See page 10 of my testimony, where "cost per sq.ft" is the estimated rental value of the cost per square foot, or the "Erent".

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OCA/USPS-T38-2. Please refer to your testimony at page 8, Figure 1.

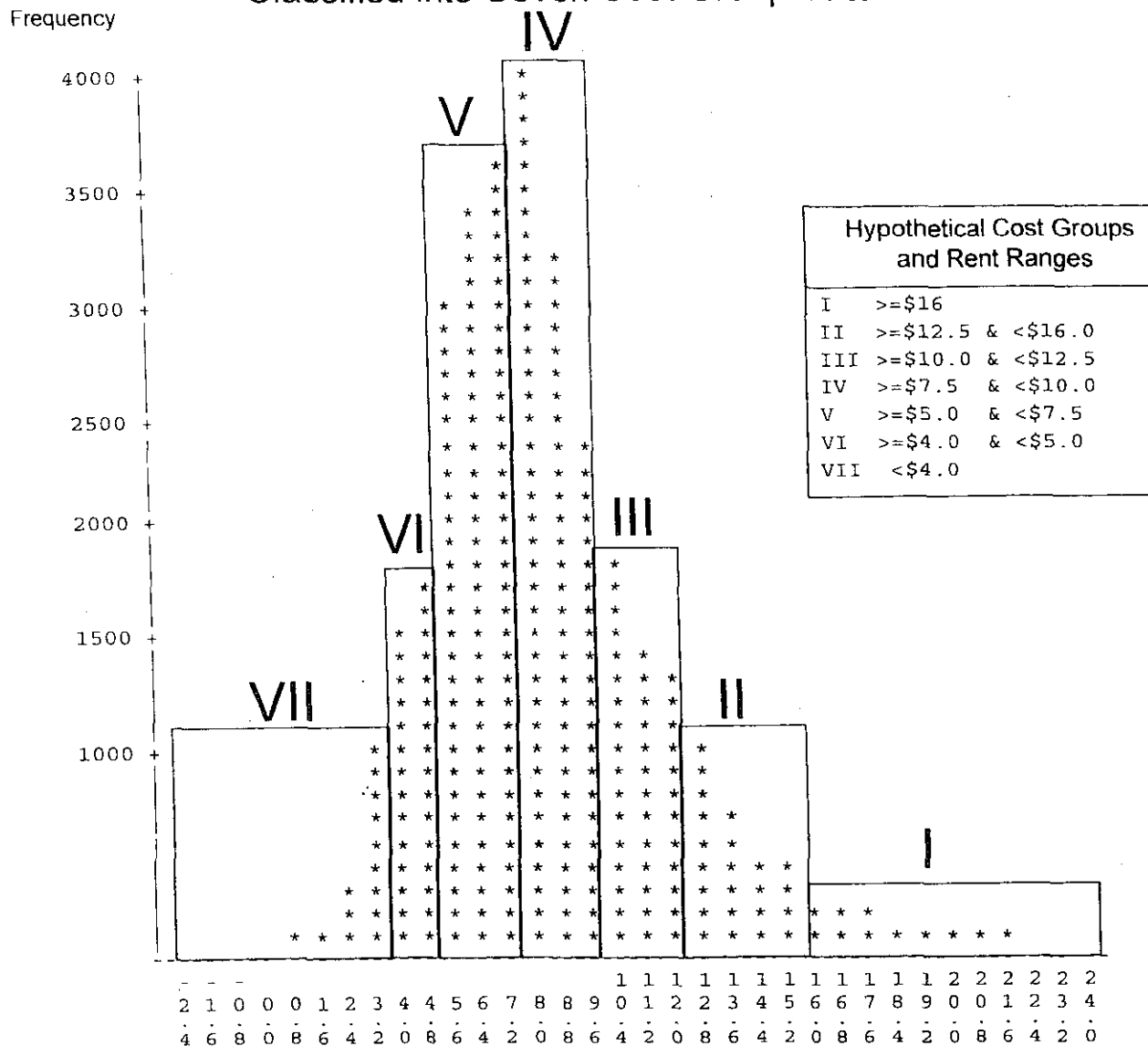
- a. Please confirm that Figure 1 is not the same SAS frequency chart shown in Docket No. R2000-1, USPS-LR-I-155 at page 37, revised March 31, 2000. If you do not confirm, please explain.
- b. Please confirm that Figure 1 is not the same SAS frequency chart shown in Docket No. R2000-1, USPS-LR-I-155 at page 37, as originally filed. For example, the frequency of the 8.8 column in Figure 1 is less than the same frequency in USPS-LR-I-155 at page 37, as originally filed. If you do not confirm, please explain.
- c. Please provide the correct SAS frequency chart for Figure 1.

RESPONSE:

- (a) Confirmed.
- (b) Confirmed.
- (c) The correct SAS frequency chart is attached. Errata will be filed to include this chart in my testimony at page 8.

Figure 1

Post Office Box Space Cost Per Square Foot Distribution
Classified Into Seven Cost Groups: I to VII



Source: SAS frequency chart of cost per square foot based on witness
Yezer's estimates (see Docket No. R2000-1, USPS-LR-I-155, page
37, revised March 31, 2000).

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OCA/USPS-T38-3. Please refer to your testimony at page 8, Figure 1.

- a. Please confirm that Figure 1 does not include negative "Erent" values. If you do not confirm, please explain and provide Figure 1 that includes negative "Erent" values.
- b. Please provide the number of negative "Erent" values developed by witness Yezer.
- c. Please explain how the negative "Erent" values were used in, and affected the development of, your
 - i) post office box classification schedule, and
 - ii) the distribution of TYBR Space Provision costs.

RESPONSE:

- (a) Not confirmed. The figure depicts a negative range of cost below 0.0, indicating the presence of negative values. However, the very small number of these observations is insufficient for SAS to plot as an asterisk.
- (b) 39 observations out of over 34,000 post office box ZIP Codes.
- (c) All Erent estimates are statistically derived. The negative Erent values were used in the same manner as the positive values. A negative Erent value should simply be understood as a low value, which would ultimately end up in the lowest fee group. Since they are valid outcomes of a statistical estimation process, the negative values are also included in the distribution of space provision costs.

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OCA/USPS-T38-4. Please refer to your testimony at page 4, lines 18-19. In PRC Op. R2000-1, at 539, the Commission states, "the Service indicates that it will be updating data over time as part of its ongoing reappraisal in this area."

- a. Please confirm that the "Erent" values developed by witness Yezer will have to be periodically updated so as to ensure that the post office box classification schedule reflects costs. If you do not confirm, please explain.
- b. Please explain how, and provide a schedule of when, the Postal Service intends to update the data used by witness Yezer in developing his "Erent" values, or obtain comparable data to prepare new "Erent" values.
- c. Please explain how the Postal Service intends to eliminate the negative "Erent" values as part of its update of the data.
- d. Please explain how the Postal Service intends to update the data so as to incorporate the addition of new post offices, include existing post offices not included in the data used by witness Yezer, and incorporate new information related to existing post offices.
- e. Please explain how the Postal Service intends to update the data so as to ensure that the data reflects the correct number of boxes installed.

RESPONSE:

- (a) *Confirmed.*
- (b) Only since the Commission's Docket No. R2000-1 recommendation in favor of the new Erent approach to developing cost-based fee groups has it become prudent to begin establishing an ongoing information framework. The need for such support is clear and the Postal Service is currently developing appropriate plans. At present, the Postal Service intends to continue contracting with George Washington University for updates of Erent calculations for current and future facilities. A production schedule has not yet been developed.
- (c) Erent estimates are statistically derived based on postal facility lease data. As such, a negative Erent value is a valid outcome and should simply be understood as a "low value". Therefore, there is no need to "eliminate" negative Erent values at this time. Nevertheless, the Postal Service has instructed George Washington

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University to reexamine and verify any negative Erents as data are updated, and to make any valid adjustments prior to fee implementation.

- (d) A new post office's Erent is estimated using its characteristics as independent values substituted into the appropriate estimation equation that contains the parameters derived from regression modeling of lease data and facility characteristics. As an ongoing information framework is developed, new data on existing post offices also will be incorporated into new Erent calculations.
- (e) The Postal Service intends to use annual updates to the Facility Profile Survey. See Part D of Library Reference J-111.

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OCA/USPS-T38-5. Please refer to your testimony at page 15, lines 9-11. Please discuss the options under consideration by the Postal Service "to compile post office box data that could be used to discern price effects on box use."

RESPONSE:

As mentioned at page 15, lines 1-2, time series data have not been recorded systematically in the past. However, the annual Facility Profile Survey will accumulate box count data that might be used to analyze price effects. Also, a cross-sectional approach, as opposed to a time-series approach, may prove useful in conjunction with local-level socio-economic data. By its very nature the outcome of research is unknown in advance of its undertaking, but these two approaches may yield insights into the effects of price on post office box use.

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OCA/USPS-T38-6. Please refer to your testimony at pages 15 and 16, lines 12-23, and line 1, respectively.

- a. Please confirm that the "revenue adjustment factor of 93.2 percent" is not derived from an estimate of population growth, or the size of the population. If you do not confirm, please explain.
- b. Please provide the following data for the past 5 years: the annual rate of population growth for individuals over age 22, the annual rate of growth in the number of boxes in use, the annual rate of growth in the number of boxes installed, and the annual rate of growth in the number of postal facilities having post office boxes.

RESPONSE:

- (a) Not confirmed. The count of boxes in use, from the 1999 Facility Profile Survey, is projected to GFY 2001 -- using the population growth for individuals over age 22. The projected GFY 2001 counts are multiplied by the appropriate fees. The resulting revenue is compared to the GFY 2001 control estimate, giving a 93.2 percent revenue adjustment factor. In that sense, the derivation of the revenue adjustment factor is derived, in part, using the population growth for individuals over age 22.
- (b) Other than the population growth of individuals over the age of 22, the data have not been systematically collected. See page 15, lines 1-2 of my testimony. This is the reason for the need to estimate the growth of boxes using the growth in population. The annual rates of population growth for individuals over age 22 are:

Year	Rate
1996	1.0%
1997	0.9%
1998	0.8%
1999	0.8%
2000	0.9%
2001	0.9%

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OCA/USPS-T38-7. Please refer to your testimony at page 19, lines 1-3. Please confirm that the Postal Service intends to collect data on the distribution of box sizes by ZIP Codes. If you do not confirm, please explain.

RESPONSE:

Confirmed. The Postal Service is already using data on the distribution of box sizes, based on the 1999 Facility Profile Survey, so the note discussing CAPFACj should be omitted. Errata will be filed to page 19 of my testimony.

DECLARATION

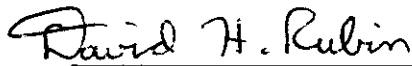
I, Kirk T. Kaneer, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


KIRK T. KANEER

Dated: 11/28/01

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

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